

SUNPOWER®
Annual Report
2018

Changing the Way Our World is Powered

Finding the right solar doesn't have to be complicated. For more than 30 years, SunPower has helped homeowners and businesses across the globe reduce their monthly electricity bills with the most efficient, powerful and reliable panels available, all backed by our industry-leading 25-year warranty. It's solar made simple.

Headquartered in Silicon Valley, SunPower has a team of about 6,600 dedicated, customer-focused employees in Africa, Asia, Australia, Europe, North and South America. For more information about how SunPower is changing the way our world is powered, visit www.sunpower.com.

April 5, 2019

Dear Shareholder:

During 2018, SunPower made pivotal changes and investments that helped to set the course for our future – one that has already begun. We transformed from a highly diversified and capital-intensive company to a profitable, growing business focused on innovation and the distributed generation (DG) market.

SunPower Simplifies and Focuses

We needed to get back to basics. Key for the company last year was to simplify our business, set the course for sustainable profitability and de-leverage our balance sheet. Our financial statements can now easily be read and valued. We worked through the difficult task of reducing our operations expenses by almost 30 percent, lowering the threshold for long-term profitability.

To de-leverage the balance sheet and fund investments in innovation, we sold assets that were no longer strategic or core to the future success of the company. This included selling our power plant development business to Clearway Energy Group, our stake in a joint venture Yieldco with First Solar to Capital Dynamics, and our microinverter business to Enphase Energy. We also created SunStrong Capital, a joint venture with Hannon Armstrong. This took existing SunPower-developed assets and provided a vehicle for acquisition of future projects to improve our cost of capital and remove debt from our balance sheet.

One cost of doing business that we couldn't completely avoid were solar tariffs. Like the rest of the solar sector, SunPower felt the effects of the Trump Administration's solar tariffs, announced in January 2018. It cost us a significant amount of roughly \$46 million. We made a compelling case to the U.S. government for a technology exclusion, and after several quarters, SunPower's technology was one of a very few excluded, allowing us to further invest in American innovation. We should see the benefits of this during 2019.

As the solar industry has grown and matured, we made the strategic decision to manage our company as two separate business units: SunPower Technologies (SPT) for manufacturing and global DG sales, and SunPower Energy Services (SPES) for North America residential and commercial. Each business has unique characteristics and can be managed more effectively as stand-alone businesses. We expect this to result in faster decision-making, tailored partnerships and lower capital intensity.

SunPower Technologies - SPT

Through SPT, we've introduced our most innovative module yet, A-Series, and are currently selling it through SPES in North America.

Our A-Series panel, built from our high-performing yet lower-cost Next Generation Technology (NGT), was developed in the Silicon Valley Research Facility at our headquarters. The 400- and 415-watt modules feature our fifth-generation Maxeon solar cells, which are an impressive 65 percent larger than previous generations, therefore helping to generate much more power while lowering costs.

We also launched a 400-watt home solar panel, called Maxeon 3, in Europe and Australia, where we see continued growth and market share.

We're especially proud that we introduced the world's first 400-watt residential solar panels as most in the industry are just crossing the 300-watt threshold for home solar. That's solar innovation – which is the heart of SunPower.

To complete our newest product offerings, we have our high-quality 19-percent efficient Performance Series (P-Series) modules. These modules are still considered market leaders in power ratings and have lower up-front costs - a key attribute needed to serve the international power plant market. Leveraging a unique cell interconnect technology, we see strong demand for our cost-effective P-Series, which are currently the most deployed shingled cell solar panels in the world.

For the second year running, DNV GL – a global independent energy expert and certification body – named the P-Series solar panel a top performer in all five DNV GL tests. Reliability through thermal cycling, damp heat, humidity-freeze, dynamic mechanical load and potential induced degradation were all measured.

Last April, we made a commitment to invest in American manufacturing. Delivering on our commitment, SunPower acquired the assets of SolarWorld Americas in Hillsboro, Ore., in October. Months later, following equipment moves from our Mexico factory, we were delivering P-Series solar panels assembled in America to commercial customers across the country.

We also produce P-Series in a joint venture in China serving international markets.

SPT has an international sales force and has sold both Maxeon and P-Series modules in more than 100 different countries.

SunPower Energy Services - SPES

We formed SPES to focus on selling complete solar energy solutions to America and Canada. The future of solar energy is high-performance solar systems paired with storage and software to deliver reliable, clean and cost-effective energy to distributed generation customers. SPES is comprised of commercial and residential market segments.

North America Commercial

Our commercial business is focused on being the leading distributed energy company in North America by concentrating on the integration of high-performance solar systems with storage and software. We have introduced Helix Storage with proprietary algorithms to help maximize the value of solar energy for our customers.

With market-leading products, we've built a commercial franchise that led us to become the number one commercial solar provider in the U.S. with the largest installed base, according to Wood Mackenzie. We have an unmatched customer base of Fortune 500 companies – where eight out of 10 corporate buyers are SunPower customers – in multiple states, including Macy's, Target, Toyota and Walmart. More than 55 percent are repeat customers.

With this market position, we are able to offer our customers value service solar systems that optimize their solar energy. These services include demand charge savings, monitoring, data analytics and optimization, energy management and wholesale grid services. We're already seeing a storage attach rate of about 40 percent and we have deployed 9 megawatt hours at more than 20 sites.

North America Residential

SunPower has been an innovator in the American residential solar market. In 2005, we created an independent dealer channel. We're a leader in North American residential sales and as a residential solar panel supplier, seeing 15 percent growth and 278 megawatts installed in 2018. To date, SunPower solar systems have been installed on more than 236,000 U.S. homes.

We also have a commanding position in the new homes business, being the choice of 18 out of 20 leading California homebuilders and seeing 65 percent year-over-year growth in 2018. We look forward to working closely with our home builders to deliver on the California new homes solar mandate, which requires that all new homes incorporate solar power beginning in 2020. And we can see other states taking a similar policy approach in the future.

In addition to our differentiated products and sales channels, SunPower has invested heavily in digital to make the solar buying experience seamless. Through our advanced web application, it's easy for our dealers to design, price and adjust solar solutions in real time.

We will be bringing our Helix Storage and services technology to the residential market through an Equinox storage solution in 2019. We expect this will be a core part of our business in 2020 and beyond.

Our Future is Bright

SunPower is well-positioned for the future, with two focused business units working to deliver innovative solar solutions with profitable growth. I am particularly proud of the role our about 6,600 employees around the globe played throughout our transformative 2018 – and for their help advancing the adoption of solar. We're still at the beginning of a worldwide transition to clean, reliable and cost-effective energy. SunPower will be a leader in this transition and our best years are yet to come.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. Werner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Thomas H. Werner
Chief Executive Officer and Chairman of the Board
SunPower Corporation

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 30, 2018
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 001-34166

SUNPOWER®

SunPower Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

94-3008969
(I.R.S. Employer Identification No.)

77 Rio Robles, San Jose, California
(Address of Principal Executive Offices and Zip Code)

95134
(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

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 No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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

Indicate by check mark 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.

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 29, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was \$469 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 June 29, 2018. For purposes of determining this amount only, the registrant has defined affiliates as including Total Solar International SAS, formerly known as Total Energies Nouvelles Activités USA and Total Gas & Power USA, SAS and the executive officers and directors of the registrant on June 29, 2018.

The total number of outstanding shares of the registrant's common stock as of February 8, 2019 was 141,383,535.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for the registrant's 2019 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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INTRODUCTORY NOTES

Trademarks

The following terms, among others, are our trademarks and may be used in this report: SunPower[®], Maxeon[®], Oasis[®], OasisGEO[™], 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, the sufficiency of our cash and our liquidity, projected costs and cost reduction measures, development of new products and improvements to our existing products, the impact of recently adopted accounting pronouncements, our manufacturing capacity and manufacturing costs, the adequacy of our agreements with our suppliers, our ability to monetize our solar projects, legislative actions and regulatory compliance, competitive positions, management’s plans and objectives for future operations, our ability to obtain financing, our ability to comply with debt covenants or cure any defaults, our ability to repay our obligations as they come due, our ability to continue as a going concern, our ability to complete certain strategic transactions, 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, risks related to privacy and data security, and the likelihood of any impairment of project assets, long-lived assets, and investments. 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 over 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 Solar International SAS, formerly known as Total Gas & Power USA, SAS and Total Energies Nouvelles Activités USA (“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 storage and software solutions that enable customers to effectively manage and optimize their CCOE energy usage and expenses;
- installation, construction, and ongoing maintenance and monitoring services; and
- financing solutions that provide customers with 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.

Recent Developments

Divestment of Microinverter Business

On August 9, 2018, we completed the sale of certain assets and intellectual property related to the production of microinverters to Enphase Energy, Inc. (“Enphase”) in exchange for \$25.0 million in cash and 7.5 million shares of Enphase common stock (the “Closing Shares”), pursuant to an Asset Purchase Agreement (the “Purchase Agreement”) entered into on June 12, 2018. We received the Closing Shares and \$15.0 million cash payment upon closing, and received the final \$10.0 million cash payment of the purchase price on December 10, 2018.

For additional information, refer to “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 4. *Business Combination and Divestitures.*”

Acquisition of SolarWorld Americas

On April 16, 2018, we entered into a Sale and Purchase Agreement (the “Sale and Purchase Agreement”) pursuant to which we agreed to purchase all of SolarWorld AG’s shares of stock in SolarWorld Americas Inc. (“SolarWorld Americas”), and SolarWorld Industries Deutschland GmbH’s partnership interest in SolarWorld Industries America LP. On August 21, 2018, we terminated the Sale and Purchase Agreement and entered into an Asset Purchase Agreement with SolarWorld Americas, pursuant to which we agreed to purchase certain assets of SolarWorld Americas in exchange for consideration of \$26.0 million, subject to certain closing and post-closing adjustments and other contingent payments. In connection with the termination of the Sale and Purchase Agreement, we have recognized an expense of \$20.0 million for the quarter ended September 30, 2018 in sales, general and administrative expense. On October 1, 2018, we completed the acquisition of certain assets of SolarWorld Americas, including its Hillsboro, Oregon facility and a significant portion of its manufacturing workforce of more than 200 employees. The purchase consideration consisted of \$26.0 million in cash and additional contingent consideration of approximately \$4.1 million.

For additional information, refer to “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 4. *Business Combination and Divestitures*.”

Formation of SunStrong Capital Holdings, LLC (“SunStrong”) Joint Venture and Transfer of Interest in Residential Lease Portfolio

On November 5, 2018, we entered into a joint venture with HA SunStrong Capital LLC (“HA SunStrong Parent”), an affiliate of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (“Hannon Armstrong”), to acquire, operate, finance, and maintain a portfolio of residential rooftop or ground-mounted solar photovoltaic electric generating systems (“Solar Assets”). Pursuant to the terms of the Purchase and Sale Agreement (the “PSA”), we sold to HA SunStrong Parent, in exchange for consideration of \$10.0 million, membership units representing a 49.0% membership interest in SunStrong, formerly our wholly-owned subsidiary that historically held and controlled the assets and liabilities comprising our residential lease business (the “Residential Lease Portfolio”). Following the closing of the PSA, we deconsolidated certain entities involved in our Residential Lease Portfolio, as part of our previously announced decision to sell a portion of our interest in the Residential Lease Portfolio, and retained membership units representing a 51% membership interest in SunStrong.

In connection with the joint venture, we entered into various agreements including an operating agreement for SunStrong and a management agreement with respect to the Solar Assets, among others.

In connection with the closing of the PSA, SunStrong assumed all current and future debt service obligations associated with the subordinated mezzanine loan of \$110.5 million and long-term loans to finance solar power systems and leases under our previous residential lease program.

On November 28, 2018, SunStrong closed the sale to external investors of its \$400 million Solar Asset Backed Notes, Series 2018-1 (“Notes”). The Notes were priced at a fixed interest rate of 5.68 percent per annum and received a rating of A (sf) from KBRA and a Green Bond Assessment of GB1, the highest rating, by Moody’s Investor Services. The anticipated repayment date is in November 2028, with a rated final maturity date in November 2048. The Notes were issued by a special purpose entity, SunStrong 2018-1 Issuer, LLC, an indirectly wholly-owned subsidiary of SunStrong. SunPower received a special distribution of approximately \$12.9 million from the proceeds generated by the sale of the Notes.

On November 5, 2018, SunStrong Capital Acquisition OF, LLC, a wholly-owned subsidiary of SunStrong (“Mezzanine Loan 2 Borrower”), and SunStrong Capital Lender 2 LLC, a subsidiary of Hannon Armstrong, entered into a loan agreement under which, Mezzanine Loan 2 Borrower may borrow a subordinated, mezzanine loan of up to \$32.0 million (the “Mezzanine Loan 2”). The borrowing facilities provided by the Mezzanine Loan 2 have been determined in consideration of the residential lease assets for which we have either completed construction or have the obligation to complete construction after November 5, 2018.

For additional information, refer to “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 4. *Business Combination and Divestitures*, Note 7. *Leasing*, Note 11. *Equity Investments*, and Note 12. *Debt and Credit Sources*.”

Segments Overview

In the fourth quarter of 2018, in connection with our efforts to improve operational focus and transparency, drive overhead accountability into segment operating results, and increase strategic agility across the value chain from our upstream business’ core strength in manufacturing and technology and our downstream business’ core strength in offering complete solutions in residential and commercial markets, we reorganized our segment reporting to an upstream and downstream structure. Previously, we operated under three end-customer segments comprised of our (i) Residential Segment, (ii) Commercial Segment, and (iii) Power Plant Segment. Historically, the Residential Segment referred to sales of solar energy solutions to residential end-customers, the Commercial Segment referred to sales of energy solutions to commercial and public entity end-customers, and the Power Plant Segment referred to our large-scale solar products and systems and component sales.

Under the new segmentation, the SunPower Energy Services Segment (“SunPower Energy Services” or “Downstream”) refers to sales of solar energy solutions in the North America region previously included in the legacy Residential Segment and Commercial Segment (collectively previously referred to as “Distributed Generation” or “DG”) including direct sales of turn-key engineering, procurement and construction (“EPC”) services, sales to our third-party dealer network, sales of energy under power purchase agreements (“PPAs”),

storage solutions, cash sales and long-term leases directly to end customers, and sales to resellers. SunPower Energy Services Segment also includes sales of our global Operations and Maintenance (“O&M”) services. The SunPower Technologies Segment (“SunPower Technologies” or “Upstream”) refers to our technology development, worldwide solar panel manufacturing operations, equipment supply to resellers, commercial and residential end-customers outside of North America (“International DG”), and worldwide power plant project development and project sales. Upon reorganization, some support functions and responsibilities have been shifted to each segment, including financial planning and analysis, legal, treasury, tax and accounting support and services, among others.

The reorganization provides our management with a comprehensive financial overview of our key businesses. The application of this structure permits us to align our strategic business initiatives and corporate goals in a manner that best focuses our businesses and support operations for success.

Our Chief Executive Officer, as the chief operating decision maker (“CODM”), reviews our business, manages resource allocations and measures performance of our activities based on financial information for the SunPower Energy Services Segment and SunPower Technologies Segment.

Reclassifications of prior period segment information have been made to conform to the current period presentation. These changes do not affect our previously reported Consolidated Financial Statements.

SunPower Energy Services

North America 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. The 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 microinverter, and EnergyLink monitoring hardware to combine solar power production and energy management, allowing residential installers 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 EnergyLink software analytics, which provides our customers with detailed information about their energy consumption and production, enabling them to further reduce their energy costs.

Concurrent with the sale of certain assets and intellectual property related to the production of microinverters to Enphase on August 9, 2018, we entered into a Master Supply Agreement (the “MSA”) pursuant to which, with certain exceptions, we have agreed to exclusively procure module-level power electronics (“MLPE”) and alternating current (“AC”) cables from Enphase to meet all of our needs for MLPE and AC cables for the manufacture and distribution of AC modules and discrete MLPE system solutions for the U.S. residential market, including our current Equinox solution and any AC module-based successor products. We have also agreed not to pair any third-party MLPE or AC cables with any of our modules for use in the grid-tied U.S. residential market where an Enphase MLPE is qualified and certified for such module. The initial term of the MSA is through December 31, 2023, and the MSA term will automatically be extended for successive two-year periods unless either party provides written notice of non-renewal.

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.

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 directly to end customers, sales to resellers, including our third-party dealer network, and sales of our 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. Since its launch in 2011, 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.

As part of our strategic goals to de-lever our balance sheet and simplify our financial statements, we announced during the fourth quarter of 2017 our decision to monetize our interest in more than 400 MW of residential lease assets that historically have been consolidated in our balance sheets. On November 5, 2018, we sold a portion of our interest in certain entities that have historically held the assets and liabilities comprising our residential lease business to an affiliate of Hannon Armstrong Sustainable Infrastructure Capital, Inc.

For additional information, refer to “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 4. *Business Combination and Divestitures*, Note 7. *Leasing*, Note 11. *Equity Investments*, and Note 12. *Debt and Credit Sources*.”

Historically, we had the ability to sell portfolios of residential system leases to 8point3 Energy Partners LP (“8point3 Energy Partners”), a joint Yieldco vehicle formed by us and First Solar, Inc. (“First Solar”) in which we had an ownership stake. In fiscal 2017, following a review of our strategic alternatives, we decided to explore a divestiture jointly with First Solar. On February 5, 2018, 8point3 Energy Partners entered into an Agreement and Plan of Merger (the “8point3 Merger Agreement”) with CD Clean Energy and Infrastructure V JV, LLC, an equity fund managed by Capital Dynamics, Inc. and certain other co-investors (collectively, “Capital Dynamics” and the transaction, the “Divestiture Transaction”), and we entered into a Support Agreement which obligated us to support the Divestiture Transaction. On June 19, 2018, we completed the sale of our equity interest in 8point3 Energy Partners. As a result of this transaction, we received, after the payment of fees and expenses, merger proceeds of approximately \$359.9 million in cash and no longer directly or indirectly own any equity interests in 8point3 Energy Partners.

For additional information on transactions with, and the divestiture of our interest in 8point3 Energy Partners, refer to “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 11. *Equity Investments*.”

North America Commercial

Commercial Roof, Carport, 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 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 to 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, selling energy to customers under power purchase agreements ("PPAs"), sales to our third-party dealer network and sales of our O&M services.

Operations & 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 globally. 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. 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 warranted 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 warranted 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 warranted 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 warranted 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.

SunPower Energy Services Technology

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.

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. Subsequent to the sale of our microinverter business in August 2018, we exclusively procure microinverters for the manufacture and distribution of AC modules and discrete MLPE system solutions for the U.S. residential market from Enphase. 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.

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 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.

We continue to work with Enphase to develop 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.

SunPower Technologies

SunPower Solutions

In 2017, SunPower established the SunPower Solutions division to deliver products and services to utility-scale photovoltaic (“PV”) customers around the world. SunPower Solutions enables developers, independent power producers and EPCs to benefit from SunPower’s extensive experience over the past decade developing, financing, constructing, operating and maintaining solar power plants. In the fourth quarter of fiscal 2018, this division was assigned to our SunPower Technologies Segment. We remain focused on transitioning from project development to equipment supply through SunPower Solutions.

The SunPower Solutions division sells SunPower’s high performance P-Series, Maxeon 2 (formally known as E-Series), and Maxeon 3 (formally known as X-Series) panels to non-U.S. customers. SunPower’s family of utility power plant PV panels deliver higher efficiency and energy yield with lower degradation than competing panels.

Project Development and Financing

Our project development business refers to sales of our large-scale solar systems, including power plant project development and project sales and EPC services for power plant construction. Our utility-scale solar power systems are typically purchased by an investor or financing company and operated as central-station solar power plants.

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 and utilizing non-recourse project debt facilities in conjunction with project sales.

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.

Solar 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 Maxeon 3 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 the National Renewable Energy Laboratory. We believe our Maxeon 3 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 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 is 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 Maxeon 3 and Maxeon 2 panels have proven performance with low levels of degradation, as validated by third-party performance tests. Since fiscal 2016, we launched a line of solar panels under the Performance Series (“P-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 P-Series panels to contribute to the growth of both of SunPower’s business segments.

In 2018, we continued the ramp up of our next-generation solar cells and panels with our Next Generation Technology (“NGT” or Maxeon 5), which offer efficiency of approximately 25%, roughly in line with our Maxeon 3 solar panels. When fully ramped, we expect the Maxeon 5 panels to compete with the mono-PERC solar panels, but with superior levelized cost of energy due to higher performance and durability. During the fourth quarter of 2018, we certified our first Maxeon 5 product, a 72-cell format panel rated at 450 watts, and

expect delivery to initial customers in the first quarter of 2019. We eventually plan to transform all of our legacy Maxeon 2 production capacity to Maxeon 5. We are also actively pursuing a variety of partnerships and other options to enable further NGT expansion to gigawatt scale.

Warranties

SunPower provides a combined 25-year standard solar panel product and power warranty for defects in materials and workmanship. The solar product warranty also warrants that Maxeon 2 and Maxeon 3 panels will provide 98% of the panel's minimum peak power ("MPP") rating for the first year, declining due to expected degradation by no more than 0.25% per year for the following 24 years, such that the power output at the end of year 25 will be at least 92% of the panel's MPP rating. Our P-Series panels are warranted to provide 97% of the panel's MPP rating for the first year, declining due to expected degradation by no more than 0.6% per year for the following 24 years, such that the power output at the end of year 25 will be at least 82.6% of the panel's MPP 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.

Research and Development

We engage in extensive research and development efforts to improve solar cell efficiency through the enhancement of our existing products, development of new techniques, and by reductions in 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. Refer to "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. Refer to "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 2019 and beyond. Under other supply agreements, we are required to make prepayments to vendors over the terms of the arrangements. As of December 30, 2018, advances to suppliers totaled \$172 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, refer to "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 10. *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, including without limitation risks relating to announced tariffs on solar cells and modules imported into the U.S., refer to "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, multi-crystalline, 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 2017, we completed the construction of the solar cell manufacturing facility that we own and operate in the Philippines which has an annual capacity of 450 MW. The solar cell manufacturing facility we own and operate in Malaysia has a total rated annual capacity of over 700 MW.

We use our solar cells to manufacture our Maxeon 3 and Maxeon 2 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 P-Series solar panels at our solar panel assembly facility in Mexico and in Hillsboro, Oregon starting in 2019. Our solar panel manufacturing facilities have a combined total rated annual capacity of over 1.4 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 and Helix systems.

Customers

Effective in the fourth quarter of 2018, we now operate in two segments: (i) SunPower Energy Services Segment and (ii) SunPower Technologies Segment. 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, and operated as central-station solar power plants. In addition, our third-party 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:

- *SunPower Energy Services Segment:* Canadian Solar Inc., Hanwha QCELLS Corporation, JA Solar Holdings Co., Kyocera Corporation, LG Corporation, Jinko Solar, NRG Energy, Inc., Panasonic Corporation, Sharp Corporation, SunRun, Inc., Tesla, Inc., Trina Solar Ltd., Vivint, Inc., LONGi Solar, REC Group, Hyundai Heavy Industries Co. Ltd., and Yingli Green Energy Holding Co. Ltd., First Solar, Inc.
- *SunPower Technologies:* Hanwha QCELLS Corporation, JA Solar Holdings Co., Trina Solar Ltd., Yingli Green Energy Holding Co., Ltd., Jinko Solar, First Solar Inc., Canadian Solar Inc., LONGi Solar, Tongwei Co. Ltd., Array Technologies, Inc., Soltec, NEXTracker, Inc., Convert Italia, Arctech, 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-film solar technology, which compete with our PV technology in certain applications. Furthermore, the solar power market in general competes with other energy providers such as electricity produced from 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 power systems include:

- total system price;
- LCOE evaluation;
- CCOE evaluation;
- power efficiency and performance;
- aesthetic appearance of solar panels and systems;
- speed and ease of installation through modular solutions such as our Helix system;
- strength of distribution relationships;
- availability of third-party financing and investments;
- established sales channels to customers;
- 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, “SunPower Equinox,” “SunPower Giving,” “SunPower Horizons,” “SunPower Energy Services,” “SunPower Technologies,” “Bottle the Sun,” “Demand Better Solar,” “EDDiE,” “EnergyLink,” “Equinox Energy Systems and Design,” “Equinox Solar Systems and Design,” “Equinox,” “Experiential Learning. Expanding Opportunities.,” “Equinox,” “Helix,” “InvisiMount,” “Light on Land,” “Maxeon,” “Oasis,” “Oasis Geo,” “Powering a Brighter Tomorrow,” “PowerLight,” “Serengeti,” “Smart Energy,” “Smarter Solar,” “Solar Showdown,” “Sol,” “Solaire,” “Solaire Generation,” “SunTile,” “SunPower Electric,” “Supo Solar,” “More Energy. For Life.,” “The Planet’s Most

Powerful Solar,” and “The Power of One” 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 December 30, 2018, we held registrations for 26 trademarks in the United States, and had 4 trademark registration applications pending. We also held 68 trademark registrations and had 11 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 December 30, 2018, we held 464 patents in the United States, which will expire at various times through 2037, and had 246 U.S. patent applications pending. We also held 535 patents and had 592 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,*” 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 our SunPower Energy Services Segment’s residential and commercial and international DG markets, we often sell large volumes of solar panels, mounting systems, and other solar equipment to third parties, which are typically ordered by our third-party dealer network and customers under standard purchase orders with relatively short delivery lead-times. Additionally, we often require project financing for development and construction of our SunPower Technologies Segment’s solar power plant projects, which require significant investments before the equity is later sold by us to investors. Therefore, our solar power system project backlog would 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 public policy mechanisms have been used by governments to accelerate the adoption and use 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,*" "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,*" and "Changes in international trade policies, tariffs, or trade disputes could significantly and adversely affect our business, revenues, margins, results of operations, and cash flows."

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.*"

Information concerning certain limited activities in Iran

Information concerning TOTAL's activities related to Iran that took place in 2018 provided in this section is disclosed according to Section 13(r) of the Securities Exchange Act of 1934, as amended ("U.S. Exchange Act"). TOTAL believes that these activities are not sanctionable, including for activities previously disclosed. Total S.A. and any of its subsidiaries and affiliates are collectively referred to as the Group.

The Group's operational activities related to Iran were stopped in 2018 following the withdrawal of the United States from the JCPOA in May 2018 and prior to the re-imposition of U.S. secondary sanctions on the oil industry as of November 5, 2018.

Statements in this section concerning affiliates intending or expecting to continue activities described below are subject to such activities continuing to be permissible under applicable international economic sanctions regimes.

a) Exploration & Production

Following the suspension of certain international economic sanctions against Iran on January 16, 2016, the Group commenced various business development activities in Iran. Total E&P South Pars S.A.S. ("TEPSP") (a wholly-owned affiliate), CNPC International Ltd. ("CNPCI") (a wholly-owned affiliate of China National Petroleum Company) and Petropars Ltd. ("Petropars") (a wholly-owned affiliate of NIOC) signed a 20-year risked service contract in July 2017, (the "Risked Service Contract") for the development and production of phase 11 of the South Pars gas field ("SP11"). TEPSP (50.1%) was the operator and a partner of the project alongside CNPCI (30%) and Petropars (19.9%). These companies entered into a joint operating agreement in July 2017 (the "JOA") concerning, among other things, the governance of their obligations under the Risked Service Contract and the designation of TEPSP as the project's operator.

In 2018, TEPSP continued conducting petroleum operations on behalf of the above-mentioned consortium in accordance with the terms and conditions of the Risked Service Contract and the JOA. In particular, TEPSP: (i) held several meetings with the Iranian authorities, NIOC and other Iranian state owned/controlled entities; (ii) launched tenders for award of service contracts for the purposes of the SP11 project; (iii) negotiated various agreements (such as service and/or supply agreements and bank service agreements); and (iv) performed other activities under the Risked Service Contract and the JOA.

In 2018, TEPSP completed the technical studies, which were started in November 2016, in accordance with the technical services agreement (the “TSA”) between NIOC and TEPSP, acting on behalf of the consortium.

However, as a result of the withdrawal of the U.S. from the JCPOA in May 2018, TOTAL ceased all of its activities related to the SP11 project and finalized its withdrawal from the SP11 project on October 29, 2018, at which time it transferred its participating interest and operatorship of the project to CNPCI.

The MOU entered into between TOTAL and NIOC in January 2016 to assess potential developments in Iran (including South Azadegan) was amended to include North Azadegan and to extend its duration. NIOC provided TOTAL in 2017 with technical data on the Azadegan oil field so that it could assess potential development of this field. Representatives of TOTAL held technical meetings in 2017 with representatives of NIOC and its affiliated companies and carried out a technical review of the Azadegan (South & North) oil field 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, TOTAL signed an MOU in 2017 with an international company to evaluate jointly the Azadegan oil field opportunity with NIOC. This international company decided in February 2018 to withdraw from this technical cooperation and a MOU termination agreement was formally executed with TOTAL on May 16, 2018. Technical studies were pursued by TOTAL until March 2018 on the Azadegan area with regular contacts with NIOC. All work and contacts with NIOC on this subject ceased at the end of March 2018.

During 2018, in connection with the activities under the aforementioned Risked Service Contract and MOUs, and to discuss other new opportunities, representatives of TOTAL attended meetings with the Iranian oil and gas ministry and several Iranian companies with ties to the government of Iran. In connection with travel to Iran in 2018 by certain employees of the Group, TOTAL made payments to Iranian authorities for visas, airport services, exit fees and similar travel-related charges. In addition, representatives of TOTAL had meetings in France with the Iranian ambassador.

Neither revenues nor profits were recognized from any of the aforementioned activities under the aforementioned Risked Service Contract and MOUs in 2018.

Maersk Oil studied two potential projects with NIOC, prior to the acquisition of Maersk Oil by TOTAL in March 2018. These studies ceased after a meeting with NIOC representatives in May 2018.

The Tehran branch office of TEPSP, opened in 2017 for the purposes of the SP11 project, ceased all operational activities prior to November 1, 2018 and will be closed and de-registered in 2019. Since November 2018, Total Iran BV maintains a local representative office in Tehran with a few employees, solely for non-operational functions. Concerning payments to Iranian entities in 2018, Total Iran BV and Elf Petroleum Iran collectively made payments of approximately IRR 31.7 billion (approximately \$300,000 (*Converted using the average exchange rate for fiscal year 2018, as published by Bloomberg.*)) to the Iranian administration for taxes and social security contributions concerning the personnel of the aforementioned representative office and residual obligations related to various prior risked service contracts. In 2019, similar types of payments are to be made in connection with maintaining the representative office in Tehran, albeit in lower amounts. None of these payments has been or is expected to be executed in U.S. dollars.

Furthermore, Total E&P UK Limited (“TEP UK”), a wholly-owned affiliate, holds a 1% interest in a joint venture for the Bruce field in the United Kingdom with Serica Energy (UK) Limited (“Serica”) (98%, operator) and BP Exploration Operating Company Limited (“BP”) (1%), following the completion of the sale of 42.25% of TEP UK’s interests in the Bruce field on November 30, 2018 pursuant to a sale and purchase agreement dated August 2, 2018 between TEP UK and Serica. Upon the closing of the transaction on November 30, 2018, all other prior joint venture partners also sold their interests in the Bruce field to Serica (BP sold 36% retaining a 1% interest; BHP Billiton Petroleum Great Britain Limited (“BHP”) sold their full 16% interest and Marubeni Oil & Gas (U.K.) Limited (“Marubeni”) sold their full 3.75%).

The Bruce field joint venture is party to an agreement (the “Bruce Rhum Agreement”) governing certain transportation, processing and operation services provided to another joint venture at the Rhum field in the UK, co-owned by Serica (50%, operator) and the Iranian Oil Company UK Ltd (“IOC”), a subsidiary of NIOC (50%). Under the terms of the Bruce Rhum Agreement, the Rhum field owners pay a proportion of the operating costs of the Bruce field facilities calculated on a gas throughput basis. IOC’s share of costs incurred under the Bruce Rhum Agreement have been paid to TEP UK in 2018 by Naftiran Intertrade Company Limited (“NICO”), the trading branch of the National Iranian Oil Company (“NIOC”). NIOC is the parent company of IOC and an Iranian government owned corporation. In 2018, based upon TEP UK’s 1% interest in the Bruce field and income from the net cash flow sharing arrangement with Serica, gross revenue to TEP UK from IOC’s share of the Rhum field resulting from the Bruce Rhum Agreement was approximately £8 million. This sum was used to offset operating costs on the Bruce field and as such, generated no net profit to TEP UK. This arrangement is expected to continue in 2019.

In 2018, TEP UK acted as agent for BHP and Marubeni, which faced difficulty securing banking arrangements allowing them to accept payments from IOC, and, thus, received payments from IOC in relation to BHP and Marubeni’s share of income from the Bruce Rhum Agreement under the terms of an agency agreement entered into in June 2018 between BHP, Marubeni and TEP UK (the “Agency Agreement”). Payments made from IOC to BHP and Marubeni in 2018 related to the periods prior to the completion of their divestment to Serica in November 2018. Total payment received on behalf of BHP and Marubeni by TEP UK under this arrangement in 2018 was approximately £7 million. This amount relates to income due to BHP and Marubeni under the Bruce Rhum Agreement for 2017 and 2018. TEP UK transferred all income received under the Agency Agreement to BHP and Marubeni and provided the service on a no profit, no loss basis. The Agency Agreement is expected to be terminated upon receipt of all payments relating to the period up to November 30, 2018.

Prior to the re-imposition of U.S. secondary sanctions on the oil industry as of November 5, 2018, TEP UK liaised directly with IOC concerning its interest in the Bruce Rhum Agreement and it received payments directly for services provided to IOC under the Bruce Rhum Agreement. In October 2018, the U.S. Treasury Department’s Office of Foreign Asset Control (“OFAC”) granted a new conditional license to BP and Serica authorizing the provision of services to the Rhum field, following the reinstatement of U.S. secondary sanctions. The principal condition of the OFAC license is that the Iranian government’s shareholding in IOC is transferred into a trust in order that Iran may not derive any benefit from the Rhum field or exercise any control while the U.S. secondary sanctions are in place. A Jersey based trust has been put in place with the trustee holding IOC’s shares in the Rhum field. IOC’s interest is now managed by a new independent management company established by the trust and referred to as the “Rhum Management Company” (“RMC”) and where necessary TEP UK liaises, and expects to continue doing so in 2019, with RMC in relation to the Bruce Rhum Agreement.

TEP UK is also party to an agreement with Serica whereby TEP UK uses reasonable endeavors to evacuate Rhum NGL from the St Fergus Terminal (the “Rhum NGL Agreement”). TEP UK provides this service - subject to Serica having title to all of the Rhum NGL to be evacuated and Serica having a valid license from OFAC for the activity - on a cost basis, but for which TEP UK charges a monthly handling fee that generates an income of approximately £35,000 per annum relating to IOC’s 50% stake in the Rhum field. After costs, TEP UK realizes little profit from this arrangement. TEP UK expects to continue this activity in 2019.

Following the acquisition of Maersk Oil in 2018, the undeveloped Yeoman discovery is now wholly owned by the Group, under license P2158 granted to Maersk Oil North Sea UK Limited, recently renamed Total E&P North Sea UK Limited (“TEPNSUK”). Yeoman is situated adjacent to the Pardis discovery in which IOC held an interest, which it sold in October 2018. Prior to this divestment, non-legally binding technical and commercial discussions had taken place between TEPNSUK, IOC and the UK Government’s Oil and Gas Authority during the first half of 2018 regarding a potential joint development of Yeoman and Pardis but no contractual arrangements were implemented in connection with such discussions. Also prior to this divestment, other discussions had taken place between TEPNSUK and IOC on an informal basis regarding a potential farm-in to Pardis by Maersk Oil.

Lastly, TOTAL S.A. paid approximately €8,000 to Iranian authorities related to various patents (*Section 560.509 of the U.S. Iranian Transactions and Sanctions Regulations provides an authorization for certain transactions in connection with patent, trademark, copyright or other intellectual property protection in the*

United States or Iran, including payments for such services and payments to persons in Iran directly connected to intellectual property rights, and TOTAL believes that the activities related to the industrial property rights described in this point 3.1.9.2 are consistent with that authorization.) in 2018. Similar payments are expected to be made in 2019 for such patents.

b) Other business segments

In 2018, TOTAL S.A. paid fees of approximately €1,500 to Iranian authorities related to the maintenance and protection of trademarks and designs in Iran. Similar payments are expected to be made in 2019.

Trading & Shipping

Following the suspension of applicable EU and U.S. economic sanctions in 2016, the Group commenced the purchase of Iranian hydrocarbons through its wholly-owned affiliate TOTSА TOTAL OIL TRADING SA (“TOTSА”). In 2018, the Group continued its trading activities with Iran via TOTSА, which purchased approximately 18 Mb of Iranian crude oil for nearly €1 billion pursuant to term contracts. It is not possible to estimate the gross revenue and net profit related to these purchases because the totality of this crude oil was used to supply the Group’s refineries. In addition, in 2018, approximately 1 Mb of petroleum products were sold to entities with ties to the government of Iran. These activities generated gross revenue of nearly €43 million and a net profit of approximately €1 million. The Group ceased these activities in June 2018.

Gas, Renewables & Power

Saft Groupe S.A. (“Saft”), a wholly-owned affiliate, in 2018 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 2018, this activity generated gross revenue of approximately €2.5 million and net profit of approximately €0.3 million. Saft ceased this activity in 2018. Saft also attended the Iran Oil Show in 2018, where it discussed business opportunities with Iranian customers, including those with direct or indirect ties with the Iranian government. Saft ceased this activity in 2018.

Total Eren, a company in which Total Eren Holding holds an interest of 68.76% (TOTAL S.A. owns 33.86% of Total Eren Holding), had preliminary discussions during January to March 2018 for possible investments in renewable energy projects in Iran, including meetings with ministries of the Iranian government. These discussions and meetings ceased as of March 2018 and neither revenues nor profits were recognized from this activity in 2018.

Refining & Chemicals

As of May 2018, Hutchinson SA and its affiliates no longer accepted orders from Iranian companies and ceased all activities, in general, with Iran and all Iranian companies prior to August 6, 2018.

Le Joint Français, a wholly-owned affiliate of Hutchinson SA, sold vehicular O-ring seals in 2018 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. This activity generated gross revenue of approximately €54,056 and net profit of approximately €8,108. Le Joint Français also sold O-ring seals in 2018 to Al Khalsan. This activity generated gross revenue of approximately €29,348 and net profit of approximately €4,402.

Paulstra S.N.C., a wholly-owned affiliate of Hutchinson SA, obtained in 2017 an order from Iran Khodro to sell vehicular anti-vibration systems over a 5-year period. This activity did not generate any gross revenue or net profit in 2018 because Paulstra did not deliver any product to Iran Khodro. The order was terminated in 2018. Paulstra S.N.C. also sold oil seals in 2018 to Iran Khodro. This activity generated gross revenue of approximately €1,078,887 and net profit of approximately €161,833.

Catelsа Caceres, a wholly-owned affiliate of Hutchinson Iberia, itself wholly-owned by Hutchinson SA, sold sealing products to Iran Khodro in 2018. This activity generated gross revenue of approximately €1,449 and net profit of approximately €217.

Hutchinson GMBH, a wholly-owned affiliate of Hutchinson SA, sold hoses for automotive vehicles to Iran Khodro in 2018. This activity generated gross revenue for approximately €257,400 and net profit of approximately €38,610. The last shipments from Hutchinson and its affiliates to Iran Khodro were in August 2018 and last payments were made in October 2018.

Hanwha Total Petrochemicals (“HTC”), a joint venture in which Total Holdings UK Limited (a wholly-owned affiliate) holds a 50% interest and Hanwha General Chemicals holds a 50% interest, purchased approximately 17 Mb of condensates from NIOC for approximately KRW 1,310 billion (approximately \$1.2 billion) from January to July 2018, then HTC has stopped purchasing from NIOC. These condensates are used as raw material for certain of HTC’s steam crackers. HTC also chartered fifteen tankers of condensates with National Iranian Tanker Company (NITC), a subsidiary of NIOC, for approximately KRW 24 billion (approximately \$22.3 million). In November 2018, South Korea was granted a significant reduction exemption waiver (the “SRE waiver”) allowing it to import Iranian condensate from NIOC for six months. For 2019, based on the SRE waiver, HTC is reviewing the feasibility to resume purchases from NIOC.

Total Research & Technology Feluy (“TRTF”, a wholly-owned affiliate), Total Marketing Services (“TMS”, a wholly-owned affiliate), and Total Raffinage Chimie (“TRC”) paid in 2018 fees totaling approximately €1,000 to Iranian authorities related to various patents. Similar payments are expected to be made by TRTF and TRC in 2019. TMS abandoned its patent rights in Iran in 2018, thus no payments are expected by TMS in 2019.

Marketing & Services

Until December 2012, at which time it sold its entire interest, the Group held a 50% interest in the lubricants retail company Beh Tam (formerly Beh Total) along with Behran Oil (50%), a company controlled by entities with ties to the government of Iran. As part of the sale of the Group’s interest in Beh Tam, TOTAL S.A. agreed to license the trademark “Total” to Beh Tam for an initial 3-year period (renewed for an additional 3 year period) for the sale by Beh Tam of lubricants to domestic consumers in Iran. Royalty payments for 2014 were received by TOTAL S.A. during the first semester of 2018 in the amount of approximately €730,000. There remain outstanding royalty payments for 2015 through 2017 in favor of TOTAL S.A. This licensing agreement was terminated in 2018. In addition, representatives of Total Oil Asia-Pacific Pte Ltd, a wholly-owned affiliate, visited Behran Oil beginning 2018 regarding the potential purchase of 50% of the share capital of Beh Tam. Discussions on this matter ended following the announcement of the re-imposition of U.S. secondary sanctions on the oil industry.

Total Marketing Middle East FZE, a wholly-owned affiliate, sold lubricants to Beh Tam in 2018. The sale in 2018 of approximately 43 t of lubricants and special fluids generated gross revenue of approximately AED 500,000 (approximately \$136,000) and net profit of approximately AED 260,000 (approximately \$ 71,000) (*Converted using the average exchange rate for fiscal year 2018, as published by Bloomberg*). The company stopped all transactions with this customer as of August 2018.

Total Marketing France (“TMF”), a company wholly-owned by TMS, provided in 2018 fuel payment cards to the Iranian embassy and delegation to UNESCO in France for use in the Group’s service stations. In 2018, these activities generated gross revenue of approximately €32,000 and net profit of approximately €5,000. The company expects to continue this activity in 2019.

TMF also sold jet fuel in 2018 to Iran Air as part of its airplane refueling activities in France. The sale of approximately 260 cubic meters of jet fuel generated gross revenue of approximately €130,000 and net profit of approximately €570. The company stopped all transactions with this customer prior to November 5, 2018.

Total Belgium, a wholly-owned affiliate, provided in 2018 fuel payment cards to the Iranian embassy in Brussels (Belgium) for use in the Group’s service stations. In 2018, these activities generated gross revenue of approximately €11,000 and net profit of approximately €4,000. The company expects to continue this activity in 2019.

Employees

As of December 30, 2018, we had approximately 6,600 full-time employees worldwide, of which 1,280 were located in the United States, 1,900 were located in the Philippines, 1,470 were located in Malaysia, and 1,950 were located in other countries. Of these employees, 4,485 were engaged in manufacturing, 1,075 in construction projects, 260 in research and development, 355 in sales and marketing, and 430 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 to be good.

Seasonal Trends and Economic Incentives

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, 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.

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 the SEC’s website at www.sec.gov.

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 or annual basis. Our 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 customers, consequently:

- the amount, timing and mix of sales to our large commercial 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 these agreements;
- 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 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 under this section “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 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 under this section, “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.*”

Changes in international trade policies, tariffs, or trade disputes could significantly and adversely affect our business, revenues, margins, results of operations, and cash flows.

On January 23, 2018, the President of the United States issued Proclamation 9693, which approved recommendations to provide relief to U.S. manufacturers and impose safeguard tariffs on imported solar cells and modules, based on the investigations, findings, and recommendations of the U.S. International Trade Commission (the “International Trade Commission”) pursuant to a Section 201 petition filed by Suniva, Inc., which Solar World Americas Inc. later joined, regarding foreign-manufactured photovoltaic (“PV”) solar cells and modules. Modules will be subject to a four-year tariff at a rate of 30% in the first year, declining 5% in each of the three subsequent years, to a final tariff rate of 15% in 2021. Cells are subject to a tariff-rate quota, under which the first 2.5 GW of cell imports each year will be exempt from tariffs; and cells imported after the 2.5 GW quota has been reached will be subject to the same 30% tariff as modules in the first year, with the same 5% decline in each of the three subsequent years. The tariff-free cell quota applies globally, without any allocation by country or region. The tariffs went into effect on February 7, 2018.

The tariffs could materially and adversely affect our business and results of operations. While solar cells and modules based on interdigitated back contact (“IBC”) technology, like our Maxeon 3, Maxeon 2 and related products, were granted exclusion from these safeguard tariffs on September 19, 2018, our solar products based on other technologies continue to be subject to the safeguard tariffs. Although we are actively engaged in efforts to mitigate the effect of these tariffs, there is no guarantee that these efforts will be successful.

Additionally, the Office of the United States Trade Representative (“USTR”) initiated an investigation under Section 301 of the Trade Act of 1974 into the government of China’s acts, policies, and practices related to technology transfer, intellectual property, and innovation. In notices published June 20, 2018, August 16, 2018, and September 21, 2018, the USTR imposed additional import duties of up to 25% on certain Chinese products covered by the Section 301 remedy. These tariffs include certain solar power system components and finished products, including those purchased from our suppliers for use in our products and used in our business. The United States and China continue to signal the possibility of taking additional retaliatory measures in response to actions taken by the other country, which may result in changes to existing trade agreements and terms including additional tariffs on imports from China or other countries.

In the near term, uncertainty surrounding the implications of the existing tariffs affecting the U.S. solar market, the escalating trade tensions between China and the United States, and whether specific additional solar power products may be impacted, is likely to cause market volatility, price fluctuations, supply shortages, and project delays, any of which could harm our business, and our pursuit of mitigating actions may divert

substantial resources from other projects. In addition, the imposition of tariffs is likely to result in a wide range of impacts to the U.S. solar industry and the global manufacturing market, as well as our business in particular. Such tariffs could materially increase the price of our solar products and result in significant additional costs to us, our resellers, and our resellers' customers, which could cause a significant reduction in demand for our solar power products and greatly reduce our competitive advantage. With the uncertainties associated with the Section 201 and Section 301 trade cases, events and changes in circumstances indicated that the carrying values of our long-lived assets associated with our manufacturing operations might not be recoverable.

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-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 both 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. For more information, see “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 7. *Leasing.*”

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, with the recent passage of comprehensive reform of the Code, the impact of revisions to various industry-specific tax incentives, such as accelerated depreciation, and an overall reduction in corporate tax rates may lead to changes in the market and availability of tax equity investors.

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 and profits 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, or if competitor products are exempted from tariffs and quotas and ours are not, 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 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 and prove the reliability 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.

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. See also under this section, "Risks Related to Our Sales Channels—*Changes in international trade policies, tariffs, or trade disputes could significantly and adversely affect our business, revenues, margins, results of operations, and cash flows.*"

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. Uncertainty with respect to Chinese government policies, including subsidies or other incentives for solar projects, may cause increased, decreased, or volatile supply and/or demand for solar products, which could negatively impact our revenue and earnings. Finally, the imposition by the U.S. of tariffs and quotas could materially adversely affect our ability to compete with other suppliers and developers in the U.S. market. 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 and profits would suffer,” and “Risks Related to Our Sales Channels—Changes in international trade policies, tariffs, or trade disputes could significantly and adversely affect our business, revenues, margins, results of operations, and cash flows.”

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 2015 with Nevada’s decision to change net energy metering; and in 2017 with California’s adoption of new time-of-use rates that reduced the price paid to solar system owners for mid-day electricity production), 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. See also under this section, "Risks Related to Our Sales Channels—*Changes in international trade policies, tariffs, or trade disputes could significantly and adversely affect our business, revenues, margins, results of operations, and cash flows.*"

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 a restructuring plan in February 2018 to reduce operating expenses and cost of revenue overhead in light of the known shorter-term impact of U.S. tariffs imposed on PV solar cells and modules pursuant to Section 201 of the Trade Act of 1974 and our broader initiatives to control costs and improve cash flow. While we expect to complete the plan in 2019, additional actions 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, we may experience a loss of continuity, loss of accumulated knowledge, or inefficiency during transitional periods associated with our restructuring. 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 plan, see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 9. *Restructuring.*"

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 grown, 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 businesses, 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. In addition, our affiliations with third-party dealers may subject us to alleged liability in connection with actual or alleged violations of law by such dealers, whether or not actually attributable to us, which may expose us to significant damages and penalties, and we may incur substantial expenses in defending against legal actions related to third-party dealers, whether or not we are ultimately found liable.

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 life cycle 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. 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 under this section “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 time frames 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 the 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.

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 cancellations of 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").

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, including our Next Generation Technology ("NGT" or Maxeon 5), 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. 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 for sale to customers. Developing and constructing solar power projects requires significant time and substantial initial investment. 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 also 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" and "Risks Related to Our Sales Channels-Revenues from a limited number of customers and large projects are expected 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," and "Changes in international trade policies, tariffs, or trade disputes could significantly and adversely affect our business, revenues, margins, results of operations, and cash flows."

Our capital expenditures and use of working capital may be greater than we anticipate if sales and associated receipt of cash proceeds are delayed, or if we decide to accelerate increases in our manufacturing capacity internally or through capital contributions to joint ventures. As we ramp our Maxeon 5 technology and begin volume production in 2019, we may pursue scale-up partnerships or other financing options to fund the NGT expansion. 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 also 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 December 30, 2018, had an outstanding amount of \$18.1 million. Our bilateral letter of credit agreements with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), Credit Agricole Corporate and Investment Bank (“Credit Agricole”), and HSBC Bank USA, National Association had an outstanding amount of \$36.3 million as of December 30, 2018. Any draws under these uncollateralized facilities would require us to immediately reimburse the bank for the drawn amount. A default under the guaranteed letter of credit facility, or the acceleration of our other indebtedness greater than \$25.0 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 Revolver will mature on August 26, 2019 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 projects, through our current cash and cash equivalents, cash generated from operations, and funds available under our revolving credit facilities with Credit Agricole and other construction financing providers. As of December 30, 2018, \$300.0 million remained undrawn under our revolving credit facility with Credit Agricole. We have the ability to borrow up to \$95.0 million under this revolving credit facility pursuant to the Letter Agreement executed by us and Total S.A. on May 8, 2017 (see “Item 8. Financial Statements—Note 2. *Transactions with Total and Total S.A.*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K). As of December 30, 2018, we had \$75.0 million in additional borrowing capacity under our other limited recourse construction financing facilities.

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 investments 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 investments 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 projects 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 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 investments 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 projects, 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 December 30, 2018, we had approximately \$0.9 billion of outstanding debt.

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.

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 sale of assets, refinancing, or restructuring effort. 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*”, “Risks Related to Our Sales Channels—*Changes in international trade policies, tariffs, or trade disputes could significantly and adversely affect our business, revenues, margins, results of operations, and cash flows*,” and “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 1. *Organization and Summary of Significant Accounting Policies—Liquidity*.”

Although we are currently in compliance with the covenants contained in our debt agreements, 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 and Malaysia 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 (through July 2019). Tax savings associated with the Philippines tax holidays were approximately \$3.4 million, \$5.6 million, and \$10.0 million in fiscal 2018, 2017, and 2016, respectively, which provided a diluted net income (loss) per share benefit of \$0.02, \$0.04, and \$0.07 in fiscal 2018, 2017, and 2016, respectively.

Our income tax holidays were granted as manufacturing lines were placed in service. We plan to apply 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 continued to qualify for the auxiliary company status in Switzerland where we sell our solar power products. The auxiliary company status entitles us to a tax rate of 11.5% in Switzerland, reduced from approximately 24.2%. Tax savings associated with this ruling were approximately \$1.8 million, \$2.4 million, and \$1.9 million in fiscal 2018, 2017, and 2016, respectively, which provided a diluted net income (loss) per share benefit of \$0.01, \$0.02, and \$0.01 in fiscal 2018, 2017, and 2016, respectively.

We also benefit from a tax holiday granted by the Malaysian government, subject to certain hiring, capital spending, and manufacturing requirements. 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. We received approval from the Malaysian government of the extension of our tax holiday for a second five-year term (through June 30, 2021). Tax savings associated with the Malaysia tax holiday were approximately \$7.6 million, \$6.8 million, and \$2.0 million in fiscal 2018, 2017, and 2016 respectively, which provided a diluted net income (loss) per share benefit of \$0.05, \$0.05, and \$0.01 in fiscal 2018, 2017, and 2016 respectively. Although we were granted the extension, 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.

A change in our effective tax rate could 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 U.S. and 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. A change in our effective tax rate due to any of these factors may adversely affect our future results from operations.

On December 22, 2017, the U.S. enacted significant changes to U.S. tax law following the passage and signing of H.R.1, "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (previously known as "The Tax Cuts and Jobs Act" and, as enacted, the

“Tax Act”). The Tax Act reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign sourced earnings. The U.S. Department of Treasury has broad authority to issue regulations and interpretive guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued. The Tax Act required complex computations not previously provided in U.S. tax law. As such, the application of accounting guidance for such items was previously uncertain. As of December 30, 2018, we have completed our “Tax Act“ analysis and it did not have any impact to our expectations of actual cash payments for income tax in the foreseeable future.

Changes made to the Code by the Tax Act — in particular, the reduction of the U.S. federal corporate tax rate from 35% to 21% — could affect the cost of capital provided by third-party investors for our projects. In particular, the reduction of the U.S. federal corporate tax rate from 35% to 21% decreases the value of depreciation to potential tax equity investors who may, as a result, require higher cash flow from solar project customers, and investors in SunPower solar energy projects may pay less for the project, in each case to compensate for the lower tax benefit value.

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 also “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 14. *Income Taxes*.”

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 U.S. tax reform 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 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.

Risks Related to Our Supply Chain

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 certain of our agreements 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. Additionally, existing arrangements from prior years have resulted in above current market pricing for purchasing polysilicon, resulting in inventory losses we have realized. 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.

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 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.

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 December 30, 2018, our subsidiaries had \$6.5 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 and our 0.875% debentures due 2021.

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 current, future or deemed 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;
- one-time transition tax by the U.S. on earnings of certain foreign subsidiaries that were previously tax deferred;
- 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;
- 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 U.S. and similar laws outside of the U.S.).

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, 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.

The success of our manufacturing operations 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 our manufacturing partners;
- difficulties in hiring and retaining key technical, management, and other personnel;
- potential inability to obtain, or obtain in a timely manner, financing, or approvals from governmental authorities for operations; and
- tariffs imposed on imported solar cells and modules which may cause market volatility, price fluctuations, supply shortages, and project delays.

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

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 U.S. Treasury Department 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, which is administered by the U.S. Treasury Department ("U.S. Treasury"). The ITC allows qualified applicants to claim an amount equal to 30% of the eligible cost basis for qualifying solar energy property. The U.S. Treasury also made payments under the Cash Grant program in lieu of the ITC for projects which commenced construction prior to December 31, 2011 and completed construction by December 31, 2016. We hold projects and have sold projects to certain customers based on certain underlying assumptions regarding the ITC and Cash Grant, including for our California Valley Solar Ranch and Solar Star projects. 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 the U.S. Treasury and U.S. Internal Revenue Service ("IRS"). Any changes to the U.S. 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 the U.S. Treasury, if the IRS or U.S. 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 U.S. 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 Grant and ITC applications, which could reduce eligibility and level of incentives and

could adversely affect our results of operations and cash flows. If the IRS redetermines the amount of the cash grant awards, investors may be required to make corresponding adjustments to their 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.

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 other reasons, 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 under this section, "Risks Related to Our Supply Chain—A change in our 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 continuously build and improve 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 under this section, “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.

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.

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.

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 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, 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 obligate us 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 acquisitions of Cogenra Solar, Inc. and Solaire Generation, Inc. in fiscal 2015, our acquisition of 100% of the equity voting interest in our former joint venture AUO SunPower Sdn. Bhd. in fiscal 2016, our entry into a manufacturing joint venture in China in 2017 and our SunStrong joint venture with Hannon Armstrong and acquisition of SolarWorld Americas in fiscal 2018. In the future, we may acquire additional companies, project pipelines, products, or technologies or enter into additional 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 adversely impact 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 the SunStrong joint venture with Hannon Armstrong;
- 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).

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 revenue, 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.

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 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.

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.

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. We have experienced significant turnover in our management team in the recent past, and we are investing significant resources in developing new members of management as we complete our restructuring and strategic transformation. We also anticipate that over time 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.

We may not be able to expand our business or manage our future growth effectively.

We may not be able 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;
- 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 under this section "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, production costs and tariffs. 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 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 2018, 2017, and 2016, 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.

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. To ascertain whether we are required to consolidate an 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. Consolidation of our VIEs could have a material adverse impact on our financial position, gross margin and operating results and could significantly increase our indebtedness. 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.

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 December 30, 2018, we had federal net operating loss carryforwards of \$779.9 million for tax purposes; of which, \$81.6 million was generated in fiscal year 2018 and can be carried forward indefinitely under the Tax Cuts and Job Acts of 2017 (“The Act”). The remaining federal net operating loss carry forward of \$698.3 million, which were generated prior to 2018, will expire at various dates from 2031 to 2037. As of December 30, 2018, we had California state net operating loss carryforwards of approximately \$777.7 million, of which \$5.2 million relate to debt issuance and will benefit equity when realized. These California net operating loss carryforwards will expire at various dates from 2029 to 2038. We also had federal credit carryforwards of approximately \$73.9 million, of which \$19.2 million relate to debt issuance and will benefit equity when realized. We had California credit carryforwards of \$9.0 million for state tax purposes, of which \$4.7 million relate to debt issuance and will benefit equity when realized. These federal credit carryforwards will expire at various dates from 2019 to 2038, and the California credit carryforwards 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 transaction with Cypress Semiconductor Corporation (“Cypress”) while we were deemed to be a member and subsidiary of the Cypress consolidated group.

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 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 majority of U.S. federal net operating losses were generated prior to 2018, and these losses 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, Mexico and Oregon, U.S. 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 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.

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 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.

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.

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 customer, employee, and business partner personally identifiable information ("PII"), including the European Union's General Data Protection Regulation ("GDPR"), which came into effect in May 2018. 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. Foreign data protection, privacy, and other laws and regulations, including GDPR, can be more restrictive than those in the United States. These U.S. federal and state and foreign laws and regulations, including GDPR which can be enforced by private parties or government entities, are constantly evolving and can be subject to significant change. In addition, the application and interpretation of these laws and regulations, including GDPR, 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, which may be significant, 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 posted privacy policies or with other federal, state, or international privacy-related or data protection laws and regulations, including GDPR, in effect since May 2018, could result in proceedings against us by governmental entities or others, which could have a material adverse effect on our business, results of operations, and financial condition.

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

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 confidential and proprietary information, intellectual property, commercial banking information, personal information concerning customers, employees, and business partners, and corporate information concerning internal processes and business functions. Malicious attacks to gain access to such information affects 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 or malicious effort, and result in persons obtaining unauthorized access to our data.

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, target end users through phishing and other malicious techniques, and/or may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventative measures. As a result, we have experienced such breaches of our systems in the past, and may experience a breach of our systems in the future that reduces our ability 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, or are perceived to have experienced, a significant data security breach, fail to detect and appropriately respond to a significant data security breach, or fail to implement disclosure controls and procedures that provide for timely disclosure of data security breaches deemed material to our business, including corrections or updates to previous disclosures, we could be exposed to a risk of loss, increased insurance costs, remediation and prospective prevention costs, damage to our reputation and brand, litigation and possible liability, or government enforcement actions, any of which could detrimentally affect our business, results of operations, and financial condition.

We may also share information 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, which may also detrimentally affect our business, results of operations, and financial condition as discussed above. See also under this section, “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.”

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, Greenbotics, 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 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.

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 December 30, 2018, we and our subsidiaries had \$825.0 million 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 December 30, 2018, we and our subsidiaries had \$49.1 million in principal amount of senior secured indebtedness outstanding, which includes \$6.7 million in non-recourse project debt and zero 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. For a discussion the impact of our liquidity on our ability to meet our payment obligations under our debentures, see also “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.*”

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

As of December 30, 2018, Total owned approximately 56% 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 effect 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 0.875% debentures or 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 0.875% 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 0.875% 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 0.875% 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 0.875% 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.

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 and our outstanding 0.875% and 4.00% debentures provide for a right to convert upon certain events, 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.

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	390,000	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	132,000	Owned	n/a
Solar cell and module manufacturing facility ⁵	Oregon, U.S.	600,000	Owned	n/a
Solar module assembly facility	Mexico	320,000	Leased	2021
Solar module assembly facility	Mexico	191,000	Leased	2026
Solar module assembly facility	France	36,000	Owned	n/a
Solar module assembly facility	France	42,000	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 450 MW.

3 The solar cell manufacturing facility we operate in Malaysia has a total rated annual capacity of over 700 MW.

4 We still owned this facility as of December 30, 2018; however, relevant operations ceased during fiscal 2016.

5 The solar cell manufacturing facility we operate in Oregon, U.S. has a total rated annual capacity of over 250 MW.

As of December 30, 2018, our principal properties included operating solar cell manufacturing facilities with a combined total annual capacity of over 1.4 GW and solar module assembly facilities with a combined total annual capacity of approximately 1.5 GW. For more information about our manufacturing capacity, see “Item 1. Business.”

We identify and allocate property, plant and equipment by country and by business segment. For more information see “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 6. *Balance Sheet Components* and Note 18. *Segments*, respectively.”

ITEM 3. LEGAL PROCEEDINGS

The disclosure under “Item 1. Financial Statements—Note 10. *Commitments and Contingencies—Legal Matters*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K is incorporated herein by reference.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is listed on the Nasdaq Global Select Market under the trading symbol “SPWR.”

As of February 8, 2019, there were approximately 730 holders of record 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 our debt agreements place restrictions on us and our 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 15. *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 1, 2018 through October 28, 2018	14,035	\$6.83	—	—
October 29, 2018 through November 25, 2018	16,349	\$6.33	—	—
November 26, 2018 through December 30, 2018	<u>12,268</u>	\$6.66	—	—
	<u>42,652</u>	\$6.59	—	—

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

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 in this Annual Report on Form 10-K.

(In thousands, except per share data)	Year Ended ¹				
	December 30, 2018	December 31, 2017	January 1, 2017	January 3, 2016	December 28, 2014
Consolidated Statements of Operations Data					
Revenue	\$ 1,726,085	\$ 1,794,047	\$ 2,552,637	\$ 1,576,473	\$ 3,027,265
Gross margin	\$ (297,081)	\$ (18,645)	\$ 221,819	\$ 244,646	\$ 625,127
Operating income (loss)	\$ (849,031)	\$ (1,024,917)	\$ (427,754)	\$ (206,294)	\$ 251,240
Income (loss) from continuing operations before income taxes and equity in earnings (loss) of unconsolidated investees	\$ (898,671)	\$ (1,200,750)	\$ (528,392)	\$ (242,311)	\$ 184,614
Income (loss) from continuing operations per share of common stock:					
Basic	\$ (5.76)	\$ (6.67)	\$ (3.25)	\$ (1.39)	\$ 1.91
Diluted	\$ (5.76)	\$ (6.67)	\$ (3.25)	\$ (1.39)	\$ 1.55

¹ Previously reported information for fiscal years 2017 and 2016 have been restated for the adoption of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, while previously reported information for fiscal years 2015 and 2014 have not been restated and are, therefore, not comparable to the fiscal years 2018, 2017 and 2016 information. For further discussion of this standard, see Note 1 to the Consolidated Financial Statements.

(In thousands)	As of ¹				
	December 30, 2018	December 31, 2017	January 1, 2017	January 3, 2016	December 28, 2014
Consolidated Balance Sheet Data					
Cash and cash equivalents	\$ 309,407	\$ 435,097	\$ 425,309	\$ 954,528	\$ 956,175
Working capital	\$ 368,765	\$ 253,424	\$ 832,754	\$ 1,515,918	\$ 1,273,236
Total assets	\$ 2,352,649	\$ 4,028,656	\$ 4,968,742	\$ 4,856,993	\$ 4,345,582
Long-term debt	\$ 40,528	\$ 430,634	\$ 451,243	\$ 478,948	\$ 214,181
Convertible debt, net of current portion	\$ 818,356	\$ 816,454	\$ 1,113,478	\$ 1,110,960	\$ 692,955
Total stockholders’ equity	\$ (208,696)	\$ 588,209	\$ 1,531,038	\$ 1,449,149	\$ 1,534,174

¹ Previously reported information for fiscal years 2017 and 2016 have been restated for the adoption of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, while previously reported information for fiscal years 2015 and 2014 have not been restated and are, therefore, not comparable to the fiscal years 2018, 2017 and 2016 information. For further discussion of this standard, see Note 1 to the Consolidated Financial Statements.

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

Cautionary Statement Regarding Forward-Looking Statements

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results could differ materially from those discussed below. Such risks and uncertainties include a variety of factors, some of which are beyond our control. Factors that could cause or contribute to such differences include those discussed in the section titled "Risk Factors" included in this Annual Report on Form 10-K. 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.

Overview

SunPower Corporation (together with its subsidiaries, "SunPower," "we," "us," or "our") is a leading global energy company that delivers complete solar solutions to customers worldwide through an array of hardware, software, and financing options and through utility-scale solar power system construction and development capabilities, operations and maintenance ("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.

Effective January 1, 2018, we adopted the requirements of Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) using the full retrospective method as discussed in "Part II—Item 8. Financial Statements—Notes to the Consolidated Financial Statements—Note 1. *Organization and Summary of Significant Accounting Policies*" of this Annual Report on Form 10-K. All amounts and disclosures set forth in this Form 10-K reflect these changes.

Segments Overview

In the fourth quarter of 2018, in connection with our efforts to improve operational focus and transparency, drive overhead accountability into segment operating results, and increase strategic agility across the value chain from our upstream business' core strength in manufacturing and technology and our downstream business's core strength in offering complete solutions in residential and commercial markets, we reorganized our segment reporting to an upstream and downstream structure. Previously, we operated under three end-customer segments, comprised of our (i) Residential Segment, (ii) Commercial Segment, and (iii) Power Plant Segment. Historically, the Residential Segment referred to sales of solar energy solutions to residential end-customers, the Commercial Segment referred to sales of energy solutions to commercial and public entity end-customers, and the Power Plant Segment referred to our large-scale solar products and systems and component sales.

Under the new segmentation, SunPower Energy Services Segment ("SunPower Energy Services" or "Downstream") refers to sales of solar energy solutions in the North America region previously included in the legacy Residential Segment and Commercial Segment (collectively previously referred to as "Distributed Generation" or "DG") including direct sales of turn-key engineering, procurement and construction ("EPC") services, sales to our third-party dealer network, sales of energy under power purchase agreements ("PPAs"), storage solutions, cash sales and long-term leases directly to end customers, and sales to resellers. The SunPower Energy Services Segment also includes sales of our global Operations and Maintenance ("O&M") services. The SunPower Technologies Segment ("SunPower Technologies" or "Upstream") refers to our technology development, worldwide solar panel manufacturing operations, equipment supply to resellers and commercial and residential end-customers outside of North America ("International DG"), and worldwide power plant project development and project sales. Upon reorganization, some support functions and responsibilities, which previously resided within the corporate function, have been shifted to each segment, including financial planning and analysis, legal, treasury, tax and accounting support and services, among others.

The reorganization provides our management with a comprehensive financial overview of our key businesses. The application of this structure permits us to align our strategic business initiatives and corporate goals in a manner that best focuses our businesses and support operations for success.

Our Chief Executive Officer, as the chief operating decision maker (“CODM”), reviews our business, manages resource allocations and measures performance of our activities among the SunPower Energy Services Segment and SunPower Technologies Segment.

Reclassifications of prior period segment information have been made to conform to the current period presentation. These changes do not affect our previously reported Consolidated Financial Statements.

For more information about our business segments, see the section titled “Part I. Item 1. Business” of this Annual Report on Form 10-K. For more segment information, see “Item 8. Financial Statements—Note 18. *Segment Information*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

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 across 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 measures for photovoltaic (“PV”) 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 sources, 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 customers to compare different portfolios of generation sources, energy storage, and energy management, and to tailor their solution towards optimization.

Seasonal Trends and Economic Incentives

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 and/or rainy 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, 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. Fiscal 2018, 2017 and 2016 are 52-week fiscal years. Our fiscal 2018 ended on December 30, 2018, fiscal 2017 ended on December 31, 2017 and fiscal 2016 ended on January 1, 2017.

Outlook

Demand

During fiscal 2018 we faced market challenges, including competitive solar product pricing pressure including the impact of tariffs imposed pursuant to Section 201 and Section 301 of the Trade Act of 1974. On January 23, 2018, the President of the United States issued Proclamation 9693, which approved recommendations to provide relief to U.S. manufacturers and imposed safeguard tariffs on imported solar cells and modules, based on the investigations, findings, and recommendations of the International Trade Commission. The tariffs went into effect on February 7, 2018. While solar cells and modules based on interdigitated back contact (“IBC”) technology, like our Maxeon 3, Maxeon 2 and related products, were granted exclusion from these safeguard tariffs on September 19, 2018, our solar products based on other technologies continue to be subject to the safeguard tariffs. Additionally, the Office of the United States Trade Representative (“USTR”) initiated an investigation under Section 301 of the Trade Act of 1974 into the government of China’s acts, policies, and practices related to technology transfer, intellectual property, and innovation. The USTR imposed additional import duties of up to 25% on certain Chinese products covered by the Section 301 remedy. These tariffs include certain solar power system components and finished products, including those purchased from our suppliers for use in our products and used in our business. In the near term, imposition of these tariffs - on top of anti-dumping and countervailing duties on Chinese solar cells and modules, imposed under the prior administration - is likely to result in a wide range of impacts to the U.S. solar industry, global manufacturing market and our business. Such tariffs could cause market volatility, price fluctuations, and demand reduction. Uncertainties associated with the Section 201 and Section 301 trade cases prompted us to adopt a restructuring plan and implement initiatives to reduce operating expenses and cost of revenue overhead and improve cash flow. During fiscal 2018, we incurred total tariffs charges of approximately \$42.5 million.

In fiscal 2019, we continue to focus on investments that we expect will offer the best opportunities for growth including our industry-leading Maxeon 5 cell and panel technology, solar-plus-storage solutions and digital platform to improve customer service and satisfaction in our SunPower Energy Services offerings. We believe that our strategic decision to re-segment our business into an upstream and downstream structure to focus our downstream efforts on our leading U.S. DG business while growing global sales of our upstream solar panel business through our SunPower Solutions group will improve transparency and enable us to regain profitability in 2019.

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, as amended (the “Code”), and the individual solar investment tax credit under Section 25D of the Code (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%. During December 2017, the current administration and Congress passed comprehensive reform of the Code which resulted 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*” of 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,” 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*” of this Annual Report on Form 10-K.

Supply

We are focused on delivering complete solar power generation solutions to our customers in both of our business segments. As part of our complete solution approach, we launched our SunPower Helix product for our commercial business customers during fiscal 2015 and our SunPower Equinox product for our residential business customers during fiscal 2016. The 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 Equinox systems utilize our latest Maxeon Gen 3 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 next 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-customers. Additionally, we continue to focus on producing our new lower cost, high efficiency P-Series product line, which will enhance our ability to rapidly expand our global footprint with minimal capital cost.

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, including the integration of energy storage and energy management functionality into our systems, and have made investments to realize those opportunities, 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 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 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 and have reached production panel efficiencies over 24%.

We have reduced our overall solar cell manufacturing output in an ongoing effort to match profitable demand levels, with increasing bias toward our highest efficiency Maxeon 3 product platform, which utilizes our latest solar cell technology, and our P-Series product, which utilizes conventional cell technology that we purchase from third parties in low-cost supply chain ecosystems such as China. We previously 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 are reducing our back-contact panel assembly capacity while increasing production of our new P-Series technology, including our newly-acquired U.S. manufacturing capabilities.

We are focused on reducing the cost of our solar panels and systems, including 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 and 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 both of our 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, see "Liquidity and Capital Resources—*Contractual Obligations*" and "Item 8. Financial Statements—Note 4. *Divestiture*" and "Note 10. *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 supply contracts may exceed market value. For example, we purchase our polysilicon under

fixed-price long-term supply agreements. When the purchases under these agreements significantly exceed market value they may result in inventory write-downs based on expected net realizable value. Additionally, existing arrangements from prior years have resulted in above current market pricing for purchasing polysilicon, resulting in inventory losses we have realized. For several years now, we have 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, see the risk factors set forth under the caption “Part 1. Item 1A. Risk Factors—Risks Related to Our Supply Chain,” including “—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” 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” of this Annual Report on Form 10-K.

Property, Plant and Equipment

In the second quarter of fiscal 2018, we announced our proposed plan to transition our corporate structure into upstream and downstream business units, and our long-term strategy to upgrade our IBC technology to Maxeon 5. Accordingly, we are upgrading the equipment associated with our manufacturing operations for the production of Maxeon 5 over the next several years. In connection with these planned changes that will impact the utilization of our manufacturing assets, continued pricing challenges in the industry, as well as the ongoing uncertainties associated with the Section 201 trade case, we determined indicators of impairment existed and therefore performed a recoverability test by estimating future undiscounted net cash flows expected to be generated from the use of these asset groups. Based on our fixed asset investment recoverability test performed, we determined that our estimate of future undiscounted net cash in-flows was insufficient to recover the carrying value of the upstream business unit’s assets and consequently performed an impairment analysis by comparing the carrying value of the asset group to its estimated fair value.

Consistent with our accounting practices, in estimating the fair value of the long-lived assets, we made estimates and judgments that we believe reasonable market participants would make. The impairment evaluation utilized a discounted cash flow analysis inclusive of assumptions for forecasted profit, operating expenses, capital expenditures, remaining useful life of our manufacturing assets, and a discount rate, as well as market and cost approach valuations performed by a third-party valuation specialist, all of which require significant judgment by management. In accordance with this evaluation, we recognized a non-cash impairment charge of \$369.2 million during our fiscal quarter ended July 1, 2018. The total impairment loss was allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group did not reduce the carrying amount of that asset below its determined fair value. As a result, non-cash impairment charges of \$355.1 million, \$12.8 million and \$1.2 million were allocated to “Cost of revenue“, “Research and development“ and “Sales, general and administrative“, respectively, on the Consolidated Statement of Operations for the year ended December 30, 2018. Further, the \$355.1 million non-cash impairment charge in “Cost of revenue“ was allocated to our SunPower Technology segment in the second quarter of fiscal 2018.

Residential Lease Assets

In conjunction with our efforts to generate more available liquid funds and simplify our balance sheet, we made the decision to sell our interest in the Residential Lease Portfolio and engaged an external investment banker to assist with the related marketing efforts in the fourth quarter of fiscal 2017. As a result of these events, in the fourth quarter of fiscal 2017, we determined it was necessary to evaluate the potential for impairment in our ability to recover the carrying amount of our Residential Lease Portfolio.

In proceeding with the impairment evaluation, we determined that financing receivables related to sales-type leases, which were previously classified as held for investment, qualified as held for sale based on our decision to sell our interest in the Residential Lease Portfolio. Accordingly, we recognized an allowance for estimated losses for the amount by which cost exceeded fair value. In addition, we reviewed the cash flows we would expect to derive from the underlying asset that we recover from the lessees (unguaranteed residual value). Due to our planned sale of the Residential Lease Portfolio and based on the indication of value received, we determined that the decline in estimated residual value was other than temporary.

We also performed a recoverability test for the assets subject to operating leases by first estimating future undiscounted net cash flows expected to be generated by the assets based on our own specific alternative courses of action under consideration. The alternative courses were either to sell the assets subject to operating leases or hold the assets until the end of their previously estimated useful lives. Upon consideration of the alternatives, we considered the probability of selling the assets subject to operating leases and factored the indicative value obtained from a prospective purchaser together with the probability of retaining the assets and the estimated future undiscounted net cash flows expected to be generated by holding the assets until the end of their previously estimated useful lives in the recoverability test. Based on the evaluation performed, we determined that as of December 31, 2017, the estimate of future undiscounted net cash flows is insufficient to recover the carrying value of the assets subject to operating leases and consequently performed an impairment analysis by comparing the carrying value of the assets to their estimated fair value.

We computed the fair value for the financing receivables associated with sales-type leases and long-lived assets subject to operating leases using consistent methodology and assumptions that market participants would use in their estimates of fair value. The estimates and judgments about future cash flows were made using an income approach defined as Level 3 inputs under fair value measurement standards. The impairment evaluation was based on the income approach (specifically a discounted cash flow analysis) and included assumptions for, among others, forecasted contractual lease income, lease expenses, residual value of these lease assets, long-term discount rates, and forecasted default rates over the lease term and discount rates, some of which require significant judgment by management.

We updated the impairment evaluation discussed above to include new leases that were placed in service since the last evaluation was performed. In accordance with such evaluation, we recognized a non-cash impairment charge of \$189.7 million as “Impairment of residential lease assets” on the Consolidated Statement of Operations for the year ended December 30, 2018. Due to the fact that the Residential Lease Portfolio assets are held in partnership flip structures with noncontrolling interests, we allocated a portion of the impairment charge related to such noncontrolling interests through the hypothetical liquidation at book value (“HLBV”) method. The allocation method applied to the noncontrolling interests and redeemable noncontrolling interests resulted in a net gain of \$9.6 million and a net gain of \$150.6 million for the year ended December 30, 2018 and December 31, 2017, respectively. As a result, the net impairment charges attributable to our stockholders totaled \$180.1 million and \$473.7 million for the year ended December 30, 2018 and December 31, 2017, respectively, and were recorded within the SunPower Energy Services Segment.

The impairment evaluation includes uncertainty because it requires us to make assumptions and to apply judgment to estimate future cash flows and assumptions.

Consistent with our intentions discussed above, on November 5, 2018, we entered into a Purchase and Sale agreement (the “PSA”) with HA SunStrong Capital LLC (“HA SunStrong Parent”), a subsidiary of Hannon Armstrong, to sell 49.0% membership interests in SunStrong for cash proceeds of \$10.0 million.

On November 5, 2018, HA SunStrong Capital LLC (“HA SunStrong Parent”), a subsidiary of Hannon Armstrong, acquired 49% equity interests in SunStrong, a previously wholly owned subsidiary. We have concluded that we are not the primary beneficiary of SunStrong and have recorded an equity investment in SunStrong for our retained equity interests. The transaction resulted to a net loss on sale of our Residential Lease Portfolio of \$62.3 million for the year ended December 30, 2018, which was recorded within the SunPower Energy Services Segment. The transaction decreased our long-term financing receivables, net and solar power systems leased and to be leased by \$388.2 million and \$262.8 million, respectively, as of December 30, 2018. We intend to sell the remainder of our residential lease portfolio to SunStrong. See Note 4. *Business Combinations and Divestitures* for further details.

Divestment of Microinverter Business

On August 9, 2018, we completed the sale of certain assets and intellectual property related to the production of microinverters to Enphase Energy, Inc. (“Enphase”) in exchange for \$25.0 million in cash and 7.5 million shares of Enphase common stock (the “Closing Shares”), pursuant to an Asset Purchase Agreement (the “Purchase Agreement”) entered into on June 12, 2018. We received the Closing Shares and \$15.0 million cash upon closing and receive the final \$10.0 million cash payment of the purchase price on December 10, 2018.

In connection with the closing under the Purchase Agreement, we entered into a Master Supply Agreement (the “MSA”) with Enphase. Pursuant to the MSA, with certain exceptions, we have agreed to exclusively

procure module-level power electronics (“MLPE”) and alternating current (“AC”) cables from Enphase to meet all of our needs for MLPE and AC cables for the manufacture and distribution of AC modules and discrete MLPE system solutions for the U.S. residential market, including our current Equinox solution and any AC module-based successor products. We have also agreed not to pair any third-party MLPE or AC cables with any of our modules for use in the grid-tied U.S. residential market where an Enphase MLPE is qualified and certified for such module. Under the MSA, we have agreed to use our best efforts to transition to purchasing other identified Enphase products in accordance with the MSA as soon as possible following execution of the MSA. The MSA does not otherwise restrict us from manufacturing, selling or purchasing any goods or products other than as restricted by the exclusivity provisions under the MSA. In consideration of our exclusivity undertakings, Enphase has agreed to prioritize and supply the applicable products under the MSA before supplying the same products to third parties. The MSA also includes customary provisions relating to requirements forecasting, warranty, liability, and quality assurance provisions. The initial term of the MSA is through December 31, 2023, and the MSA term will automatically be extended for successive two-year periods unless either party provides written notice of non-renewal. The MSA is subject to customary provisions permitting termination by the parties in connection with specified events of default and subject to applicable cure periods.

Additionally, in connection with the closing under the Purchase Agreement, we also entered into a Stockholders Agreement (the “Stockholders Agreement”) with Enphase, pursuant to which we and Enphase agreed to, among other things: (a) a six-month lock-up period and other transfer and resale restrictions applicable to the Closing Shares; (b) registration rights with respect to the Closing Shares pursuant to which Enphase filed with the Securities and Exchange Commission a registration statement on Form S-3 to register for resale the Closing Shares; (c) our right to appoint one person to the Enphase board of directors for so long as we own at least 55% of the Closing Shares; (d) voting agreements that require us, subject to certain exceptions and so long as we have the right to appoint one person to the Enphase board of directors, to cause the Closing Shares to be present at Enphase stockholders meetings for quorum purposes and to vote the Closing Shares in favor of Enphase’s board nominees and routine management proposals; and (e) stand-still provisions, that expire upon the earlier of (y) the termination of the Stockholders Agreement, or (z) the date of the termination of our right to appoint a director, our designee no longer serves on the Enphase board of directors and the MSA has been terminated.

Acquisition of SolarWorld Americas

On April 16, 2018, we entered into a Sale and Purchase Agreement (the “Sale and Purchase Agreement”) pursuant to which we agreed to purchase all of SolarWorld AG’s shares of stock in SolarWorld Americas Inc. (“SolarWorld Americas”), and SolarWorld Industries Deutschland GmbH’s partnership interest in SolarWorld Industries America LP. On August 21, 2018, we terminated the Sale and Purchase Agreement and entered into an Asset Purchase Agreement with SolarWorld Americas, pursuant to which we agreed to purchase certain assets of SolarWorld Americas in exchange for consideration of \$26.0 million, subject to certain closing and post-closing adjustments and other contingent payments. In connection with the termination of the Sale and Purchase Agreement, we have recognized an expense of \$20.0 million for the quarter ended September 30, 2018 in sales, general and administrative expense. On October 1, 2018, we completed the acquisition of certain assets of SolarWorld Americas, including its Hillsboro, Oregon facility and a significant portion of its manufacturing workforce of more than 200 employees. The purchase consideration consisted of \$26.0 million in cash and additional contingent consideration of approximately \$4.1 million. The acquisition will provide us with U.S. manufacturing capability to serve the U.S. market demand and SolarWorld Americas provides a platform for us to implement our commercial P-Series solar panel manufacturing technology and selected R&D activities.

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 two operating segments:

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

- *Solar power systems*: revenue from the design, manufacture, and sale of high-performance rooftop and ground-mounted solar power systems under construction and development agreements.
- *Residential leasing*: revenue recognized on solar 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 solar 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 solar projects that we complete and the associated revenue that we recognize, particularly for construction contracts and large-scale development projects. 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, inventory net realizable value charges, impairment of property, plant and equipment, losses on third party polysilicon sales, 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 2018, 2017 and 2016 consists mainly of costs associated with our August 2016, December 2016 and February 2018 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-Notes to Consolidated Financial Statements-Note 9. *Restructuring*.”

Loss on sale and impairment of residential lease assets

In December 2017, our Board of Directors approved a future sale of a portion of our interest in the assets and liabilities comprising our residential lease business (the “Residential Lease Portfolio”) that resulted in the sale of partial equity interests in SunStrong, our wholly owned subsidiary, to Hannon Armstrong on November 5,

2018 (See “Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 4. *Business Combinations and Divestitures*”) and as a result of this triggering event, determined it was necessary to evaluate the potential for impairment in our ability to recover the carrying amount of the Residential Lease Portfolio. In accordance with such evaluation, we recognized a non-cash impairment charge on our solar power systems leased and to be leased and an allowance for losses related to financing receivables. For more information, see Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 7. *Leasing*.”

On November 5, 2018, we entered into a joint venture with HA SunStrong Capital LLC (“HA SunStrong Parent”), an affiliate of Hannon Armstrong Sustainable Infrastructure Capital, Inc., (“Hannon Armstrong”) to acquire, operate, finance, and maintain a portfolio of residential rooftop or ground-mounted solar photovoltaic electric generating systems (“Solar Assets”). Pursuant to the terms of the Purchase and Sale Agreement (the “PSA”), we sold to HA SunStrong Parent, in exchange for consideration of \$10.0 million, membership units representing a 49.0% membership interest in SunStrong Capital Holdings, LLC (“SunStrong”), formerly our wholly-owned subsidiary that historically held and controlled the assets and liabilities comprising our residential lease business (the “Residential Lease Portfolio”). In connection with the sale transactions, we recognized a \$62.3 million net loss on the sale within “Loss on sale and impairment of residential lease assets” in our Consolidated Statements of Operations for the year ended December 30, 2018.

Following the closing of the PSA, we deconsolidated certain entities involved in our Residential Lease Portfolio. For more information, see Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 4. *Business Combination and Divestitures*.

Gain on Business Divestiture

In fiscal 2018, we recognized a gain from the divestment of our microinverter business to Enphase of \$59.3 million.

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, (ii) debt under our senior convertible debentures, (iii) fees for our outstanding letters of credit; and (iv) other outstanding bank solar project debt. Other income (expense) includes non-operating charges and benefits such as the impairment of goodwill and equity method investments. Other, net includes gains or losses on foreign exchange and derivatives as well as gains or losses related to sales and impairments of certain equity method investments.

Income Taxes

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act provided for numerous significant tax law changes and modifications, including the reduction of the U.S. federal corporate income tax rate from 35% to 21%, the requirement for companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creation of new taxes on certain foreign sourced earnings. In accordance with accounting standard ASC 740, Income Taxes, companies are required to recognize the tax law changes in the period of enactment. The SEC staff issued SAB 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. We provided a reasonable estimate of the effects of the Tax Act in our financial statements in 2017. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. We completed our analysis based on legislative updates currently available and reported the changes to the provisional amounts previously recorded which did not impact our income tax provision. We also confirmed that the Tax Act does not impact our expectations of actual cash payments for income taxes in the foreseeable future. For more information, see “Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 14. *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 continue to qualify to be taxed as an auxiliary company in Switzerland and benefit from a reduced tax rate. For additional information see “-Note 1. *The Company and Summary of Significant Accounting Policies*” and “-Note 14. *Income Taxes*” under “Item 8. Financial Statements and Supplementary Data.”

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’ 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.

On November 5, 2018, we sold a 49% of our interest in our residential lease assets portfolio to a joint venture. As a result of this transaction, the partnerships holding such assets was deconsolidated and the non-controlling interests that existed prior to this transaction were eliminated from our balance sheet. For additional information, refer to “Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 4. *Business Combination and Divestitures*.”

Results of Operations

Revenue

(In thousands, except percents)	Fiscal Year					
	2018	% of total revenue	2017	% of total revenue	2016	% of total revenue
SunPower Energy Services	\$1,045,614	61%	\$ 910,206	51%	\$ 999,000	39%
SunPower Technologies.	1,069,010	62%	1,350,790	75%	2,000,174	78%
Intersegment eliminations	<u>(388,539)</u>	(23)%	<u>(466,949)</u>	(26)%	<u>(446,537)</u>	(17)%
Total Revenue	<u>\$1,726,085</u>		<u>\$1,794,047</u>		<u>\$2,552,637</u>	

1 See “Item 8. Financial Statements—Note 18. *Segments*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for further information regarding our other segments reporting adjustments, net.

Total Revenue:

Our total revenue decreased by 4% during fiscal 2018 as compared to fiscal 2017, primarily due to reduced sales in our SunPower Technologies Segment in the U.S. and in Asia as result of our decision to cease the development of large-scale solar power projects. We sold our remaining U.S. power plant development portfolio

in the third quarter of fiscal 2018. This was partially offset by an increase in our SunPower Energy Services Segment in the proportion of capital leases placed in service relative to total leases placed in service under our residential leasing program within the U.S., as well as stronger sales of solar power systems and components to residential customers in all regions, and stronger sales of commercial solar power projects in all regions.

Our total revenue decreased by 30% during fiscal 2017 as compared to fiscal 2016, primarily due to a decline in the revenue recognized in our SunPower Technologies Segment as we shift away from global power plant development resulting in a decreased number of large-scale solar power projects in our project pipeline. We recognized two smaller projects in the second half of fiscal 2017, compared to several larger utility-scale solar power projects in fiscal 2016. Also contributing to the decrease in overall revenue was the decline in sales of SunPower Energy Services Segment’s solar power systems and components to our residential customers in the U.S. during fiscal 2017, partially offset by stronger sales of solar power systems and components to our commercial customers, particularly in the U.S.

Concentrations:

Our SunPower Energy Services Segment as a percentage of total revenue recognized was 61% during fiscal 2018 as compared to 51% during fiscal 2017. The relative change in revenue for SunPower Energy Services Segment as a percentage of total revenue recognized reflects the impact of a significant decline in revenue in SunPower Technologies Segment as well as higher sales to residential customers plus stronger sales to commercial customers. Our SunPower Technologies Segment as a percentage of total revenue recognized was 62% during fiscal 2018, as compared to 75% during fiscal 2017. The relative change in revenue for SunPower Technologies Segment as a percentage of total revenue recognized reflects the impact of our decision to shift our focus away from global power plant development with a resulting decrease in the number of large-scale solar power projects in our project pipeline.

Our SunPower Energy Services Segment as a percentage of total revenue recognized was approximately 51% during fiscal 2017 as compared to 39% during fiscal 2016. The relative change in revenue for SunPower Energy Services Segment as a percentage of total revenue recognized reflects the impact of a significant decline in revenue in SunPower Technologies Segment as well as lower sales to residential customers partially offset by stronger sales to commercial customers. Our SunPower Technologies Segment as a percentage of total revenue recognized were approximately 75% during fiscal 2017, as compared to 78% during fiscal 2016. The relative change in revenue for SunPower Technologies Segment as a percentage of total revenue recognized decreased as we shifted our focus away from global power plant development resulting in a decreased number of large-scale solar power projects in our pipeline during 2017. The table below represents our significant customers that accounted for greater than 10% of total revenue in fiscal 2017 and fiscal 2016. No single customer accounted for greater than 10% of total revenue for fiscal 2018.

<u>(As a percentage of total revenue)</u>		<u>Fiscal Year</u>		
		<u>2018</u>	<u>2017</u>	<u>2016</u>
Significant Customer:	Business Segment:			
Actis GP LLP	Power Plant	*	13%	n/a
8point3 Energy Partners	Power Plant	*	*	10%
Southern Renewable Partnerships, LLC.	Power Plant	n/a	*	15%

* percentage is less than 10%.

SunPower Energy Services Segment Revenue:

Revenue from residential customers increased 27% during fiscal 2018 as compared to fiscal 2017, primarily due to a higher volume in residential deals together with the increased proportion of capital leases placed in service relative to total leases placed in service under our residential leasing program within the U.S., as well as an increase in the sales of solar power components and systems to our residential customers in the U.S., partially offset by lower third-party dealer cash transactions. Revenue from commercial customers decreased 23% during fiscal 2018 as compared to fiscal 2017 primarily because of weaker sales of EPC and PPA commercial systems, partially offset by stronger sales of solar power projects in all regions.

Revenue from residential customers decreased 17% during fiscal 2017 as compared to fiscal 2016, primarily due to a decline in sales of solar power systems in U.S. residential market. Revenue from commercial customers increased 44% during fiscal 2017 as compared to fiscal 2016, primarily because of stronger sales of solar power systems.

SunPower Technologies Segment Revenue:

Revenue from power plant customers decreased 21% during fiscal 2018 as compared to fiscal 2017, primarily due to divesting our U.S. power plant development portfolio during the third quarter of fiscal 2018 partially offset by increased sales of power plant development and solar power solutions sales in regions outside of the U.S.

Revenue from power plant customers decreased 32% during fiscal 2017 as compared to fiscal 2016, primarily due to substantial completion of certain large-scale solar power projects and the associated revenue recognition in fiscal 2016, and the overall decrease in the number of large-scale solar power projects in our pipeline during 2017 as we shift away from global power plant development. In fiscal 2017, we sold the 111 MW El Pelicano and 71 MW Gala projects as compared to several larger utility-scale projects in fiscal 2016.

Cost of Revenue

(In thousands, except percents)	Fiscal Year				
	2018	% Change	2017	% Change	2016
SunPower Energy Services.	\$ 889,410	8%	\$ 820,628	—%	\$ 818,557
SunPower Technologies	1,496,909	5%	1,430,539	(26)%	1,940,752
Intersegment eliminations.	(363,153)	(17)%	(438,475)	2%	(428,491)
Total cost of revenue	<u>\$2,023,166</u>	12%	<u>\$1,812,692</u>	(22)%	<u>\$2,330,818</u>
Total cost of revenue as a percentage of total revenue.	117%		101%		91%
Total gross margin percentage	(17)%		(1)%		9%

1 See “Item 8. Financial Statements—Note 18. *Segments*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for further information regarding our other segments reporting adjustments, net.

Total Cost of Revenue:

Our total cost of revenue increased 12% during fiscal 2018 as compared to fiscal 2017, primarily as a result of a non-cash impairment charge of \$355.1 million, total tariffs charge of approximately \$42.5 million, higher volume in U.S. residential deals, and increased cost in solar power solutions in our sales to commercial customers. The increase was partially offset by lower project cost in our sales to power plant following our decision to cease the development of large-scale power projects. During fiscal 2018, we incurred a write-down of \$24.7 million on certain solar development projects which we sold during the third quarter of fiscal 2018. In addition, we incurred charges totaling \$31.6 million recorded in connection with the contracted sale of raw material inventory to third parties during 2018.

In the second quarter of fiscal 2018, we announced our plan to transition our corporate structure into upstream and downstream business units, and our long-term strategy to upgrade our integrated back connectivity, or IBC, technology to our NGT, or Maxeon 5, as we continue to face a challenging macroeconomic environment surrounding the solar industry. Accordingly, we expect to upgrade the equipment associated with our manufacturing operations for the production of Maxeon 5 over the next several years. In connection with these planned upstream business unit changes that will impact the utilization of our manufacturing assets, together with continued pricing challenges in the solar industry as well as the then uncertainties associated with the Section 201 trade case, we determined that certain indicators of asset impairment existed and therefore we performed a recoverability test by estimating future undiscounted net cash flows expected to be generated from the use of these assets groups. Based on the test performed, we determined that our estimate of future undiscounted net cash flows was insufficient to recover the carrying value of the upstream business unit’s assets and consequently performed an impairment analysis by comparing the carrying value of the asset group to its estimated fair value. In accordance with this determination, we recognized a non-cash impairment charge of

\$355.1 million in “Cost of revenue“ on the Consolidated Statements of Operations for the year ended December 30, 2018. The non-cash impairment charge in “Cost of revenue“ was allocated to our SunPower Energy Services Segment and SunPower Technologies Segment for the year ended December 30, 2018.

Our total cost of revenue decreased 22% during fiscal 2017 as compared to fiscal 2016, primarily as a result of a decline in volume of large scale project sales, offset by the charge recorded in fiscal 2017 in connection with a legal settlement related to certain tax indemnification obligations pertaining to SunPower Systems’ sale of a large California solar project to NRG Solar LLC, now known as NRG Renew LLC (“NRG”), charges totaling \$72.5 million recorded in connection with the contracted sale of raw material inventory to third parties, charges totaling \$38.2 million in connection with the sale of raw material to suppliers, and additional write-downs totaling \$8.3 million on certain solar power development projects in fiscal 2017, which were the result of our above-market cost of polysilicon and lower expected selling prices of our projects. We also experienced an increase to cost of revenue due to \$8.3 million of inventory write-downs as a result of lower net realizable value driven by lower pricing assumptions, higher manufacturing costs, higher third-party cell costs as well as pre-operating costs associated with the ramp of our P-Series product.

Gross Margin

	<u>Fiscal Year</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
SunPower Energy Services	15%	10%	18%
SunPower Technologies.....	(40)%	(6)%	3%

SunPower Energy Services Segment Gross Margin:

Gross margin for our SunPower Energy Services Segment increased 5 percentage points during fiscal 2018 as compared to fiscal 2017. Gross margin improved primarily due to a higher volume in residential deals together with the increased proportion of capital leases placed in service on residential sales offset by \$196.3 million of non-cash impairment charge on property, plant and equipment combined with lower margin on sales to residential customers and higher cost incurred related to solar power solutions deals.

Gross margin for our SunPower Energy Services Segment decreased 8 percentage points during fiscal 2017 as compared to fiscal 2016. Gross margin on residential sales decreased 4 percentage points during fiscal 2017 as compared to fiscal 2016 primarily due to declining average selling prices in North America. Gross margin on commercial sales decreased 3 percentage points during fiscal 2017 as compared to fiscal 2016 primarily a result of pricing pressures on sales of solar power systems due to factors such as an increase in the internal rate of return expected by our commercial customers in light of market conditions. In addition, there were charges of \$24.7 million in connection with the contracted sale of raw material inventory to third parties, and \$4.6 million in connection with the sale of raw material to suppliers, both of which were the result of our above-market cost of polysilicon and the lower expected selling prices of our solar projects during fiscal 2017.

SunPower Technologies Segment Gross Margin:

Gross margin for our SunPower Technologies Segment decreased 34 percentage points during fiscal 2018 as compared to fiscal 2017, primarily as a result of the \$158.8 million of non-cash impairment charge of property, plant and equipment, and write-downs totaling \$22.7 million on certain solar development projects during the first quarter of fiscal 2018, partially offset by decreased product costs driven by cost savings initiatives we implemented, and a reduction in revenue during 2018 in connection with a one-off legal settlement related to NRG in the first quarter of fiscal 2017.

Gross margin for our SunPower Technologies Segment decreased 8 percentage points during fiscal 2017 as compared to fiscal 2016, primarily because we experienced pressure on project pricing due to increased global competition and other factors, including an increase in the internal rate of return expected by our customers in light of market conditions. In addition, we had a \$33.6 million charge in connection with the sale of raw material to suppliers, \$30.7 million charge in connection with the contracted sales of raw material inventory to third parties and additional write-downs totaling \$8.3 million on certain solar power development projects in fiscal 2017, all as a result of our above-market cost of polysilicon and lower expected selling prices of our projects. Furthermore, we recorded a \$8.3 million charge to write-down inventory to its net realizable value as a result of

lower pricing assumptions, higher manufacturing costs, increased third-party cell costs as well as pre-operating costs associated with the ramp of our P-Series product. The decrease in gross margin was also a result of the charge to cost of revenue impacting our Power Plant Segment which we recorded in the first quarter of fiscal 2017 in connection with a legal settlement related to NRG.

Research and Development (“R&D”)

(In thousands, except percents)	Fiscal Year		
	2018	2017	2016
R&D	\$81,705	\$82,247	116,889
As a percentage of revenue	5%	5%	5%

R&D expense decreased by \$0.5 million during fiscal 2018 as compared to fiscal 2017. The decrease was primarily due to a decrease in labor costs as a result of reductions in headcount and salary expenses driven by our February 2018 restructuring plan. The decrease was partially offset by the impairment of property, plant and equipment related to R&D facilities of \$12.8 million.

R&D expense decreased by \$34.6 million during fiscal 2017 as compared to fiscal 2016, primarily due to a decrease in labor costs as a result of reductions in headcount and salary expenses driven by our August 2016 and December 2016 restructuring plans, as well as decreases in other expenses such as materials, consulting and outside services as we have completed certain development activities.

Sales, General and Administrative (“SG&A”)

(In thousands, except percents)	Fiscal Year		
	2018	2017	2016
SG&A	\$260,111	\$278,645	\$332,757
As a percentage of revenue	15%	15%	13%

SG&A expense decreased by \$18.5 million during fiscal 2018 as compared to fiscal 2017 primarily due to reductions in headcount and salary expenses driven by our February 2018 restructuring plan and ongoing cost reduction efforts.

SG&A expense decreased by \$54.1 million during fiscal 2017 as compared to fiscal 2016, primarily due to decreased marketing activity in North America and through digital media, a decrease in labor costs as a result of reductions in headcount and salary expenses driven by our August 2016 and December 2016 restructuring plans, a reduction in legal costs due to the settlement of certain legal proceedings, and a decrease in other non-cash charges.

Restructuring Charges

(In thousands, except percents)	Fiscal Year		
	2018	2017	2016
Restructuring charges	\$17,497	\$21,045	\$207,190
As a percentage of revenue	1%	1%	8%

Restructuring charges decreased \$3.5 million during fiscal 2018 as compared to fiscal 2017, primarily because we have incurred slightly lower severance and benefits charges in connection with the February 2018 restructuring plan compared to the facilities related expenses in the prior periods in connection with our December 2016 restructuring plan. See “Item 8. Financial Statements—Note 9. *Restructuring*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for further information regarding our restructuring plans. As a result of the February 2018 restructuring plan, we expected to generate annual cost savings of approximately \$20.5 million in operating expenses, which are expected to be cash savings primarily from a reduction in global workforce, and the effects commenced in the first quarter of fiscal 2018. Actual savings realized may, however, differ if our assumptions are incorrect or if other unanticipated events occur.

Loss (gain) on sale and impairment of residential lease assets

(In thousands, except percents)	Fiscal Year		
	2018	2017	2016
Loss (gain) on sale and impairment of residential lease assets.	\$251,984	\$624,335	\$(7,263)
As a percentage of revenue.	15%	35%	—%

In the fourth quarter of fiscal 2017, in conjunction with our efforts to generate more available liquid funds in the near-term, we made the decision to sell a portion of our interest in our Residential Lease Portfolio. As a result, in the fourth quarter of fiscal 2017, we determined it was necessary to evaluate the potential for impairment in our ability to recover the carrying amount of our Residential Lease Portfolio. As a result of our evaluation, we recognized non-cash impairment charges of \$624.3 million within “Loss on sale and impairment of residential lease assets” on the Consolidated Statements of Operations for the year ended December 31, 2017. In fiscal 2018, we continued recording additional non-cash impairment charges through the sale of partial equity interests in SunStrong, our wholly-owned subsidiary, to Hannon Armstrong in November 2018 - See Note 4. *Business Combinations and Divestitures* for further details. During the year ended December 30, 2018, we recognized, in aggregate, loss on sale and impairment of residential lease assets of \$252.0 million on the Consolidated Statements of Operations for fiscal 2018.

Gain recorded in fiscal 2016 relates to the sale of residential lease assets as a result of adopting ASC 606 on January 1, 2018, using the full retrospective method, which required us to restate each prior period presented.

Gain on business divestiture

(In thousands, except percents)	Fiscal Year		
	2018	2017	2016
Gain on business divestiture.	\$(59,347)	\$—	\$—
As a percentage of revenue.	(3)%	—%	—%

In fiscal 2018, we recognized a gain from the divestment of our microinverter business to Enphase of \$59.4 million.

Other Expense, Net

(In thousands, except percents)	Fiscal Year		
	2018	2017	2016
Interest income	\$ 3,057	\$ 2,100	\$ 2,652
Interest expense	(108,011)	(90,288)	(61,273)
Other Income (expense):			
Gain on settlement of preexisting relationships in connection with acquisition	—	—	203,252
Loss on equity method investment in connection with acquisition	—	—	(90,946)
Goodwill impairment.	—	—	(147,365)
Other, net.	55,314	(87,645)	(6,958)
Other expense, net.	<u>\$ (49,640)</u>	<u>\$(175,833)</u>	<u>\$(100,638)</u>
As a percentage of revenue.	(3)%	(10)%	(4)%

Interest expense increased \$17.7 million in fiscal 2018 as compared to fiscal 2017 primarily due to new debt and new commercial sale-leaseback arrangements.

Interest expense increased \$29.0 million in fiscal 2017 as compared to fiscal 2016 primarily due to new debt and new commercial sale-leaseback arrangements.

Other income (expense), net improved by \$143.0 million in fiscal 2018 as compared to fiscal 2017. The change is primarily due to a \$54.2 million gain on the sale of our equity method investments in fiscal 2018, a \$73.0 million impairment charge in fiscal 2017 in our 8point3 Energy Partners LP equity investment balance due to the adoption of ASC 606 which materially increased the investment balance and consequently, led to the recognition of an other-than-temporary impairment in the first quarter of fiscal 2017.

Other Income (expense) worsened by \$45.6 million in fiscal 2017 as compared to fiscal 2016. The change is primarily related to higher charges in fiscal 2017 related to the adoption of ASC 606 of \$64.6 million compared to fiscal 2016. In addition, fiscal 2016 was impacted by one-time charges of \$35.1 million in fiscal 2016 related to our AUOSP acquisition, \$147.4 million goodwill impairment, and \$90.9 million impairment of our equity method investment in AUOSP, all of which occurred in the third quarter of fiscal 2016, and \$8.6 million write-down in 2016 of one of our equity method investments, which were partially offset in fiscal 2016 by \$203.3 million gain on settlement regarding an acquisition.

Income Taxes

(In thousands, except percents)	Fiscal Year		
	2018	2017	2016
Benefit from (provision for) income taxes.....	\$(1,010)	\$3,944	\$(7,318)
As a percentage of revenue.....	—%	—%	—%

In the year ended December 30, 2018, our income tax provision of \$1.0 million on a loss before income taxes and equity in earnings of unconsolidated investees of \$898.7 million was primarily due to the related tax expense in foreign jurisdictions that were profitable, offset by tax benefit related to release of valuation allowance in a foreign jurisdiction and tax reserves due to lapse of statute of limitations. The income tax benefit of \$3.9 million in the year ended December 31, 2017 on a loss before income taxes and equity in earnings of unconsolidated investees of \$1,200.8 million, was primarily due to the related tax effects of the carryback of fiscal 2016 net operating losses to fiscal 2015 domestic tax returns, partially offset by tax expense in profitable jurisdictions.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act of 2017 (the “Tax Act”), which significantly changed U.S. tax law. The Tax Act lowered our U.S. statutory federal income tax rate from 35% to 21% effective January 1, 2018, while also imposing a deemed repatriation tax on deferred foreign income. The Tax Act also created a new minimum “base erosion and anti-abuse tax” on certain foreign payments made by a U.S. parent company, and the “global intangible low-taxed income” rules which tax foreign subsidiary income earned over a 10% rate of routine return on tangible business assets.

In accordance with ASC 740 “Income Taxes,” companies are required to recognize the tax law changes in the period of enactment. The SEC staff issued SAB 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. We provided a reasonable estimate of the effects of the Tax Act in our financial statements in 2017. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. We completed our analysis based on legislative updates currently available and reported the changes to the provisional amounts previously recorded which did not impact our income tax provision. We also confirmed that the Act does not impact our expectations of actual cash payments for income taxes in the foreseeable future. For more information, see “Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 14. *Income taxes.*”

We record a valuation allowance to reduce our deferred tax assets in the U.S., Malta, South Africa and Spain to the amount that is more likely than not to be realized. In assessing the need for a valuation allowance, we consider historical levels of income, expectations and risks associated with the estimates of future taxable income and ongoing prudent and feasible tax planning strategies. In the event we determine that we would be able to realize additional deferred tax assets in the future in excess of the net recorded amount, or if we subsequently determine that realization of an amount previously recorded is unlikely, we would record an adjustment to the deferred tax asset valuation allowance, which would change income tax in the period of adjustment.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. On July 24, 2018, the Ninth Circuit Court of Appeal reversed the Tax Court’s decision made in year 2015. On August 7, 2018, the Ninth Circuit Court of Appeal withdrew the issued decision to allow for additional time to confer on the appeal. We confirmed that there were no changes to the decision and will continue to monitor for ongoing developments and potential impacts to our consolidated financial statements.

Equity in Earnings of Unconsolidated Investees

(In thousands, except percents)	Fiscal Year		
	2018	2017	2016
Equity in earnings (loss) of unconsolidated investees	\$(17,815)	\$25,938	\$14,295
As a percentage of revenue	(1)%	1%	1%

Our equity in earnings of unconsolidated investees decreased \$43.8 million in fiscal 2018 as compared to fiscal 2017, primarily driven by the activities of the 8point3 Group, which we divested in June 2018. As a result of this transaction, we received, after the payment of fees and expenses, merger proceeds of approximately \$359.9 million in cash and no longer directly or indirectly owns any equity interests in the 8point3 Group. In connection with the sale, we recognized a \$34.4 million gain within “Other, net” in “Other income (expense), net” of our Consolidated Statements of Operations for the year ended December 30, 2018.

Our equity in earnings of unconsolidated investees increased \$11.6 million in fiscal 2017 as compared to fiscal 2016, primarily driven by the activities of the 8point3 Group.

Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

(In thousands)	Fiscal Year		
	2018	2017	2016
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	\$106,405	\$241,747	\$72,780

We have entered into facilities with third-party tax equity investors under which the investors invest in a structure known as a partnership flip. We determined that we hold controlling interests in these less-than-wholly-owned entities and therefore we have fully consolidated these entities. We apply the HLBV 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.

In fiscal 2018 and 2017, we attributed \$106.4 million and \$241.7 million, respectively, of net losses primarily to the third-party investors as a result of allocating certain assets, including tax credits and accelerated tax depreciation benefits, to the investors. The \$135.3 million decrease in net loss attributable to noncontrolling interests and redeemable noncontrolling interests is primarily attributable to the decrease in allocated portion of the impairment charge related to our residential lease assets, which was \$9.6 million and \$150.6 million in fiscal 2018 and 2017, respectively, (see “Item 8. Financial Statements-Note 7. *Leasing*”), and the deconsolidation following the sale of a portion of our interest in the residential lease assets portfolio resulting in less in net loss allocation to noncontrolling interests for the period after deconsolidation until December 30, 2018 (see “Item 8. Financial Statements-Note 4. *Business Combination and Divestitures*”), partially offset by an increase in total number of leases placed in service under new and existing facilities with third-party investors.

In fiscal 2017 and 2016, we attributed \$241.7 million and \$72.8 million, respectively, of net losses primarily to the third-party investors as a result of allocating certain assets, including tax credits and accelerated tax depreciation benefits, to the investors. The \$168.9 million increase in net loss attributable to noncontrolling interests and redeemable noncontrolling interests is primarily attributable to the allocated portion of the impairment charge related to our residential lease assets of \$150.6 million (see “Item 1. Financial Statements—Note 7. *Leasing*”), and an increase in total number of leases placed in service under new and existing facilities with third-party investors.

Critical Accounting Estimates

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles, which requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues, and expenses recorded in our financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. In addition to our most critical estimates discussed below, we also have other key

accounting policies that are less subjective and, therefore, judgments involved in their application would not have a material impact on our reported results of operations (See “Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 1. *Organization and Summary of Significant Accounting Policies*”).

Revenue Recognition

Module and Component Sales

We sell our solar panels and balance of system components primarily to dealers, system integrators and distributors, and recognizes revenue at a point in time when control of such products transfers to the customer, which generally occurs upon shipment or delivery depending on the terms of the contracts with the customer. There are no rights of return. Other than standard warranty obligations, there are no significant post-shipment obligations (including installation, training or customer acceptance clauses) with any of our customers that could have an impact on revenue recognition. Our revenue recognition policy is consistent across all geographic areas.

Solar Power System Sales and Engineering, Procurement, and Construction Services

We design, manufacture, and sell rooftop and ground-mounted solar power systems under construction and development agreements. EPC projects governed by customer contracts that require us to deliver functioning solar power systems are generally completed within three to twelve months from commencement of construction. Construction on large projects may be completed within eighteen to thirty-six months, depending on the size and location. We recognize revenue from EPC services over time as our performance creates or enhances an energy generation asset controlled by the customer. We use an input method based on cost incurred as we believe that this method most accurately reflects our progress toward satisfaction of the performance obligation. Under this method, revenue arising from fixed-price construction contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations.

Incurred costs include all direct material, labor and subcontract costs, and those indirect costs related to contract performance, such as indirect labor, supplies, and tools. Project material costs are included in incurred costs when the project materials have been installed by being permanently attached or fitted to the solar power system as required by the project’s engineering design. Cost-based input methods of revenue recognition require us to make estimates of net contract revenues and costs to complete the projects. In making such estimates, significant judgment is required to evaluate assumptions related to the amount of net contract revenues, including the impact of any performance incentives, liquidated damages, and other payments to customers. Significant judgment is also required to evaluate assumptions related to the costs to complete the projects, including materials, labor, contingencies, and other system costs. If the estimated total costs on any contract are greater than the net contract revenues, we recognize the entire estimated loss in the period the loss becomes known and can be reasonably estimated.

For sales of solar power systems in which we sell a controlling interest in the project to a customer, we recognize all of the revenue for the consideration received, including the fair value of the noncontrolling interest obtained or retained, and in circumstances where we maintain significant influence over the retained noncontrolling interest, we defer any profit associated with our retained equity stake through “Equity in earnings of unconsolidated investees.” The deferred profit is subsequently recognized on a straight-line basis over the useful life of the underlying system. We estimate the fair value of the noncontrolling interest using an income approach based on the valuation of the entire solar project. Further, in situations where we sell membership interests in our project entities to third-party tax equity investors in return for tax benefits (generally federal and/or state investment tax credits and accelerated depreciation), we view the sale of the rights to tax attributes associated with ownership of the underlying solar systems as a distinct performance obligation in the scope of ASC 606 because it is an output of our ordinary activities consistent with the guidance in ASC 606-10-15-3. The sale of the rights to the tax attributes is recognized at a point in time when the customers are eligible to claim the tax benefits, generally at substantial completion of the solar power projects. The fair value of the tax attributes generally begins with an independent third-party appraisal which supports the eligible cost basis for the qualifying solar energy property. In certain circumstances, we have provided indemnification to customers and investors under which we are contractually obligated to compensate these parties for losses they may suffer as a result of reduction in tax benefits received under the investment tax credit and U.S. Treasury Department’s cash grant programs. Refer to “Note 10. *Commitments and Contingencies*” for further details.

Our arrangements may contain clauses such as contingent repurchase options, delay liquidated damages or early performance bonus, most favorable pricing, or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics or milestones. Variable consideration is estimated at each measurement date at its most likely amount to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur and true-ups are applied prospectively as such estimates change.

Changes in estimates for sales of systems and EPC services occur for a variety of reasons, including but not limited to (i) construction plan accelerations or delays, (ii) product cost forecast changes, (iii) change orders, or (iv) changes in other information used to estimate costs. The cumulative effect of revisions to transaction prices or input cost estimates are recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated.

Operations and Maintenance

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. We determine that the post-installation systems monitoring and maintenance qualifies as a separate performance obligation. Post-installation monitoring and maintenance is deferred at the time the contract is executed, based on the estimate of selling price on a standalone basis, and is recognized to revenue over time as customers receive and consume benefits of such services. The non-cancellable term of the O&M contracts are typically 90 days for commercial and residential customers and 180 days for power plant customers.

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. 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 warranted 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 we will pay the customer an amount based on the value of the shortfall of energy produced relative to the applicable warranted performance level. Such liquidated damages represent a form of variable consideration and are estimated at contract inception and updated at each reporting date and recognized over time as customers receive and consume the benefits of the O&M services.

Shipping and Handling Costs

We account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer goods and, accordingly, records such costs in cost of revenue.

Taxes Collected from Customers and Remitted to Governmental Authorities

We exclude from our measurement of transaction prices all taxes assessed by governmental authorities that are both (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers. Accordingly, such tax amounts are not included as a component of revenue or cost of revenue.

Residential Leases

We offer a solar lease program, in partnership with third-party financial institutions, which allows our residential customers to obtain SunPower systems under lease agreements for terms of up to 20 years. Leases are classified as either operating- or sales-type leases in accordance with the relevant accounting guidelines, which involve making a variety of estimates, including the fair value and residual value of leased solar power systems. Changes in these estimates can have a significant impact on the related accounting results, including the relative proportion of leases classified as operating- or sales-type leases.

For those systems classified as sales-type leases, the net present value of the minimum lease payments, net of executory costs, is recognized as revenue when the lease is placed in service. This net present value of the minimum lease payments as well as the net present value of the residual value of the lease at termination are

recorded as financing receivables in our Consolidated Balance Sheets. The difference between the initial net amounts and the gross amounts are amortized to revenue over the lease term using the interest method. The residual values of our solar systems are determined at the inception of the lease by applying an estimated system fair value at the end of the lease term.

For those systems classified as operating leases, rental revenue is recognized, net of executory costs, on a straight-line basis over the term of the lease.

Impairment of Residential Lease Assets

We evaluate our long-lived assets, including property, plant and equipment, solar power systems leased and to be leased, and other intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets, and significant negative industry or economic trends. Our impairment evaluation of long-lived assets includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their remaining estimated useful lives. If our estimate of future undiscounted net cash flows is insufficient to recover the carrying value of the assets over the remaining estimated useful lives, we record an impairment loss in the amount by which the carrying value of the assets exceeds the fair value. Fair value is generally measured based on either quoted market prices, if available, or discounted cash flow analysis.

Financing receivables are generated by solar power systems leased to residential customers under sales-type leases. Financing receivables represent gross minimum lease payments to be received from customers over a period commensurate with the remaining lease term and the system's estimated residual value, net of unearned income and allowance for estimated losses. Our evaluation of the recoverability of these financing receivables is based on evaluation of the likelihood, based on current information and events, and whether we will be able to collect all amounts due according to the contractual terms of the underlying lease agreements. In accordance with this evaluation, we recognize an allowance for losses on financing receivables based on our estimate of the amount equal to the probable losses net of recoveries. The combination of the leased solar power systems discussed in the preceding paragraph together with the lease financing receivables is referred to as the "Residential Lease Portfolio."

In conjunction with our efforts to generate more available liquid funds and simplify our balance sheets, we made the decision to sell a portion of our interest in the Residential Lease Portfolio and engaged an external investment banker to assist with our related marketing efforts in the fourth quarter of fiscal 2017. As a result of these events, in the fourth quarter of fiscal 2017, we determined it was necessary to evaluate the potential for impairment in our ability to recover the carrying amount of our Residential Lease Portfolio.

In proceeding with the impairment evaluation, we determined that financing receivables related to sales-type leases, which were previously classified as held for investment, qualified as held for sale based on our decision to sell our interest in the Residential Lease Portfolio. Accordingly, we recognized an allowance for estimated losses for the amount by which cost exceeded fair value. In addition, we reviewed the cash flows we would expect to derive from the underlying asset that we recover from the lessees (unguaranteed residual value). Due to our planned sale of our Residential Lease Portfolio and based on the indication of value received, we determined that the decline in estimated residual value was other than temporary.

We performed a recoverability test for the assets subject to operating leases by estimating future undiscounted net cash flows expected to be generated by the assets, based on our own specific alternative courses of action under consideration. The alternative courses were either to sell or refinance the assets subject to operating leases, or hold the assets until the end of their previously estimated useful lives. Upon consideration of the alternatives, we considered the probability of selling the assets subject to operating leases and factored the indicative value obtained from a prospective purchaser together with the probability of retaining the assets and the estimated future undiscounted net cash flows expected to be generated by holding the assets until the end of their previously estimated useful lives in the recoverability test. Based on the evaluation performed, we determined that as of December 31, 2017, the estimate of future undiscounted net cash flows was insufficient to recover the carrying value of the assets subject to operating leases, and consequently performed an impairment analysis by comparing the carrying value of the assets to their estimated fair value.

We computed the fair value for the financing receivables associated with sales-type leases and long-lived assets subject to operating leases using consistent methodology and assumptions that market participants would use in their estimates of fair value. The estimates and judgments about future cash flows were made using an income approach defined as Level 3 inputs under fair value measurement standards. The impairment evaluation was based on the income approach (specifically a discounted cash flow analysis) and included assumptions for, among others, forecasted contractual lease income, lease expenses, residual value of these lease assets, long-term discount rates, and forecasted default rates over the lease term and discount rates, some of which require significant judgment by us.

Allowance for Doubtful Accounts and Sales Returns

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. A considerable amount of judgment is required to assess the likelihood of the ultimate realization of accounts receivable. We make our estimates of the collectability of our accounts receivable by analyzing historical bad debts, specific customer creditworthiness and current economic trends.

In addition, at the time revenue is recognized from the sale of solar panels and balance of system components, we record estimates for sales returns which reduce revenue. These estimates are based on historical sales returns and analysis of credit memo data, among other known factors.

Product Warranties

We generally provide a 25-year standard warranty for our solar panels that we manufacture for defects in materials and workmanship. The warranty provides that we will repair or replace any defective solar panels during the warranty period. In addition, we pass through to customers' long-term warranties from the original equipment manufacturers of certain system components, such as inverters. Warranties of 25 years from solar panel suppliers are standard in the solar industry, while certain system components carry warranty periods ranging from five to 20 years.

In addition, we generally warrant our workmanship on installed systems for periods ranging up to 25 years and also provide a separate system output performance warranty to customers that have subscribed to our post-installation monitoring and maintenance services which expires upon termination of the post-installation monitoring and maintenance services related to the system. The warranted 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 warranted performance levels have been met. 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 warranted 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 we will pay the customer a liquidated damage based on the value of the shortfall of energy produced relative to the applicable warranted performance level.

We maintain reserves to cover the expected costs that could result from these warranties. Our expected costs are generally in the form of product replacement or repair. Warranty reserves are based on our best estimate of such costs and are recognized as a cost of revenue. We continuously monitor product returns for warranty failures and maintain a reserve for the related warranty expenses based on various factors including historical warranty claims, results of accelerated lab testing, field monitoring, vendor reliability estimates, and data on industry averages for similar products. Due to the potential for variability in these underlying factors, the difference between our estimated costs and our actual costs could be material to our consolidated financial statements. If actual product failure rates or the frequency or severity of reported claims differ from our estimates or if there are delays in our responsiveness to outages, we may be required to revise our estimated warranty liability. Historically, warranty costs have been within management's expectations.

Inventories

Inventories are accounted for on a first-in-first-out basis and are valued at the lower of cost or net realizable value. We evaluate the realizability of our inventories, including future purchase commitments under fixed-price long-term supply agreements, based on assumptions about expected demand and market conditions. Our

assumption of expected demand is developed based on our analysis of bookings, sales backlog, sales pipeline, market forecast and competitive intelligence. Our assumption of expected demand is compared to available inventory, production capacity, future polysilicon purchase commitments, available third-party inventory and growth plans. Our factory production plans, which drive materials requirement planning, are established based on our assumptions of expected demand. We respond to reductions in expected demand by temporarily reducing manufacturing output and adjusting expected valuation assumptions as necessary. In addition, expected demand by geography has changed historically due to changes in the availability and size of government mandates and economic incentives.

We evaluate the terms of our long-term inventory purchase agreements with suppliers for the procurement of polysilicon, ingots, wafers, and solar cells and establish accruals for estimated losses on adverse purchase commitments as necessary, such as lower of cost or net realizable value adjustments, forfeiture of advanced deposits and liquidated damages. Obligations related to non-cancellable purchase orders for inventories match current and forecasted sales orders that will consume these ordered materials and actual consumption of these ordered materials are compared to expected demand regularly. We anticipate total obligations related to long-term supply agreements for inventories will be realized because quantities are less than management's expected demand for its solar power products over a period of years; however, if raw materials inventory balances temporarily exceed near-term demand, we may elect to sell such inventory to third parties to optimize working capital needs. In addition, because the purchase prices required by our long-term polysilicon agreements are significantly higher than current market prices for similar materials, if we are not able to profitably utilize this material in our operations or elect to sell near-term excess, we may incur additional losses. Other market conditions that could affect the realizable value of our inventories and are periodically evaluated by management include the aging of inventories on hand, historical inventory turnover ratio, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer concentrations, the current market price of polysilicon as compared to the price in our fixed-price arrangements, and product merchantability, among other factors. If, based on assumptions about expected demand and market conditions, we determine that the cost of inventories exceeds its net realizable value or inventory is excess or obsolete, or we enter into arrangements with third parties for the sale of raw materials that do not allow us to recover our current contractually committed price for such raw materials, we record a write-down or accrual, which may be material, equal to the difference between the cost of inventories and the estimated net realizable value. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required that could negatively affect our gross margin and operating results. If actual market conditions are more favorable, we may have higher gross margin when products that have been previously written down are sold in the normal course of business.

Stock-Based Compensation

We provide stock-based awards to our employees, executive officers and directors through various equity compensation plans including our employee stock option and restricted stock plans. We measure and record compensation expense for all stock-based payment awards based on estimated fair values. The fair value of restricted stock awards and units is based on the market price of our common stock on the date of grant. We have not granted stock options since fiscal 2008. We are required under current accounting guidance to estimate forfeitures at the date of grant. Our estimate of forfeitures is based on our historical activity, which we believe is indicative of expected forfeitures. In subsequent periods if the actual rate of forfeitures differs from our estimate, the forfeiture rates are required to be revised, as necessary. Changes in the estimated forfeiture rates can have a significant effect on stock-based compensation expense since the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

We also grant performance share units to executive officers and certain employees that require us to estimate expected achievement of performance targets over the performance period. This estimate involves judgment regarding future expectations of various financial performance measures. If there are changes in our estimate of the level of financial performance measures expected to be achieved, the related stock-based compensation expense may be significantly increased or reduced in the period that our estimate changes.

Variable Interest Entities ("VIE")

We regularly evaluate our relationships and involvement with unconsolidated VIEs and our other equity and cost method investments, to determine whether we have a controlling financial interest in them or have become the primary beneficiary, thereby requiring us to consolidate their financial results into our financial statements. In

connection with the sale of the equity interests in the entities that hold solar power plants, we also consider whether we retain a variable interest in the entity sold, either through retaining a financial interest or by contractual means. If we determine that the entity sold is a VIE and that we hold a variable interest, we then evaluate whether we are the primary beneficiary. If we determine that we are the primary beneficiary, we will consolidate the VIE. The determination of whether we are the primary beneficiary is based upon whether we have the power to direct the activities that most directly impact the economic performance of the VIE and whether we absorb any losses or benefits that would be potentially significant to the VIE.

Accounting for Business Divestitures

From time to time, we may dispose of significant assets or portion of our business by sale or exchange for other assets. In accounting for such transactions, we apply the applicable guidance of U.S. GAAP pertaining to discontinued operations and disposals of components of an entity. We assess such transaction as regards specified significance measures to determine whether a disposal qualifies as a discontinuance of operations versus a sale of asset components of our entity. Our assessment includes how such a disposal may represent a significant strategic shift in our operations and its impact on our continuing involvement as regards that portion of our business. Instances where disposals do not remove our ability to participate in a significant portion of our business are accounted as disposal of assets. Instances where disposals remove our ability to participate in a significant portion of our business are accounted as discontinued operations. For additional details see Note 4. *Business Combinations and Divestitures*” under “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements.” We charge disposal related costs that are not part of the consideration to general and administrative expense as they are incurred. These costs typically include transaction and disposal costs, such as legal, accounting, and other professional fees.

Accounting for Business Combinations

We record all acquired assets and liabilities, including goodwill, other intangible assets and in-process research and development, at fair value. The initial recording of goodwill, other intangible assets and in-process research and development requires certain estimates and assumptions concerning the determination of the fair values and useful lives. The judgments made in the context of the purchase price allocation can materially affect our future results of operations. Accordingly, for significant acquisitions, we obtain assistance from third-party valuation specialists. The valuations calculated from estimates are based on information available at the acquisition date. Goodwill is not amortized, but is subject to annual tests for impairment or more frequent tests if events or circumstances indicate it may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. For additional details see “Note 4. *Business Combinations and Divestitures*” and “Note 5. *Goodwill and Other Intangible Assets*” under “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements.”

Long-Lived Assets

Our long-lived assets include property, plant and equipment, solar power systems leased and to be leased, and other intangible assets with finite lives. We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets and significant negative industry or economic trends. Our impairment evaluation of long-lived assets includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their remaining estimated useful lives. If our estimate of future undiscounted net cash flows is insufficient to recover the carrying value of the assets over the remaining estimated useful lives, we record an impairment loss in the amount by which the carrying value of the assets exceeds the fair value. Fair value is generally measured based on either quoted market prices, if available, or discounted cash flow analyses.

In the second quarter of fiscal 2018, we announced our proposed plan to transition our corporate structure into upstream and downstream business units, and our long-term strategy to upgrade our IBC technology to our Maxeon 5. Accordingly, we are upgrading the equipment associated with our manufacturing operations for the production of Maxeon 5 over the next several years. In connection with these planned changes that will impact the utilization of our manufacturing assets, continued pricing challenges in the industry, as well as the then

ongoing uncertainties associated with the Section 201 trade case, we determined indicators of impairment existed and therefore performed a recoverability test by estimating future undiscounted net cash flows expected to be generated from the use of these asset groups. Based on our fixed asset investment recoverability test performed, we determined that our estimate of future undiscounted net cash in-flows was insufficient to recover the carrying value of the upstream business unit's assets and consequently performed an impairment analysis by comparing the carrying value of the asset group to its estimated fair value. Refer to Note 6. *Balance Sheet Components*" for further details.

Accounting for Income Taxes

On December 22, 2017, the U.S. enacted significant changes to U.S. tax law following the passage and signing of H.R.1, "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (previously known as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The Tax Act reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The U.S. Department of Treasury has broad authority to issue regulations and interpretive guidance that may significantly impact how we would apply the law and impact our results of operations in the period issued. The Tax Act requires complex computations not previously provided in U.S. tax law. As such, the application of accounting guidance for such items was previously uncertain. During Q4 2018, we completed our analysis based on legislative updates currently available and reported no significant changes to the provisional amounts previously recorded which did not impact our income tax provision. We also confirmed that the Act does not impact our expectations of actual cash payments for income taxes in the foreseeable future. For more information, see "Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 14. *Income taxes.*"

The Tax Act also included a provision to tax Global Intangible Low-Taxed Income ("GILTI"), of foreign subsidiaries in excess of a deemed return on their tangible assets. Pursuant to the SEC guidance on accounting for the Tax Act, corporations are allowed to make an accounting policy election to either (i) recognize the tax impact of GILTI as a period cost (the "period cost method"), or (ii) account for GILTI in the corporation's measurement of deferred taxes (the "deferred method"). In the fourth quarter of the fiscal year 2018, we elected to recognize the tax impact of GILTI as a period cost.

Our global operations involve manufacturing, research and development, and selling and project development activities. Profit from non-U.S. activities is subject to local country taxation, but not subject to U.S. tax until repatriated to the United States. It is our intention to indefinitely reinvest these earnings outside the United States. We record a valuation allowance to reduce our U.S., Malta, South Africa, and Spain entities' deferred tax assets to the amount that is more likely than not to be realized. In assessing the need for a valuation allowance, we consider historical levels of income, expectations and risks associated with the estimates of future taxable income and ongoing prudent and feasible tax planning strategies. In the event we determine that we would be able to realize additional deferred tax assets in the future in excess of the net recorded amount, or if we subsequently determine that realization of an amount previously recorded is unlikely, we would record an adjustment to the deferred tax asset valuation allowance, which would change income tax in the period of adjustment. As of December 30, 2018, we believe there is insufficient evidence to realize additional deferred tax assets beyond the U.S. net operating losses that can be benefited through a carryback election; however, the reversal of the valuation allowance, which could be material, could occur in a future period.

The calculation of tax expense and liabilities involves dealing with uncertainties in the application of complex global tax regulations, including in the tax valuation of projects sold to tax equity partnerships and other third parties. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period in which we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate tax assessment, a further charge to expense would result. We accrue interest and penalties on tax contingencies which are classified as "Provision for income taxes" in our Consolidated Statements of Operations and are not considered material. In addition, foreign exchange gains (losses) may result from estimated tax liabilities which are expected to be realized in currencies other than the U.S. dollar.

Pursuant to the Tax Sharing Agreement with Cypress, our former parent company, we are obligated to indemnify Cypress upon current utilization of carryforward tax attributes generated while we were part of the Cypress consolidated or combined group. Further, to the extent Cypress experiences any tax examination assessments attributable to our operations while part of the Cypress consolidated or combined group, Cypress will require an indemnification from us for those aspects of the assessment that relate to our operations. See also “Item 1A. Risk Factors - Risks Related to Our Operations—Our agreements with 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.”

Liquidity and Capital Resources

Cash Flows

A summary of the sources and uses of cash, cash equivalents, restricted cash and restricted cash equivalents is as follows:

(In thousands)	Fiscal Year		
	2018	2017	2016
Net cash used in operating activities	\$(543,389)	\$(267,412)	\$(312,283)
Net cash provided by (used in) investing activities	\$ 274,900	\$(293,084)	\$(354,783)
Net cash provided by financing activities	\$ 85,847	\$ 589,932	\$ 159,779

Operating Activities

Net cash used in operating activities in fiscal 2018 was \$543.4 million and was primarily the result of: (i) net loss of \$917.5 million; (ii) \$182.9 million increase in long-term financing receivables related to our net investment in sales-type leases; (iii) \$127.3 million decrease in accounts payable and other accrued liabilities, primarily attributable to payments of accrued expenses; (iv) \$39.2 million increase in inventories to support the construction of our solar energy projects; (v) \$59.3 million gain on business divestiture; (vi) \$54.2 million gain on the sale of equity investments; (vii) \$30.5 million decrease in contract liabilities driven by construction activities; (viii) \$43.5 million increase in contract assets driven by construction activities; and (ix) \$0.2 million increase in accounts receivable, primarily driven by billings. This was partially offset by: (i) impairment of property, plant and equipment of \$369.2 million; (ii) impairment of residential lease assets of \$189.7 million; (iii) loss on sale of residential lease assets of \$62.2 million; (iv) net non-cash charges of \$162.1 million related to depreciation, stock-based compensation and other non-cash charges; (v) \$22.8 million decrease in prepaid expenses and other assets, primarily related to the receipt of prepaid inventory; (vi) \$17.8 million decrease in equity in earnings of unconsolidated investees; (vii) \$44.4 million decrease in advance payments made to suppliers; (viii) \$39.5 million decrease in project assets, primarily related to the construction of our Commercial solar energy projects; (ix) \$3.9 million dividend from equity method investees; (x) \$6.4 million unrealized loss on equity investments with readily determinable fair value; and (xi) \$6.9 million net change in income taxes.

Net cash used in operating activities in fiscal 2017 was \$267.4 million and was primarily the result of: (i) net loss of \$1,170.9 million; (ii) \$216.3 million decrease in accounts payable and other accrued liabilities, primarily attributable to payment of accrued expenses; (iii) \$123.7 million increase in long-term financing receivables related to our net investment in sales-type leases; (iv) \$1.2 million decrease in accounts receivable, primarily driven by collections; (v) \$38.2 million increase in inventories to support the construction of our solar energy projects; (vi) \$25.9 million increase in equity in earnings of unconsolidated investees; (vii) \$7.0 million net change in income taxes; and (viii) \$5.3 million gain on sale of equity method investment. This was partially offset by: (i) \$624.3 million impairment of residential lease assets; (ii) other net non-cash charges of \$239.6 million related to depreciation, stock-based compensation and other non-cash charges; (iii) \$145.2 million increase in contract liabilities driven by construction activities; (iv) \$110.5 million decrease in prepaid expenses and other assets, primarily related to the receipt of prepaid inventory; (v) \$68.8 million decrease in advance payments made to suppliers; (vi) \$2.4 million decrease in project assets, primarily related to the construction of our Commercial and Power Plant solar energy projects; (vii) \$30.1 million dividend from 8point3 Energy Partners; (viii) \$10.7 million decrease in contract assets driven by milestone billings; and (iv) \$89.6 million impairment of 8point3 Energy Partners investment balance. Upon adoption of ASC 606, we recognized a material amount of deferred profit which required us to evaluate and record an impairment of the 8point3 investment balance in the first quarter of fiscal 2017.

Net cash used in operating activities in fiscal 2016 was \$312.3 million and was primarily the result of: (i) net loss of \$521.4 million; (ii) \$203.3 million non-cash settlement of preexisting relationships in connection with the acquisition of AUOSP; (iii) \$172.3 million increase in long-term financing receivables related to our net investment in sales-type leases; (iv) \$70.4 million increase in inventories driven by purchases of polysilicon; (v) \$33.5 million increase in accounts receivable, primarily attributable to collections; (vi) \$3.6 million increase in project assets, primarily related to the construction of our Commercial and Power Plant solar energy projects; (vii) \$14.3 million increase in equity in earnings of unconsolidated investees; (viii) \$2.8 million excess tax benefit from stock-based compensation; (ix) \$18.8 million decrease in accounts payable and other accrued liabilities; (x) \$47.6 million decrease in contract liabilities; and (xi) \$6.6 million increase in deferred income taxes and income tax liabilities. This was partially offset by: (i) other net non-cash charges of \$237.9 million related to depreciation, stock-based compensation and other non-cash charges; (ii) \$166.7 million in non-cash restructuring charge; (iii) \$147.4 million impairment of goodwill; (iv) \$90.9 million impairment of equity method investments; (v) \$3.2 million decrease in prepaid expenses and other assets; (vi) \$74.3 million decrease in advance payments made to suppliers; (vii) \$54.9 million decrease in contract assets; and (viii) \$6.9 million dividend from 8point3 Energy Partners LP.

Investing Activities

Net cash provided by investing activities in fiscal 2018 was \$274.9 million, which included (i) proceeds from the sale of investment in joint ventures and non-public companies of \$420.3 million; (ii) proceeds of \$23.3 million from business divestiture; and (iii) a \$13.0 million dividend from equity method investees. This was partially offset by: (i) \$166.9 million in capital expenditures primarily related to the expansion of our solar cell manufacturing capacity and costs associated with solar power systems, leased and to be leased; and (ii) \$14.7 million paid for investments in consolidated and unconsolidated investees.

Net cash used in investing activities in fiscal 2017 was \$293.1 million, which included (i) \$282.9 million in capital expenditures primarily related to the expansion of our solar cell manufacturing capacity and costs associated with solar power systems, leased and to be leased; (ii) \$18.6 million paid for investments in consolidated and unconsolidated investees; and (iii) \$1.3 million purchase of marketable securities. This was partially offset by proceeds from the sale of investment in joint ventures of \$6.0 million and a \$3.8 million dividend from equity method investees.

Net cash used in investing activities in fiscal 2016 was \$354.8 million, which included (i) \$310.1 million in capital expenditures primarily related to the expansion of our solar cell manufacturing capacity and costs associated with solar power systems, leased and to be leased; (ii) \$24.0 million paid for the acquisition of AUOSP, net of cash acquired; (iii) \$11.5 million paid for investments in consolidated and unconsolidated investees; (iv) \$9.8 million in payments to 8point3 Energy Partners; (v) \$5.0 million paid for purchases of marketable securities; and (vi) \$0.5 million paid for intangibles. This was partially offset by \$6.2 million in proceeds from sales or maturities of marketable securities.

Financing Activities

Net cash provided by financing activities in fiscal 2018 was \$85.8 million, which included: (i) \$129.3 million of net contributions from noncontrolling interests and redeemable noncontrolling interests related to residential lease projects; (ii) \$174.9 million in net proceeds from the issuance of non-recourse residential financing, net of issuance costs; and (iii) \$94.7 million in net proceeds from the issuance of non-recourse power plant and commercial financing, net of issuance costs. This was partially offset by: (i) \$307.6 million in net repayments of 0.75% debentures due 2018, bank loans and other debt; and (ii) \$5.5 million in purchases of treasury stock for tax withholding obligations on vested restricted stock.

Net cash provided by financing activities in fiscal 2017 was \$589.9 million, which included: (i) \$351.8 million in net proceeds from the issuance of non-recourse power plant and commercial financing, net of issuance costs; (ii) \$179.2 million of net contributions from noncontrolling interests and redeemable noncontrolling interests primarily related to residential lease projects; and (iii) \$82.7 million in net proceeds from the issuance of non-recourse residential financing, net of issuance costs. This was partially offset by: (i) 19.1 million in net repayments of bank loans and other debt; and (ii) \$4.8 million in purchases of treasury stock for tax withholding obligations on vested restricted stock.

Net cash provided by financing activities in fiscal 2016 was \$159.8 million, which included: (i) \$146.1 million in net proceeds from the issuance of non-recourse residential financing, net of issuance costs; and (ii) \$127.3 million of net contributions from noncontrolling interests and redeemable noncontrolling interests related to the residential lease projects. This was partially offset by: (i) \$56.4 million in net repayments from the issuance of non-recourse power plant and commercial financing, net of issuance costs; (ii) \$30.0 million in net repayments of bank loans and other debt; (iii) \$21.5 million in purchases of treasury stock for tax withholding obligations on vested restricted stock; and (iv) \$5.7 million in cash paid for acquisitions.

Debt and Credit Sources

Convertible Debentures

As of December 30, 2018, an aggregate principal amount of \$425.0 million of the 4.00% senior convertible debentures due 2023 (the “4.00% debentures due 2023”) remained issued and outstanding. The 4.00% debentures due 2023 were issued on December 15, 2015. Interest on the 4.00% debentures due 2023 is payable on January 15 and July 15 of each year, beginning on July 15, 2016. Holders are able to exercise their right to convert the debentures at any time into shares of our common stock at an initial conversion price approximately equal to \$30.53 per share, subject to adjustment in certain circumstances. If not earlier repurchased or converted, the 4.00% debentures due 2023 mature on January 15, 2023. Holders may require us to repurchase all or a portion of their 4.00% debentures due 2023, upon a fundamental change, as described in the related indenture, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. If we undergo a non-stock change of control, as described in the related indenture, the 4.00% debentures due 2023 will be subject to redemption at our option, in whole but not in part, for a period of 30 calendar days following a repurchase date relating to the non-stock change of control, at a cash redemption price equal to 100% of the principal amount plus accrued and unpaid interest. Otherwise, the 4.00% debentures due 2023 are not redeemable at our option prior to the maturity date. In the event of certain events of default, Wells Fargo Bank, National Association (“Wells Fargo”), the trustee, or the holders of a specified amount of then-outstanding 4.00% debentures due 2023 will have the right to declare all amounts then outstanding due and payable.

As of December 30, 2018, an aggregate principal amount of \$400.0 million of the 0.875% senior convertible debentures due 2021 (the “0.875% debentures due 2021”) remained issued and outstanding. The 0.875% debentures due 2021 were issued on June 11, 2014. Interest on the 0.875% debentures due 2021 is payable on June 1 and December 1 of each year. Holders are able to exercise their right to convert the debentures at any time into shares of our common stock at an initial conversion price approximately equal to \$48.76 per share, subject to adjustment in certain circumstances. If not earlier repurchased or converted, the 0.875% debentures due 2021 mature on June 1, 2021. Holders may require us to repurchase all or a portion of their 0.875% debentures due 2021, upon a fundamental change, as described in the related indenture, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. If we undergo a non-stock change of control, as described in the related indenture, the 0.875% debentures due 2021 will be subject to redemption at our option, in whole but not in part, for a period of 30 calendar days following a repurchase date relating to the non-stock change of control, at a cash redemption price equal to 100% of the principal amount plus accrued and unpaid interest. Otherwise, the 0.875% debentures due 2021 are not redeemable at our option prior to the maturity date. In the event of certain events of default, Wells Fargo, the trustee, or the holders of a specified amount of then-outstanding 0.875% debentures due 2021 will have the right to declare all amounts then outstanding due and payable.

On June 1, 2018, the 0.75% senior convertible debentures due 2018 were redeemed at maturity with proceeds from the Term Credit Agreement (the “Term Credit Agreement”) with Credit Agricole Corporate and Investment Bank (“Credit Agricole”) and as of December 30, 2018 were no longer issued or outstanding. On June 19, 2018, we completed the divestiture of our equity interest in the 8point3 Group and received, after the payment of fees and expenses, merger proceeds of approximately \$359.9 million in cash and no longer directly or indirectly owns any equity interests in the 8point3 Group (see “Note 11. *Equity Investments*”). Immediately following the transaction, we repaid our loan under the Term Credit Agreement in full with the proceeds of the divestiture, retaining the excess proceeds.

Loan Agreement with California Enterprise Development Authority (“CEDA”)

On December 29, 2010, we borrowed from CEDA the proceeds of the \$30.0 million aggregate principal amount of CEDA’s tax-exempt Recovery Zone Facility Revenue Bonds (SunPower Corporation - Headquarters Project) Series 2010 (the “Bonds”) maturing April 1, 2031 under a loan agreement with CEDA. Certain of our obligations under the loan agreement were contained in a promissory note dated December 29, 2010 issued by us to CEDA, which assigned the promissory note, along with all right, title and interest in the loan agreement, to Wells Fargo, as trustee, with respect to the Bonds for the benefit of the holders of the Bonds. The Bonds bear interest at a fixed-rate of 8.50% per annum. As of December 30, 2018, the fair value of the Bonds was \$32.4 million, determined by using Level 2 inputs based on quarterly market prices as reported by an independent pricing source.

As of December 30, 2018, the \$30.0 million aggregate principal amount of the Bonds was classified as “Long-term debt” in our Consolidated Balance Sheets.

Revolving Credit Facility with Credit Agricole

On June 23, 2017, we entered into an Amended and Restated Revolving Credit Agreement with Credit Agricole, as administrative agent, and the other lenders party thereto (the “Revolver”), which amends and restates the Revolving Credit Agreement dated July 3, 2013, as amended.

The Revolver was entered into in connection with a letter agreement between us and Total S.A. dated May 8, 2017 (the “Letter Agreement”), to facilitate the issuance by Total S.A. (“Total S.A.”) of one or more guaranties of our payment obligations of up to \$100.0 million under the Revolver. The maturity date of the Letter Agreement and the Revolver is August 26, 2019. In consideration for the commitments of Total S.A. pursuant to the Letter Agreement, we are required to pay a guarantor commitment fee of 0.50% per annum for the unutilized Support Amount and a guaranty fee of 2.35% per annum of the guaranteed amount outstanding.

Available borrowings under the Revolver are \$300.0 million; provided that the aggregate principal amount of all amounts borrowed under the facility cannot exceed 95.0% of the amounts guaranteed by Total S.A. under the Letter Agreement. Amounts borrowed under the facility may be repaid and reborrowed until the maturity date.

We are required to pay (a) interest on outstanding borrowings under the facility of (i) with respect to any LIBOR rate loan, an amount equal to 0.6% plus the LIBOR rate divided by a percentage equal to one minus the stated maximum rate of all reserves required to be maintained against “Eurocurrency liabilities” as specified in Regulation D; and (ii) with respect to any alternate base rate loan, an amount equal to 0.25% plus the greater of (1) the prime rate, (2) the Federal Funds rate plus 0.50%, and (3) the one-month LIBOR rate plus 1%; and (b) a commitment fee of 0.06% per annum on funds available for borrowing and not borrowed. The Revolver includes representations, covenants, and events of default customary for financing transactions of this type. As of December 30, 2018, we had no outstanding borrowings under the revolving credit facility.

2016 Letter of Credit Facility Agreements

In June 2016, we entered into a Continuing Agreement for Standby Letters of Credit and Demand Guarantees with Deutsche Bank AG New York Branch and Deutsche Bank Trust Company Americas (the “2016 Non-Guaranteed LC Facility”) which provides for the issuance, upon request by us, of letters of credit to support our obligations in an aggregate amount not to exceed \$50.0 million. The 2016 Non-Guaranteed LC Facility terminated on June 29, 2018. In March 2018, we entered into a letter agreement in connection with the 2016 Non-Guaranteed LC Facility. Pursuant to the letter agreement, we have advised Deutsche Bank AG New York Branch and Deutsche Bank Trust Company Americas (“Issuer”), and the Issuer has acknowledged, that one or more outstanding letters of credit or demand guarantees issued under the letter agreement may remain outstanding, at our request, after the scheduled termination date set forth in the letter agreement. As of December 30, 2018, letters of credit issued and outstanding under the 2016 Non-Guaranteed LC Facility totaled \$18.1 million.

In June 2016, we entered into bilateral letter of credit facility agreements (the “2016 Guaranteed LC Facilities”) with each of The Bank of Tokyo-Mitsubishi UFJ (“BTMU”), Credit Agricole, and HSBC USA Bank, National Association (“HSBC”). Each letter of credit facility agreement provides for the issuance, upon our request, of letters of credit by the issuing bank thereunder in order to support certain of our obligations until

December 31, 2018. Payment of obligations under each of the letter of credit facilities are guaranteed by Total S.A. pursuant to the Credit Support Agreement. Aggregate letter of credit amounts may be increased upon the agreement of the respective parties but, otherwise, may not exceed \$75.0 million with BTMU, \$75.0 million with Credit Agricole and \$175.0 million with HSBC, for a total capacity of \$325.0 million. Each letter of credit issued under one of the letter of credit facilities generally must have an expiration date, subject to certain exceptions, no later than the earlier of (a) two years from completion of the applicable project and (b) March 31, 2020.

In June 2016, in connection with the 2016 Guaranteed LC Facilities, we entered into a transfer agreement to transfer to the 2016 Guaranteed LC Facilities all existing outstanding letters of credit issued under our letter of credit facility agreement with Deutsche Bank AG New York Branch and Deutsche Bank Trust Company Americas, as administrative agent, and certain financial institutions, entered into in August 2011 and amended from time to time. In connection with the transfer of the existing outstanding letters of credit, the aggregate commitment amount under the August 2011 letter of credit facility was permanently reduced to zero on June 29, 2016. As of December 30, 2018, letters of credit issued and outstanding under the 2016 Guaranteed LC Facilities totaled \$36.3 million.

September 2011 Letter of Credit Facility with Deutsche Bank and Deutsche Bank Trust Company Americas (together, “Deutsche Bank Trust”)

On September 27, 2011, we entered into a letter of credit facility with Deutsche Bank Trust which provides for the issuance, upon request by us, of letters of credit to support our obligations in an aggregate amount not to exceed \$200.0 million. Each letter of credit issued under the facility is fully cash-collateralized and we have entered into a security agreement with Deutsche Bank Trust, granting them a security interest in a cash collateral account established for this purpose.

As of December 30, 2018, letters of credit issued under the Deutsche Bank Trust facility totaled \$3.0 million, which was fully collateralized with restricted cash as classified on the Consolidated Balance Sheets.

Revolving Credit Facility with Mizuho Bank Ltd. (“Mizuho”) and Goldman Sachs Bank USA (“Goldman Sachs”)

On May 4, 2016, we entered into a revolving credit facility (as amended, the “Construction Revolver”) with Mizuho, as administrative agent, and Goldman Sachs, under which we could borrow up to \$200 million. The Construction Revolver also included a \$100 million accordion feature. On October 27, 2017, we and Mizuho entered into an amendment to the Construction Revolver, which reduced the amount that we could borrow to up to \$50 million.

On June 28, 2018, all outstanding loans under the Construction Revolver were repaid in full and the facility was terminated, and as of December 30, 2018, outstanding borrowings under the Construction Revolver totaled zero. As of December 30, 2018, we also had \$75.0 million in additional borrowing capacity under our other limited recourse construction financing facilities.

Subordinated Mezzanine Loan with SunStrong Capital Lender LLC, an indirect subsidiary of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (“Hannon Armstrong”)

On August 10, 2018, SunStrong Capital Acquisition, LLC, a wholly-owned subsidiary of the Company (“Mezzanine Loan 1 Borrower”), and SunStrong Capital Lender LLC, a subsidiary of Hannon Armstrong, entered into a mezzanine loan agreement under which Mezzanine Loan 1 Borrower borrowed a subordinated, mezzanine loan of \$110.5 million (the “Mezzanine Loan 1”) and incurred issuance costs of \$1.4 million related to the loan. On August 31, 2018, we repaid a principal amount of \$2.1 million that resulted in an adjusted Mezzanine Loan 1 balance, net of issuance costs, of \$107.0 million. The divestiture of our Residential Lease Portfolio resulted in the deconsolidation of this debt. See “Note 4. *Business Combinations and Divestitures*” for additional information.

Non-recourse Financing and Other Debt

In order to facilitate the construction, sale or ongoing operation of certain solar projects, including our residential leasing program, we regularly obtain project-level financing. These financings are secured either by the assets of the specific project being financed or by our equity in the relevant project entity and the lenders do not have recourse to our general assets for repayment of such debt obligations, and hence the financings are

referred to as non-recourse. Non-recourse financing is typically in the form of loans from third-party financial institutions, but also takes other forms, including “flip partnership“ structures, sale-leaseback arrangements, or other forms commonly used in the solar or similar industries. We may seek non-recourse financing covering solely the construction period of the solar project or may also seek financing covering part or all of the operating life of the solar project. We classify non-recourse financings in our Consolidated Balance Sheets in accordance with their terms; however, in certain circumstances, we may repay or refinance these financings prior to stated maturity dates in connection with the sale of the related project or similar such circumstances. In addition, in certain instances, the customer may assume the loans at the time that the project entity is sold to the customer. In these instances, subsequent debt assumption is reflected as a financing outflow and operating inflow in the Consolidated Statements of Cash Flows to reflect the substance of the assumption as a facilitation of customer financing from a third party.

For our residential lease program, non-recourse financing is typically accomplished by aggregating an agreed-upon volume of solar power systems and leases with residential customers into a specific project entity. We have entered into the following non-recourse financings with respect to our residential lease program:

In fiscal 2016, we entered into bridge loans to finance solar power systems and leases under our residential lease program. The loans are repaid over terms ranging from two to seven years. Some loans may be prepaid without penalties at our option at any time, while other loans may be prepaid, subject to a prepayment fee, after one year. During the fiscal 2018 and 2017, we had net repayments of \$1.6 million, and \$10.3 million, respectively, in connection with these loans. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount of these loans, presented within “Short-term debt“ and “Long-term debt“ on our Consolidated Balance Sheets, was zero and \$17.1 million, respectively. The decrease in the balance over the prior period can be attributed to the divestiture of our residential lease assets portfolio and the subsequent assumption of this debt by SunStrong. See “Note 4. *Business Combinations and Divestitures*“ for additional information.

We enter into long-term loans to finance solar power systems and leases under our residential lease program. The loans are repaid over their terms of between 4 and 25 years. The remaining long-term loans may be prepaid without significant penalty, at our option, any time for some loans or beginning four years after the original issuance for others. During fiscal 2018 and 2017, we had net proceeds of \$176.6 million and \$72.4 million, respectively, in connection with these loans. As of December 30, 2018, and December 31, 2017, the aggregate carrying amount of these loans, presented within “Short-term debt“ and “Long-term debt“ on our Consolidated Balance Sheets, was zero and \$356.6 million, respectively. The decrease in the balance over the prior period can be attributed to the divestiture of our residential lease assets portfolio. See “Note 4. *Business Combinations and Divestitures*“ for additional information.

We also enter into facilities with third-party tax equity investors under which the investors invest in a structure known as a “partnership flip.“ We hold controlling interests in these less-than-wholly-owned entities and therefore fully consolidate these entities. We account for the portion of net assets in the consolidated entities attributable to the investors as noncontrolling interests in our consolidated financial statements. Noncontrolling interests in subsidiaries that are redeemable at the option of the noncontrolling interest holder are classified accordingly as redeemable between liabilities and equity on our Consolidated Balance Sheets. During fiscal 2018 and 2017, we had net contributions of \$129.3 million and \$179.2 million, respectively, under these facilities and attributed losses of \$106.4 million and \$91.2 million, respectively, to the noncontrolling interests corresponding principally to certain assets, including tax credits, which were allocated to the noncontrolling interests during the periods. On November 5, 2018, we sold a 49% of our interest in our residential lease assets portfolio to a joint venture. As a result of this transaction, the partnerships holding such assets was deconsolidated and the non-controlling interests that existed prior to this transaction were eliminated from our balance sheet. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount of these facilities, presented within “Redeemable noncontrolling interests in subsidiaries” and “Noncontrolling interests in subsidiaries” on our Consolidated Balance Sheets, was \$58.8 million and \$119.4 million, respectively. For additional information, refer to “Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements-Note 4. *Business Combination and Divestitures*.“

For our power plant and commercial solar projects, non-recourse financing is typically accomplished using an individual solar power system or a series of solar power systems with a common end customer, in each case owned by a specific project entity. We have entered into the following non-recourse financings with respect to our power plant and commercial projects:

- In fiscal 2016, we entered into a long-term credit facility to finance the 125 MW utility-scale Boulder power plant project in Nevada. In February 2018, we sold our equity interest in Boulder Solar I where the buyer repaid the remaining principal loan balance of \$27.3 million upon the sale of the project. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount of this facility, presented within “Short-term debt” and “Long-term debt” on our Consolidated Balance Sheets, was zero and \$28.2 million, respectively.
- In fiscal 2013, we entered into a long-term loan agreement to finance a 5.4 MW utility and power plant operating in Arizona. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount under this loan, presented within “Short-term debt” and “Long-term debt” on our Consolidated Balance Sheets, was \$6.7 million and \$7.2 million, respectively.
- Other debt is further composed of non-recourse project loans in Europe, the Middle East and Africa, which are scheduled to mature through 2028, and of limited recourse construction financing loans made in the ordinary course of business to individual projects in the United States, which are scheduled to mature through 2021.

See “Item 8. Financial Statements—Note 7. *Leasing*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for a discussion of our sale-leaseback arrangements accounted for under the financing method.

Liquidity

As of December 30, 2018, we had unrestricted cash and cash equivalents of \$309.4 million as compared to \$435.1 million as of December 31, 2017. Our cash balances are held in numerous locations throughout the world, and as of December 30, 2018, we had approximately \$104.9 million held outside of the United States. This offshore cash is used to fund operations of our business in the Europe and Asia Pacific regions as well as non-U.S. manufacturing operations, which require local payment for product materials and other expenses. The amounts held outside of the United States represent the earnings of our foreign subsidiaries which under the enacted Tax Act, incurred a one-time transition tax (such amounts were previously tax deferred), however, would not result in a cash payment due to our cumulative net operating loss position. We expect total capital expenditures related to purchases of property, plant and equipment of approximately \$81.9 million in fiscal 2019 in order to increase our manufacturing capacity for our highest efficiency Maxeon 3 product platform and our new P-Series technology, improve our current and next generation solar cell manufacturing technology, and other projects. In addition, while we have begun the transition away from our project development business, we still expect to invest capital to develop solar power systems and plants for sale to customers. The development of solar power plants can require long periods of time and substantial initial investments. Our efforts in this area may consist of all stages of development, including land acquisition, permitting, financing, construction, operation and the eventual sale of the projects. We often choose to bear the costs of such efforts prior to the final sale to a customer, which involves significant upfront investments of resources (including, for example, large transmission deposits or other payments, which may be non-refundable), land acquisition, permitting, legal and other costs, and in some cases the actual costs of constructing a project, in advance of the signing of PPAs and EPC contracts and the receipt of any revenue, much of which is not recognized for several additional months or years following contract signing. Any delays in disposition of one or more projects could have a negative impact on our liquidity.

Certain of our customers also require performance bonds issued by a bonding agency 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 such security, which could have an adverse impact on our liquidity. Obtaining letters of credit may require adequate collateral. All letters of credit issued under our 2016 Guaranteed LC Facilities are guaranteed by Total S.A. pursuant to the Credit Support Agreement. Our September 2011 letter of credit facility with Deutsche Bank Trust is fully collateralized by restricted cash, which reduces the amount of cash available for operations. As of December 30, 2018, letters of credit issued under the Deutsche Bank Trust facility amounted to \$3.0 million which were fully collateralized with restricted cash on our Consolidated Balance Sheet.

In fiscal 2011, we launched our residential lease program with dealers in the United States, in partnership with a third-party financial institution, which allows customers to obtain SunPower systems under lease agreements up to 20 years, subject to financing availability. We have entered into facilities with financial

institutions that will provide financing to support additional residential solar lease projects. Under the terms of certain programs, we receive upfront payments for periods under which the third-party financial institution has agreed to assume collection risk for certain residential leases. Changes in the amount or timing of upfront payments received from the financial institutions may have an impact on our cash position within the next twelve months. The normal collection of monthly rent payments for leases placed in service is not expected to have a material impact on our cash position within the next twelve months. We have entered into multiple facilities with third-party investors under which both parties will invest in entities that hold SunPower solar power systems and leases with residential customers. In the fourth quarter of fiscal 2017, in conjunction with our efforts to generate more available liquid funds in the near-term, we made the decision to sell a portion of our interest in the Residential Lease Portfolio. As a result, we determined it was necessary to evaluate our Residential Lease Portfolio for potential impairment. For additional information, see “Item 8. Financial Statements—Note 7. *Leasing*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K. During the year ended December 30, 2018, we received \$151.2 million in contributions from investors under the related facility agreements. During the fourth quarter of fiscal 2018, we successfully sold a portion of our interest in the Residential Lease Portfolio. In conjunction with our sale of the residential lease assets, we deconsolidated these less-than-wholly-owned entities in which we previously held a controlling interest. For further information, see “Item 1. Financial Statements—Note 4. *Business Combinations and Divestitures*” in the Notes to the Consolidated Financial Statements“ in this Annual Report on Form 10-K.

Additionally, during fiscal 2015, 2016 and 2017, we entered into several long-term non-recourse loans to finance solar power systems and leases under our residential lease program. In fiscal 2018, we drew down \$94.7 million of proceeds, net of issuance costs, under the loan agreements. During the fourth quarter of fiscal 2018, in conjunction with the sale of our interest in our residential lease assets portfolio we repaid these loans in full. We are actively arranging additional third-party financing for our continuing residential lease program; however, the credit markets are unpredictable, and if they become challenging, 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 unlikely event that we enter into a material number of additional leases without promptly obtaining corresponding third-party financing, our cash and working capital could be negatively affected. Additionally, we have approximately \$1.1 million of cash and cash equivalents within our remaining consolidated residential leasing subsidiaries that is used by those subsidiaries for their working capital needs. This cash is typically not available to us to use for general corporate purposes unless certain financial obligations are first settled. In the event that we choose to transfer cash out of these subsidiaries for general corporate purposes in the future, we would first be required to distribute a portion of the cash to lender debt reserves and investors who hold noncontrolling interests in the relevant subsidiaries. For further information, see “Item 1. Financial Statements—Note 7. *Leasing*” in the Notes to the Consolidated Financial Statements“ in this Annual Report on Form 10-K.

Solar power plant projects often require significant up-front investments. These include payments for preliminary engineering, permitting, legal, and other expenses before we can determine whether a project is feasible. We often make arrangements with third-party financiers to acquire and build solar power systems or to fund project construction using non-recourse project debt. As of December 30, 2018, outstanding amounts related to our project financing totaled \$6.5 million.

On June 23, 2017, we entered into an Amended and Restated Revolving Credit Agreement with Credit Agricole, as administrative agent, and the other lenders party thereto, which amends and restates the Revolving Credit Agreement dated July 3, 2013 by and between us, the Administrative Agent and the other parties thereto, as amended to date. The Revolver was entered into in connection with the Letter Agreement between us and Total S.A. dated May 8, 2017, which was entered into to facilitate the issuance by Total S.A of one or more guaranties of our payment obligations of up to \$100.0 million under the Revolver. The maturity date of the facility under the Revolver remains August 26, 2019, and amounts borrowed under the facility may be repaid and reborrowed until the Maturity Date. Available borrowings under the Revolver remain \$300.0 million; provided that the aggregate principal amount of all amounts borrowed under the facility cannot exceed 95.0% of the amounts guaranteed by Total Solar International SAS (“Total”), formerly Total Energies Nouvelles Activités USA, a subsidiary of Total S.A., under the Letter Agreement, effectively allowing us to borrow up to a maximum of \$95.0 million under the Revolver. As of December 30, 2018, \$300.0 million remained undrawn under our revolving credit facility with Credit Agricole.

There are no assurances, however, that we will have sufficient available cash to repay our indebtedness or that we will be able to refinance such indebtedness on similar terms to the expiring indebtedness. If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity investments or debt securities or obtain other debt financing. The current economic environment, 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 in the amounts that would be required to supplement cash flows to support operations. The sale of additional equity investments or convertible debt securities would result in additional dilution to our stockholders (and the potential for further dilution upon the exercise of warrants or the conversion of convertible debt) and may not be available on favorable terms or at all, particularly in light of the current conditions in the financial and credit markets. Additional debt would result in increased expenses and would likely impose new restrictive covenants which may be similar or different than those restrictions contained in the covenants under our current loan agreements and debentures. In addition, 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.

Challenging industry conditions and a competitive environment extended throughout fiscal 2018. Our net losses, resulting in a net use of our available cash, continued in fiscal 2018 and are expected to continue through fiscal 2019. Despite the challenging industry conditions, including uncertainty around the regulatory environment, we believe that our cash and cash equivalents, including cash expected to be generated from operations, will be sufficient to meet our obligations over the next 12 months from the date of the issuance of our financial statements. Although we have been successful in our ability to divest certain investments and non-core assets, such as the divestiture of our equity interest in 8point3 Energy Partners LP (Note 11. *Equity Investments*), the sale of certain assets and intellectual property related to the production of microinverters (Note 4. *Business Combinations and Divestitures*), and the sale of membership interests in our Residential Lease Portfolio (Note 4. *Business Combinations and Divestitures*) and have secured other sources of financing in connection with our short-term liquidity needs, as well as realizing cash savings resulting from restructuring actions and cost reduction initiatives put in place in the third and fourth quarters of fiscal 2016 and the first and second quarter of fiscal 2018, we continue to focus on improving our overall operating performance and liquidity, including managing cash flow and working capital.

We also have the ability to enhance our available cash by borrowing up to \$95.0 million under a revolving credit facility (the “Revolver”) with Credit Agricole Corporate and Investment Bank (“Credit Agricole”) pursuant to a Letter Agreement executed by us and Total S.A. on May 8, 2017 (the “Letter Agreement”) through August 26, 2019, the expiration date of the Letter Agreement (see “Note 2. *Transactions with Total and Total S.A.*”).

Although we have historically been able to generate liquidity, we cannot predict, with certainty, the outcome of our actions to generate liquidity as planned.

Contractual Obligations

The following table summarizes our contractual obligations as of December 30, 2018:

(In thousands)	Total	Payments Due by Fiscal Period			
		2019	2020-2021	2022-2023	Beyond 2023
Convertible debt, including interest ¹	\$ 902,176	\$ 20,500	\$438,968	\$442,708	\$ —
CEDA loan, including interest ²	61,238	2,550	5,100	5,100	48,488
Other debt, including interest ³	74,990	42,692	9,203	6,444	16,651
Future financing commitments ⁴	7,040	4,140	2,900	—	—
Operating lease commitments ⁵	117,799	14,748	26,825	22,103	54,123
Sale-leaseback financing ⁶	509,915	23,943	64,739	59,351	361,882
Capital lease commitments ⁷	2,765	630	1,292	843	—
Non-cancellable purchase orders ⁸	206,674	206,674	—	—	—
Purchase commitments under agreements ⁹	713,309	231,754	413,580	67,975	—
Deferred purchase consideration in connection with acquisition ¹⁰	60,000	30,000	30,000	—	—
Total	<u>\$2,655,906</u>	<u>\$577,631</u>	<u>\$992,607</u>	<u>\$604,524</u>	<u>\$481,144</u>

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- 1 Convertible debt, including interest, relates to the aggregate of \$825.0 million in outstanding principal amount of our senior convertible debentures on December 30, 2018. For the purpose of the table above, we assume that all holders of the outstanding debentures will hold the debentures through the date of maturity, and upon conversion, the values of the senior convertible debentures will be equal to the aggregate principal amount with no premiums.
 - 2 CEDA loan, including interest, relates to the proceeds of the \$30.0 million aggregate principal amount of the Bonds. The Bonds mature on April 1, 2031 and bear interest at a fixed rate of 8.50% through maturity.
 - 3 Other debt, including interest, primarily relates to non-recourse finance projects and solar power systems and leases under our residential lease program as described in “Item 8. Financial Statements—Note 10. Commitments and Contingencies” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.
 - 4 In connection with purchase and joint venture agreements with non-public companies, we will be required to provide additional financing to such parties of up to \$7.0 million, subject to certain conditions.
 - 5 Operating lease commitments primarily relate to certain solar power systems leased from unaffiliated third parties over minimum lease terms of up to 20 years and various facility lease agreements.
 - 6 Sale-leaseback financing relates to future minimum lease obligations for solar power systems under sale-leaseback arrangements which were determined to include integral equipment and accounted for under the financing method.
 - 7 Capital lease commitments primarily relate to certain buildings, manufacturing and equipment under capital leases in Europe for terms of up to 6 years.
 - 8 Non-cancellable purchase orders relate to purchases of raw materials for inventory and manufacturing equipment from a variety of vendors.
 - 9 Purchase commitments under agreements primarily relate to arrangements entered into with several suppliers, including some of our non-consolidated investees, for polysilicon, ingots, wafers, and module-level power electronics and alternating current cables, among others. These agreements specify future quantities and pricing of products to be supplied by the vendors for periods up to 5 years and there are certain consequences, such as forfeiture of advanced deposits and liquidated damages relating to previous purchases, in the event that we terminate the arrangements.
 - 10 In connection with the acquisition of AUO SunPower Sdn. Bhd. in 2016, we are required to make noncancellable annual installment payments during 2019 and 2020.

Liabilities Associated with Uncertain Tax Positions

Due to the complexity and uncertainty associated with our tax positions, we cannot make a reasonably reliable estimate of the period in which cash settlement will be made for our liabilities associated with uncertain tax positions in other long-term liabilities. Therefore, they have been excluded from the table above. As of December 30, 2018 and December 31, 2017, total liabilities associated with uncertain tax positions were \$16.8 million and \$19.4 million, respectively, and are included within “Other long-term liabilities” in our Consolidated Balance Sheets as they are not expected to be paid within the next twelve months.

Off-Balance Sheet Arrangements

As of December 30, 2018, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

ITEM 7A: *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Foreign Currency Exchange Risk

Our exposure to movements in foreign currency exchange rates is primarily related to sales to European customers that are denominated in Euros. Revenue generated from European customers represented 7%, 5% and 3% of our total revenue in fiscal 2018, 2017 and 2016, respectively. A 10% change in the Euro exchange rate would have impacted our revenue by approximately \$11.5 million, \$10.0 million and \$7.6 million in fiscal 2018, 2017 and 2016, respectively.

In the past, we have experienced an adverse impact on our revenue, gross margin and profitability as a result of foreign currency fluctuations. 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. Furthermore, many of our competitors are foreign companies that could benefit from such a currency fluctuation, making it more difficult for us to compete with those companies.

We currently conduct hedging activities which involve the use of option and/or forward currency contracts that are designed to address our exposure to changes in the foreign exchange rate between the U.S. dollar and other currencies. As of December 30, 2018 and December 31, 2017, we had outstanding forward currency contracts with aggregate notional values of \$11.4 million and \$10.3 million, respectively. Because we hedge some of our expected future foreign exchange exposure, if associated revenues do not materialize we could experience a reclassification of gains or losses into earnings. Such a reclassification could adversely impact our revenue, margins and results of operations. We cannot predict the impact of future exchange rate fluctuations on our business and operating results.

Credit Risk

We have certain financial and derivative instruments that subject us to credit risk. These consist primarily of cash and cash equivalents, restricted cash and cash equivalents, investments, accounts receivable, notes receivable, advances to suppliers, foreign currency option contracts, foreign currency forward contracts, bond hedge and warrant transactions. We are exposed to credit losses in the event of nonperformance by the counterparties to our financial and derivative instruments. Our investment policy requires cash and cash equivalents, restricted cash and cash equivalents, and investments to be placed with high-quality financial institutions and limits the amount of credit risk from any one issuer. We additionally perform ongoing credit evaluations of our customers' financial condition whenever deemed necessary and generally do not require collateral.

We enter into agreements with vendors that specify future quantities and pricing of polysilicon to be supplied for periods up to 10 years. Under certain agreements, we are required to make prepayments to the vendors over the terms of the arrangements. As of December 30, 2018 and December 31, 2017, advances to suppliers totaled \$171.6 million and \$216.0 million, respectively. One supplier accounted for 99.6% of total advances to suppliers as of both December 30, 2018 and December 31, 2017.

We enter into foreign currency derivative contracts and convertible debenture hedge transactions with high-quality financial institutions and limit the amount of credit exposure to any single counterparty. The foreign currency derivative contracts are limited to a time period of a month or less. We regularly evaluate the credit standing of our counterparty financial institutions.

Interest Rate Risk

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 impact 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, reduce gross margin and adversely impact our operating results. This risk is significant to our business because our sales model is highly sensitive to interest rate fluctuations and the availability of credit, and would be adversely affected by increases in interest rates or liquidity constraints.

Our interest expense would increase to the extent interest rates rise in connection with our variable interest rate borrowings. During the fourth quarter of fiscal 2018, we repaid all of our variable interest rate borrowings and as of December 30, 2018, the outstanding principal balance of our variable interest borrowings was \$45.7 million. We do not believe that an immediate 10% increase in interest rates would have a material effect on our financial statements under potential future borrowings. In addition, lower interest rates would have an adverse impact on our interest income. Due to the relatively short-term nature of our investment portfolio, we do not believe that an immediate 10% decrease in interest rates would have a material effect on the fair market value of our money market funds. Since we believe we have the ability to liquidate substantially all of this portfolio, we do not expect our operating results or cash flows to be materially affected to any significant degree by a sudden change in market interest rates on our investment portfolio.

Equity Price Risk Involving Minority Investments in Joint Ventures and Other Non-Public Companies

Our investments held in joint ventures and other non-public companies expose us to equity price risk. As of December 30, 2018 and December 31, 2017, investments of \$43.7 million and \$450.0 million, respectively, are accounted for using the equity method. As of both December 30, 2018 and December 31, 2017, investments of \$8.8 million and \$35.8 million, respectively, are accounted for using the measurement alternative method.

On June 19, 2018, we completed the sale of our equity interest in the 8point3 Group. The carrying value of our equity method investments as of December 30, 2018 and December 31, 2017 included zero and \$382.7 million, respectively, of our investment in the 8point3 Group (See “Item 8. Financial Statements—Note 11. *Equity Investments*” in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K). We adopted ASC 606 on January 1, 2018, using the full retrospective method, which required us to restate each prior period presented. We recorded a material amount of profit associated with projects sold to 8point3 Energy Partners in 2015, the majority of which had previously been deferred under real estate accounting. Accordingly, our carrying value in the 8point3 Group materially increased upon adoption which required us to evaluate our investment in 8point3 Energy Partners for other-than-temporary impairment. In accordance with such evaluation, we recognized an other-than-temporary charge on the 8point3 investment balance during fiscal 2017 amounting to \$86.0 million.

On August 9, 2018, we completed the sale of certain assets and intellectual property related to the production of microinverters to Enphase in exchange for \$25.0 million in cash and 7.5 million shares of Enphase common stock. We received the common stock and a \$15.0 million cash payment upon closing, and received the final \$10.0 million cash payment of the purchase price on December 10, 2018. The common stock was recorded as an equity investment with readily determinable fair value (Level 1), with changes in fair value recognized in net income. For the fiscal year ended December 30, 2018, we recognized an unrealized loss of \$6.4 million within “Other, net” under other income (expense), net, on the Consolidated Statement of Operations.

These strategic equity investments in third parties are subject to risk of changes in market value could result in realized impairment losses. We generally do not attempt to reduce or eliminate our market exposure in equity investments. We monitor these investments for impairment and record reductions in the carrying values when necessary. Circumstances that indicate an other-than-temporary decline include the valuation ascribed to the issuing company in subsequent financing rounds, decreases in quoted market prices and declines in operations of the issuer. There can be no assurance that our equity investments will not face risks of loss in the future.

Interest Rate Risk and Market Price Risk Involving Debt

As of December 30, 2018, we held outstanding convertible debentures with an aggregate face value of \$825.0 million, comprised of \$425.0 million of 4.00% debentures due in 2023 and \$400.0 million of 0.875% debentures due in 2021. The aggregate estimated fair value of our outstanding convertible debentures was \$648.9 million and \$982.8 million as of December 30, 2018 and December 31, 2017, respectively. Estimated fair values are based on quoted market prices as reported by an independent pricing source. The fair market value of our debentures is subject to interest rate risk, market price risk and other factors due to the convertible feature of the debentures. The fair market value of the debentures will generally increase as interest rates fall,

and decrease as interest rates rise. When our common stock price is in-the-money relative to these fixed stock price conversion rates, the fair market value of the debentures will generally increase as the market price of our common stock increases, and decrease as our common stock's market price falls, based on each debenture's respective fixed conversion rate. The interest and market value changes affect the fair market value of the debentures, but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations, except to the extent increases in the value of our common stock may provide the holders the right to convert such debentures into stock, or cash, in certain instances, but only applicable during periods when our common stock is in-the-money relative to such conversion rights. As our common stock price is significantly below the conversion price for both debentures and therefore unlikely to be exercised by the holders, a 10% increase or decrease in our common stock will not impact our financial statements.

We also have interest rate risk relating to our other outstanding debt, besides debentures, all of which bear fixed rates of interest (Refer Note 12. *Debt and Credit Sources*). The interest and market value changes affect the fair market value of these debts, but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations. A hypothetical 10 basis points increase or decrease on market interest rates related to these debts would have an immaterial impact on the fair market value of these debts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SUNPOWER CORPORATION

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of SunPower Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of SunPower Corporation (the Company) as of December 30, 2018 and December 31, 2017, the related consolidated statements of operations, comprehensive loss, equity, and cash flows for each of the three years in the period ended December 30, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 30, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 30, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 13, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for recognizing revenue as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the amendments in ASUs 2015-14, 2016-08, 2016-10 and 2016-12 effective January 4, 2016.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2012.
San Jose, California
February 13, 2019

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of SunPower Corporation

Opinion on Internal Control over Financial Reporting

We have audited SunPower Corporation's internal control over financial reporting as of December 30, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, SunPower Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 30, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 30, 2018 and December 31, 2017, the related consolidated statements of operations, comprehensive loss, equity, and cash flows for each of the three years in the period ended December 30, 2018, and the related notes and our report dated February 13, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Jose, California
February 13, 2019

SunPower Corporation
Consolidated Balance Sheets
(In thousands, except share par values)

	December 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 309,407	\$ 435,097
Restricted cash and cash equivalents, current portion	41,762	43,709
Accounts receivable, net ¹	175,605	204,966
Contract assets ¹	58,994	35,074
Inventories	308,146	352,829
Advances to suppliers, current portion	37,878	30,689
Project assets - plants and land, current portion ¹	10,796	103,063
Prepaid expenses and other current assets ¹	131,183	146,209
Total current assets	1,073,771	1,351,636
Restricted cash and cash equivalents, net of current portion	12,594	65,531
Restricted long-term marketable securities	5,955	6,238
Property, plant and equipment, net	839,871	1,147,845
Solar power systems leased and to be leased, net	92,557	369,218
Advances to suppliers, net of current portion	133,694	185,299
Long-term financing receivables, net - held for sale	19,592	330,672
Other intangible assets, net	12,582	25,519
Other long-term assets ¹	162,033	546,698
Total assets	\$ 2,352,649	\$ 4,028,656
Liabilities and Equity		
Current liabilities:		
Accounts payable ¹	\$ 325,550	\$ 406,902
Accrued liabilities ¹	235,252	231,771
Contract liabilities, current portion ¹	104,130	101,723
Short-term debt	40,074	58,131
Convertible debt, current portion ¹	—	299,685
Total current liabilities	705,006	1,098,212
Long-term debt	40,528	430,634
Convertible debt, net of current portion ¹	818,356	816,454
Contract liabilities, net of current portion ¹	99,509	133,390
Other long-term liabilities ¹	839,136	842,342
Total liabilities	2,502,535	3,321,032
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interests in subsidiaries	—	15,236
Equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued and outstanding as of both December 30, 2018 and December 31, 2017	—	—
Common stock, \$0.001 par value, 367,500 shares authorized; 152,085 shares issued, and 141,180 outstanding as of December 30, 2018; 149,818 shares issued, and 139,661 outstanding as of December 31, 2017	141	140
Additional paid-in capital	2,463,370	2,442,513
Accumulated deficit	(2,480,988)	(1,669,897)
Accumulated other comprehensive loss	(4,150)	(3,008)
Treasury stock, at cost; 10,905 shares of common stock as of December 30, 2018; 10,158 shares of common stock as of December 31, 2017	(187,069)	(181,539)
Total stockholders' (deficit) equity	(208,696)	588,209
Noncontrolling interests in subsidiaries	58,810	104,179
Total equity (deficit)	(149,886)	692,388
Total liabilities and equity	\$ 2,352,649	\$ 4,028,656

¹ We have related-party balances for transactions made with Total S.A. and its affiliates as well as unconsolidated entities in which we have a direct equity investment. These related-party balances are recorded within the "Accounts receivable, net," "Contract assets," "Project assets - plants and land, current portion," "Prepaid expenses and other current assets," "Other long-term assets," "Accounts payable," "Accrued liabilities," "Contract liabilities, current portion," "Convertible debt, current portion," "Convertible debt, net of current portion," "Contract liabilities, net of current portion," and "Other long-term liabilities" financial statement line items in our Consolidated Balance Sheets (see Note 2, Note 8, Note 10, Note 11, Note 12, and Note 13).

The accompanying notes are an integral part of these consolidated financial statements.

SunPower Corporation
Consolidated Statements of Operations
(In thousands, except per share data)

	Fiscal Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Revenue:			
Solar power systems, components, and other ¹	\$1,453,876	\$ 1,594,941	\$2,327,421
Residential leasing	272,209	199,106	225,216
	1,726,085	1,794,047	2,552,637
Cost of revenue:			
Solar power systems, components, and other ^{1,2}	1,843,150	1,678,400	2,163,956
Residential leasing	180,016	134,292	166,862
	2,023,166	1,812,692	2,330,818
Gross profit (loss)	(297,081)	(18,645)	221,819
Operating expenses:			
Research and development ¹	81,705	82,247	116,889
Sales, general and administrative ¹	260,111	278,645	332,757
Restructuring charges	17,497	21,045	207,190
Loss (gain) on sale and impairment of residential lease assets	251,984	624,335	(7,263)
Gain on business divestiture	(59,347)	—	—
Total operating expenses	551,950	1,006,272	649,573
Operating loss	(849,031)	(1,024,917)	(427,754)
Other income (expense), net:			
Interest income	3,057	2,100	2,652
Interest expense ¹	(108,011)	(90,288)	(61,273)
Gain on settlement of preexisting relationships in connection with acquisition ³	—	—	203,252
Loss on equity method investment in connection with acquisition ³	—	—	(90,946)
Goodwill impairment	—	—	(147,365)
Other, net ⁴	55,314	(87,645)	(6,958)
Other income (expense), net	(49,640)	(175,833)	(100,638)
Loss before income taxes and equity in earnings (losses) of			
unconsolidated investees	(898,671)	(1,200,750)	(528,392)
Benefit from (provision for) income taxes	(1,010)	3,944	(7,318)
Equity in earnings (losses) of unconsolidated investees	(17,815)	25,938	14,295
Net loss	(917,496)	(1,170,868)	(521,415)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	106,405	241,747	72,780
Net loss attributable to stockholders	\$ (811,091)	\$ (929,121)	\$ (448,635)
Basic and diluted net loss per share attributable to stockholders	\$ (5.76)	\$ (6.67)	\$ (3.25)
Basic and diluted weighted-average shares	140,825	139,370	137,985

- 1 We have related-party transactions with Total S.A. and its affiliates as well as unconsolidated entities in which we have a direct equity investment. These related-party transactions are recorded within the “Revenue: Solar power systems, components, and other,” “Cost of revenue: Solar power systems, components, and other,” “Operating expenses: Research and development,” “Operating expenses: Sales, general and administrative,” and “Other income (expense), net: Interest expense” financial statement line items in our Consolidated Statements of Operations (see Note 2 and Note 11).
- 2 During the year ended December 30, 2018, we recognized impairment of property, plant and equipment of \$369.2 million of which \$355.1 million is reported in cost of revenue (see Note 6. “Balance Sheet Components-*Impairment of Property, Plant and Equipment*”).
- 3 See Note 4. “*Business Combination and Divestitures*”.
- 4 During the year ended December 30, 2018, we recognized profit that had previously been deferred related to historical projects sold to 8point3 Energy Partners along with a gain on the sale of our equity interest in 8point3 Energy Partners within “Other, net” (see Note 11. “*Equity Investments*”).

The accompanying notes are an integral part of these consolidated financial statements.

SunPower Corporation
Consolidated Statements of Comprehensive Loss
(In thousands)

	<u>Fiscal Year Ended</u>		
	<u>December 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>January 1,</u> <u>2017</u>
Net loss.....	\$(917,496)	\$(1,170,868)	\$(521,415)
Components of other comprehensive income (loss):			
Translation adjustment.....	(4,490)	5,638	(1,085)
Net change in derivatives (Note 13).....	397	(1,764)	(4,739)
Net income (loss) on long-term pension liability adjustment.....	2,901	(64)	6,283
Unrealized gain on investments.....	—	(145)	—
Income taxes.....	<u>50</u>	<u>565</u>	<u>326</u>
Total other comprehensive income (loss).....	<u>(1,142)</u>	<u>4,230</u>	<u>785</u>
Total comprehensive loss.....	(918,638)	(1,166,638)	(520,630)
Comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interests.....	<u>106,405</u>	<u>241,747</u>	<u>72,780</u>
Comprehensive loss attributable to stockholders.....	<u><u>\$(812,233)</u></u>	<u><u>\$ (924,891)</u></u>	<u><u>\$(447,850)</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

SunPower Corporation
Consolidated Statements of Equity
(In thousands)

	<u>Common Stock</u>				Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)	Noncontrolling Interests	Total Equity (Deficit)
	Redeemable Noncontrolling Interests	Shares	Value	Additional Paid-in Capital						
Balances at January 3, 2016	\$ 69,104	136,711	\$137	\$2,359,917	\$(155,265)	\$(8,023)	\$ (747,617)	\$1,449,149	\$ 59,490	\$ 1,508,639
Net income (loss)	(75,817)	—	—	—	—	—	(448,635)	(448,635)	3,036	(445,599)
Cumulative-effect upon adoption of ASC 606	—	—	—	—	—	—	500,820	500,820	—	500,820
Other comprehensive loss	—	—	—	—	—	785	—	785	—	785
Issuance of restricted stock to employees, net of cancellations	—	2,836	3	—	—	—	—	3	—	3
Stock-based compensation expense	—	—	—	56,110	—	—	—	56,110	—	56,110
Tax benefit from convertible debt interest deduction	—	—	—	(2,822)	—	—	—	(2,822)	—	(2,822)
Tax benefit from stock-based compensation	—	—	—	(2,810)	—	—	—	(2,810)	—	(2,810)
Contributions from noncontrolling interests	117,120	—	—	—	—	—	—	—	29,215	29,215
Distributions to noncontrolling interests	(6,786)	—	—	—	—	—	—	—	(12,253)	(12,253)
Purchases of treasury stock	—	(1,039)	(1)	—	(21,518)	—	—	(21,519)	—	(21,519)
Balances at January 1, 2017	\$ 103,621	138,508	\$139	\$2,410,395	\$(176,783)	\$(7,238)	\$ (695,432)	\$1,531,081	\$ 79,488	\$ 1,610,569
Net loss	(152,926)	—	—	—	—	—	(929,121)	(929,121)	(88,821)	(1,017,942)
Cumulative-effect upon adoption of ASU 2016-09 and ASU 2016-16	—	—	—	—	—	—	(45,344)	(45,344)	—	(45,344)
Other comprehensive loss	—	—	—	—	—	4,230	—	4,230	—	4,230
Issuance of restricted stock to employees, net of cancellations	—	1,739	2	—	—	—	—	2	—	2
Stock-based compensation expense	—	—	—	32,118	—	—	—	32,118	—	32,118
Contributions from noncontrolling interests	71,928	—	—	—	—	—	—	—	125,500	125,500
Distributions to noncontrolling interests	(7,387)	—	—	—	—	—	—	—	(11,988)	(11,988)
Purchases of treasury stock	—	(589)	(1)	—	(4,756)	—	—	(4,757)	—	(4,757)
Balances at December 31, 2017	\$ 15,236	139,658	\$140	\$2,442,513	\$(181,539)	\$(3,008)	\$(1,669,897)	\$ 588,209	\$104,179	\$ 692,388
Net loss	(29,171)	—	—	—	—	—	(811,091)	(811,091)	(77,235)	(888,326)
Other comprehensive loss	—	—	—	—	—	(1,142)	—	(1,142)	—	(1,142)
Issuance of restricted stock to employees, net of cancellations	—	2,267	2	—	—	—	—	2	—	2
Stock-based compensation expense	—	—	—	25,790	—	—	—	25,790	—	25,790
Contributions from noncontrolling interests	36,734	—	—	—	—	—	—	—	114,470	114,470
Distributions to noncontrolling interests	(7,425)	—	—	—	—	—	—	—	(13,438)	(13,438)
Purchases of treasury stock	—	(747)	(1)	—	(5,530)	—	—	(5,531)	—	(5,531)
Reduction of non-controlling interest due to sale of interest in residential lease portfolio ¹	(15,374)	—	—	—	—	—	—	—	(61,766)	(61,766)
Noncontrolling interest buyout	—	—	—	(4,933)	—	—	—	(4,933)	(7,400)	(12,333)
Balances at December 30, 2018	\$ —	141,178	\$141	\$2,463,370	\$(187,069)	\$(4,150)	\$(2,480,988)	\$ (208,696)	\$ 58,810	\$ (149,886)

¹ See Note 4 “Business Combination and Divestitures”.

The accompanying notes are an integral part of these consolidated financial statements.

SunPower Corporation
Consolidated Statements of Cash Flows
(In thousands)

	Fiscal Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Cash flows from operating activities:			
Net loss	\$(917,496)	\$(1,170,868)	\$(521,415)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	127,204	185,283	170,537
Stock-based compensation	26,353	34,674	61,498
Non-cash interest expense	15,346	18,390	1,057
Non-cash restructuring charges	—	—	166,717
Gain on settlement of preexisting relationships in connection with acquisition	—	—	(203,252)
Dividend from equity method investees	3,947	30,091	6,949
Equity in (earnings) losses of unconsolidated investees	17,815	(25,938)	(14,295)
Excess tax benefit from stock-based compensation	—	—	(2,810)
Gain on sale of equity investments, net	(54,196)	(5,346)	—
Gain on business divestiture	(59,347)	—	—
Unrealized loss on equity investments with readily determinable fair value	6,375	—	—
Deferred income taxes	(6,862)	(6,966)	(6,611)
Impairment of equity method investment	—	89,564	90,946
Goodwill impairment	—	—	147,365
Impairment of property, plant and equipment	369,168	—	—
Loss (gain) on sale and impairment of residential lease assets	251,984	624,335	(7,263)
Other, net	(6,796)	1,298	4,793
Changes in operating assets and liabilities:			
Accounts receivable	(175)	(1,191)	(33,465)
Contract assets	(43,509)	10,660	62,161
Inventories	(39,174)	(38,236)	(70,448)
Project assets	39,512	2,393	(3,601)
Prepaid expenses and other assets	22,763	110,530	3,187
Long-term financing receivables, net	(182,937)	(123,674)	(172,272)
Advances to suppliers	44,417	68,767	74,341
Accounts payable and other accrued liabilities	(127,286)	(216,349)	(18,780)
Contract liabilities	(30,495)	145,171	(47,622)
Net cash used in operating activities	<u>(543,389)</u>	<u>(267,412)</u>	<u>(312,283)</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment	(44,906)	(69,791)	(187,094)
Cash paid for solar power systems, leased and to be leased	(68,612)	(86,539)	(84,289)
Cash paid for solar power systems	(41,808)	(126,548)	(38,746)
Purchases of marketable securities	—	(1,306)	(4,955)
Cash outflow from sale of residential lease portfolio, net of cash sold	(28,004)	—	—
Proceeds from sales or maturities of marketable securities	—	—	6,210
Proceeds from sale of cost method investments	33,402	—	—
Payments to 8point3 Energy Partners LP	—	—	(9,838)
Cash paid for acquisitions, net of cash acquired	(17,000)	—	(24,003)
Cash paid for intangibles	—	—	(521)
Dividend from equity method investees	12,952	3,773	—
Proceeds from sale of equity method investments	420,306	5,954	—
Proceeds from business divestiture	23,257	—	—
Cash paid for investments in unconsolidated investees	(14,687)	(18,627)	(11,547)
Net cash provided by (used in) investing activities	<u>274,900</u>	<u>(293,084)</u>	<u>(354,783)</u>

The accompanying notes are an integral part of these consolidated financial statements.

	Fiscal Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Cash flows from financing activities:			
Cash paid for acquisitions	—	—	(5,714)
Proceeds from bank loans and other debt	227,676	339,253	113,645
Repayment of 0.75% debentures due 2018, bank loans and other debt . . .	(535,252)	(358,317)	(143,601)
Proceeds from issuance of non-recourse residential financing, net of issuance costs	192,287	89,612	183,990
Repayment of non-recourse residential financing	(17,358)	(6,888)	(37,932)
Contributions from noncontrolling interests and redeemable noncontrolling interests attributable to residential projects	151,204	196,628	146,334
Distributions to noncontrolling interests and redeemable noncontrolling interests attributable to residential projects	(21,918)	(18,228)	(19,039)
Proceeds from issuance of non-recourse power plant and commercial financing, net of issuance costs	126,020	527,897	738,822
Repayment of non-recourse power plant and commercial financing	(31,282)	(176,069)	(795,209)
Contributions from noncontrolling interests attributable to power plant and commercial projects	—	800	—
Purchases of stock for tax withholding obligations on vested restricted stock	(5,530)	(4,756)	(21,517)
Net cash provided by financing activities	<u>85,847</u>	<u>589,932</u>	<u>159,779</u>
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	<u>2,068</u>	<u>689</u>	<u>735</u>
Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(180,574)	30,125	(506,552)
Cash, cash equivalents, restricted cash and restricted cash equivalents, beginning of period ¹	<u>544,337</u>	<u>514,212</u>	<u>1,020,764</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents, end of period ¹	<u>\$ 363,763</u>	<u>\$ 544,337</u>	<u>\$ 514,212</u>
Non-cash transactions:			
Assignment of residential lease receivables to third parties	\$ —	\$ 129	\$ 4,290
Stock consideration received from business divestiture	\$ 42,600	\$ —	\$ —
Acquisition of noncontrolling interests funded by Mezzanine Loan proceeds	\$ 12,400	\$ —	\$ —
Costs of solar power systems, leased and to be leased, sourced from existing inventory	\$ 36,384	\$ 57,688	\$ 57,422
Costs of solar power systems, leased and to be leased, funded by liabilities	\$ 3,631	\$ 5,527	\$ 3,026
Costs of solar power systems under sale-leaseback financing arrangements, sourced from project assets	\$ 86,540	\$ 110,375	\$ 27,971
Property, plant and equipment acquisitions funded by liabilities	\$ 8,214	\$ 15,706	\$ 43,817
Exchange of receivables for an investment in an unconsolidated investee .	\$ —	\$ —	\$ 2,890
Acquisition funded by liabilities	\$ 9,000	\$ —	\$ 103,354
Contractual obligations satisfied with inventory	\$ 56,840	\$ 34,675	\$ —
Assumption of debt by buyer upon sale of equity interest	\$ 27,321	\$ 196,104	\$ —
Assumption of mezzanine loan by SunStrong in connection with sale of residential lease assets	\$ 106,958	\$ —	\$ —
Assumption of back leverage loans by SunStrong in connection with sale of residential lease assets	\$ 454,630	\$ —	\$ —
Retained interest in SunStrong lease portfolio	\$ 9,750	\$ —	\$ —
Receivables in connection with sale of residential lease portfolio	\$ 12,510	\$ —	\$ —

The accompanying notes are an integral part of these consolidated financial statements.

	<u>Fiscal Year Ended</u>		
	<u>December 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>January 1,</u> <u>2017</u>
Supplemental cash flow information:			
Cash paid for interest, net of amount capitalized	\$99,204	\$59,885	\$35,770
Cash paid for income taxes	\$ 7,800	\$12,795	\$35,414

1 “Cash, cash equivalents, restricted cash and restricted cash equivalents” balance consisted of “Cash and cash equivalents”, “Restricted cash and cash equivalents, current portion” and “Restricted cash and cash equivalents, net of current portion” financial statement line items in the Consolidated Balance Sheets for the respective periods.

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

SunPower Corporation (together with its subsidiaries, “SunPower,” “we,” “us,” and “our”) 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, operations and maintenance (“O&M”) services, and “Smart Energy” solutions. SunPower’s 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 solar power conversion efficiency, a measurement of the amount of sunlight converted by the solar cell into electricity. SunPower is a majority-owned subsidiary of Total Solar International SAS (“Total”), formerly Total Energies Nouvelles Activités USA, a subsidiary of Total S.A. (“Total S.A.”) (see “Note 2. Transactions with Total and Total S.A.”).

In the fourth quarter of 2018, in connection with our efforts to improve operational focus and transparency, drive overhead accountability into segment operating results, and increase strategic agility across value chain from our upstream business’ core strength in manufacturing and technology and our downstream business’ core strength in offering complete solutions in residential and commercial markets, we reorganized our segment reporting to an upstream and downstream structure. Previously, we operated under three end-customer segments comprised of our (i) Residential Segment, (ii) Commercial Segment, and (iii) Power Plan Segment. Historically, the Residential Segment referred to sales of solar energy solutions to residential end-customers, the Commercial Segment referred to sales of energy solutions to commercial and public entity end-customers, and the Power Plant Segment referred to our large-scale solar products and systems and component sales.

Under the new segmentation, SunPower Energy Services Segment (“SunPower Energy Services” or “Downstream”) refers to sales of solar energy solutions in the North America region previously included in the legacy Residential Segment and Commercial Segment (collectively previously referred to as “Distributed Generation” or “DG”) including direct sales of turn-key engineering, procurement and construction (“EPC”) services, sales to our third-party dealer network, sales of energy under power purchase agreements (“PPAs”), storage solutions, cash sales and long-term leases directly to end customers, and sales to resellers. SunPower Energy Services Segment also includes sales of our global Operations and Maintenance (“O&M”) services. SunPower Technologies Segment (“SunPower Technologies” or “Upstream”) refers to our technology development, worldwide solar panel manufacturing operations, equipment supply to resellers and commercial and residential end-customers outside of North America (“International DG”), and worldwide power plant project development and project sales. Upon reorganization, some support functions and responsibilities, which previously resided within the corporate function, have been shifted to each segment, including financial planning and analysis, legal, treasury, tax and accounting support and services, among others.

The reorganization provides our management with a comprehensive financial overview of our key businesses. The application of this structure permits us to align our strategic business initiatives and corporate goals in a manner that best focuses our businesses and support operations for success.

Our Chief Executive Officer, as the chief operating decision maker (“CODM”), reviews our business, manages resource allocations and measures performance of our activities among the SunPower Energy Services Segment and SunPower Technologies Segment.

Reclassifications of prior period segment information have been made to conform to the current period presentation. These changes did not materially affect our previously reported Consolidated Financial Statements. See “Note 18. *Segment Information*” for additional discussion.

Liquidity

Challenging industry conditions and a competitive environment extended throughout fiscal 2018. Our net losses, resulting in a net use of our available cash, continued in fiscal 2018 and are expected to continue through fiscal 2019. Despite the challenging industry conditions, including uncertainty around the regulatory environment, we believe that our cash and cash equivalents, including cash expected to be generated from operations, will be

sufficient to meet our obligations over the next 12 months from the date of the issuance of our financial statements. Although we have been successful in our ability to divest certain investments and non-core assets, such as the divestiture of our equity interest in 8point3 Energy Partners LP (Note 11. *Equity Investments*), the sale of certain assets and intellectual property related to the production of microinverters (Note 4. *Business Combinations and Divestitures*), and the sale of membership interests in our Residential Lease Portfolio (Note 4. *Business Combinations and Divestitures*) and have secured other sources of financing in connection with our short-term liquidity needs, as well as realizing cash savings resulting from restructuring actions and cost reduction initiatives put in place in the third and fourth quarters of fiscal 2016 and the first and second quarter of fiscal 2018, we continue to focus on improving our overall operating performance and liquidity, including managing cash flow and working capital.

We also have the ability to enhance our available cash by borrowing up to \$95.0 million under a revolving credit facility (the “Revolver”) with Credit Agricole Corporate and Investment Bank (“Credit Agricole”) pursuant to a Letter Agreement executed by us and Total S.A. on May 8, 2017 (the “Letter Agreement”) through August 26, 2019, the expiration date of the Letter Agreement (see “Note 2. *Transactions with Total and Total S.A.*”).

Although we have historically been able to generate liquidity, we cannot predict, with certainty, the outcome of our actions to generate liquidity as planned.

Basis of Presentation and Preparation

Principles of Consolidation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“United States“ or “U.S.,” and such accounting principles, “U.S. GAAP”) and include the accounts of SunPower, all of our subsidiaries and special purpose entities, as appropriate under consolidation accounting guidelines. Intercompany transactions and balances have been eliminated in consolidation. The assets of the special purpose entities that we establish in connection with certain project financing arrangements for customers are not designed to be available to service our general liabilities and obligations.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation in our consolidated financial statements and the accompanying notes.

Fiscal Periods

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. Fiscal 2018, 2017 and 2016 are 52-week fiscal years. Our fiscal 2018 ended on December 30, 2018, fiscal 2017 ended on December 31, 2017 and fiscal 2016 ended on January 1, 2017.

Management Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates in these consolidated financial statements include revenue recognition, specifically the nature and timing of satisfaction of performance obligations, standalone selling price of performance obligations and variable consideration; allowances for doubtful accounts receivable; recoverability of financing receivables related to residential leases, inventory and project asset write-downs; stock-based compensation; long-lived asset impairment, specifically estimates for valuation assumptions including discount rates and future cash flows, economic useful lives of property, plant and equipment, intangible assets, and investments; fair value and residual value of solar power systems, including those subject to residential operating leases; fair value of financial instruments; valuation of contingencies such as accrued warranty; the measurement of fair value of assets acquired and liabilities assumed in a business combination; the valuation of retained equity interests in divestitures; the fair value of indemnities provided to customers and other parties, and income taxes and tax valuation allowances. Actual results could materially differ from those estimates.

Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate their respective fair values due to their short-term maturities. Equity investments with readily determinable fair value are carried at fair value based on quoted market prices or estimated based on market conditions and risks existing at each balance sheet date. Equity investments without readily determinable fair value are measured at cost less impairment, and are adjusted for observable price changes in orderly transactions for an identical or similar investment of the same issuer. Derivative financial instruments are carried at fair value based on quoted market prices for financial instruments with similar characteristics. The effective portion of derivative financial instruments is excluded from earnings and reported as a component of “Accumulated other comprehensive loss” in the Consolidated Balance Sheets. The ineffective portion of derivatives financial instruments are included in “Other, net” in the Consolidated Statements of Operations.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from non-owner sources. Our comprehensive income (loss) for each period presented is comprised of (i) our net income (loss); (ii) foreign currency translation adjustment of our foreign subsidiaries whose assets and liabilities are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchange rates prevailing during the applicable period; (iii) changes in unrealized gains or losses, net of tax, for the effective portion of derivatives designated as cash flow hedges; and (iv) net income (loss) on long-term pension liability adjustment (see Note 13. *Derivative Financial Instruments*).

Cash Equivalents

Highly liquid investments with original or remaining maturities of ninety days or less at the date of purchase are considered cash equivalents.

Cash in Restricted Accounts

We maintain cash and cash equivalents in restricted accounts pursuant to various letters of credit, surety bonds, loan agreements, and other agreements in the normal course of business. We also hold debt securities, consisting of Philippine government bonds, which are classified as “Restricted long-term marketable securities” on our Consolidated Balance Sheets as they are maintained as collateral for present and future business transactions within the country (see Note 6. *Balance Sheet Components*).

Short-Term and Long-Term Investments

We may invest in money market funds and debt securities. In general, investments with original maturities of greater than ninety days and remaining maturities of one year or less are classified as short-term investments, and investments with maturities of more than one year are classified as long-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such investments represent the investment of cash that is available for current operations. Despite the long-term maturities, we have the ability and intent, if necessary, to liquidate any of these investments in order to meet our working capital needs within our normal operating cycles. We have classified these investments as available-for-sale securities.

Inventories

Inventories are accounted for on a first-in-first-out basis and are valued at the lower of cost or net realizable value. We evaluate the realizability of our inventories, including purchase commitments under fixed-price long-term supply agreements, based on assumptions about expected demand and market conditions. Our assumption of expected demand is developed based on our analysis of bookings, sales backlog, sales pipeline, market forecast, and competitive intelligence. Our assumption of expected demand is compared to available inventory, production capacity, future polysilicon purchase commitments, available third-party inventory, and growth plans. Our factory production plans, which drive materials requirement planning, are established based on

our assumptions of expected demand. We respond to reductions in expected demand by temporarily reducing manufacturing output and adjusting expected valuation assumptions as necessary. In addition, expected demand by geography has changed historically due to changes in the availability and size of government mandates and economic incentives.

We evaluate the terms of our long-term inventory purchase agreements with suppliers, including joint ventures, for the procurement of polysilicon, ingots, wafers, and solar cells and establishes accruals for estimated losses on adverse purchase commitments as necessary, such as lower of cost or net realizable value adjustments, forfeiture of advanced deposits and liquidated damages. Obligations related to non-cancellable purchase orders for inventories match current and forecasted sales orders that will consume these ordered materials and actual consumption of these ordered materials are compared to expected demand regularly. We anticipate total obligations related to long-term supply agreements for inventories will be realized because quantities are less than our expected demand for our solar power products for the foreseeable future and because the raw materials subject to these long-term supply agreements are not subject to spoilage or other factors that would deteriorate its usability; however, if raw materials inventory balances temporarily exceed near-term demand, we may elect to sell such inventory to third parties to optimize working capital needs. In addition, because the purchase prices required by our long-term polysilicon agreements are significantly higher than current market prices for similar materials, if we are not able to profitably utilize this material in our operations or elect to sell near-term excess, we may incur additional losses. Other market conditions that could affect the realizable value of our inventories and are periodically evaluated by us include historical inventory turnover ratio, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer concentrations, the current market price of polysilicon as compared to the price in our fixed-price arrangements, and product merchantability, among other factors. If, based on assumptions about expected demand and market conditions, we determine that the cost of inventories exceeds its net realizable value or inventory is excess or obsolete, or we enter into arrangements with third parties for the sale of raw materials that do not allow us to recover our current contractually committed price for such raw materials, we record a write-down or accrual equal to the difference between the cost of inventories and the estimated net realizable value, which may be material. If actual market conditions are more favorable, we may have higher gross margin when products that have been previously written down are sold in the normal course of business (see Note 6. *Balance Sheet Components*).

Solar Power Systems Leased and to be Leased

Solar power systems leased to residential customers under operating leases are stated at cost, less accumulated depreciation and are amortized to their estimated residual value over the life of the lease term of up to 20 years.

Solar power systems to be leased represent systems that are under installation or which have not been interconnected, which will be depreciated as solar power systems leased to customers when the respective systems are completed, interconnected and subsequently leased to residential customers under operating leases.

Initial direct costs for operating leases are capitalized and amortized over the term of the related customer lease agreements.

During fiscal 2018 and 2017, events and circumstances indicated that the carrying value of our solar power systems leased and to be leased might not be recoverable. We determined it was necessary to evaluate the potential for impairment in our ability to recover the carrying amounts of these assets. Estimates and judgments about future cash flows were made using an income approach defined as Level 3 inputs under fair value measurement standards. The income approach, specifically a discounted cash flow analysis, included assumptions for, among others, forecasted lease income, expenses, default rates, residual value of these lease assets and long-term discount rates, some of which require significant judgment by us. In accordance with such evaluation, we recognized a non-cash impairment charge on the Consolidated Statement of Operations. For additional information on the related impairment charge, see “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 7. *Leasing—Impairment of Residential Lease Assets*.”

Financing Receivables

Leases are classified as either operating or sales-type leases in accordance with the relevant accounting guidelines. Financing receivables are generated by solar power systems leased to residential customers under sales-type leases. Financing receivables are initially recorded based on the expected gross minimum lease

payments to be received from customers over a period commensurate with the remaining lease term of up to 20 years and the systems estimated residual value, net of unearned income and allowance for estimated losses. Initial direct costs for sales-type leases are recognized as cost of sales when the solar power systems are placed in service.

Due to the homogeneous nature of our leasing transactions, we manage our financing receivables on an aggregate basis when assessing credit risk. We also consider the credit risk profile for our lease customers to be homogeneous due to the criteria we use to approve customers for our residential leasing program, which among other things, requires a minimum “fair” FICO credit quality. Accordingly, we do not regularly categorize our financing receivables by credit risk.

We recognize an allowance for losses on financing receivables in an amount equal to the probable losses net of recoveries. We maintain reserve percentages on past-due receivable aging buckets and base such percentages on several factors, including consideration of historical credit losses and information derived from industry benchmarking. We also place doubtful financing receivables on nonaccrual status and discontinue accrual of interest. Financing receivables over 180 days are determined to be delinquent.

During fiscal 2018 and 2017, events and circumstances indicated that we might not be able to collect all amounts due according to the contractual terms of the underlying lease agreements. We determined it was necessary to evaluate the potential for allowances in our ability to collect these receivables. Estimates and judgments about future cash flows were made using an income approach defined as Level 3 inputs under fair value measurement standards. The income approach, specifically a discounted cash flow analysis, included assumptions for, among others, forecasted lease income, expenses, default rates, residual value of these lease assets and long-term discount rates, all of which require significant judgment by us. In accordance with such evaluation, we recognized an allowance for losses on the Consolidated Statement of Operations. For additional information on the related impairment charge (see Note 7. *Leasing—Impairment of Residential Lease Assets*).

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation, excluding solar power systems leased to residential customers and those associated with sale-leaseback transactions under the financing method, is computed using the straight-line method over the estimated useful lives of the assets as presented below. Solar power systems leased to residential customers and those associated with sale-leaseback transactions under the financing method are depreciated using the straight-line method to their estimated residual values over the lease terms of up to 20 years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the remaining term of the lease. Repairs and maintenance costs are expensed as incurred.

	Useful Lives in Years
Buildings	20 to 30
Leasehold improvements	1 to 20
Manufacturing equipment	7 to 15
Computer equipment	2 to 7
Solar power systems	30
Furniture and fixtures	3 to 5

Interest Capitalization

The interest cost associated with major development and construction projects is capitalized and included in the cost of the property, plant and equipment or project assets. Interest capitalization ceases once a project is substantially complete or no longer undergoing construction activities to prepare it for its intended use. When no debt is specifically identified as being incurred in connection with a construction project, we capitalize interest on amounts expended on the project at our weighted average cost of borrowed money.

Long-Lived Assets

We evaluate our long-lived assets, including property, plant and equipment, solar power systems leased and to be leased, and other intangible assets with finite lives, for impairment whenever events or changes in circumstances arise. This evaluation includes consideration of technology obsolescence that may indicate that the

carrying value of such assets may not be recoverable. The assessments require significant judgment in determining whether such events or changes have occurred. Factors considered important that could result in an impairment review include significant changes in the manner of use of a long-lived asset or in its physical condition, a significant adverse change in the business climate or economic trends that could affect the value of a long-lived asset, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset, significant under-performance relative to expected historical or projected future operating results, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For purposes of the impairment evaluation, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We must exercise judgment in assessing such groupings and levels. We then compare the estimated future undiscounted net cash flows expected to be generated by the asset group (including the eventual disposition of the asset group at residual value) to the asset group's carrying value to determine if the asset group is recoverable. If our estimate of future undiscounted net cash flows is insufficient to recover the carrying value of the asset group, we record an impairment loss in the amount by which the carrying value of the asset group exceeds the fair value. Fair value is generally measured based on (i) internally developed discounted cash flows for the asset group, (ii) third-party valuations, and (iii) quoted market prices, if available. If the fair value of an asset group is determined to be less than its carrying value, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs. For additional information on the impairment charge recorded in the year ended December 30, 2018 and the underlying fair value assumptions, see "Note 6. *Balance Sheet Components-Impairment of Property, Plant and Equipment*" and "Note 7. *Leasing-Impairment of Residential Lease Assets*."

Product Warranties

We generally provide a 25-year standard warranty for the solar panels that we manufacture for defects in materials and workmanship. The warranty provides that we will repair or replace any defective solar panels during the warranty period. In addition, we pass through to customers' long-term warranties from the original equipment manufacturers of certain system components, such as inverters. Warranties of 25 years from solar panel suppliers are standard in the solar industry, while certain system components carry warranty periods ranging from five to 20 years.

In addition, we generally warrant our workmanship on installed systems for periods ranging up to 25 years and also provide a separate system output performance warranty to customers that have subscribed to our post-installation monitoring and maintenance services which expires upon termination of the post-installation monitoring and maintenance services related to the system. The warranted 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 warranted performance levels have been met. 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 warranted 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 we will pay the customer a liquidated damage based on the value of the shortfall of energy produced relative to the applicable warranted performance level.

We maintain reserves to cover the expected costs that could result from these warranties. Our expected costs are generally in the form of product replacement or repair. Warranty reserves are based on our best estimate of such costs and are recognized as a cost of revenue. We continuously monitor product returns for warranty failures and maintains a reserve for the related warranty expenses based on various factors including historical warranty claims, results of accelerated lab testing, field monitoring, vendor reliability estimates, and data on industry averages for similar products. Due to the potential for variability in these underlying factors, the difference between our estimated costs and our actual costs could be material to our consolidated financial statements. If actual product failure rates or the frequency or severity of reported claims differ from our estimates or if there are delays in our responsiveness to outages, we may be required to revise our estimated warranty liability. Historically, warranty costs have been within our expectations (see Note 10. *Commitments and Contingencies*).

Revenue Recognition

Effective January 1, 2018, we adopted Accounting Standards Update No. 2014-09—*Revenue from Contracts with Customers (Topic 606)*, as amended (“ASC 606”). For additional information on the new standard and the impact to our financial results, refer to the section *Impact to Previously Reported Consolidated Financial Statements* below.

Module and Component Sales

We sell our solar panels and balance of system components primarily to dealers, system integrators and distributors, and recognizes revenue at a point in time when control of such products transfers to the customer, which generally occurs upon shipment or delivery depending on the terms of the contracts with the customer. There are no rights of return. Other than standard warranty obligations, there are no significant post-shipment obligations (including installation, training or customer acceptance clauses) with any of our customers that could have an impact on revenue recognition. Our revenue recognition policy is consistent across all geographic areas.

Solar Power System Sales and Engineering, Procurement, and Construction Services

We design, manufacture and sell rooftop and ground-mounted solar power systems under construction and development agreements. Engineering, procurement and construction (“EPC”) projects governed by customer contracts that require us to deliver functioning solar power systems are generally completed within three to twelve months from commencement of construction. Construction on large projects may be completed within eighteen to thirty-six months, depending on the size and location. We recognize revenue from EPC services over time as our performance creates or enhances an energy generation asset controlled by the customer. We use an input method based on cost incurred as we believe that this method most accurately reflects our progress toward satisfaction of the performance obligation. Under this method, revenue arising from fixed-price construction contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations.

Incurred costs include all direct material, labor and subcontract costs, and those indirect costs related to contract performance, such as indirect labor, supplies, and tools. Project material costs are included in incurred costs when the project materials have been installed by being permanently attached or fitted to the solar power system as required by the project’s engineering design. Cost-based input methods of revenue recognition require us to make estimates of net contract revenues and costs to complete the projects. In making such estimates, significant judgment is required to evaluate assumptions related to the amount of net contract revenues, including the impact of any performance incentives, liquidated damages, and other payments to customers. Significant judgment is also required to evaluate assumptions related to the costs to complete the projects, including materials, labor, contingencies, and other system costs. If the estimated total costs on any contract are greater than the net contract revenues, we recognize the entire estimated loss in the period the loss becomes known and can be reasonably estimated.

For sales of solar power systems in which we sell a controlling interest in the project to a customer, we recognize all of the revenue for the consideration received, including the fair value of the noncontrolling interest obtained or retained, and in circumstances where we maintain significant influence over the retained noncontrolling interest, we defer any profit associated with our retained equity stake through “Equity in earnings of unconsolidated investees.” The deferred profit is subsequently recognized on a straight-line basis over the useful life of the underlying system. We estimate the fair value of the noncontrolling interest using an income approach based on the valuation of the entire solar project. Further, in situations where we sell membership interests in our project entities to third-party tax equity investors in return for tax benefits (generally federal and/or state investment tax credits and accelerated depreciation), we view the sale of the rights to tax attributes associated with ownership of the underlying solar systems as a distinct performance obligation in the scope of ASC 606 because it is an output of our ordinary activities consistent with the guidance in ASC 606-10-15-3. The sale of the rights to the tax attributes is recognized at a point in time when the customers are eligible to claim the tax benefits, generally at substantial completion of the solar power projects. The fair value of the tax attributes generally begins with an independent third-party appraisal which supports the eligible cost basis for the qualifying solar energy property. In certain circumstances, we have provided indemnification to customers and investors under which we are contractually obligated to compensate these parties for losses they may suffer as a result of reduction in tax benefits received under the investment tax credit and U.S. Treasury Department’s cash grant programs. Refer to “Note 10. *Commitments and Contingencies*” for further details.

Our arrangements may contain clauses such as contingent repurchase options, delay liquidated damages or early performance bonus, most favorable pricing, or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics or milestones. Variable consideration is estimated at each measurement date at its most likely amount to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur and true-ups are applied prospectively as such estimates change.

Changes in estimates for sales of systems and EPC services occur for a variety of reasons, including but not limited to (i) construction plan accelerations or delays, (ii) product cost forecast changes, (iii) change orders, or (iv) changes in other information used to estimate costs. The cumulative effect of revisions to transaction prices or input cost estimates are recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated.

Operations and Maintenance

We offer our customers various levels of post-installation operations and maintenance (“O&M”) services with the objective of optimizing our customers’ electrical energy production over the life of the system. We determine that the post-installation systems monitoring and maintenance qualifies as a separate performance obligation. Post-installation monitoring and maintenance is deferred at the time the contract is executed, based on the estimate of selling price on a standalone basis, and is recognized to revenue over time as customers receive and consume benefits of such services. The non-cancellable term of the O&M contracts are typically 90 days for commercial and residential customers and 180 days for power plant customers.

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. 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 warranted 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 we will pay the customer an amount based on the value of the shortfall of energy produced relative to the applicable warranted performance level. Such liquidated damages represent a form of variable consideration and are estimated at contract inception and updated at each reporting period and recognized over time as customers receive and consume the benefits of the O&M services.

Shipping and Handling Costs

We account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer goods and, accordingly, records such costs in cost of revenue.

Taxes Collected from Customers and Remitted to Governmental Authorities

We exclude from our measurement of transaction prices all taxes assessed by governmental authorities that are both (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers. Accordingly, such tax amounts are not included as a component of revenue or cost of revenue.

Stock-Based Compensation

We measure and record compensation expense for all stock-based payment awards based on estimated fair values. We provide stock-based awards to our employees, executive officers, and directors through various equity compensation plans including our employee stock option and restricted stock plans. The fair value of restricted stock units is based on the market price of our common stock on the date of grant. We have not granted stock options since fiscal 2008.

We estimate forfeitures at the date of grant. Our estimate of forfeitures is based on our historical activity, which we believe is indicative of expected forfeitures. In subsequent periods if the actual rate of forfeitures differs from our estimate, the forfeiture rates are required to be revised, as necessary. Changes in the estimated forfeiture rates can have a significant effect on stock-based compensation expense since the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

We also grant performance share units to executive officers and certain employees that require us to estimate expected achievement of performance targets over the performance period. This estimate involves judgment regarding future expectations of various financial performance measures. If there are changes in our estimate of the level of financial performance measures expected to be achieved, the related stock-based compensation expense may be significantly increased or reduced in the period that our estimate changes.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled approximately \$6.9 million, \$6.3 million and \$24.9 million, in fiscal 2018, 2017, and 2016, respectively.

Research and Development Expense

Research and development expense consists primarily of salaries and related personnel costs, depreciation and the cost of solar cell and solar panel materials and services used for the development of products, including experiments and testing. All research and development costs are expensed as incurred. Research and development expense is reported net of contributions under the R&D Agreement with Total (See Note 2. *Transactions with Total and Total S.A.* for further details) and contracts with governmental agencies because such contracts are considered collaborative arrangements.

Translation of Foreign Currency

SunPower Corporation and certain of our subsidiaries use their respective local currency as their functional currency. Accordingly, foreign currency assets and liabilities are translated using exchange rates in effect at the end of the period. Aggregate exchange gains and losses arising from the translation of foreign assets and liabilities are included in “Accumulated other comprehensive loss” in the Consolidated Balance Sheets. Foreign subsidiaries that use the U.S. dollar as their functional currency remeasure monetary assets and liabilities using exchange rates in effect at the end of the period. Exchange gains and losses arising from the remeasurement of monetary assets and liabilities are included in “Other, net” in the Consolidated Statements of Operations. Non-monetary assets and liabilities are carried at their historical values.

We include gains or losses from foreign currency transactions in “Other, net” in the Consolidated Statements of Operations with the other hedging activities described in Note 13. *Derivative Financial Instruments*.

Concentration of Credit Risk

We are exposed to credit losses in the event of nonperformance by the counterparties to our financial and derivative instruments. Financial and derivative instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents, restricted cash and cash equivalents, investments, accounts receivable, notes receivable, advances to suppliers, foreign currency option contracts, foreign currency forward contracts, bond hedge and warrant transactions, and purchased options. Our investment policy requires cash and cash equivalents, restricted cash and cash equivalents, and investments to be placed with high-quality financial institutions and to limit the amount of credit risk from any one issuer. Similarly, we enter into foreign currency derivative contracts and convertible debenture hedge transactions with high-quality financial institutions and limit the amount of credit exposure to any one counterparty. The foreign currency derivative contracts are limited to a time period of less than 9 months. We regularly evaluate the credit standing of our counterparty financial institutions.

We perform ongoing credit evaluations of our customers’ financial condition whenever deemed necessary and generally we do not require collateral from our leasing customers. We maintain an allowance for doubtful accounts based on the expected collectability of all accounts receivable, which takes into consideration an analysis of historical bad debts, specific customer creditworthiness and current economic trends. Qualified customers under our residential lease program are generally required to have a minimum credit score. We believe that our concentration of credit risk is limited because of our large number of customers, credit quality of the customer base, small account balances for most of these customers, and customer geographic diversification. As of December 30, 2018 and December 31, 2017, we had no customers that accounted for at least 10% of accounts receivable. In addition, one customer accounted for approximately 24% and 22% of our “Contract assets” balance as of December 30, 2018 and December 31, 2017, respectively, on the Consolidated Balance Sheets.

We have entered into agreements with vendors that specify future quantities and pricing of polysilicon to be supplied for the next three years. The purchase prices required by these polysilicon supply agreements are significantly higher than current market prices for similar materials. Under certain agreements, we were required to make prepayments to the vendors over the terms of the arrangements.

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 we cannot conclude that it is more likely than not that some portion or all deferred tax assets will be realized.

As applicable, interest and penalties on tax contingencies are included in “Benefit from (provision for) income taxes” in the Consolidated Statements of Operations and such amounts were not material for any periods presented. In addition, foreign exchange gains (losses) may result from estimated tax liabilities, which are expected to be settled in currencies other than the U.S. dollar.

The Tax Act and Jobs Act of 2017 (the “Tax Act”) also included a provision to tax Global Intangible Low-Taxed Income (“GILTI”), of foreign subsidiaries in excess of a deemed return on their tangible assets. Pursuant to the SEC guidance on accounting for the Tax Act, corporations are allowed to make an accounting policy election to either (i) recognize the tax impact of GILTI as a period cost (the “period cost method”), or (ii) account for GILTI in the corporation’s measurement of deferred taxes (the “deferred method”). In the fourth quarter of the fiscal year 2018, we elected to recognize the tax impact of GILTI as a period cost.

Investments in Equity Interests

Investments in entities in which we can exercise significant influence, but do not own a majority equity interest or otherwise control, are accounted for under the equity method. We record our share of the results of these entities as “Equity in earnings (losses) of unconsolidated investees” on the Consolidated Statements of Operations. We monitor our investments for other-than-temporary impairment by considering factors such as current economic and market conditions and the operating performance of the entities and records reductions in carrying values when necessary. The fair value of privately-held investments is estimated using the best available information as of the valuation date, including current earnings trends, undiscounted cash flows, and other company specific information, including recent financing rounds (see Note 6. *Balance Sheet Components* and Note 8. *Fair Value Measurements*).

Noncontrolling Interests

Noncontrolling interests represents the portion of net assets in consolidated subsidiaries that are not attributable, directly or indirectly, to us. Beginning in fiscal 2013, we have entered into facilities with third-party investors under which the investors are determined to hold noncontrolling interests in entities fully consolidated by us. The net assets of the shared entities are attributed to the controlling and noncontrolling interests based on the terms of the governing contractual arrangements. We further determined the hypothetical liquidation at book value method (“HLBV Method”) to be the appropriate method for attributing net assets to the controlling and noncontrolling interests as this method most closely mirrors the economics of the governing contractual arrangements. Under the HLBV Method, we allocate recorded income (loss) to each investor based on the change, during the reporting period, of the amount of net assets each investor is entitled to under the governing contractual arrangements in a liquidation scenario.

Business Combinations

We record all acquired assets and assumed liabilities, including goodwill, other intangible assets, and in-process research and development, at fair value. The initial recording of goodwill, other identifiable intangible assets, and in-process research and development, requires certain estimates and assumptions concerning the determination of the fair values and useful lives. The judgments made in the context of the purchase price allocation can materially impact our future results of operations. Accordingly, for significant acquisitions, we obtain assistance from third-party valuation specialists. The valuations calculated from estimates are based on information available at the acquisition date (see Note 4. *Business Combinations and Divestiture* and Note 5. *Other Intangible Assets*). We charge acquisition related costs that are not part of the consideration to general and administrative expense as they are incurred. These costs typically include transaction and integration costs, such as legal, accounting, and other professional fees.

We initially record receipts of net assets or equity interests between entities under common control at their carrying amounts in the accounts of the transferring entity. Financial statements and financial information presented for prior years are retrospectively adjusted to effect the transfer as of the first date for which the entities were under common control. If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, then amounts recognized in our financial statements reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control. Financial statements and financial information presented for prior years are also retrospectively adjusted to furnish comparative information as though the assets and liabilities had been transferred at that date.

Recently Adopted Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, to permit companies to reclassify disproportionate tax effects in accumulated other comprehensive income (“AOCI”) caused by the Tax Act to retained earnings. Companies may adopt the new guidance using one of two transition methods: retrospective to each period in which the income tax effects of the Tax Act related to items remaining in AOCI are recognized, or at the beginning of the period of adoption. We adopted this ASU in the fourth quarter of fiscal 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815)* to target improvements to accounting for hedging activities. The improvements include (i) alignment of risk management activities and financial reporting, and (ii) other simplifications in the application of hedge accounting guidance. The new guidance is effective for us no later than the first quarter of fiscal 2019 and requires a modified retrospective approach to adoption. We elected early adoption of this ASU in the first quarter of fiscal 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718)* to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. We adopted this ASU in the first quarter of fiscal 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715)* to provide final guidance on the presentation of net periodic pension and postretirement benefit cost. The amendment requires the bifurcation of net benefit cost. The service cost component will be presented with other employee compensation costs in operating income or capitalized in assets. The other components will be recorded separately outside of operations and will not be eligible for capitalization. The guidance is required to be applied on a retrospective basis for the presentation of the service cost component and the other components of net benefit cost and on a prospective basis for the capitalization of only the service cost component of net benefit cost. We adopted this ASU in the first quarter of fiscal 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

In February 2017, the FASB issued ASU 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)* to clarify the scope and application of the sale or transfer of nonfinancial assets to noncustomers, including partial sales and also to define what constitutes an “in substance nonfinancial asset” which can include financial assets. The new guidance eliminates several accounting differences between transactions involving assets and transactions involving businesses. Further, the guidance aligns the accounting for derecognition of a nonfinancial asset with that of a business. We adopted this ASU in the first quarter of fiscal 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805)* to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new guidance was effective for us no later than the first quarter of fiscal 2018 and required a prospective approach to adoption. We adopted this ASU in the first quarter of fiscal 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10)* (“ASU 2016-01”) to require equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). In February 2018, the FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10)*, which provided clarifications to ASU 2016-01. We adopted this ASU in the first quarter of fiscal 2018 on a prospective basis for our equity investments without readily determinable fair value and elected the cost less impairment (if any) method, adjusted for observable price changes in orderly transactions for an identical or similar investment of the same issuer (the “measurement alternative method”). This election is reassessed on a required recurring basis. The adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

In May 2014, the FASB issued ASC 606. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We adopted ASC 606 on January 1, 2018, using the full retrospective method, which required us to restate each prior period presented. We implemented key system functionality and internal controls to enable the preparation of financial information upon adoption.

The most significant impact of ASC 606 relates to the sales of solar power systems that include the sale or lease of related real estate previously accounted for under the guidance for real estate sales ASC 360-20, *Property, Plant, and Equipment*. ASC 360-20 required us to evaluate whether such arrangements had any forms of continuing involvement that may have affected the revenue or profit recognition of the transactions, including arrangements with prohibited forms of continuing involvement requiring us to reduce the potential profit on a project sale by our maximum exposure to loss. The adoption of ASC 606, which supersedes the real estate sales guidance under ASC 360-20, generally results in the earlier recognition of revenue and profit than our historical practice under ASC 360-20. For sales arrangements in which we obtain or retain an interest in the project sold to the customer, we recognize all the revenue for the consideration received, including the fair value of the noncontrolling interests obtained or retained, and defers any profits associated with the interest retained through “Equity in earnings (losses) of unconsolidated investees.” We then recognize any deferred profit on a straight-line basis over the useful life of the underlying system, with any remaining amount recognized upon the sale of the noncontrolling interest to a third party. Following the adoption of ASC 606, the revenue recognition for our other sales arrangements, including the sales of components, sales and construction of solar systems, and O&M services, remained materially consistent. The revenue recognition for residential leasing and sale-leaseback arrangements remained consistent as they follow other U.S. GAAP guidance.

As part of our adoption of ASC 606 in the first quarter of fiscal 2018, we elected to apply the following practical expedients:

- We have not restated contracts that begin and are completed within the same annual reporting period;
- For completed contracts that have variable consideration, we used the transaction price at the date upon which the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods;
- We have excluded disclosures of transaction prices allocated to remaining performance obligations and when we expect to recognize such revenue for all periods prior to the date of initial application;
- We have not retrospectively restated our contracts to account for those modifications that were entered into before January 3, 2016, the earliest reporting period impacted by ASC 606;
- We have expensed costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. These costs are included in selling, general, and administrative expenses; and
- We have not assessed a contract asset or contract liability for a significant financing component if the period between the customer’s payment and our transfer of goods or services is one year or less.

Refer to *Impact to Previously Reported Consolidated Financial Statements* below for the impact of adoption of the standard on the consolidated financial statements as of December 31, 2017 and January 1, 2017, and for the fiscal years ended December 31, 2017 and January 1, 2017.

Impact to Previously Reported Consolidated Financial Statements

Adoption of ASC 606 impacted our previously reported results as follows:

<u>(In thousands)</u>	<u>December 31, 2017</u>		
	<u>As Reported</u>	<u>Adoption of ASC 606</u>	<u>As Adjusted⁽¹⁾</u>
Accounts receivable, net.	\$ 215,479	\$ (10,513)	\$ 204,966
Costs and estimated earnings in excess of billings.	18,203	(18,203)	—
Contract assets	—	35,074	35,074
Prepaid expenses and other current assets.	152,444	(6,235)	146,209
Property, plant and equipment, net	1,148,042	(197)	1,147,845
Solar power systems leased and to be leased, net	428,149	(58,931)	369,218
Long-term financing receivables, net.	338,877	(8,205)	330,672
Other long-term assets	80,146	466,552	546,698
Accrued liabilities.	267,760	(35,989)	231,771
Billings in excess of costs and estimated earnings.	8,708	(8,708)	—
Contract liabilities, current portion	—	101,723	101,723
Customer advances, current portion.	54,999	(54,999)	—
Customer advances, net of current portion	69,062	(69,062)	—
Contract liabilities, net of current portion.	—	133,390	133,390
Other long-term liabilities	954,646	(112,304)	842,342
Accumulated deficit	(2,115,188)	445,291	(1,669,897)

(1) Under the new segmentation, we reflected employee departments' changes between segments, including those that moved from corporate functions into the business units, and the associated impact on headcount related expenses to the comparative periods presented. This resulted in a shift of such expenses between Cost of Revenue and Operating Expenses in our reported consolidated financial statements that are not reflected in the table above. See "Note 18. *Segment and Geographical Information*".

<u>(In thousands except per share)</u>	<u>Fiscal Year Ended December 31, 2017</u>		
	<u>As Reported</u>	<u>Adoption of ASC 606</u>	<u>As Adjusted⁽¹⁾</u>
Revenue:			
Solar power systems, components, and other	\$ 1,667,376	\$(72,435)	\$ 1,594,941
Residential leasing	204,437	(5,331)	199,106
Cost of revenue:			
Solar power systems, components, and other	1,749,377	(67,902)	1,681,475
Residential leasing	137,707	(3,415)	134,292
Gross profit (loss).	(15,271)	(6,449)	(21,720)
Interest expense	(89,754)	(534)	(90,288)
Other, net.	(10,941)	(76,704)	(87,645)
Other expense, net	(98,595)	(77,238)	(175,833)
Loss before income taxes and equity in earnings of unconsolidated investees	(1,117,064)	(83,686)	(1,200,750)
Equity in earnings of unconsolidated investees.	20,211	5,727	25,938
Net loss	(1,092,910)	(77,958)	(1,170,868)
Net loss attributable to stockholders	(851,163)	(77,958)	(929,121)
Basic and diluted net loss per share attributable to stockholders.	\$ (6.11)	\$ (0.56)	\$ (6.67)

(1) Under the new segmentation, we reflected employee departments' changes between segments, including those that moved from corporate functions into the business units, and the associated impact on headcount related expenses to the comparative periods presented. This resulted in a shift of such expenses between Cost of Revenue and Operating Expenses in our reported consolidated financial statements that are not reflected in the table above. See "Note 18. *Segment and Geographical Information*".

(In thousands except per share)	Fiscal Year Ended January 1, 2017		
	As Reported	Adoption of ASC 606	As Adjusted ⁽¹⁾
Revenue:			
Solar power systems, components, and other	\$2,294,608	\$ 32,813	\$2,327,421
Residential leasing	264,954	(39,738)	225,216
Cost of revenue:			
Solar power systems, components, and other	2,173,364	(5,065)	2,168,299
Residential leasing	196,232	(29,370)	166,862
Gross profit (loss)	189,966	27,510	217,476
Gain on sale and impairment of residential lease assets	—	(7,263)	(7,263)
Interest expense	(60,735)	(538)	(61,273)
Other, net	(9,039)	2,081	(6,958)
Other expense, net	(102,181)	1,543	(100,638)
Loss before income taxes and equity in earnings of unconsolidated investees	(564,595)	36,203	(528,392)
Equity in earnings of unconsolidated investees	28,070	(13,775)	14,295
Net loss	(543,844)	22,429	(521,415)
Net loss attributable to stockholders	(471,064)	22,429	(448,635)
Basic and diluted net loss per share attributable to stockholders	\$ (3.41)	\$ 0.16	\$ (3.25)

(1) Under the new segmentation, we reflected employee departments' changes between segments, including those that moved from corporate functions into the business units, and the associated impact on headcount related expenses to the comparative periods presented. This resulted in a shift of such expenses between Cost of Revenue and Operating Expenses in our reported consolidated financial statements that are not reflected in the table above. See "Note 18. Segment and Geographical Information".

(In thousands)	Fiscal Year Ended December 31, 2017		
	As Reported	Adoption of ASC 606	As Adjusted
Net loss	\$(1,092,910)	\$ (77,958)	\$(1,170,868)
Adjustments to reconcile net loss to net cash used in operating activities, net of effect of acquisitions:			
Depreciation and amortization	188,698	(3,415)	185,283
Impairment of equity method investment	8,607	80,957	89,564
Equity in earnings of unconsolidated investees	(20,211)	(5,727)	(25,938)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(458)	(733)	(1,191)
Costs and estimated earnings in excess of billings	14,577	(14,577)	—
Contract assets	—	10,660	10,660
Project assets	19,153	(16,760)	2,393
Prepaid expenses and other assets	158,868	(48,338)	110,530
Long-term financing receivables, net	(123,842)	168	(123,674)
Accounts payable and other accrued liabilities	(192,096)	(24,253)	(216,349)
Billings in excess of costs and estimated earnings	(68,432)	68,432	—
Customer advances	113,626	(113,626)	—
Contract liabilities	—	145,171	145,171
Net cash used in operating activities	(267,412)	—	(267,412)
Net decrease in cash, cash equivalents, restricted cash and restricted cash equivalents	30,125	—	30,125
Cash, cash equivalents, restricted cash and restricted cash equivalents, beginning of period	514,212	—	514,212
Cash, cash equivalents, restricted cash and restricted cash equivalents, end of period	544,337	—	544,337

<u>(In thousands)</u>	<u>Fiscal Year Ended January 1, 2017</u>		
	<u>As Reported</u>	<u>Adoption of ASC 606</u>	<u>As Adjusted</u>
Net loss	\$ (543,844)	\$ 22,429	\$ (521,415)
Adjustments to reconcile net loss to net cash used in operating activities, net of effect of acquisitions:			
Equity in earnings of unconsolidated investees	(28,070)	13,775	(14,295)
Depreciation and amortization	174,209	(3,672)	170,537
Loss on sale and impairment of residential lease assets	—	(7,263)	(7,263)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Costs and estimated earnings in excess of billings	6,198	(6,198)	—
Contract assets	—	62,161	62,161
Project assets	33,248	(36,849)	(3,601)
Prepaid expenses and other assets	48,758	(45,571)	3,187
Long-term financing receivables, net	(172,542)	270	(172,272)
Accounts payable and other accrued liabilities	(12,146)	(6,634)	(18,780)
Billings in excess of costs and estimated earnings	(38,204)	38,204	—
Customer advances	(16,969)	16,969	—
Contract liabilities	—	(47,622)	(47,622)
Net cash used in operating activities	(312,283)	—	(312,283)
Net decrease in cash, cash equivalents, restricted cash and restricted cash equivalents	(506,553)	—	(506,553)
Cash, cash equivalents, restricted cash and restricted cash equivalents, beginning of period	1,020,764	—	1,020,764
Cash, cash equivalents, restricted cash and restricted cash equivalents, end of period	514,212	—	514,212

Recent Accounting Pronouncements Not Yet Adopted

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, which broadens the scope of the private company alternative to include all common control arrangements that meet specific criteria (not just leasing arrangements) and also eliminates the requirement that entities consider indirect interests held through related parties under common control in their entirety when assessing whether a decision-making fee is a variable interest. This ASU is effective for us no later than the first quarter of 2020 on a retrospective basis with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. We are evaluating the potential impact of this ASU on our consolidated financial statements and disclosures.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes* which permits the use of the Overnight Index Swap Rate based on the Secured Overnight Financing Rate as a fifth U.S. benchmark interest rate for purposes of hedge accounting. The new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years and should be applied prospectively for qualifying new or redesignated hedging relationships entered into after January 1, 2019. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40)* requiring a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets. This ASU is effective for us no later than the first quarter of 2020 with early adoption permitted. This ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are evaluating the potential impact of this standard on our consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)* to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for us no later than the first quarter of 2020 with early adoption permitted. We are evaluating the potential impact of this standard on our consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)* which changes the fair value measurement disclosure requirements of ASC 820. This ASU is effective for us no later than the first quarter of 2020 with early adoption permitted. We are evaluating the potential impact of this standard on our consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350)* to simplify the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation to measure goodwill impairment. Goodwill impairment loss is now measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. This ASU is effective for us no later than the first quarter of fiscal 2020. Early adoption is permitted beginning in the first quarter of fiscal 2017. The adoption of this new ASU will not impact our consolidated financial statements and related disclosure, as we no longer have goodwill.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, as amended ("ASC 842") to replace existing lease guidance and require all lessees to recognize a right-of-use asset and a liability for the obligation to make payments for all leases (except for short-term leases) on their balance sheet. All leases in scope will be classified as either operating or financing. Operating and financing leases will require the recognition of an asset and liability to be measured at the present value of the lease payments. ASC 842 also makes a distinction between operating and financing leases for purposes of reporting expenses on the income statement. In July 2018, the FASB issued several ASUs to clarify and improve certain aspects of the new lease standard including, among many other things, the rate implicit in the lease, lessee reassessment of lease classification, variable payments that depend on an index or rate, methods of transition including an optional transition method to continue recognizing and disclosing leases entered into prior to the adoption date under current GAAP ("ASC 840"). In December 2018, the FASB issued ASU 2018-20, *Leases (Topic 842) Narrow-Scope Improvements for Lessors*, related to sales taxes and other similar taxes collected from lessees, certain lessor costs paid by lessees to third parties, and related to recognition of variable payments for contracts.

This ASU will be effective for us in the first quarter of 2019 and we expect to adopt using the optional transition method and all available practical expedients. We continue to make progress with our project plan, which includes evaluating contracts, developing policies, and implementing new controls and enhancing existing controls that will be necessary under the new standard.

Upon adoption, we expect the following changes to our accounting policies:

- Solar leases will no longer meet the criteria for lease accounting as our contracts do not allow the customer to direct the use of the underlying solar system. Instead, we will account for these arrangements as service contract pursuant to ASC Topic 606 and be recognized ratably based on contractual lease cash flows over the lease term.
- Real estate and other operating lease arrangements will be monitored and accounted pursuant to ASC 842.
- Arrangements that involve the lease-back of solar systems sold to a financier will continue to be accounted for as a failed sale and result in the recording of a financing liability pursuant to ASC 842.

We are in the final stages of completing our review of historical lease contracts to quantify the expected impact of adoption on our consolidated financial statements. Based on our current evaluation of our entire population of contracts impacted by ASC 842 upon adoption, we expect to record on our Consolidated Balance Sheets, right-of-use assets and lease liabilities of approximately \$75.0 million to \$95.0 million in relation to sale-leaseback arrangements and real-estate lease commitments. In addition, we expect to record an adjustment to our accumulated deficit, net of taxes, of approximately \$5.0 million to \$15.0 million from the recognition of previously deferred profit under sale-lease back arrangements.

We continue to assess the potential impacts of the new standard, including the areas described above, and anticipate that this standard will have a material impact on our Consolidated Balance Sheets and disclosures. However, we do not know or cannot reasonably estimate quantitative information, beyond that discussed above, related to the impact of the new standard on the financial statements at this time.

Note 2. TRANSACTIONS WITH TOTAL AND TOTAL S.A.

In June 2011, Total completed a cash tender offer to acquire 60% of our then outstanding shares of common stock at a price of \$23.25 per share, for a total cost of approximately \$1.4 billion. In December 2011, we entered into a Private Placement Agreement with Total (the “Private Placement Agreement”), under which Total purchased, and we issued and sold, 18.6 million shares of our common stock for a purchase price of \$8.80 per share, thereby increasing Total’s ownership to approximately 66% of our outstanding common stock as of that date. As of December 30, 2018, through the increase of our total outstanding common stock due to the exercise of warrants and issuance of restricted and performance stock units, Total’s ownership of our outstanding common stock was approximately 56%.

Supply Agreements

In November 2016, we and Total entered into a four-year, up to 200 megawatt (“MW”) supply agreement to support the solarization of certain Total facilities. The agreement covers the supply of 150 MW of Maxeon 2 (formally known as E-Series) panels with an option to purchase up to another 50 MW of P-Series solar panels. In March 2017, we received a prepayment totaling \$88.5 million. The prepayment is secured by certain of our assets located in the United States and in Mexico.

We recognize revenue for the solar panels supplied under this arrangement consistent with our revenue recognition policy for solar power components at a point in time when control of such products transfers to the customer, which generally occurs upon shipment or delivery depending on the terms of the contracts. In the second quarter of fiscal 2017, we started to supply Total with solar panels under the supply agreement and as of December 30, 2018, we had \$18.4 million of “Contract liabilities, current portion” and \$45.3 million of “Contract liabilities, net of current portion” on our Consolidated Balance Sheets related to the aforementioned supply agreement (see Note 10. *Commitments and Contingencies*”).

In March 2018, we and Total, each through certain affiliates, entered into an agreement whereby we agreed to sell 3.42 MW of photovoltaic (“PV”) modules to Total for a development project in Chile. This agreement provided for payment from Total in the amount of approximately \$1.3 million, 10% of which was paid upon execution of the agreement.

Amended and Restated Credit Support Agreement

In June 2016, we and Total S.A. entered into an Amended and Restated Credit Support Agreement (the “Credit Support Agreement”), which amended and restated the Credit Support Agreement dated April 28, 2011, by and between us and Total S.A., as amended. Under the Credit Support Agreement, Total S.A. agreed to enter into one or more guarantee agreements (each a “Guaranty”) with banks providing letter of credit facilities to us. At any time until December 31, 2018, Total S.A. will, at our request, guarantee the payment to the applicable issuing bank of our obligation to reimburse a draw on a letter of credit and pay interest thereon in accordance with the letter of credit facility between such bank and us. Such letters of credit must be issued no later than December 31, 2018 and expire no later than March 31, 2020. Total S.A. is required to issue and enter into a Guaranty requested by us, subject to certain terms and conditions. In addition, Total will not be required to enter into the Guaranty if, after giving effect to our request for a Guaranty, the sum of (a) the aggregate amount available to be drawn under all guaranteed letter of credit facilities, (b) the amount of letters of credit available to be issued under any guaranteed facility, and (c) the aggregate amount of draws (including accrued but unpaid interest) on any letters of credit issued under any guaranteed facility that have not yet been reimbursed by us, would exceed \$500.0 million in the aggregate. Such maximum amounts of credit support available to us can be reduced upon the occurrence of specified events.

In consideration for the commitments of Total S.A. pursuant to the Credit Support Agreement, we are required to pay Total S.A. a guaranty fee for each letter of credit that is the subject of a Guaranty under the Credit Support Agreement and was outstanding for all or part of the preceding calendar quarter. The Credit Support Agreement will terminate following December 31, 2018, after the later of the satisfaction of all obligations thereunder and the termination or expiration of each Guaranty provided thereunder.

In addition to the Credit Support Agreement, we and Total S.A. entered into the Letter Agreement in May 2017 to facilitate the issuance by Total S.A. of one or more guaranties of our payment obligations of up to \$100.0 million (the “Support Amount”) under the Revolver with Credit Agricole, as “administrative agent,” and the other lenders party thereto; See “Note 12. *Debt and Credit Sources*” for additional information on the Revolver with Credit Agricole. In consideration for the commitments of Total S.A. pursuant to the Letter Agreement, we are required to pay a guarantor commitment fee of 0.50% per annum for the unutilized Support Amount and a guaranty fee of 2.35% per annum of the Guaranty outstanding. The maturity date of the Letter Agreement is August 26, 2019.

Affiliation Agreement

We and Total have entered into an Affiliation Agreement that governs the relationship between Total and us (the “Affiliation Agreement”). Until the expiration of a standstill period specified in the Affiliation Agreement (the “Standstill Period”), and subject to certain exceptions, Total, Total S.A., and any of their respective affiliates and certain other related parties (collectively, the “Total Group”) may not effect, seek, or enter 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, or request us or our independent directors, officers or employees, to amend or waive any of the standstill restrictions applicable to the Total Group. The Standstill Period ends when Total holds less than 15% ownership of us.

The Affiliation Agreement imposes certain limitations on the Total Group’s ability to seek to effect a tender offer or merger to acquire 100% of the outstanding voting power of us and imposes certain limitations on the Total Group’s ability to transfer 40% or more of the outstanding shares or voting power of us to a single person or group that is not a direct or indirect subsidiary of Total S.A. During the Standstill Period, no member of the Total Group may, among other things, solicit proxies or become a participant in an election contest relating to the election of directors to our Board of Directors.

The Affiliation Agreement provides Total with the right to maintain its percentage ownership in connection with any new securities issued by us, and Total may also purchase shares on the open market or in private transactions with disinterested stockholders, subject in each case to certain restrictions.

The Affiliation Agreement also imposes certain restrictions with respect to the ability of us and our board of directors to take certain actions, including specifying certain actions that require approval by the directors other than the directors appointed by Total and other actions that require stockholder approval by Total.

Research & Collaboration Agreement

We and Total have entered into a Research & Collaboration Agreement (the “R&D Agreement”) that establishes a framework under which the parties engage in long-term research and development collaboration (“R&D Collaboration”). The R&D Collaboration encompasses a number of different projects, with a focus on advancing our technology position in the crystalline silicon domain, as well as ensuring our industrial competitiveness. The R&D Agreement enables a joint committee to identify, plan and manage the R&D Collaboration.

Upfront Warrant

In February 2012, we issued a warrant (the “Upfront Warrant”) to Total S.A. to purchase 9,531,677 shares of our common stock with an exercise price of \$7.8685, subject to adjustment for customary anti-dilution and other events. The Upfront Warrant, which is governed by the Private Placement Agreement and a Compensation and Funding Agreement, dated February 28, 2012, as amended, is exercisable at any time for seven years after its issuance, provided that, so long as at least \$25.0 million in aggregate of our convertible debt remains outstanding, such exercise will not cause any “person,” including Total S.A., to, directly or indirectly, including through one or more wholly-owned subsidiaries, become the “beneficial owner” (as such terms are defined in Rule 13d-3 and Rule 13d-5 under the Securities Exchange Act of 1934, as amended) (the “Exchange Act”), of more than 74.99% of the voting power of our common stock at such time, a circumstance which would trigger the repurchase or conversion of our existing convertible debt.

0.75% Debentures Due 2018

In May 2013, we issued \$300.0 million in principal amount of the 0.75% debentures due 2018. An aggregate principal amount of \$200.0 million of the 0.75% debentures due 2018 were acquired by Total. The

0.75% debentures due 2018 were convertible into shares of our common stock at any time based on an initial conversion price equal to \$24.95 per share, which provided Total the right to acquire up to 8,017,420 shares of our common stock. The applicable conversion rate could adjust in certain circumstances, including a fundamental change, as described in the indenture governing the 0.75% debentures due 2018. On June 1, 2018, we redeemed the 0.75% debentures due 2018 at maturity in full for cash with proceeds from the Term Credit Agreement. On June 19, 2018, we completed the sale of our equity interest in the 8point3 Group, the proceeds of which were used to repay the loan under the Term Credit Agreement.

0.875% Debentures Due 2021

In June 2014, we issued \$400.0 million in principal amount of our 0.875% senior convertible debentures due 2021 (the “0.875% debentures due 2021”). An aggregate principal amount of \$250.0 million of the 0.875% debentures due 2021 were acquired by Total. The 0.875% debentures due 2021 are convertible into shares of our common stock at any time based on an initial conversion price equal to \$48.76 per share, which provides Total the right to acquire up to 5,126,775 shares of our common stock. The applicable conversion rate may adjust in certain circumstances, including a fundamental change, as described in the indenture governing the 0.875% debentures due 2021.

4.00% Debentures Due 2023

In December 2015, we issued \$425.0 million in principal amount of our 4.00% senior convertible debentures due 2023 (the “4.00% debentures due 2023”). An aggregate principal amount of \$100.0 million of the 4.00% debentures due 2023 were acquired by Total. The 4.00% debentures due 2023 are convertible into shares of our common stock at any time based on an initial conversion price equal to \$30.53 per share, which provides Total the right to acquire up to 3,275,680 shares of our common stock. The applicable conversion rate may adjust in certain circumstances, including a fundamental change, as described in the indenture governing the 4.00% debentures due 2023.

Joint Solar Projects with Total and its Affiliates

We enter into various EPC and O&M agreements relating to solar projects, including EPC and O&M services agreements relating to projects owned or partially owned by Total and its affiliates. As of December 30, 2018, we had \$0.02 million of “Contract assets” and \$3.8 million of “Accounts receivable, net” on our Consolidated Balance Sheets related to projects in which Total and its affiliates have a direct or indirect material interest.

In connection with a co-development solar project between us, Total and an independent third party, we sold 25% of our ownership interests in the co-development solar project to Total. The amount received from Total was immaterial for fiscal 2018. We sold an additional 25% of our ownership interest to Total during the fourth quarter of 2018 and will supply PV in late 2019 to the solar project. However, recent amendments to the feed-in-tariff rules in Japan have had a significant impact on the co-development solar project’s ability to secure financing and we are currently exploring alternatives to monetize our investment in the co-development solar project.

In connection with a co-development solar project between us and Total, Total paid \$0.3 million to us for development fees for fiscal 2018.

In connection with a co-development project between us and Total, Total paid \$0.5 million to us in exchange for our ownership interest in the co-development project for fiscal 2017.

During the fourth quarter of 2017, we sold our remaining noncontrolling interests in a co-development project entity to Total, which was accounted for as equity method investment, resulting in a gain of \$5.3 million in “Other income (expense), net” of the Consolidated Statements of Operations.

Related-Party Transactions with Total and its Affiliates:

The following related party balances and amounts are associated with transactions entered into with Total and its Affiliates:

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Accounts receivable	\$ 3,823	\$ 2,366
Contract assets	\$ 18	\$ 154
Contract liabilities, current portion ¹	\$18,408	\$12,744
Contract liabilities, net of current portion ¹	\$45,258	\$68,880

¹ Refer to Note 10. *Commitments and Contingencies - Advances from Customers.*

(In thousands)	Fiscal Year Ended		
	2018	2017	2016
Revenue:			
EPC, O&M, and components revenue	\$28,094	\$42,968	\$64,719
Cost of revenue:			
EPC, O&M, and components cost of revenue	\$16,382	\$30,400	\$60,799
Research and development expense:			
Offsetting contributions received under the R&D Agreement	\$ (93)	\$ (138)	\$ (557)
Interest expense:			
Guarantee fees incurred under the Credit Support Agreement	\$ 5,312	\$ 6,325	\$ 7,130
Interest expense incurred on the 0.75% debentures due 2018	\$ 547	\$ 1,500	\$ 1,500
Interest expense incurred on the 0.875% debentures due 2021	\$ 2,188	\$ 2,188	\$ 2,188
Interest expense incurred on the 4.00% debentures due 2023	\$ 4,000	\$ 4,000	\$ 4,000

Note 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of Revenue

The following tables represent a disaggregation of revenue from contracts with customers for the fiscal year 2018, 2017 and 2016 along with the reportable segment for each category:

(In thousands)	Fiscal Year								
	SunPower Technologies			SunPower Energy Services			Total Revenue		
Category	2018	2017	2016	2018	2017	2016	2018	2017	2016
Module and component sales	\$532,590	\$408,303	\$ 313,652	\$ 477,652	\$428,799	\$476,483	\$1,010,242	\$ 837,102	\$ 790,135
Solar power systems sales and EPC services	147,756	470,851	1,238,494	213,345	211,850	207,813	361,101	682,701	1,446,307
Operations and maintenance	—	—	—	49,089	43,643	36,208	49,089	43,643	36,208
Leasing ¹	125	4,687	1,491	305,528	225,914	278,496	305,653	230,601	279,987
Revenue	<u>\$680,471</u>	<u>\$883,841</u>	<u>\$1,553,637</u>	<u>\$1,045,614</u>	<u>\$910,206</u>	<u>\$999,000</u>	<u>\$1,726,085</u>	<u>\$1,794,047</u>	<u>\$2,552,637</u>

¹ Leasing revenue is accounted for in accordance with the lease accounting guidance.

We recognize revenue for sales of modules and components at the point that control transfers to the customer, which typically occurs upon shipment or delivery to the customer, depending on the terms of the contract. For EPC revenue and solar power systems sales, we commence recognizing revenue when control of the underlying system transfers to the customer and continue recognizing revenue over time as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations.

Judgment is required to evaluate assumptions including the amount of net contract revenues and the total estimated costs to determine our progress towards contract completion and to calculate the corresponding amount

of revenue to recognize. If estimated total costs on any contract are greater than the net contract revenues, we recognize the entire estimated loss in the period the loss becomes known. For contracts with post-installation systems monitoring and maintenance, we recognize revenue related to systems monitoring and maintenance over the non-cancellable contract term on a straight-line basis.

Changes in estimates for sales of systems and EPC services occur for a variety of reasons, including but not limited to (i) construction plan accelerations or delays, (ii) product cost forecast changes, (iii) change orders, or (iv) changes in other information used to estimate costs. Changes in estimates may have a material effect on our Consolidated Statements of Operations. The table below outlines the impact on revenue of net changes in estimated transaction prices and input costs for systems related sales contracts (both increases and decreases) for the years ended December 30, 2018 and December 31, 2017 as well as the number of projects that comprise such changes. For purposes of the following table, only projects with changes in estimates that have an impact on revenue and or cost of at least \$1.0 million during the periods were presented. Also included in the table is the net change in estimate as a percentage of the aggregate revenue for such projects.

(In thousands, except number of projects)	Fiscal Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Increase (decrease) in revenue from net changes in transaction prices	\$ —	\$—	\$ (743)
Increase (decrease) in revenue from net changes in input cost estimates	(1,045)	—	5,768
Net increase (decrease) in revenue from net changes in estimates . . .	<u>\$(1,045)</u>	<u>\$—</u>	<u>\$5,025</u>
Number of projects	1	—	6
Net change in estimate as a percentage of aggregate revenue for associated projects	—%	—%	—%

For the years ended December 30, 2018 and December 31, 2017, there were no material adjustments to revenue as a result of changes in transaction prices or input cost estimates. For the year ended January 1, 2017, revenue increased by \$5.0 million from net changes in transaction prices and input cost estimates.

Contract Assets and Liabilities

Contract assets consist of (i) retainage which represents the earned, but unbilled, portion of a construction and development project for which payment is deferred by the customer until certain contractual milestones are met; and (ii) unbilled receivables which represent revenue that has been recognized in advance of billing the customer, which is common for long-term construction contracts. Contract liabilities consist of deferred revenue and customer advances, which represent consideration received from a customer prior to transferring control of goods or services to the customer under the terms of a sales contract. Contract liabilities exclude deferred revenue related to our residential lease program which are accounted for under the lease accounting guidance. Refer to “Note 6. Balance Sheet Components” for further details.

During the year ended December 30, 2018, the increase in contract assets of \$43.5 million was primarily driven by unbilled receivables for commercial projects where certain milestones had not yet been reached, but the criteria to recognize revenue had been met. During the year ended December 30, 2018, the decrease in contract liabilities of \$31.5 million was primarily due to the attainment of milestones billings for a variety of projects. During the year ended December 30, 2018, we recognized revenue of \$94.4 million that was included in contract liabilities as of December 31, 2017. During the year ended December 31, 2017, we recognized revenue of \$58.7 million that was included in contract liabilities as of January 1, 2017.

The following table represents our remaining performance obligations as of December 30, 2018 for our sales of solar power systems, including projects under sales contracts subject to conditions precedent, and EPC agreements for developed projects that we are constructing or expect to construct. We expect to recognize \$62.3 million of revenue for such contracts upon transfer of control of the projects.

<u>Project</u>	<u>Revenue Category</u>	<u>EPC Contract/Partner Developed Project</u>	<u>Expected Year Revenue Recognition Will Be Completed</u>	<u>Percentage of Revenue Recognized</u>
Joint Base Anacostia	Solar power systems			
Bolling (JBAB)	sales and EPC services	Constellation	2019	98.9%
	Solar power systems	SB Energy and		
Miyagi Osato Solar Park . .	sales and EPC services	TOTAL Solar	2019	85.0%
Various Distribution	Solar power systems			
Generation Projects ¹	sales and EPC services	Various	2020	87.4%

¹ Denotes average percentage of revenue recognized.

As of December 30, 2018, we entered into contracts with customers for the future sale of modules and components for an aggregate transaction price of \$466.6 million, the substantial majority of which we expect to recognize as revenue through 2019. As of December 30, 2018, we had entered into O&M contracts of utility-scale PV solar power systems. We expect to recognize \$10.6 million of revenue during the non-cancellable term of these O&M contracts over an average period of three months.

Note 4. BUSINESS COMBINATION AND DIVESTITURES

Formation of SunStrong Capital Holdings, LLC (“SunStrong”) Joint Venture and Transfer of Interest in Residential Lease Portfolio

We offer a solar lease program, in partnership with tax-equity investors, which provides U.S. residential customers SunPower systems under 20-year lease agreements that include system maintenance and warranty coverage. The residential leases are classified as either operating or sales-type leases (the “Residential Lease Portfolio”) in accordance with the relevant accounting guidelines. The arrangement with the tax equity investor is facilitated through the sale equity interests in a solar project company that has ownership of the residential lease assets. We retain controlling equity interests in the solar project company and the tax-equity investor acquires non-controlling equity interests with the intention of monetizing the tax attributes that will be generated by the residential lease assets. On July 10, 2018, we created SunStrong Capital Holdings, LLC (“SunStrong”) to own and operate a portion of our residential lease assets and subsequently contributed to SunStrong our controlling equity interests in the aforementioned solar project companies.

As part of our previously announced decision to sell a portion of our interest in our Residential Lease Portfolio, on November 5, 2018, we entered into a Purchase and Sale agreement (the “PSA”) with HA SunStrong Capital LLC (“HA SunStrong Parent”), a subsidiary of Hannon Armstrong, to sell 49.0% membership interests in SunStrong for cash proceeds of \$10.0 million (the “Transaction”). Following the closing of the PSA, we also entered into an Amended and Restated Limited Liability Company Operating Agreement (the “Operating Agreement”) with HA SunStrong Parent that results in the operation of SunStrong as a joint venture entity. In addition, we have been retained by SunStrong to provide management services, asset management services and O&M services. The services that will be provided are priced consistently with market rates for such services and the agreements are terminable by SunStrong for convenience.

In evaluating the accounting treatment for the transaction described above, we concluded that the Residential Lease Portfolio meets the definition of a business and then proceeded to assess whether SunPower has a controlling financial interest in SunStrong in accordance with the relevant consolidation accounting guidance. We have offered SunStrong certain substantive, non-standard indemnifications related to cash flow losses arising from a recapture of California property taxes on account of a change in ownership, recapture of federal tax attributes and cash flow losses from leases that do not generate the promised savings to homeowners. The maximum exposure to loss arising from the indemnifications is limited to the consideration received for the solar power systems. While our retention of certain indemnification obligations on behalf of SunStrong may require us to absorb losses that are not proportionate with our equity interests, we do not have the power to unilaterally make decisions that affect the performance of SunStrong. Under the Operating Agreement, we and HA SunStrong Parent are given equal governing rights and all major decisions, including among others, approving or modifying the budget, terminating service providers, incurring indebtedness, refinancing any existing loans, declaring distributions, commencing or settling any claims, require unanimous consent. Therefore, we concluded that we do not control SunStrong nor are we the primary beneficiary of SunStrong. Accordingly, we deconsolidated

SunStrong and thereby deconsolidated the Residential Lease Portfolio including the associated non-recourse financing debt of \$561.6 million as of the date of sale. We have accounted for our retained investment in SunStrong as an equity method investment and have estimated the fair value of the retained interest at \$9.6 million. We computed the fair value for our retained investment consistent with the methodology and assumptions that market participants would use in their estimates of fair value. Determining the fair value involves significant estimates and assumptions. We used the income approach to estimate the fair value of our retained investment in Residential Lease Portfolio. The income approach is based on the discounted cash flow method that uses the estimates for forecasted future financial performance, including assumptions for, among others, forecasted contractual lease income, lease expenses, residual value of these lease assets and long-term discount rates, and forecasted default rates over the lease term and discount rates, some of which require significant judgment by management. These estimates are developed based on historical data and various internal estimates. Projected cash flows are then discounted to a present value employing a discount rate that properly accounts for the estimated market weighted-average cost of capital, as well as any risk unique to the subject cash flows. In addition to the cash proceeds noted above, we are entitled to additional cash and non-cash consideration that is described below.

On August 10, 2018, SunStrong Capital Acquisition, LLC, a wholly-owned subsidiary of SunStrong (“Mezzanine Loan 1 Borrower”), and SunStrong Capital Lender LLC, a subsidiary of Hannon Armstrong, entered into a mezzanine loan agreement under which Mezzanine Loan 1 Borrower borrowed a subordinated, mezzanine loan of \$110.5 million (the “Mezzanine Loan 1”) and incurred issuance costs of \$1.4 million related to the loan. On August 31, 2018, we repaid a principal amount of \$2.1 million that resulted in an adjusted Mezzanine Loan 1 balance, net of issuance costs, of \$107.0 million. In connection with the closing of the PSA, SunStrong assumed all current and future debt service obligations associated with Mezzanine Loan 1. The assumption of such debt, although a non-cash transaction for us, was reflected in the determination of the loss recognized upon deconsolidation of the Residential Lease Portfolio.

On November 5, 2018, SunStrong Capital Acquisition OF, LLC, a wholly-owned subsidiary of SunStrong (“Mezzanine Loan 2 Borrower”), and SunStrong Capital Lender 2 LLC, a subsidiary of Hannon Armstrong, entered into a loan agreement under which, Mezzanine Loan 2 Borrower may borrow a subordinated, mezzanine loan of up to \$32.0 million (the “Mezzanine Loan 2”). The borrowing facilities provided by the Mezzanine Loan 2 have been determined in consideration of the residential lease assets for which we have either completed construction or have the obligation to complete construction after November 5, 2018. On November 20, 2018, Mezzanine Loan 2 Borrower borrowed approximately \$24.6 million and distributed \$19.6 million of the proceeds to us. The remaining proceeds of \$5.0 million represents additional consideration that is held in a reserve by SunStrong and the proceeds will be distributed to us upon completion of our contractual obligations by the second quarter of 2019. Mezzanine Loan 2 Borrower is expected to draw an additional approximately \$5.6 million against the Mezzanine Loan 2 of which approximately \$4.0 million is associated with residential lease assets for which construction was completed. On December 21, 2018, we received \$4.6 million as a special distribution from SunStrong. The remaining amount of \$1.0 million represents additional consideration related to residential lease assets for which we will provide construction services after the close of the Transaction.

On November 5, 2018, the proceeds generated from the sale of future solar renewable energy credits, along with equity interests held by SunStrong in the underlying solar project companies, were pledged to secure a warehousing loan from Credit Agricole Corporate and Investment Bank (“Credit Agricole”). Borrowed Sunshine, LLC, (“CA Loan Borrower”) formerly one of our wholly-owned subsidiaries, entered into a loan agreement with Credit Agricole on January 5, 2018 under which the CA Loan Borrower may borrow a subordinated loan of up to \$170.0 million. The CA Loan Borrower expects to draw an additional amount of approximately \$17.5 million of which approximately \$11.8 million is associated with residential lease assets for which construction was completed. On November 29, 2018, we received \$4.1 million and on December 27, 2018, we received \$7.7 million as a special distribution from SunStrong. The remaining amount of approximately \$5.7 million represents additional consideration related to residential lease assets for which we will provide construction services after the close of the Transaction.

Tax-equity investors are required to make contributions to the solar project companies upon achievement of certain condition precedents. Contributions of approximately \$5.6 million will be distributed to us as the developer of the Residential Lease Portfolio. During the period from the date of sale and for the year ended December 30, 2018, cash proceeds of \$4.2 million were received. The remaining proceeds of \$1.4 million

represents additional consideration related to residential lease assets for which we will provide construction services after the close of the Transaction. In addition, on December 21, 2018, we received \$3.2 million as a special distribution from SunStrong for transferring our rights to the future solar renewable energy credits (“SREC”) associated with the residential lease assets. The tax-equity investor contribution and the special SREC distribution was reflected in the determination of the loss recognized upon deconsolidation of the Residential Lease Portfolio.

Other costs and expenses associated with the Transaction of \$2.9 million include professional services including legal, advisory and banking support. We have also recorded a liability of \$5.3 million associated with our certain warranty obligations for defects in materials and workmanship related to installed systems contributed to SunStrong.

On November 28, 2018, SunStrong closed its \$400.0 million Solar Asset Backed Notes, Series 2018-1 (“Notes”). The Notes were priced at a fixed interest rate of 5.68% per annum and have an anticipated repayment date in November 2028 and rated final maturity date in November 2048. The Notes were issued by a special purpose entity, SunStrong 2018-1 Issuer, LLC, an indirectly wholly-owned subsidiary of SunStrong. On December 4, 2018, we received a special cash distribution of \$12.9 million.

In connection with the sale transactions, we recognized a \$62.3 million net loss on the sale within “Loss on sale and impairment of residential lease assets” in our Consolidated Statements of Operations for the year ended December 30, 2018.

The assets, liabilities and equity of the Residential Lease Portfolio on the disposal date were as follows:

<u>(In thousands)</u>	<u>At Disposal Date</u>
Cash and equivalents ¹	\$ 16,333
Restricted cash and equivalents, current portion ¹	9,127
Accounts receivable, net.	23,430
Prepaid expenses and other current assets	26,097
Restricted cash and equivalents, net of current portion ¹	65,947
Property, plant and equipment, net.	871
Solar power systems leased and to be leased, net.	262,756
Long term financing receivables, net - held for sale.	388,180
Other long-term assets	<u>17,633</u>
Total assets	<u>810,374</u>
Accounts payable	—
Accrued liabilities	1,726
Contract liabilities, current portion.	1,660
Contract liabilities, net of current portion	25,477
Short-term debt	8,969
Long-term debt	445,661
Other long-term liabilities.	11,164
Redeemable noncontrolling interests in subsidiaries.	15,375
Noncontrolling interests in subsidiaries	<u>61,865</u>
Total liabilities and equity	<u>571,897</u>
Net assets related to sale	<u>\$238,477</u>

The net consideration recognized from the sale is as follows:

(In thousands)

Proceeds from sale of membership interest in SunStrong ¹	\$ 10,000
Assumption of Mezzanine Loan 1 by SunStrong	106,958
Net proceeds from first draw on Mezzanine Loan 2 ¹	19,560
Special distributions and tax-equity contribution ¹	36,190
Construction service and Mezzanine Loan 2 reserve proceeds	13,596
Other costs and expenses related to sale ¹	<u>(2,879)</u>
Net consideration recognized from sale	<u>\$183,425</u>

¹ Cash consideration received, net of other costs and expenses, and cash, cash equivalents and restricted cash sold, is reflected as a cash outflow from the sale of our equity interest in the residential lease portfolio on the Consolidated Statements of Cash Flows.

The net loss on sale for the year ended December 30, 2018 is presented in the following table.

(In thousands)

Net consideration recognized from sale	\$ 183,425
SunPower retained equity	9,649
Net assets related to sale	(238,477)
Warranty obligation	(5,308)
Obligations to complete leases under construction	<u>(11,616)</u>
Net loss on sale	<u>\$ (62,327)</u>

Acquisition of SolarWorld Americas Inc.

On April 16, 2018, we entered into a Sale and Purchase Agreement (the “Sale and Purchase Agreement”) pursuant to which we agreed to purchase all of SolarWorld AG’s shares of stock in SolarWorld Americas Inc. (“SolarWorld Americas”), and SolarWorld Industries Deutschland GmbH’s partnership interest in SolarWorld Industries America LP. On August 21, 2018, we terminated the Sale and Purchase Agreement and entered into an Asset Purchase Agreement with SolarWorld Americas, pursuant to which we agreed to purchase certain assets of SolarWorld Americas in exchange for consideration of \$26.0 million in cash, subject to certain closing and post-closing adjustments and other contingent payments. In connection with the termination of the Sale and Purchase Agreement, we have recognized an expense of \$20.0 million for the quarter ended September 30, 2018 in sales, general and administrative expense. On October 1, 2018, we completed the acquisition of certain assets of SolarWorld Americas, including its Hillsboro, Oregon facility and a significant portion of its manufacturing workforce of more than 200 employees. The acquisition will provide us with U.S. manufacturing capability to serve the U.S. market demand and SolarWorld Americas provides a platform for us to implement our commercial P-Series solar panel manufacturing technology and selected R&D activities.

The acquisition was accounted for under the acquisition method of accounting, with SunPower identified as the acquirer. The purchase consideration consisted of \$26.0 million in cash paid according to the following schedule: (i) \$2.0 million upon entering into the Sale and Purchase Agreement, (ii) \$15.0 million upon closing, and (iii) \$9.0 million six months following closing. In addition, the acquisition agreement provides for additional purchase consideration based on the residual asset value as of 120 days post-close (the “RAV Payment”) and earn-out payments should any funds be received in association with the outcome of anti-dumping and countervailing duties trade cases (the “AD/CVD”). Recovery of any funds related to the AD/CVD trade cases, net of legal fees, shall be distributed to us and SolarWorld Americas pursuant to the terms of the Asset Purchase Agreement. Accordingly, we recorded contingent liabilities totaling \$4.1 million for the estimated fair value of the RAV and AD/CVD earn-out payments. We also recorded a contingent asset of \$3.2 million representing the estimated fair value of the contingent consideration we are entitled to as of the acquisition date.

Concurrent with the close of the Asset Purchase Agreement, we and SolarWorld Americas also entered into (i) supply agreement under which SolarWorld Americas agreed to purchase a minimum purchase commitment of 18 MW of solar cells for a period of three months following closing, and (ii) module facility lease agreement for a period of three months for the purpose of manufacturing SolarWorld Americas solar products. Based on the

expected revenue from the solar cells sales and rental lease income from SolarWorld Americas and the unavoidable costs associated with these contracts including among others, payroll, direct materials and utilities, we determined the contracts to be below market-based terms and recorded an onerous contract liability of \$7.9 million as of the acquisition date.

The operating results of SolarWorld Americas, which have been included in our consolidated financial statements since the closing date of the acquisition, have not been significant. The aggregate amount of consideration paid was allocated to SolarWorld America’s net tangible assets based on their estimated fair values as of October 1, 2018. We engaged a third-party valuation expert to assist in determining the fair value of SolarWorld’s tangible assets and contingent consideration. Tangible assets consist of land, building, site improvements and manufacturing equipment. The fair values of the tangible assets were determined using a combination of cost and market approaches based on estimated replacement costs, recent and comparable transactions and adjustments for economic obsolescence, customization and marketability. The fair values of the contingent consideration were determined using an income approach based on a real option method to value the RAV Payment and a scenario-based method which considered the estimated probability-weighted recovery and discount rate that captures a market participant’s view of the risk associated with the expected payments for the AD/CVD earn-out payment.

Of the total purchase price of \$30.1 million, consisting of cash consideration of \$26.0 million and contingent consideration of \$4.1 million described above, \$37.4 million was attributed to property, plant and equipment, \$3.1 million was attributed to contingent assets related to the AD/CVD Trade cases and the remaining \$10.4 million was primarily attributed to the net liabilities assumed. No goodwill was recognized in connection with the transaction.

Divestment of Microinverter Business

On August 9, 2018, we completed the sale of certain assets and intellectual property related to the production of microinverters to Enphase Energy, Inc. (“Enphase”) in exchange for \$25.0 million in cash and 7.5 million shares of Enphase common stock (the “Closing Shares”), pursuant to an Asset Purchase Agreement (the “Purchase Agreement”) entered into on June 12, 2018. We received the Closing Shares and \$15.0 million cash payment upon closing, and received the final \$10.0 million cash payment of the purchase price on December 10, 2018.

In connection with the closing of the Purchase Agreement, we and Enphase entered into a master supply agreement (“MSA”) under which we will exclusively procure module-level power electronics and related equipment for use in the U.S. residential market from Enphase for a period of five years. The MSA contains certain minimum volume and pricing commitments and exclusivity provisions, the breach of which would entitle Enphase to certain liquidated damages. The initial term of the MSA is through December 31, 2023, and the MSA term shall automatically be extended for successive two-year periods unless either party provides written notice of non-renewal. The MSA also includes customary provisions relating to requirements forecasting, warranty, liability, and quality assurance provisions. In accordance with our consideration of the terms of this arrangement and analysis of market pricing for products covered by the MSA, we believe the MSA is consistent with market-based terms observed in the module-level power electronics market.

In addition, in connection with the closing of the Purchase Agreement, we and Enphase also entered in a Stockholders Agreement to establish certain of our rights and obligations related to the Closing Shares, including our right to appoint one person to the Enphase board of directors, a six-month lock up period, certain additional transfer restrictions on the Closing Shares, registration rights, and voting, standstill and other undertakings by us.

Upon closing of this transaction, we recognized a gain which is summarized in the following table:

<u>(In thousands)</u>	<u>As of August 9, 2018</u>
Cash consideration	\$25,000
Closing shares	42,600
Less transaction costs	<u>(1,743)</u>
Total consideration	65,857
Assets sold.	<u>(6,510)</u>
Gain on business divestiture.	\$59,347

We utilized the quoted price in active markets for the acquired Enphase common stock (a Level 1 input under the fair value measurement standards) to value the Closing Shares. For the year ended December 30, 2018, we recognized a \$59.3 million gain on business divestiture included on our Consolidated Statements of Operations.

Note 5. OTHER INTANGIBLE ASSETS

The following table present details of our acquired other intangible assets, net:

<u>(In thousands)</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
As of December 30, 2018:			
Patents and purchased technology ¹	\$42,893	\$(30,311)	\$12,582
	<u>\$42,893</u>	<u>\$(30,311)</u>	<u>\$12,582</u>
As of December 31, 2017:			
Patents and purchased technology	\$52,313	\$(26,794)	\$25,519
	<u>\$52,313</u>	<u>\$(26,794)</u>	<u>\$25,519</u>

1 In connection with the divestment of our microinverter business on August 9, 2018, we disposed patents and purchased technology with gross amount of \$10.2 million and net book value of \$4.1 million. Refer to “Note 4. Business Combinations and Divestiture” for further details on the transaction.

Aggregate amortization expense for intangible assets totaled \$9.6 million and \$19.7 million and \$13.0 million for fiscal year 2018, 2017 and 2016, respectively. Aggregate impairment loss for intangible assets amounted to zero, zero and \$4.7 million for fiscal year 2018, 2017 and 2016, respectively.

As of December 30, 2018, the estimated future amortization expense related to intangible assets with finite useful lives is as follows:

<u>(In thousands)</u>	<u>Amount</u>
Fiscal Year	
2019	\$ 7,819
2020	4,749
Thereafter	<u>14</u>
Total future amortization expense	<u>\$12,582</u>

Note 6. BALANCE SHEET COMPONENTS

Accounts Receivable, Net

<u>(In thousands)</u>	<u>As of</u>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Accounts receivable, gross ^{1,2,3}	\$193,980	\$242,327
Less: allowance for doubtful accounts ⁴	(16,906)	(35,387)
Less: allowance for sales returns	<u>(1,469)</u>	<u>(1,974)</u>
Accounts receivable, net	<u>\$175,605</u>	<u>\$204,966</u>

1 Includes short-term financing receivables held for sale associated with solar power systems leased of \$1.3 million and \$19.1 million as of December 30, 2018 and December 31, 2017, respectively (see “Note 7. Leasing”).

2 We pledged accounts receivable of zero and \$1.7 million as of December 30, 2018 and December 31, 2017, respectively, to third-party investors as security for our contractual obligations.

3 On December 10, 2018, we entered into a one-year factoring arrangement and sold to BPI France our Euro denominated accounts receivable related to our French customers for an amount of approximately \$26.3 million. Under this arrangement, we provided the bank full recourse for any loss should customers fail to pay when payment is due. The advance payment amount under this program is limited at face value of the sold invoices. We have accounted for this arrangement as a sale of financial assets as effective control over these financial assets has been surrendered and are excluded from our Consolidated Balance Sheet. Total cost associated with this arrangement was \$0.1 million during the year ended December 30, 2018. As of December 30, 2018, uncollected accounts receivable from the end customers under this arrangement were \$21.0 million.

- 4 For the year ended December 30, 2018, we recognized an allowance for losses of \$4.7 million on the short-term financing receivables associated with solar power systems leased (see “Note 7. Leasing”). For the year ended December 31, 2017, the Company recognized an allowance for losses of \$5.8 million on the short-term financing receivables associated with solar power systems leased.

<u>(In thousands)</u>	<u>Balance at Beginning of Period</u>	<u>Charges (Releases) to Expenses / Revenues</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
Allowance for doubtful accounts:				
Year ended December 30, 2018	\$ 28,895	\$ 12,519	\$(24,508)	\$ 16,906
Year ended December 31, 2017	20,380	15,609	(7,094)	28,895
Year ended January 1, 2017	15,505	7,319	(2,445)	20,380
Allowance for sales returns:				
Year ended December 30, 2018	1,974	(505)	—	1,469
Year ended December 31, 2017	2,433	(459)	—	1,974
Year ended January 1, 2017	1,907	526	—	2,433
Valuation allowance for deferred tax assets:				
Year ended December 30, 2018	448,723	(43,800)	—	404,923
Year ended December 31, 2017	297,530	151,193	—	448,723
Year ended January 1, 2017	83,370	214,160	—	297,530

Inventories

<u>(In thousands)</u>	<u>As of</u>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Raw materials	\$ 58,378	\$ 59,288
Work-in-process	86,639	111,164
Finished goods	<u>163,129</u>	<u>182,377</u>
Inventories	<u>\$308,146</u>	<u>\$352,829</u>

Prepaid Expenses and Other Current Assets

<u>(In thousands)</u>	<u>As of</u>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Deferred project costs ¹	\$ 30,394	\$ 33,534
VAT receivables, current portion	9,506	11,561
Deferred costs for solar power systems to be leased	17,805	25,076
Derivative financial instruments	729	2,612
Other receivables	48,062	49,015
Prepaid taxes	853	426
Other prepaid expenses	23,568	23,434
Other current assets	<u>266</u>	<u>551</u>
Prepaid expenses and other current assets	<u>\$131,183</u>	<u>\$146,209</u>

¹ As of December 30, 2018 and December 31, 2017, we had pledged deferred project costs of zero, and \$2.9 million, respectively, to third-party investors as security for our contractual obligations.

Project Assets - Plants and Land

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Project assets — plants	\$10,334	\$ 90,879
Project assets — land	666	12,184
Project assets — plants and land	<u>\$11,000</u>	<u>\$103,063</u>
Project assets — plants and land, current portion	<u>\$10,796</u>	<u>\$103,063</u>
Project assets — plants and land, net of current portion	<u>\$ 204</u>	<u>\$ —</u>

As a result of our evaluation of our ability to recover the costs incurred to date for our solar development assets, we wrote off \$24.7 million of costs in the first quarter of 2018. Such charges were recorded as a component of cost of revenue for the twelve months ended December 30, 2018. While we considered all reasonably available information, the estimate includes significant risks and uncertainties as the pricing environment in the solar industry is currently volatile with increased uncertainty brought about by the tariffs imposed pursuant to the Section 201 trade case. For the year ended December 30, 2018, we completed an arrangement with a customer to sell our remaining U.S. power plant development portfolio. Based on the various performance obligations in the arrangement and our estimates of variable considerations we are entitled to upon achievement of certain performance milestones, we recognized the majority of the gross profit of \$21.1 million for the year ended December 30, 2018, when control over the assets transferred to the customer.

Property, Plant and Equipment, Net

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Manufacturing equipment	\$ 112,904	\$ 406,026
Land and buildings	161,299	197,084
Leasehold improvements	119,597	297,522
Solar power systems ²	544,139	451,678
Computer equipment	98,274	111,183
Furniture and fixtures	10,594	12,621
Construction-in-process	<u>9,678</u>	<u>14,166</u>
Property, plant and equipment, gross	1,056,485	1,490,280
Less: accumulated depreciation	<u>(216,614)</u>	<u>(342,435)</u>
Property, plant and equipment, net ¹	<u>\$ 839,871</u>	<u>\$1,147,845</u>

1 Includes a non-cash impairment charge of \$369.2 million recorded in fiscal 2018 associated with SunPower Technologies segment, which excludes all solar power systems as these are part of the SunPower Energy Services segment.

2 Includes \$519.6 million and \$419.0 million of solar power systems associated with sale-leaseback transactions under the financing method as of December 30, 2018 and December 31, 2017, respectively, which are depreciated using the straight-line method to their estimated residual values over the lease terms of up to 25 years (see "Note 7. Leasing").

Property, Plant and Equipment, Net, by Geography

(In thousands)	As of	
	December 30, 2018	December 31, 2017
United States	\$575,451	\$ 488,970
Philippines	104,639	325,601
Malaysia	126,056	233,824
Mexico	21,566	80,560
Europe	12,043	18,767
Other	<u>116</u>	<u>123</u>
Property, plant and equipment, net, by geography ¹	<u>\$839,871</u>	<u>\$1,147,845</u>

1 Property, plant and equipment, net by geography is based on the physical location of the assets.

Impairment of Property, Plant and Equipment

In the second quarter of fiscal 2018, we announced our proposed plan to change our corporate structure into upstream and downstream business units, and long-term strategy to upgrade our integrated back connectivity (“IBC”) technology to next generation technology (“NGT” or Maxeon 5). Accordingly, we expect to upgrade the equipment associated with our manufacturing operations for the production of Maxeon 5 over the next several years. Because of these planned changes that will impact the utilization of our manufacturing assets and continued pricing challenges in the industry, we determined that indicators of impairment existed and therefore performed a recoverability test by estimating future undiscounted net cash flows expected to be generated from the use of these asset groups. Based on the test performed, we determined that our estimate of future undiscounted net cash flows was insufficient to recover the carrying value of the upstream business unit’s assets and consequently performed an impairment analysis by comparing the carrying value of the asset group to its estimated fair value.

In estimating the fair value of the long-lived assets, we made estimates and judgments that we believe reasonable market participants would make, using Level 3 inputs under ASC 820. The impairment evaluation utilized a discounted cash flow analysis inclusive of assumptions for forecasted profit, operating expenses, capital expenditures, remaining useful life of our manufacturing assets, a discount rate, as well as market and cost approach valuations performed by a third-party valuation specialist, all of which require significant judgment by us.

In accordance with such evaluation, we recognized a non-cash impairment charge of \$369.2 million for the year ended December 30, 2018. The total impairment loss was allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group did not reduce the carrying amount of that asset below its determined fair value. As a result, non-cash impairment charges of \$355.1 million, \$12.8 million and \$1.2 million were allocated to “Cost of revenue”, “Research and development” and “Sales, general and administrative”, respectively, on our Consolidated Statements of Operations for the year ended December 30, 2018. Further, the \$355.1 million non-cash impairment charge within “Cost of revenue” was allocated to our SunPower Technology segment in fiscal 2018.

Other Long-term Assets

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Equity investments with readily determinable fair value	\$ 36,225	\$ —
Equity investments without readily determinable fair value	8,810	35,840
Equity method investments ¹	43,659	450,000
Other ²	<u>73,339</u>	<u>60,858</u>
Other long-term assets	<u>\$162,033</u>	<u>\$546,698</u>

1 On June 19, 2018, we completed the sale of our equity interest in the 8point3 Group. As of December 30, 2018 and December 31, 2017, our investment in the 8point3 Group had a carrying value of zero and \$382.7 million, respectively (see “Note 11. *Equity Investments*”).

2 As of December 30, 2018 and December 31, 2017, we had pledged deferred project costs of zero and \$6.4 million, respectively, to third-party investors as security for our contractual obligations.

Accrued Liabilities

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Employee compensation and employee benefits	\$44,337	\$53,225
Deferred revenue ¹	4,251	5,805
Interest payable	11,786	15,396
Short-term warranty reserves	38,161	25,222
Restructuring reserve	6,310	3,886
VAT payables	8,325	8,691

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Derivative financial instruments	1,161	1,452
Legal expenses	12,442	48,503
Taxes payable	19,146	21,307
Liability due to supply agreement	28,045	21,389
Other	<u>61,288</u>	<u>26,895</u>
Accrued liabilities	<u>\$235,252</u>	<u>\$231,771</u>

1 Consists of advance consideration received from customers under the residential lease program which is accounted for in accordance with the lease accounting guidance.

Other Long-term Liabilities

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Deferred revenue ¹	\$ 55,764	\$105,221
Long-term warranty reserves	134,105	156,082
Long-term sale-leaseback financing	583,418	479,597
Unrecognized tax benefits	16,815	19,399
Long-term pension liability	2,567	4,465
Derivative financial instruments	152	1,174
Long-term liability due to supply agreement	28,198	57,611
Other	<u>18,117</u>	<u>18,793</u>
Other long-term liabilities	<u>\$839,136</u>	<u>\$842,342</u>

1 Consists of advance consideration received from customers under the residential lease program which is accounted for in accordance with the lease accounting guidance.

Accumulated Other Comprehensive Loss

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Cumulative translation adjustment	\$(11,121)	\$(6,631)
Net unrealized gain (loss) on derivatives	(145)	(541)
Net gain on long-term pension liability adjustment	7,066	4,164
Deferred taxes	<u>50</u>	<u>—</u>
Accumulated other comprehensive loss	<u>\$ (4,150)</u>	<u>\$(3,008)</u>

Note 7. LEASING

Residential Lease Program

We offer a solar lease program, which provides U.S. residential customers with SunPower systems under 20-year lease agreements that include system maintenance and warranty coverage. Leases are classified as either operating or sales-type leases in accordance with the relevant accounting guidelines.

Operating Leases

The following table summarizes “Solar power systems leased and to be leased, net” under operating leases on our Consolidated Balance Sheets as of December 30, 2018 and December 31, 2017:

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Solar power systems leased and to be leased, net ^{1,2} :		
Solar power systems leased	\$139,343	\$ 749,697
Solar power systems to be leased	<u>12,158</u>	<u>26,830</u>
	151,501	776,527
Less: accumulated depreciation and impairment ³	<u>(58,944)</u>	<u>(407,309)</u>
Solar power systems leased and to be leased, net	<u>\$ 92,557</u>	<u>\$ 369,218</u>

1 Solar power systems leased and to be leased, net, are physically located exclusively in the United States.

2 As of December 30, 2018 and December 31, 2017, we had pledged solar assets with an aggregate book value of zero and \$112.4 million, respectively, to third-party investors as security for our contractual obligations. The book value of pledged assets represents assets legally held by the respective flip partnerships.

3 For the year ended December 30, 2018, we recognized a non-cash impairment charge of \$74.9 million on solar power systems leased and to be leased.

The following table presents our minimum future rental receipts on operating leases placed in service as of December 30, 2018:

(In thousands)	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Thereafter	Total
Minimum future rentals on operating leases placed in service ¹	\$1,224	\$1,186	\$1,189	\$1,193	\$1,197	\$18,359	\$24,348

1 Minimum future rentals on operating leases placed in service does not include contingent rentals that may be received from customers under agreements that include performance-based incentives.

Sales-Type Leases

As of December 30, 2018 and December 31, 2017, our net investment in sales-type leases presented within “Accounts receivable, net” and “Long-term financing receivables, net” on our Consolidated Balance Sheets was as follows:

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Financing receivables, held for sale ¹ :		
Minimum lease payments receivable ²	\$ 43,939	\$ 690,249
Unguaranteed residual value	4,450	73,344
Unearned income	(8,859)	(115,854)
Allowance for estimated losses	<u>(18,656)</u>	<u>(297,972)</u>
Net financing receivables, held for sale	<u>\$ 20,874</u>	<u>\$ 349,767</u>
Net financing receivables - current, held for sale	<u>\$ 1,282</u>	<u>\$ 19,095</u>
Net financing receivables - non-current held for sale	\$ 19,592	\$ 330,672

1 As of December 30, 2018 and December 31, 2017, we had pledged financing receivables of zero and \$113.4 million, respectively, to third-party investors as security for our contractual obligations. The book value of pledged assets represents assets legally held by the respective flip partnerships.

2 Net of allowance for doubtful accounts amounting to \$0.0 million and \$6.1 million, as of December 30, 2018 and December 31, 2017, respectively.

As of December 30, 2018, future maturities of net financing receivables for sales-type leases were as follows:

(In thousands)	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Thereafter	Total
Scheduled maturities of minimum lease payments receivable ¹	\$2,126	\$2,129	\$2,137	\$2,146	\$2,155	\$33,246	\$43,939

¹ Minimum future rentals on sales-type leases placed in service does not include contingent rentals that may be received from customers under agreements that include performance-based incentives.

Impairment and Sale of Residential Lease Assets

In December 2017, the Board of Directors approved a future sale of a portion of our Residential Lease Portfolio that resulted in the sale of partial equity interests in SunStrong, our wholly owned subsidiary, to Hannon Armstrong on November 5, 2018 - See Note 4. *Business Combinations and Divestitures* for further details. We continue to retain certain residential assets on our consolidated financial statements as of December 30, 2018, which we expect to sell in 2019, and these assets have been tested for impairment as described below.

We evaluate our long-lived assets, including property, plant and equipment, solar power systems leased and to be leased, and other intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets, and significant negative industry or economic trends. Our impairment evaluation of long-lived assets includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their remaining estimated useful lives. If our estimate of future undiscounted net cash flows is insufficient to recover the carrying value of the assets over the remaining estimated useful lives, it records an impairment loss in the amount by which the carrying value of the assets exceeds the fair value. Fair value is generally measured based on either quoted market prices, if available, or discounted cash flow analysis.

Financing receivables are generated by solar power systems leased to residential customers under sales-type leases. Financing receivables represent gross minimum lease payments to be received from customers over a period commensurate with the remaining lease term and the system’s estimated residual value, net of unearned income and allowance for estimated losses. Our evaluation of the recoverability of these financing receivables is based on evaluation of the likelihood, based on current information and events, and whether we will be able to collect all amounts due according to the contractual terms of the underlying lease agreements. In accordance with this evaluation, we recognize an allowance for losses on financing receivables based on our estimate of the amount equal to the probable losses net of recoveries. The combination of the leased solar power systems discussed in the preceding paragraph together with the lease financing receivables is referred to as the “Residential Lease Portfolio.”

In conjunction with our efforts to generate more available liquid funds and simplify our balance sheets, we made the decision to sell a portion of our interest in the Residential Lease Portfolio and engaged an external investment banker to assist with our related marketing efforts in the fourth quarter of fiscal 2017. As a result of these events, in the fourth quarter of fiscal 2017, we determined it was necessary to evaluate the potential for impairment in our ability to recover the carrying amount of our Residential Lease Portfolio.

In proceeding with the impairment evaluation, we determined that financing receivables related to sales-type leases, which were previously classified as held for investment, qualified as held for sale based on our decision to sell our interest in the Residential Lease Portfolio. Accordingly, we recognized an allowance for estimated losses for the amount by which cost exceeded fair value. In addition, we reviewed the cash flows we would expect to derive from the underlying asset that we recover from the lessees (unguaranteed residual value). Due to our planned sale of our Residential Lease Portfolio and based on the indication of value received, we determined that the decline in estimated residual value was other than temporary.

We performed a recoverability test for the assets subject to operating leases by estimating future undiscounted net cash flows expected to be generated by the assets, based on our own specific alternative courses of action under consideration. The alternative courses were either to sell or refinance the assets subject to operating leases, or hold the assets until the end of their previously estimated useful lives. Upon consideration of the alternatives, we considered the probability of selling the assets subject to operating leases and factored the indicative value obtained from a prospective purchaser together with the probability of retaining the assets and the estimated future undiscounted net cash flows expected to be generated by holding the assets until the end of their previously estimated useful lives in the recoverability test. Based on the evaluation performed, we determined that as of December 31, 2017, the estimate of future undiscounted net cash flows was insufficient to recover the carrying value of the assets subject to operating leases, and consequently performed an impairment analysis by comparing the carrying value of the assets to their estimated fair value.

We computed the fair value for the financing receivables associated with sales-type leases and long-lived assets subject to operating leases using consistent methodology and assumptions that market participants would use in their estimates of fair value. The estimates and judgments about future cash flows were made using an income approach defined as Level 3 inputs under fair value measurement standards. The impairment evaluation was based on the income approach (specifically a discounted cash flow analysis) and included assumptions for, among others, forecasted contractual lease income, lease expenses, residual value of these lease assets, long-term discount rates, and forecasted default rates over the lease term and discount rates, some of which require significant judgment by us.

We updated the impairment evaluation discussed above to include new leases that were placed in service since the last evaluation was performed. In accordance with such evaluation, we recognized a non-cash impairment charge of \$189.7 million included in “Loss on sale and impairment of residential lease assets” on the Consolidated Statement of Operations for the year ended December 30, 2018. Due to the fact that the Residential Lease Portfolio assets are held in partnership flip structures with noncontrolling interests, we allocated a portion of the impairment charge related to such noncontrolling interests through the hypothetical liquidation at book value (“HLBV”) method. The allocation method applied to the noncontrolling interests and redeemable noncontrolling interests resulted in a net gain of \$9.6 million and a net gain of \$150.6 million for the year ended December 30, 2018 and December 31, 2017, respectively. As a result, the net impairment charges attributable to our stockholders totaled \$180.1 million and \$473.7 million for the year ended December 30, 2018 and December 31, 2017, respectively, and were recorded within the SunPower Energy Services Segment.

The impairment evaluation includes uncertainty because it requires us to make assumptions and to apply judgment to estimate future cash flows and assumptions. If actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, and if and when a divestiture transaction occurs, the details and timing of which are subject to change as the final terms are negotiated between us and the intended purchaser, we may be exposed to additional impairment charges in the future, which could be material to the results of operations.

Sale-Leaseback Arrangements

We enter into sale-leaseback arrangements under which solar power systems are sold to third parties and subsequently leased back by us over lease terms of up to 25 years. Separately, we enter into sales of energy under power purchase agreements (“PPAs”) with end customers, who host the leased solar power systems and buy the electricity directly from us under PPAs with terms of up to 25 years. At the end of the lease term, we have the option to purchase the systems at fair value or may be required to remove the systems and return them to the third parties.

We have classified our sale-leaseback arrangements of solar power systems not involving integral equipment as operating leases for which the deferred profit on the sale of these systems is recognized over the term of the lease. As of December 30, 2018, future minimum lease obligations associated with these systems were \$65.9 million, which will be recognized over the minimum lease terms. Future minimum payments to be received from customers under PPAs associated with the solar power systems under sale-leaseback arrangements classified as operating leases will also be recognized over the lease terms of up to 25 years and are contingent upon the amounts of energy produced by the solar power systems.

Certain sale-leaseback arrangements of solar power systems involve integral equipment, as defined under the accounting guidance for such transactions, as we have continuing involvement with the solar power systems

throughout the lease due to purchase option rights in the arrangements. As a result of such continuing involvement, we account for each of these transactions as a financing. Under the financing method, the proceeds received from the sale of the solar power systems are recorded by us as financing liabilities. The financing liabilities are subsequently reduced by our payments to lease back the solar power systems, less interest expense calculated based on our incremental borrowing rate adjusted to the rate required to prevent negative amortization. The solar power systems under the sale-leaseback arrangements remain on our Consolidated Balance Sheets and are classified within “Property, plant and equipment, net” (see “Note 6. *Balance Sheet Components*”). As of December 30, 2018, future minimum lease obligations for the sale-leaseback arrangements accounted for under the financing method were \$509.9 million, which will be recognized over the lease terms of up to 30 years. During fiscal 2018 and 2017, we had net financing proceeds of \$32.3 million, and \$259.6 million respectively, in connection with these sale-leaseback arrangements. As of December 30, 2018 and December 31, 2017, the carrying amount of the sale-leaseback financing liabilities presented within “Other long-term liabilities” on our Consolidated Balance Sheets was \$583.4 million and \$479.6 million, respectively. See “Note 6. *Balance Sheet Components*” for additional details.

Note 8. FAIR VALUE MEASUREMENTS

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement (observable inputs are the preferred basis of valuation):

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Measurements are inputs that are observable for assets or liabilities, either directly or indirectly, other than quoted prices included within Level 1.
- Level 3 — Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

We measure certain assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during any presented period. We did not have any assets or liabilities measured at fair value on a recurring basis requiring Level 3 inputs as of December 30, 2018 or December 31, 2017.

The following table summarizes our assets and liabilities measured and recorded at fair value on a recurring basis as of December 30, 2018 and December 31, 2017:

<u>(In thousands)</u>	<u>December 30, 2018</u>			<u>December 31, 2017</u>	
	<u>Total Fair Value</u>	<u>Level 2</u>	<u>Level 1</u>	<u>Total Fair Value</u>	<u>Level 2</u>
Assets					
Prepaid expenses and other current assets: . . .					
Derivative financial instruments (Note 13) . .	\$ 729	\$ 729	\$ —	\$2,579	\$2,579
Other long-term assets:					
Marketable equity investments (Note 11) . . .	<u>36,225</u>	<u>—</u>	<u>36,225</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$36,954</u>	<u>\$ 729</u>	<u>\$36,225</u>	<u>\$2,579</u>	<u>\$2,579</u>
Liabilities					
Accrued liabilities:					
Derivative financial instruments (Note 13) . .	\$ 1,161	\$1,161	\$ —	\$1,452	\$1,452
Other long-term liabilities:					
Derivative financial instruments (Note 13) . .	<u>152</u>	<u>152</u>	<u>—</u>	<u>1,174</u>	<u>1,174</u>
Total liabilities	<u>\$ 1,313</u>	<u>\$1,313</u>	<u>\$ —</u>	<u>\$2,626</u>	<u>\$2,626</u>

Other financial assets and liabilities, including our accounts receivable, accounts payable and accrued liabilities, are carried at cost, which generally approximates fair value due to the short-term nature of these financial assets and liabilities.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

We measure certain investments and non-financial assets (including property, plant and equipment, and other intangible assets) at fair value on a non-recurring basis in periods after initial measurement in circumstances when the fair value of such asset is impaired below its recorded cost. As of December 30, 2018, there were no such items recorded at fair value, with the exception of our property, plant and equipment (see “Note 6. *Balance Sheet Components*”), residential lease assets (see “Note 7. *Leasing*”), and certain non-marketable equity investments. As of December 31, 2017, we did not have any other significant assets or liabilities that were measured at fair value on a non-recurring basis in periods subsequent to initial recognition.

Held-to-Maturity Debt Securities

Our debt securities, classified as held-to-maturity, are Philippine government bonds that we maintain as collateral for business transactions within the Philippines. These bonds have various maturity dates and are classified as “Restricted long-term marketable securities” on our Consolidated Balance Sheets. As of December 30, 2018 and December 31, 2017, these bonds had a carrying value of \$6.0 million and \$6.2 million, respectively. We record such held-to-maturity investments at amortized cost based on our ability and intent to hold the securities until maturity. We monitor for changes in circumstances and events that would affect our ability and intent to hold such securities until the recorded amortized costs are recovered. No other-than-temporary impairment loss was incurred during any periods presented. The held-to-maturity debt securities were categorized in Level 2 of the fair value hierarchy.

Equity Investments

The following discusses our marketable equity investments, non-marketable equity investments and equity method investments.

Marketable Equity Investments

In connection with the divestment of our microinverter business to Enphase on August 9, 2018, we received 7.5 million shares of Enphase common stock (see “Note 4. *Business Combinations and Divestiture*” for further details). The common stock was recorded as an equity investment with readily determinable fair value (Level 1), with changes in fair value recognized in net income in accordance with ASU 2016-01. For the year ended December 30, 2018, we recognized an unrealized loss of \$6.4 million within “Other, net” under other income (expense), net, on our Consolidated Statement of Operations.

Non-Marketable Equity Investments

Our non-marketable equity investments are securities in privately-held companies without readily determinable market values. Prior to January 1, 2018, we accounted for the non-marketable equity investments at cost less impairment. On January 1, 2018, we adopted ASU 2016-01 and elected to adjust the carrying value of our non-marketable equity securities to cost less impairment, adjusted for observable price changes in orderly transactions for an identical or similar investment of the same issuer. Non-marketable equity securities are classified within Level 3 in the fair value hierarchy because we estimate the value based on valuation methods using a combination of observable and unobservable inputs including valuation ascribed to the issuing company in subsequent financing rounds, volatility in the results of operations of the issuers and rights and obligations of the securities we hold. As of December 30, 2018 and December 31, 2017, we had \$8.8 million and \$35.8 million, respectively, in investments accounted for under the measurement alternative method.

Equity Method Investments

Our investments accounted for under the equity method are described in Note 11. *Equity Investments*. We monitor these investments, which are included within “Other long-term assets” in our Consolidated Balance Sheets, for impairment and record reductions in the carrying values when necessary. Circumstances that indicate an other-than-temporary decline include Level 3 measurements such as the valuation ascribed to the issuing company in subsequent financing rounds, decreases in quoted market prices, and declines in the results of operations of the issuer.

We adopted ASC 606 on January 1, 2018, using the full retrospective method, which required us to restate each prior period presented. Our carrying value in the 8point3 Group materially increased upon adoption which required us to amend our historical evaluations of the potential for other-than-temporary impairment on our investment in the 8point3 Group. In accordance with such updated evaluations, we recognized impairment losses on the 8point3 investment balance during the first and fourth quarters of fiscal 2017 using a combination of Level 1 and Level 3 measurements. In June 2018, we completed our divestiture of the 8point3 Group (see “Note 11. *Equity Investments*”). As of December 30, 2018 and December 31, 2017, we had \$43.7 million and \$450.0 million, respectively, in investments accounted for under the equity method (see “Note 11. *Equity Investments*”).

Note 9. RESTRUCTURING

February 2018 Restructuring Plan

During the first quarter of fiscal 2018, we adopted a restructuring plan and began implementing initiatives to reduce operating expenses and cost of revenue overhead in light of the known shorter-term impact of U.S. tariffs imposed on PV solar cells and modules pursuant to Section 201 of the Trade Act of 1974 and our broader initiatives to control costs and improve cash flow. In connection with the plan, which is expected to be completed by mid-2019, we expect between 150 and 250 non-manufacturing employees to be affected, representing approximately 3% of our global workforce, with a portion of those employees exiting from us as part of a voluntary departure program. The changes to our workforce will vary by country, based on local legal requirements and consultations with employee works councils and other employee representatives, as appropriate. We expect to incur restructuring charges totaling between \$20 million to \$30 million, consisting primarily of severance benefits (between \$11 million and \$16 million) and real estate lease termination and other associated costs (between \$9 million and \$14 million). We expect between \$12 million and \$20 million of the charges to be paid in cash. The actual timing and costs of the plan may differ from our current expectations and estimates. A substantial portion of such charges were incurred in fiscal 2018. Cumulative costs were \$12.4 million as of December 30, 2018.

December 2016 Restructuring Plan

During the fourth quarter of fiscal 2016, we adopted a restructuring plan to reduce costs and focus on improving cash flow, primarily related to the closure of our Philippine-based Fab 2 manufacturing facility. There were \$2.2 million of charges related to this plan recorded during fiscal 2018 and cumulative costs incurred were \$195.0 million as of December 30, 2018. The restructuring activities were substantially complete as of July 1, 2018, and any remaining costs to be incurred are not expected to be material.

August 2016 Restructuring Plan

During the third quarter of fiscal 2016, we adopted a restructuring plan in response to expected near-term challenges primarily relating to realigning our Power Plant business unit. In connection with the realignment, we incurred restructuring charges consisting primarily of severance benefits, asset impairments, lease and related termination costs, and other associated costs. In fiscal 2018, we incurred net charges of \$2.9 million. The realignment was substantially complete as of December 30, 2018, and we do not expect a significant number of employees to be affected by remaining actions. Cumulative costs incurred were \$38.1 million as of December 30, 2018.

Legacy Restructuring Plans

Prior to fiscal 2016, we implemented approved restructuring plans, related to all segments, to align with changes in the global solar market, which included the consolidation of our Philippine manufacturing operations, as well as actions to accelerate operating cost reduction and improve overall operating efficiency. These restructuring activities were substantially complete as of the second quarter of 2017, and any remaining costs to be incurred are not expected to be material. Cumulative costs incurred were \$143.7 million as of December 30, 2018.

The following table summarizes the comparative periods-to-date restructuring charges by plan recognized in our Consolidated Statements of Operations:

(In thousands)	Fiscal Year		
	2018	2017	2016
February 2018 Restructuring Plan:			
Severance and benefits	\$12,130	\$ —	\$ —
Other costs ¹	257	—	—
Total February 2018 Restructuring Plan	<u>12,387</u>	<u>—</u>	<u>—</u>
December 2016 Plan:			
Non-cash impairment charges	—	147	148,791
Severance and benefits	(799)	5,643	15,901
Lease and related termination costs	6	707	—
Other costs ¹	2,987	13,824	7,819
Total December 2016 Plan	<u>2,194</u>	<u>20,321</u>	<u>172,511</u>
August 2016 Plan:			
Non-cash impairment charges	—	—	17,926
Severance and benefits	2,665	(242)	15,591
Lease and related termination costs	—	2	557
Other costs ¹	254	989	364
Total August 2016 Plan	<u>2,919</u>	<u>749</u>	<u>34,438</u>
Legacy Restructuring Plans:			
Non-cash impairment charges	—	—	—
Severance and benefits	—	14	350
Lease and related termination costs	—	—	(171)
Other costs ¹	(3)	(39)	62
Total Legacy Plan	<u>(3)</u>	<u>(25)</u>	<u>241</u>
Total restructuring charges	<u>\$17,497</u>	<u>\$21,045</u>	<u>\$207,190</u>

¹ Other costs primarily represent associated legal and advisory services, and costs of relocating employees.

The following table summarizes the restructuring reserve activities during the year ended December 30, 2018:

(In thousands)	Fiscal Year			2018
	2017	Charges (Benefits)	(Payments) Recoveries	
<i>February 2018 Restructuring Plan:</i>				
Severance and benefits	\$ —	\$12,130	\$ (6,681)	\$5,449
Other costs ¹	—	257	(257)	—
Total February 2018 Restructuring Plan	<u>—</u>	<u>12,387</u>	<u>(6,938)</u>	<u>5,449</u>
<i>December 2016 Restructuring Plan:</i>				
Severance and benefits	1,862	(799)	(1,063)	—
Lease and related termination costs	—	6	(6)	—
Other costs ¹	54	2,987	(3,041)	—
Total December 2016 Restructuring Plan	<u>1,916</u>	<u>2,194</u>	<u>(4,110)</u>	<u>—</u>
<i>August 2016 Restructuring Plan:</i>				
Severance and benefits	1,735	2,665	(3,788)	612
Other costs ¹	39	254	(230)	63
Total August 2016 Restructuring Plan	<u>1,774</u>	<u>2,919</u>	<u>(4,018)</u>	<u>675</u>
Legacy Restructuring Plans	196	(3)	(7)	186
Total restructuring reserve activities	<u>\$3,886</u>	<u>\$17,497</u>	<u>\$(15,073)</u>	<u>\$6,310</u>

¹ Other costs primarily represent associated legal and advisory services, and costs of relocating employees.

Note 10. COMMITMENTS AND CONTINGENCIES

Facility and Equipment Lease Commitments

We lease certain facilities under non-cancellable operating leases from third parties. As of December 30, 2018, future minimum lease payments for facilities under operating leases were \$51.9 million, to be paid over the remaining contractual terms of up to 29.3 years. We also lease certain buildings, machinery and equipment under non-cancellable capital leases. As of December 30, 2018, future minimum lease payments for assets under capital leases were \$2.8 million, to be paid over the remaining contractual terms of up to 4.3 years.

Purchase Commitments

We purchase raw materials for inventory and manufacturing equipment from a variety of vendors. During the normal course of business, in order to manage manufacturing lead times and help assure adequate supply, we enter into agreements with contract manufacturers and suppliers that either allow them to procure goods and services based on specifications defined by us, or that establish parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule or adjust our requirements based on our business needs before firm orders are placed. Consequently, purchase commitments arising from these agreements are excluded from our disclosed future obligations under non-cancellable and unconditional commitments.

We also have agreements with several suppliers, including some of our non-consolidated investees, for the procurement of polysilicon, ingots, and wafers, as well as certain module-level power electronics and related equipment, which specify future quantities and pricing of products to be supplied by three vendors for periods of up to 2 years and provide for certain consequences, such as forfeiture of advanced deposits and liquidated damages relating to previous purchases, in the event that we terminate the arrangements or fails to satisfy our obligations under the agreements.

Future purchase obligations under non-cancellable purchase orders and long-term supply agreements as of December 30, 2018 are as follows:

(In thousands)	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Thereafter	Total ¹
Future purchase obligations	\$438,428	\$374,930	\$38,650	\$35,425	\$32,550	\$—	\$919,983

1 Total future purchase obligations were composed of \$206.7 million related to non-cancellable purchase orders and \$713.3 million related to long-term supply agreements.

We expect that all obligations related to non-cancellable purchase orders for manufacturing equipment will be recovered through future cash flows of the solar cell manufacturing lines and solar panel assembly lines when such long-lived assets are placed in service. Factors considered important that could result in an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets, and significant negative industry or economic trends. Obligations related to non-cancellable purchase orders for inventories match current and forecasted sales orders that will consume these ordered materials and actual consumption of these ordered materials is regularly compared to expected demand. We anticipate total obligations related to long-term supply agreements for inventories, some of which (in the case of polysilicon) are at purchase prices significantly above current market prices for similar materials, will be recovered because the quantities required to be purchased are expected to be utilized in the manufacture and profitable sale of solar power products in the future based on our long-term operating plans. Additionally, in order to reduce inventory and improve working capital, we have periodically elected to sell polysilicon inventory in the marketplace at prices below our purchase price, thereby incurring a loss. The terms of the long-term supply agreements are reviewed annually by us and we assess the need for any accruals for estimated losses on adverse purchase commitments, such as lower of cost or net realizable value adjustments that will not be recovered by future sales prices, forfeiture of advanced deposits and liquidated damages, as necessary.

Advances to Suppliers

As noted above, we have entered into agreements with various vendors, some of which are structured as “take or pay” contracts, that specify future quantities and pricing of products to be supplied. Certain agreements

also provide for penalties or forfeiture of advanced deposits in the event we terminate the arrangements. Under certain agreements, we were required to make prepayments to the vendors over the terms of the arrangements. As of December 30, 2018 and December 31, 2017, advances to suppliers totaled \$171.6 million and \$216.0 million, respectively, of which \$37.9 million and \$30.7 million, respectively, is classified as Advances to suppliers, current portion in our Consolidated Balance Sheets. One supplier accounted for 99.6% and 99.0% of total advances to suppliers as of December 30, 2018 and December 31, 2017, respectively.

Advances from Customers

The estimated utilization of advances from customers included within “Contract liabilities, current portion” and “Contract liabilities, net of current portion” on our Consolidated Balance Sheets as of December 30, 2018 is as follows:

(In thousands)	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Thereafter	Total
Estimated utilization of advances from customers	\$68,093	\$34,143	\$11,139	\$—	\$—	\$—	\$113,375

We have entered into other agreements with customers who have made advance payments for solar power products and systems. These advances will be applied as shipments of product occur or upon completion of certain project milestones. In November 2016, we and Total entered into a four-year, up to 200-MW supply agreement to support the solarization of Total facilities (see “Note 2. *Transactions with Total and Total S.A.*”); in March 2017, we received a prepayment totaling \$88.5 million. As of December 30, 2018, the advance payment from Total was \$63.7 million, of which \$18.4 million was classified as short-term in our Consolidated Balance Sheets, based on projected shipment dates.

Product Warranties

The following table summarizes accrued warranty activity for fiscal 2018, 2017 and 2016:

(In thousands)	Fiscal Year Ended		
	2018	2017	2016
Balance at the beginning of the period	\$181,303	\$161,209	\$164,127
Accruals for warranties issued during the period	31,628	29,689	14,575
Settlements and adjustments during the period	(40,665)	(9,595)	(17,493)
Balance at the end of the period	\$172,266	\$181,303	\$161,209

In some cases, we may offer customers the option to purchase extended warranties to ensure protection beyond the standard warranty period. In those circumstances, the warranty is a distinct service and we account for the extended warranty as a performance obligation and allocates a portion of the transaction price to that performance obligation. More frequently, customers do not purchase a warranty separately. In those situations, we account for the warranty as assurance-type warranty, which provides customers with assurance that the product complies with agreed-upon specifications, and this does not represent a separate performance obligation.

Project Agreements with Customers

Project agreements entered into with our commercial and power plant customers often require us to undertake obligations including: (i) system output performance warranties, (ii) penalty payments or customer termination rights if the system we are constructing is not commissioned within specified time frames or other milestones are not achieved, and (iii) system put-rights whereby we could be required to buy back a customer’s system at fair value on specified future dates if certain minimum performance thresholds are not met for specified periods. Historically, our systems have performed significantly above their performance warranty thresholds, and there have been no cases in which we have had to buy back a system. As of December 30, 2018 and December 31, 2017, we had \$3.3 million and \$6.4 million, respectively, classified as “Accrued liabilities,” and \$6.5 million and \$3.1 million, respectively, classified as “Other long-term liabilities” in our Consolidated Balance Sheets for such obligations.

Future Financing Commitments

We are required to provide certain funding under agreements with unconsolidated investees, subject to certain conditions (see “Note 11. *Equity Investments*”). As of December 30, 2018, we have future financing obligations related to these agreements as follows:

<u>(In thousands)</u>	<u>Amount</u>
Year:	
2019	\$4,140
2020	<u>2,900</u>
	<u>\$7,040</u>

Liabilities Associated with Uncertain Tax Positions

Total liabilities associated with uncertain tax positions were \$16.8 million and \$19.4 million as of December 30, 2018 and December 31, 2017, respectively. These amounts are included within “Other long-term liabilities” in our Consolidated Balance Sheets in their respective periods as they are not expected to be paid within the next 12 months. Due to the complexity and uncertainty associated with our tax positions, we cannot make a reasonably reliable estimate of the period in which cash settlement, if any, would be made for our liabilities associated with uncertain tax positions in Other long-term liabilities.

Indemnifications

We are a party to a variety of agreements under which we may be obligated to indemnify the counterparty with respect to certain matters. Typically, these obligations arise in connection with contracts and license agreements or the sale of assets, under which we customarily agree to hold the other party harmless against losses arising from a breach of warranties, representations and covenants related to such matters as title to assets sold, negligent acts, damage to property, validity of certain intellectual property rights, non-infringement of third-party rights, and certain tax related matters including indemnification to customers under Section 48(c) of the Internal Revenue Code of 1986, as amended, regarding solar commercial investment tax credits (“ITCs”) and U.S. Treasury Department (“U.S. Treasury”) cash grant payments under Section 1603 of the American Recovery and Reinvestment Act (each a “Cash Grant”). In each of these circumstances, payment by us is typically subject to the other party making a claim to us that is contemplated by and valid under the indemnification provisions of the particular contract, which provisions are typically contract-specific, as well as bringing the claim under the procedures specified in the particular contract. These procedures usually allow us to challenge the other party’s claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third-party claims brought against the other party. Further, our obligations under these agreements may be limited in terms of activity (typically to replace or correct the products or terminate the agreement with a refund to the other party), duration or amount. In some instances, we may have recourse against third parties or insurance covering certain payments made by us.

In certain circumstances, we have provided indemnification to customers and investors under which we are contractually obligated to compensate these parties for losses they may suffer as a result of reductions in benefits received under ITCs and U.S. Treasury Cash Grant programs. We apply for ITCs and Cash Grant incentives based on guidance provided by the Internal Revenue Service (“IRS”) and the U.S. Treasury, which include assumptions regarding the fair value of the qualified solar power systems, among others. Certain of our development agreements, sale-leaseback arrangements, and financing arrangements with tax equity investors, incorporate assumptions regarding the future level of incentives to be received, which in some instances may be claimed directly by our customers and investors. Generally, such obligations would arise as a result of reductions to the value of the underlying solar power systems as assessed by the IRS. At each balance sheet date, we assess and recognize, when applicable, the potential exposure from these obligations based on all the information available at that time, including any audits undertaken by the IRS. The maximum potential future payments that we could have to make under this obligation would depend on the difference between the eligible basis claimed on the tax filing for the solar energy systems sold or transferred to indemnified parties and the values that the IRS may redetermine as the eligible basis for the systems for purposes of claiming ITCs or Cash Grants. We use the eligible basis for tax filing purposes determined with the assistance of independent third-party appraisals to determine the ITCs that are passed-through to and claimed by the indemnified parties. For sales contracts that

have such indemnification provisions, we recognize a liability under ASC 460, “Guarantees,” for the estimated premium that would be required by a guarantor to issue the same guarantee in a standalone arm’s-length transaction with an unrelated party. We recognize such liabilities at the greater of the fair value of the indemnity or the contingent liability required to be recognized under ASC 450, “Contingencies,” and reduce the revenue recognized in the related transaction. We initially estimate the fair value of any such indemnities provided based on the cost of insurance policies that cover the underlying risks being indemnified and may purchase such policies to mitigate our exposure to potential indemnification payments. After an indemnification liability is recorded, we derecognize such amount typically upon expiration or settlement of the arrangement. Changes to any such indemnification liabilities provided are recorded as adjustments to revenue. As of December 30, 2018, and December 31, 2017, our provision was \$4.2 million and \$12.8 million, respectively, for tax related indemnifications. On June 19, 2018, we completed the sale of our equity interest in the 8point3 Group. In connection with the transaction, we released approximately \$8.3 million of tax related indemnifications previously recorded as a result of the ASC 606 adoption effective January 1, 2018.

Defined Benefit Pension Plans

We maintain defined benefit pension plans for certain of our non-U.S. employees. Benefits under these plans are generally based on an employee’s years of service and compensation. Funding requirements are determined on an individual country and plan basis and are subject to local country practices and market circumstances. The funded status of the pension plans, which represents the difference between the benefit obligation and fair value of plan assets, is calculated on a plan-by-plan basis. The benefit obligation and related funded status are determined using assumptions as of the end of each fiscal year. We recognize the overfunded or underfunded status of our pension plans as an asset or liability on our Consolidated Balance Sheets. As of December 30, 2018 and December 31, 2017, the underfunded status of our pension plans presented within “Other long-term liabilities” on our Consolidated Balance Sheets was \$2.6 million and \$4.5 million, respectively. The impact of transition assets and obligations and actuarial gains and losses are recorded within “Accumulated other comprehensive loss” and are generally amortized as a component of net periodic cost over the average remaining service period of participating employees. Total other comprehensive loss related to our benefit plans was \$2.9 million for the year ended December 30, 2018.

Legal Matters

Class Action and Derivative Suits

On August 16, 2016, a class action lawsuit was filed against us and certain of our 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 our securities from February 17, 2016 through August 9, 2016 (the “Class Period”). On December 9, 2016, the court appointed a lead plaintiff. Following the withdrawal of the original lead plaintiff, on August 21, 2017, the court appointed an investor group as lead plaintiff. An amended complaint was filed on October 17, 2017. The complaint alleged violations of Sections 10(b) and 20(a) of the Exchange Act, and Securities and Exchange Commission (“SEC”) Rule 10b-5. The complaints were filed following the issuance of our August 9, 2016 earnings release and revised guidance and generally allege that throughout the Class Period, the Defendants made materially false and/or misleading statements and failed to disclose material adverse facts about our business, operations, and prospects. On April 18, 2018, the court dismissed the complaint for failure to state a claim, with leave to amend. On May 8, 2018, a second amended complaint was filed. On October 9, 2018, the court dismissed the complaint for failure to state a claim, with no further opportunity to amend. The deadline to appeal was November 9, 2018. The plaintiff did not appeal, and the matter is resolved.

Four shareholder derivative actions have been filed in federal court, purporting to be brought on our behalf against certain of our current and former officers and directors based on the same events alleged in the securities class action lawsuits described above. We are 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 from February 2016 through the present and generally allege that the defendants made or caused us to make materially false and/or misleading statements and failed to disclose material adverse facts about our business, operations, and prospects. The plaintiffs also claim that the alleged conduct is a breach of our Code of Business Conduct and Ethics, and that the defendants, including members of our Audit Committee, breached their fiduciary duties by failing to ensure the adequacy of our internal controls, and by causing or allowing us to disseminate false and

misleading statements in our 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. The derivative cases have been dismissed.

Shareholder derivative actions purporting to be brought on our behalf were brought in the Superior Court of California for the County of Santa Clara against certain of our 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 state court cases have been dismissed.

Other Litigation

We are also 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 us, their outcomes are not determinable and negative outcomes may adversely affect our financial position, liquidity, or results of operations.

Note 11. EQUITY INVESTMENTS

Our equity investments consist of equity method investments, equity investments with readily determinable fair value and equity investments without readily determinable fair value.

Equity Method Investments

Huaxia CPV (Inner Mongolia) Power Co., Ltd. (“CCPV”)

In December 2012, we entered into an agreement with Tianjin Zhonghuan Semiconductor Co. Ltd., Inner Mongolia Power Group Co. Ltd. and Hohhot Jinqiao City Development Company Co., Ltd. to form CCPV, a jointly owned entity to manufacture and deploy our low-concentration PV (“LCPV”) concentrator technology in Inner Mongolia and other regions in China. CCPV is based in Hohhot, Inner Mongolia. The establishment of the entity was subject to approval of the Chinese government, which was received in the fourth quarter of fiscal 2013. In December 2013, we made a \$16.4 million equity investment in CCPV, for a 25% equity ownership.

We have concluded that we are not the primary beneficiary of CCPV because, although we are obligated to absorb losses and have the right to receive benefits, we alone do not have the power to direct the activities of CCPV that most significantly impact its economic performance. We account for our investment in CCPV using the equity method because we are able to exercise significant influence over CCPV due to our board position.

Diamond Energy Pty Ltd. (“Diamond Energy”)

In October 2012, we made a \$3.0 million equity investment in Diamond Energy, an alternative energy project developer and clean electricity retailer headquartered in Melbourne, Australia, in exchange for a 25% equity ownership.

We have concluded that we are not the primary beneficiary of Diamond Energy because, although we are obligated to absorb losses and has the right to receive benefits, we alone do not have the power to direct the activities of Diamond Energy that most significantly impact its economic performance. We accounted for our investment in Diamond Energy using the equity method because we are able to exercise significant influence over Diamond Energy due to our board position.

On December 21, 2018, we completed the sale of our equity interest in Diamond Energy. As a result of this transaction, we received, after the payment of fees and expenses, merger proceeds of approximately \$2.5 million in cash and no longer directly or indirectly owns any equity interests in Diamond Energy. In connection with the sale, we recognized a \$2.2 million loss on disposal within “Other, net” in “Other income (expense), net” of our Consolidated Statements of Operations for the year ended December 30, 2018.

8point3 Energy Partners (“8point3 Group”)

In June 2015, 8point3 Energy Partners, a joint YieldCo vehicle formed by us and First Solar, (together with us, the “Sponsors”) to own, operate and acquire solar energy generation assets, consummated its initial public offering (“IPO”).

We concluded that we were not the primary beneficiary of the 8point3 Group or any of its individual subsidiaries because, although the Sponsors were both obligated to absorb losses or have the right to receive benefits, we alone did not have the power to direct the activities of the 8point3 Group that most significantly impact its economic performance. In making this determination, we considered, among other factors, the equal division between the Sponsors of management rights in the 8point3 Group and the corresponding equal influence over its significant decisions, the role and influence of the independent directors on the board of directors of the general partner of 8point3 Energy Partners, and how both Sponsors contributed to the activities that most significantly impacted the 8point3 Group's economic performance. We accounted for our investment in the 8point3 Group using the equity method because we determined that, notwithstanding the division of management and ownership interests between the Sponsors, we exercised significant influence over the operations of the 8point3 Group.

During the year ended December 30, 2018, we received \$16.2 million in dividend distributions from the 8point3 Group. During the year ended December 31, 2017, we received \$30.1 million in dividend distributions from the 8point3 Group.

Under previous guidance for leasing transactions, we treated the portion of the portfolio of residential lease assets originally sold to the 8point3 Group in connection with the IPO transaction, composed of operating leases and unguaranteed sales-type lease residual values, as a borrowing and reflected the cash proceeds attributable to this portion of the residential lease assets as liabilities recorded within "Accrued liabilities" and "Other long-term liabilities" in our Consolidated Balance Sheets. Upon adoption of ASC 606 on January 1, 2018, we deconsolidated the portfolio of residential leases and as a result, the operating leases and the unguaranteed sales-type lease residual values that were sold to the 8point3 Group.

On June 19, 2018, we completed the sale of our equity interest in the 8point3 Group. As a result of this transaction, we received, after the payment of fees and expenses, merger proceeds of approximately \$359.9 million in cash and no longer directly or indirectly owns any equity interests in the 8point3 Group. In connection with the sale, we recognized a \$34.4 million gain within "Other, net" in "Other income (expense), net" of our Consolidated Statements of Operations for the year ended December 30, 2018.

Dongfang Huansheng Photovoltaic (Jiangsu) Co., Ltd. ("Dongfang")

In March 2016, we entered into an agreement with Dongfang Electric Corporation and Tianjin Zhonghuan Semiconductor Co., Ltd. to form Dongfang Huansheng Photovoltaic (Jiangsu) Co., Ltd., a jointly owned solar cell manufacturing facility to manufacture our P-Series modules in China. The joint venture is based in Yixing City in Jiangsu Province, China. In March 2016, we made an initial \$9.2 million investment for a 15% equity ownership interest in the joint venture, which was accounted for under the cost method. In February 2017, we invested an additional \$9.0 million which included an investment of \$7.7 million and reinvested dividends of \$1.3 million, bringing our equity ownership to 20% of the joint venture. In February and April 2018, we invested an additional \$6.3 million and \$7.0 million (net of \$0.7 million of dividends reinvested), respectively, maintaining our equity ownership at 20% of the joint venture.

We have concluded that we are not the primary beneficiary of the joint venture because, although we are obligated to absorb losses and has the right to receive benefits, we alone do not have the power to direct the activities of the joint venture that most significantly impact its economic performance. We account for our investment in the joint venture using the equity method because we are able to exercise significant influence over the joint venture due to our board position.

SunStrong Capital Holdings, LLC ("Sunstrong")

On November 5, 2018, HA SunStrong Capital LLC ("HA SunStrong Parent"), a subsidiary of Hannon Armstrong, acquired 49% equity interests in SunStrong, a previously wholly owned subsidiary of the company for cash proceeds of \$10 million. See "Note 4. *Business Combinations and Divestitures*" for additional details.

We have concluded that we are not the primary beneficiary of SunStrong because although we are obligated to absorb losses and have the right to receive benefits, we alone do not have the power to direct the activities of SunStrong that most significantly impact its economic performance. We account for our investment in the joint venture using the equity method because we are able to exercise significant influence over the joint venture due to our board position. See "Note 4. *Business Combinations and Divestitures*," "Note 6. *Balance Sheet Components*," Note 7. *Leasing*," and "Note 12. *Debt and Credit Sources*" for additional details.

Equity Investments with Readily Determinable Fair Value

Enphase Energy, Inc.

In August 2018, we completed the sale to Enphase of certain assets and intellectual property related to the production of microinverters and received, as a portion of the total consideration in the transaction, 7.5 million shares of Enphase common stock, roughly equivalent to a 7.7% equity ownership interest in Enphase. We also received the right to appoint one person to the Enphase board of directors, subject to certain conditions.

We have concluded that we are not the primary beneficiary of Enphase because, although we are obligated to absorb losses and have the right to receive benefits, we alone do not have the power to direct the activities of Enphase that most significantly impact its economic performance. We account for our investment in Enphase at fair value through net income. See “Note 4. *Business Acquisitions and Divestitures*” for additional details.

Equity Investments without Readily Determinable Fair Value

Tendril Networks, Inc. (“Tendril”)

In November 2014, we invested in Tendril by purchasing \$20.0 million of its preferred stock. In the first half of fiscal 2017, we invested an additional \$3.0 million in Tendril by purchasing \$1.5 million of its preferred stock in February 2017 and then again in April 2017. Our total investment in Tendril constitutes a minority stake and is accounted for under the measurement alternative method because the preferred stock is deemed not to be in-substance common stock. In connection with the initial investment, we acquired warrants to purchase up to approximately 14 million shares of Tendril common stock exercisable through November 23, 2024. The number of shares of Tendril common stock that may be purchased pursuant to the warrants is subject to our and Tendril’s achievement of certain financial and operational milestones and other conditions.

In connection with the initial investment in Tendril, we also entered into commercial agreements with Tendril under a master services agreement and related statements of work. Under these commercial agreements, Tendril will use up to \$13.0 million of our initial investment to develop, jointly with us, certain solar software solution products. Our reassessment of our total investment in Tendril concluded that our investment constituted a minority stake and remained accounted for under the measurement alternative method.

On November 30, 2018, we completed the sale of our equity interest in Tendril. As a result of this transaction, we received, after the payment of fees and expenses, sale proceeds of approximately \$28.8 million in cash and no longer directly or indirectly owns any equity interests in Tendril. In connection with the sale, we recognized a \$5.8 million gain within “Other, net” in “Other income (expense), net” of our Consolidated Statements of Operations for the year ended December 30, 2018.

Equity Investments in Project Entities

We have from time to time maintained noncontrolling interests in our development project entities, which may be accounted for as either equity method investments or measurement alternative method securities, depending on whether we exercise significant influence over the investee. Our involvement in these entities primarily takes two forms, (i) we may take a noncontrolling interest in an early-stage project and maintain that investment over the development cycle, often in situations in which our products are also sold to the entity under separate agreements, or (ii) we may retain a noncontrolling interest in a development project after a controlling interest is sold to a third party. In either form, we may maintain our investment for all or part of the operational life of the project or may seek to subsequently dispose of our investment. For sales of solar power systems where we maintain an equity interest in the project sold to the customer, we recognize all of the consideration received, including the fair value of the noncontrolling interest we obtained, as revenue and defer any profits associated with our retained equity stake through “Equity in earnings (losses) of unconsolidated investees.”

During fiscal 2018, we sold our remaining noncontrolling interests in the Boulder Solar I project, which was previously accounted for as equity method investment, resulting in a gain of \$15.6 million within “Other income (expense), net” of our Consolidated Statements of Operations.

Our share of earnings (losses) from equity investments accounted for under the equity method is reflected as “Equity in earnings (losses) of unconsolidated investees” in our Consolidated Statements of Operations. Unrealized gains and losses on equity investments are reflected as “Other, net” under other income (expense), net of our Consolidated Statements of Operations. The carrying value of our equity investments, classified as “Other long-term assets” in our Consolidated Balance Sheets, are as follows:

<u>(In thousands)</u>	<u>As of</u>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>
<i>Equity method investments:</i>		
Dongfang	\$32,784	\$ 24,562
SunStrong Capital Holdings, LLC	8,831	—
8point3	—	382,678
Diamond Energy	—	4,256
Project entities	<u>2,044</u>	<u>38,504</u>
Total equity method investments	<u>43,659</u>	<u>450,000</u>
<i>Equity investments with readily determinable fair value:</i>		
Enphase	<u>36,225</u>	—
Total equity investments with readily determinable fair value	<u>36,225</u>	—
<i>Equity investments without readily determinable fair value:</i>		
Tendril	—	22,922
Project entities	2,951	7,059
Other equity investments without readily determinable fair value	<u>5,859</u>	<u>5,859</u>
Total equity investments without readily determinable fair value	<u>8,810</u>	<u>35,840</u>
Total equity investments	<u>\$88,694</u>	<u>\$485,840</u>

Related-Party Transactions with Investees

Related-party transactions with investees are as follows:

<u>(In thousands)</u>	<u>As of</u>	
	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	\$19,062	\$ 1,275
Accounts payable	7,982	3,764
Accrued liabilities	22,364	4,161
Contract liabilities	—	175
Other long-term liabilities	—	29,245

<u>(In thousands)</u>	<u>Fiscal Year Ended</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Payments made to investees for products/services	\$80,150	\$ —	\$337,831
Revenues and fees received from investees for products/services ¹	9,717	31,459	317,314

¹ Includes a portion of proceeds received from tax equity investors in connection with 8point3 Energy Partners transactions.

Note 12. DEBT AND CREDIT SOURCES

The following table summarizes our outstanding debt on our Consolidated Balance Sheets:

(In thousands)	December 30, 2018				December 31, 2017			
	Face Value	Short-term	Long-term	Total	Face Value	Short-term	Long-term	Total
Convertible debt:								
4.00% debentures due 2023 . . .	\$425,000	\$ —	\$419,958	\$419,958	\$ 425,000	\$ —	\$ 418,715	\$ 418,715
0.875% debentures due 2021 . .	400,000	—	398,398	398,398	400,000	—	397,739	397,739
0.75% debentures due 2018 . . .	—	—	—	—	300,000	299,685	—	299,685
CEDA loan	30,000	—	29,063	29,063	30,000	—	28,538	28,538
Non-recourse financing and other debt ¹	49,073	39,500	9,273	48,773	466,766	57,131	399,134	456,265
	<u>\$904,073</u>	<u>\$39,500</u>	<u>\$856,692</u>	<u>\$896,192</u>	<u>\$1,621,766</u>	<u>\$356,816</u>	<u>\$1,244,126</u>	<u>\$1,600,942</u>

1 Other debt excludes payments related to capital leases, which are disclosed in “Note 10. Commitments and Contingencies.”

As of December 30, 2018, the aggregate future contractual maturities of our outstanding debt, at face value, were as follows:

(In thousands)	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Thereafter	Total
Aggregate future maturities of outstanding debt .	\$39,679	\$3,326	\$400,659	\$694	\$425,732	\$33,983	\$904,073

Convertible Debt

The following table summarizes our outstanding convertible debt:

(In thousands)	December 30, 2018			December 31, 2017		
	Carrying Value	Face Value	Fair Value ¹	Carrying Value	Face Value	Fair Value ¹
Convertible debt:						
4.00% debentures due 2023 . . .	\$419,958	\$425,000	\$341,968	\$ 418,715	\$ 425,000	\$368,399
0.875% debentures due 2021 . .	398,398	400,000	306,904	397,739	400,000	315,132
0.75% debentures due 2018 . . .	—	—	—	299,685	300,000	299,313
	<u>\$818,356</u>	<u>\$825,000</u>	<u>\$648,872</u>	<u>\$1,116,139</u>	<u>\$1,125,000</u>	<u>\$982,844</u>

1 The fair value of the convertible debt was determined using Level 2 inputs based on quarterly market prices as reported by an independent pricing source.

Our outstanding convertible debentures are senior, unsecured obligations ranking equally with all of our existing and future senior unsecured indebtedness.

4.00% Debentures Due 2023

In December 2015, we issued \$425.0 million in principal amount of our 4.00% debentures due 2023. Interest is payable semi-annually, beginning on July 15, 2016. Holders may exercise their right to convert the debentures at any time into shares of our common stock at an initial conversion price approximately equal to \$30.53 per share, subject to adjustment in certain circumstances. If not earlier repurchased or converted, the 4.00% debentures due 2023 mature on January 15, 2023.

0.875% Debentures Due 2021

In June 2014, we issued \$400.0 million in principal amount of our 0.875% debentures due 2021. Interest is payable semi-annually, beginning on December 1, 2014. Holders may exercise their right to convert the debentures at any time into shares of our common stock at an initial conversion price approximately equal to \$48.76 per share, subject to adjustment in certain circumstances. If not earlier repurchased or converted, the 0.875% debentures due 2021 mature on June 1, 2021.

0.75% Debentures Due 2018

In May 2013, we issued \$300.0 million in principal amount of our 0.75% debentures due 2018. Interest is payable semi-annually, beginning on December 1, 2013. Holders were able to exercise their right to convert the debentures at any time into shares of our common stock at an initial conversion price approximately equal to \$24.95 per share, subject to adjustment in certain circumstances. If not earlier repurchased or converted, the 0.75% debentures due 2018 matured on June 1, 2018. The 0.75% debentures due 2018 were redeemed at maturity on June 1, 2018 for cash with proceeds from the Term Credit Agreement. On June 19, 2018, we completed the sale of our equity interest in the 8point3 Group, the proceeds of which were used to repay the debentures under the Term Credit Agreement.

Other Debt and Credit Sources

Mortgage Loan Agreement with IFC

In May 2010, we entered into a mortgage loan agreement with IFC. Under the loan agreement, we borrowed \$75.0 million and were required to repay the amount borrowed starting two years after the date of borrowing, in 10 equal semi-annual installments. We were required to pay interest of LIBOR plus 3% per annum on outstanding borrowings; a front-end fee of 1% on the principal amount of borrowings at the time of borrowing; and a commitment fee of 0.5% per annum on funds available for borrowing and not borrowed. We were able to prepay all or a part of the outstanding principal, subject to a 1% prepayment premium. We had pledged certain assets as collateral supporting our repayment obligations (see Note 6. *Balance Sheet Components*). As of December 31, 2017, we had restricted cash and cash equivalents of zero related to the IFC debt service reserve, which was the amount, as determined by IFC, equal to the aggregate principal and interest due on the next succeeding interest payment date. On January 17, 2017, we repaid the entire outstanding balance, and the associated interest, of the mortgage loan agreement with IFC.

Loan Agreement with California Enterprise Development Authority (“CEDA”)

In 2010, we borrowed the proceeds of the \$30.0 million aggregate principal amount of CEDA’s tax-exempt Recovery Zone Facility Revenue Bonds (SunPower Corporation - Headquarters Project) Series 2010 (the “Bonds”) maturing April 1, 2031 under a loan agreement with CEDA. The Bonds mature on April 1, 2031, bear interest at a fixed rate of 8.50% through maturity, and include customary covenants and other restrictions on us. As of December 30, 2018, the fair value of the Bonds was \$32.4 million, determined by using Level 2 inputs based on quarterly market prices as reported by an independent pricing source.

Revolving Credit Facility with Credit Agricole

In July 2013, we entered into a revolving credit agreement with Credit Agricole, as administrative agent, and certain financial institutions, under which we may borrow up to \$250.0 million. On August 26, 2014, we entered into an amendment to the revolving credit facility that, among other things, extends the maturity date of the facility from July 3, 2016 to August 26, 2019 (the “Maturity Date”). Amounts borrowed may be repaid and reborrowed until the Maturity Date. On February 17, 2016, we entered into an amendment to the credit agreement, expanding the available borrowings under the revolving credit facility to \$300.0 million and adding a \$200.0 million letter of credit subfacility, subject to the satisfaction of certain conditions. The revolving credit facility includes representations, covenants, and events of default customary for financing transactions of this type.

On June 23, 2017, we entered into an Amended and Restated Revolving Credit Agreement (the “Revolver”) with Credit Agricole, as administrative agent, and the other lenders party thereto, which amends and restates the Revolving Credit Agreement dated July 3, 2013, as amended.

The Revolver was entered into in connection with the Letter Agreement, to facilitate the issuance by Total S.A. of one or more guaranties of our payment obligations of up to \$100.0 million under the Revolver. The maturity date of the Letter Agreement and the Revolver is August 26, 2019. In consideration for the commitments of Total S.A. pursuant to the Letter Agreement, we are required to pay a guarantor commitment fee of 0.50% per annum for the unutilized support amount and a guaranty fee of 2.35% per annum of the Guaranty outstanding. Available borrowings under the Revolver are \$300.0 million; provided that the aggregate principal amount of all amounts borrowed under the facility cannot exceed 95.0% of the amounts guaranteed by Total under the Letter Agreement. Amounts borrowed may be repaid and reborrowed until the maturity date.

We are required to pay (a) interest on outstanding borrowings under the facility of (i) with respect to any LIBOR rate loan, an amount equal to 0.6% plus the LIBOR rate divided by a percentage equal to one minus the stated maximum rate of all reserves required to be maintained against “Eurocurrency liabilities” as specified in Regulation D; and (ii) with respect to any alternate base rate loan, an amount equal to 0.25% plus the greater of (1) the prime rate, (2) the Federal Funds rate plus 0.50%, and (3) the one-month LIBOR rate plus 1%; and (b) a commitment fee of 0.06% per annum on funds available for borrowing and not borrowed. The Revolver includes representations, covenants, and events of default customary for financing transactions of this type. As of both December 30, 2018 and December 31, 2017, we had no outstanding borrowings under the Revolver.

2016 Letter of Credit Facility Agreements

In June 2016, we entered into a Continuing Agreement for Standby Letters of Credit and Demand Guarantees with Deutsche Bank AG New York Branch and Deutsche Bank Trust Company Americas (the “2016 Non-Guaranteed LC Facility”) which provides for the issuance, upon our request, of letters of credit to support our obligations in an aggregate amount not to exceed \$50.0 million. The 2016 Non-Guaranteed LC Facility terminated on June 29, 2018. In March 2018, we entered into a letter agreement in connection with the 2016 Non-Guaranteed LC Facility. Pursuant to the letter agreement, we have advised Deutsche Bank AG New York Branch and Deutsche Bank Trust Company Americas (“Issuer”), and the Issuer has acknowledged, that one or more outstanding letters of credit or demand guarantees issued under the letter agreement may remain outstanding, at our request, after the scheduled termination date set forth in the letter agreement. As of December 30, 2018 and December 31, 2017, letters of credit issued and outstanding under the 2016 Non-Guaranteed LC Facility totaled \$18.1 million and \$30.1 million, respectively.

In June 2016, we entered into bilateral letter of credit facility agreements (the “2016 Guaranteed LC Facilities”) with Bank of Tokyo-Mitsubishi UFJ (“BTMU”), Credit Agricole, and HSBC USA Bank, National Association (“HSBC”). Each letter of credit facility agreement provides for the issuance, upon our request, of letters of credit by the issuing bank thereunder in order to support certain of our obligations until December 31, 2018. Payment of obligations under the 2016 Guaranteed LC Facilities is guaranteed by Total S.A. pursuant to the Credit Support Agreement. Aggregate letter of credit amounts may be increased upon the agreement of the respective parties but, otherwise, may not exceed \$75.0 million with BTMU, \$75.0 million with Credit Agricole and \$175.0 million with HSBC. Each letter of credit issued under one of the letter of credit facilities generally must have an expiration date, subject to certain exceptions, no later than the earlier of (a) two years from completion of the applicable project and (b) March 31, 2020.

In June 2016, in connection with the 2016 Guaranteed LC Facilities, we entered into a transfer agreement to transfer to the 2016 Guaranteed LC Facilities all existing outstanding letters of credit issued under our letter of credit facility agreement with Deutsche Bank AG New York Branch and Deutsche Bank Trust Company Americas, as administrative agent, and certain financial institutions, entered into in August 2011 and amended from time to time. In connection with the transfer of the existing outstanding letters of credit, the aggregate commitment amount under the August 2011 letter of credit facility was permanently reduced to zero on June 29, 2016. As of December 30, 2018 and December 31, 2017, letters of credit issued and outstanding under the 2016 Guaranteed LC Facilities totaled \$36.3 million and \$173.7 million, respectively.

September 2011 Letter of Credit Facility with Deutsche Bank and Deutsche Bank Trust Company Americas (together, “Deutsche Bank Trust”)

In September 2011, we entered into a letter of credit facility with Deutsche Bank Trust which provides for the issuance, upon our request, of letters of credit to support our obligations in an aggregate amount not to exceed \$200.0 million. Each letter of credit issued under the facility is fully cash-collateralized and we have entered into a security agreement with Deutsche Bank Trust, granting them a security interest in a cash collateral account established for this purpose.

As of December 30, 2018 and December 31, 2017, letters of credit issued and outstanding under the Deutsche Bank Trust facility totaled \$3.0 million and \$7.1 million, respectively, which were fully collateralized with restricted cash on the Consolidated Balance Sheets.

Revolving Credit Facility with Mizuho Bank Ltd. (“Mizuho”) and Goldman Sachs Bank USA (“Goldman Sachs”)

On May 4, 2016, we entered into a revolving credit facility, as amended (the “Construction Revolver”) with Mizuho, as administrative agent, and Goldman Sachs, under which we could borrow up to \$200 million. The Construction Revolver also included a \$100 million accordion feature. On October 27, 2017, we and Mizuho entered into an amendment to the Construction Revolver, which reduced the amount that we could borrow to up to \$50 million. On June 28, 2018, all outstanding loans under the Construction Revolver were repaid and the facility was terminated. As of December 30, 2018 and December 31, 2017, the aggregate carrying value of the Construction Revolver totaled zero and \$3.2 million, respectively. As of December 30, 2018, we also had \$75.0 million in additional borrowing capacity under other limited recourse construction financing facilities.

Subordinated Mezzanine Loan with SunStrong Capital Lender LLC, an indirect subsidiary of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (“Hannon Armstrong”)

On August 10, 2018, SunStrong Capital Acquisition, LLC, a wholly-owned subsidiary of the Company (“Mezzanine Loan 1 Borrower”), and SunStrong Capital Lender LLC, a subsidiary of Hannon Armstrong, entered into a mezzanine loan agreement under which Mezzanine Loan 1 Borrower borrowed a subordinated, mezzanine loan of \$110.5 million (the “Mezzanine Loan 1”) and incurred issuance costs of \$1.4 million related to the loan. On August 31, 2018, we repaid a principal amount of \$2.1 million that resulted in an adjusted Mezzanine Loan 1 balance, net of issuance costs, of \$107.0 million. The divestiture of our Residential Lease Portfolio resulted in deconsolidation of this debt. See “Note 4. *Business Combinations and Divestitures*” for additional information.

Non-recourse Financing and Other Debt

In order to facilitate the construction, sale or ongoing operation of certain solar projects, including our residential leasing program, we regularly obtain project-level financing. These financings are secured either by the assets of the specific project being financed or by our equity in the relevant project entity and the lenders do not have recourse to our general assets for repayment of such debt obligations, and hence the financings are referred to as non-recourse. Non-recourse financing is typically in the form of loans from third-party financial institutions, but also takes other forms, including partnership flip structures, sale-leaseback arrangements, or other forms commonly used in the solar or similar industries. We may seek non-recourse financing covering solely the construction period of the solar project or may also seek financing covering part or all of the operating life of the solar project. We classify non-recourse financings in our Consolidated Balance Sheets in accordance with their terms; however, in certain circumstances, we may repay or refinance these financings prior to stated maturity dates in connection with the sale of the related project or similar such circumstances. In addition, in certain instances, the customer may assume the loans at the time that the project entity is sold to the customer. In these instances, subsequent debt assumption is reflected as a financing outflow and operating inflow in our Consolidated Statements of Cash Flows to reflect the substance of the assumption as a facilitation of customer financing from a third party.

The following presents a summary of our non-recourse financing arrangements, including arrangements that are not classified as debt:

(In thousands)	Aggregate Carrying Value ¹		Balance Sheet Classification
	December 30, 2018	December 31, 2017	
Residential Lease Program:			
Bridge loans	\$ —	\$ 17,068	Short-term debt and Long-term debt
Long-term loans	—	356,622	Short-term debt and Long-term debt
Tax equity partnership flip facilities	58,810	119,415	Redeemable non-controlling interests in subsidiaries and Non-controlling interests in subsidiaries

(In thousands)	Aggregate Carrying Value ¹		Balance Sheet Classification
	December 30, 2018	December 31, 2017	
Power Plant and Commercial Projects:			
Boulder I credit facility	—	28,168	Short-term debt and Long-term debt
Construction Revolver	—	3,240	Short-term debt and Long-term debt
Arizona loan	6,650	7,161	Short-term debt and Long-term debt

¹ Based on the nature of the debt arrangements included in the table above, and our intention to fully repay or transfer the obligations at their face values plus any applicable interest, we believe their carrying value materially approximates fair value, which is categorized within Level 3 of the fair value hierarchy.

For our residential lease program, non-recourse financing is typically accomplished by aggregating an agreed-upon volume of solar power systems and leases with residential customers into a specific project entity. We have entered into the following non-recourse financings with respect to our residential lease program:

- In fiscal 2016, we entered into bridge loans to finance solar power systems and leases under our residential lease program. The loans are repaid over terms ranging from two to seven years. Some loans may be prepaid without penalties at our option at any time, while other loans may be prepaid, subject to a prepayment fee, after one year. During the fiscal 2018 and 2017, we had net repayments of \$1.6 million and \$10.3 million, respectively, in connection with these loans. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount of these loans, presented within “Short-term debt” and “Long-term debt” on our Consolidated Balance Sheets, was zero and \$17.1 million, respectively. The decrease in the balance over the prior period can be attributed to the divestiture of our Residential Lease Portfolio and the subsequent assumption of this debt by SunStrong. See “Note 4. *Business Combinations and Divestitures*” for additional information.
- We enter into long-term loans to finance solar power systems and leases under our residential lease program. The loans are repaid over their terms of between 4 and 25 years. During fiscal 2018 and 2017, we had net proceeds of \$176.6 million and \$72.4 million, respectively, in connection with these loans. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount of these loans, presented within “Short-term debt” and “Long-term debt” on our Consolidated Balance Sheets, was zero and \$356.6 million, respectively. The decrease in the balance over the prior period can be attributed to the divestiture of our Residential Lease Portfolio. See “Note 4. *Business Combinations and Divestitures*” for additional information.
- We also enter into facilities with third-party tax equity investors under which the investors invest in a structure known as a “partnership flip.” We hold controlling interests in these less-than-wholly-owned entities and therefore fully consolidates these entities. We account for the portion of net assets in the consolidated entities attributable to the investors as noncontrolling interests in our consolidated financial statements. Noncontrolling interests in subsidiaries that are redeemable at the option of the noncontrolling interest holder are classified accordingly as redeemable between liabilities and equity on our Consolidated Balance Sheets. During fiscal 2018 and 2017, we had net contributions of \$129.3 million and \$178.4 million, respectively, under these facilities and attributed losses of \$106.4 million and \$91.2 million, respectively, to the noncontrolling interests corresponding principally to certain assets, including tax credits, which were allocated to the noncontrolling interests during the periods. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount of these facilities, presented within “Redeemable noncontrolling interests in subsidiaries” and “Noncontrolling interests in subsidiaries” on our Consolidated Balance Sheets, was \$58.8 million and \$119.4 million, respectively.

For our legacy power plant and commercial solar projects, non-recourse financing is typically accomplished using an individual solar power system or a series of solar power systems with a common end customer, in each case owned by a specific project entity. We have entered into the following non-recourse financings with respect to our legacy power plant and commercial projects:

- In fiscal 2017, we entered into a short-term credit facility to finance the 70 MW utility-scale Gala power plant project in Oregon. In the third quarter of fiscal 2017, we repaid the full outstanding amount of \$106.0 million in connection with the credit facility.
- In fiscal 2016, we entered into the Construction Revolver credit facility to support the construction of our commercial and small-scale utility projects in the United States. During fiscal 2017, we made net repayments of \$9.1 million in connection with the facility. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount of the Construction Revolver, presented in “Long-term debt” on our Consolidated Balance Sheets, was zero and \$3.2 million, respectively.
- In fiscal 2016, we entered into a long-term credit facility to finance the 125 MW utility-scale Boulder power plant project in Nevada. In February of 2018, we sold our equity interest in Boulder Solar I where the buyer repaid the remaining principal loan balance of \$27.3 million upon the sale of the project. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount of this facility, presented within “Short-term debt” and “Long-term debt” on our Consolidated Balance Sheets, was zero and \$28.2 million, respectively.
- In fiscal 2016, we entered into a long-term credit facility to finance the 111 MW utility-scale El Pelicano power plant project in Chile. In the fourth quarter of fiscal 2017, we sold El Pelicano, and the buyer assumed the full outstanding debt balance of \$196.1 million upon the sale of the project.
- In fiscal 2013, we entered into a long-term loan agreement to finance a 5.4 MW utility and power plant operating in Arizona. As of December 30, 2018 and December 31, 2017, the aggregate carrying amount under this loan, presented within “Short-term debt” and “Long-term debt” on our Consolidated Balance Sheets, was \$6.7 million and \$7.2 million, respectively.

Other debt is further composed of non-recourse project loans in Europe, the Middle East, and Africa, which are scheduled to mature through 2028, and of limited recourse construction financing loans made in the ordinary course of business to individual projects in the United States, which are scheduled to mature through 2021.

See “Note 7. *Leasing*” for discussion of our sale-leaseback arrangements accounted for under the financing method.

Note 13. DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present information about our hedge instruments measured at fair value on a recurring basis as of December 30, 2018 and December 31, 2017, all of which utilize Level 2 inputs under the fair value hierarchy:

<u>(In thousands)</u>	<u>Balance Sheet Classification</u>	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Assets:			
Derivatives designated as hedging instruments:			
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$ —	\$ 61
		<u>\$ —</u>	<u>\$ 61</u>
Derivatives not designated as hedging instruments:			
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$729	\$2,518
		<u>\$729</u>	<u>\$2,518</u>

Liabilities:

Derivatives designated as hedging instruments:.....			
Interest rate contracts	Other long-term liabilities	\$ 152	\$ 715
		<u>\$ 152</u>	<u>\$ 715</u>

Derivatives not designated as hedging instruments:

Foreign currency forward exchange contracts	Accrued liabilities	\$1,161	\$1,452
Interest rate contracts	Other long-term liabilities	—	459
		<u>\$1,161</u>	<u>\$1,911</u>

December 30, 2018

	Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Rights to Offset					
(In thousands)	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Financial Instruments	Cash Collateral	Net Amounts
Derivative assets	\$ 729	\$—	\$ 729	\$729	\$—	\$ —
Derivative liabilities	\$1,313	—	1,313	729	—	584

December 31, 2017

	Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Rights to Offset					
(In thousands)	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Financial Instruments	Cash Collateral	Net Amounts
Derivative assets	\$2,579	\$—	\$2,579	\$603	\$—	\$1,976
Derivative liabilities	2,626	—	2,626	603	—	2,023

The following table summarizes the pre-tax amount of unrealized gain or loss recognized in “Accumulated other comprehensive income” (“OCI”) in “Stockholders’ equity” on our Consolidated Balance Sheets:

	Fiscal Year		
(In thousands)	2018	2017	2016
Derivatives designated as cash flow hedges:			
Gain (loss) in OCI at the beginning of the period	\$(561)	\$ 1,203	\$ 5,942
Unrealized gain (loss) recognized in OCI (effective portion).....	414	(905)	2,626
Less: Gain reclassified from OCI to revenue (effective portion of FX trades)	(35)	(1,137)	(7,587)
Less: Loss reclassified from OCI to interest expense (effective portion of interest rate swaps).....	18	278	222
Net gain (loss) on derivatives.....	397	(1,764)	(4,739)
Gain (loss) in OCI at the end of the period	<u>\$(164)</u>	<u>\$ (561)</u>	<u>\$ 1,203</u>

The following table summarizes the amount of gain or loss recognized in “Other, net” on our Consolidated Statements of Operations in the years ended December 30, 2018, December 31, 2017 and January 1, 2017:

(In thousands)	Fiscal Year		
	2018	2017	2016
Derivatives designated as cash flow hedges:			
Gain (loss) recognized in “Other, net” on derivatives (ineffective portion and amount excluded from effectiveness testing)	\$ —	\$ 254	\$(1,069)
Derivatives not designated as hedging instruments:			
Gain (loss) recognized in “Other, net”	\$(2,904)	\$1,635	\$(6,964)

Foreign Currency Exchange Risk

Designated Derivatives Hedging Cash Flow Exposure

Our cash flow exposure primarily relates to anticipated third-party foreign currency revenues and expenses and interest rate fluctuations. To protect financial performance, we enter into foreign currency forward and option contracts designated as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than their functional currencies.

As of December 30, 2018, we had no designated outstanding cash flow hedge forward contracts. As of December 31, 2017, we had designated outstanding cash flow hedge forward contracts with an aggregate notional value of \$2.1 million. We designate either gross external or intercompany revenue up to our net economic exposure. These derivatives have a maturity of a month or less and consist of foreign currency forward contracts. The effective portion of these cash flow hedges is reclassified into revenue when third-party revenue is recognized in our Consolidated Statements of Operations.

Non-Designated Derivatives Hedging Transaction Exposure

Derivatives not designated as hedging instruments consist of forward and option contracts used to hedge re-measurement of foreign currency denominated monetary assets and liabilities primarily for intercompany transactions, receivables from customers, and payables to third parties. Changes in exchange rates between our subsidiaries’ functional currencies and the currencies in which these assets and liabilities are denominated can create fluctuations in our reported consolidated financial position, results of operations and cash flows. As of December 30, 2018, to hedge balance sheet exposure, we held forward contracts with an aggregate notional value of \$11.4 million. The maturity dates of these contracts are in January 2019. As of December 31, 2017, to hedge balance sheet exposure, we held forward contracts with an aggregate notional value of \$8.2 million. The maturity dates of these contracts ranged from January 2, 2018 to January 30, 2018.

Interest Rate Risk

We also enter into interest rate swap agreements to reduce the impact of changes in interest rates on our project specific non-recourse floating rate debt. As of December 30, 2018 and December 31, 2017, we had interest rate swap agreements designated as cash flow hedges with aggregate notional values of \$6.7 million and \$58.1 million, respectively, and interest rate swap agreements not designated as cash flow hedges with aggregate notional values of zero and \$21.1 million, respectively. These swap agreements allow us to effectively convert floating-rate payments into fixed rate payments periodically over the life of the agreements. These derivatives have a maturity of more than 12 months. The effective portion of these swap agreements designated as cash flow hedges is reclassified into interest expense when the hedged transactions are recognized in our Consolidated Statements of Operations. We analyze our designated interest rate swaps quarterly to determine if the hedge transaction remains effective or ineffective. We may discontinue hedge accounting for interest rate swaps prospectively if certain criteria are no longer met, the interest rate swap is terminated or exercised, or if we elect to remove the cash flow hedge designation. If hedge accounting is discontinued, and the forecasted hedged transaction is considered possible to occur, the previously recognized gain or loss on the interest rate swaps will remain in accumulated other comprehensive loss and will be reclassified into earnings during the same period the forecasted hedged transaction affects earnings or is otherwise deemed improbable to occur. All changes in the fair value of non-designated interest rate swap agreements are recognized immediately in current period earnings.

Credit Risk

Our option and forward contracts do not contain any credit-risk-related contingent features. We are exposed to credit losses in the event of nonperformance by the counterparties to these option and forward contracts. We enter into derivative contracts with high-quality financial institutions and limit the amount of credit exposure to any single counterparty. In addition, we continuously evaluate the credit standing of our counterparties.

Note 14. INCOME TAXES

On December 22, 2017, the U.S. enacted the Tax Act which significantly changed U.S. tax law. The Tax Act lowered our U.S. statutory federal income tax rate from 35% to 21% effective January 1, 2018, while also imposing a deemed repatriation tax on deferred foreign income. The Tax Act also created a new minimum “base erosion and anti-abuse tax” on certain foreign payments made by a U.S. parent company, and the “global intangible low-taxed income” rules which tax foreign subsidiary income earned over a 10% rate of routine return on tangible business assets.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which allows the Company to record provisional amounts for the Tax Act during a measurement period not to extend beyond one year of the enactment date. As a result, in 2017, we have previously provided a reasonable estimate of the effects of the Tax Act in our financial statements. During the quarter ended December 30, 2018, we completed our analysis based on legislative updates currently available and reported the changes to the provisional amounts previously recorded which did not impact our income tax provision. We also confirmed that the Tax Act does not impact our expectations of actual cash payments for income taxes in the foreseeable future.

In the year ended December 30, 2018, our income tax provision of \$1.0 million on a loss before income taxes and equity in earnings of unconsolidated investees of \$898.7 million was primarily due to the related tax expense in foreign jurisdictions that were profitable, offset by tax benefit related to release of valuation allowance in a foreign jurisdiction and release of tax reserve due to lapse of statutes of limitation. The income tax benefit of \$3.9 million in the year ended December 31, 2017 on a loss before income taxes and equity in earnings of unconsolidated investees of \$1,200.8 million, was primarily due to the related tax effects of the carryback of fiscal 2016 net operating losses to fiscal 2015 domestic tax returns, partially offset by tax expense in profitable jurisdictions.

The geographic distribution of income (loss) from continuing operations before income taxes and equity earnings (losses) of unconsolidated investees and the components of provision for income taxes are summarized below:

(In thousands)	Fiscal Year		
	2018	2017	2016
Geographic distribution of income (loss) from continuing operations before income taxes and equity in earnings of unconsolidated investees:			
U.S. income (loss)	\$(778,316)	\$(1,242,000)	\$(660,029)
Non-U.S. income (loss)	<u>(120,355)</u>	<u>41,250</u>	<u>131,637</u>
Income (loss) before income taxes and equity in earnings (loss) of unconsolidated investees	<u>\$(898,671)</u>	<u>\$(1,200,750)</u>	<u>\$(528,392)</u>
Provision for income taxes:			
Current tax benefit (expense).			
Federal	\$ (1,155)	\$ 6,816	\$ (6,842)
State	(553)	6,575	9,254
Foreign	<u>(4,100)</u>	<u>(12,074)</u>	<u>(19,073)</u>
Total current tax expense.	<u>(5,808)</u>	<u>1,317</u>	<u>(16,661)</u>

(In thousands)	Fiscal Year		
	2018	2017	2016
Deferred tax benefit (expense)			
Federal	—	3,286	
State	—	1,450	6,819
Foreign	4,798	1,177	(762)
Total deferred tax benefit (expense)	4,798	2,627	9,343
Benefit from (provision for) income taxes	<u>\$(1,010)</u>	<u>\$3,944</u>	<u>\$(7,318)</u>

The benefit from (provision for) for income taxes differs from the amounts obtained by applying the statutory U.S. federal tax rate to income before taxes as shown below:

(In thousands)	Fiscal Year		
	2018	2017	2016
Statutory rate	21%	35%	35%
Tax benefit (expense) at U.S. statutory rate	\$ 188,721	\$ 420,263	\$ 184,891
Foreign rate differential	(28,376)	6,178	24,932
State income taxes, net of benefit	(450)	(450)	(329)
Return to provision adjustments	—	—	10,784
Tax credits (investment tax credit and other)	4,727	8,132	6,396
Change in valuation allowance	(105,363)	(143,804)	(178,231)
Unrecognized tax benefits	2,345	2,430	(42,697)
Non-controlling interest income	(22,763)	17,705	17,183
Global intangible low-taxed income (“GILTI”)	(36,455)	—	—
Goodwill impairment	—	—	(20,236)
Intercompany profit deferral	—	—	(4,933)
Effects of tax reform	—	(302,899)	—
Other, net	(3,396)	(3,611)	(5,078)
Total	<u>\$ (1,010)</u>	<u>\$ 3,944</u>	<u>\$ (7,318)</u>

(In thousands)	As of	
	December 30, 2018	December 31, 2017
Deferred tax assets:		
Net operating loss carryforwards	\$ 225,489	\$ 160,778
Tax credit carryforwards	55,527	57,072
Reserves and accruals	241,194	194,566
Stock-based compensation stock deductions	9,316	11,160
Basis difference on third-party project sales	50,648	242,290
Other	2,081	2,410
Total deferred tax assets	584,255	668,276
Valuation allowance	(404,923)	(448,723)
Total deferred tax assets, net of valuation allowance	<u>179,332</u>	<u>219,553</u>
Deferred tax liabilities:		
Outside basis difference on investment in 8point3 Energy Partners	—	(53,460)
Other intangible assets and accruals	—	(8,257)
Fixed asset basis difference	(151,192)	(140,939)
Other	(14,882)	(8,252)
Total deferred tax liabilities	<u>(166,074)</u>	<u>(210,908)</u>
Net deferred tax asset	<u>\$ 13,258</u>	<u>\$ 8,645</u>

As of December 30, 2018, we had federal net operating loss carryforwards of \$779.9 million for tax purposes; of which, \$81.6 million was generated in fiscal year 2018 and can be carried forward indefinitely under the Tax Cuts and Job Acts of 2017 (“The Tax Act”). The remaining federal net operating loss carry forward of \$698.3 million, which were generated prior to 2018, will expire at various dates from 2031 to 2037. As of December 30, 2018, we had California state net operating loss carryforwards of approximately \$777.7 million for tax purposes, of which \$5.2 million relate to debt issuance and will benefit equity when realized. These California net operating loss carryforwards will expire at various dates from 2029 to 2038. We also had credit carryforwards of approximately \$73.9 million for federal tax purposes, of which \$19.2 million relate to debt issuance and will benefit equity when realized. We had California credit carryforwards of \$9.0 million for state tax purposes, of which \$4.7 million relate to debt issuance and will benefit equity when realized. These federal credit carryforwards will expire at various dates from 2019 to 2038, and the California credit carryforwards do not expire. Our ability to utilize a portion of the net operating loss and credit carryforwards is dependent upon our being able to generate taxable income in future periods or being able to carryback net operating losses to prior year tax returns. Our ability to utilize net operating losses 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.

We are subject to tax holidays in the Philippines where we manufacture our solar power products. Our current income tax holidays were granted as manufacturing lines were placed in service. Tax holidays in the Philippines reduce our tax rate to 0% from 30% (through July 2019). Tax savings associated with the Philippines tax holidays were approximately \$3.4 million, \$5.6 million and \$10.0 million in fiscal years 2018, 2017 and 2016, respectively, which provided a diluted net income (loss) per share benefit of \$0.02, \$0.04 and \$0.07, respectively.

We qualify for the auxiliary company status in Switzerland where we sell our solar power products. The auxiliary company status entitles us to a reduced tax rate of 11.5% in Switzerland from approximately 24.2%. Tax savings associated with this ruling were approximately \$1.8 million, \$2.4 million and \$1.9 million in fiscal years 2018, 2017 and 2016, respectively, which provided a diluted net income (loss) per share benefit of \$0.01, \$0.02 and \$0.01, respectively.

We are subject to tax holidays in Malaysia where we manufacture our solar power products. Our current tax holidays in Malaysia were granted to its former joint venture AUOSP (now a wholly-owned subsidiary). Tax holidays in Malaysia reduce our tax rate to 0% from 24%. Tax savings associated with the Malaysia tax holiday were approximately \$7.6 million, \$6.8 million, and \$2.0 million in fiscal 2018, 2017, and 2016, respectively, which provided a diluted net income (loss) per share benefit of \$0.05, \$0.05, and \$0.01, respectively.

Valuation Allowance

Our valuation allowance is related to deferred tax assets in the United States, Malta, South Africa and Spain and was determined by assessing both positive and negative evidence. When determining whether it is more likely than not that deferred assets are recoverable, with such assessment being required on a jurisdiction by jurisdiction basis, we believe that sufficient uncertainty exists with regard to the realizability of these assets such that a valuation allowance is necessary. Factors considered in providing a valuation allowance include the lack of a significant history of consistent profits, the lack of consistent profitability in the solar industry, the limited capacity of carrybacks to realize these assets, and other factors. Based on the absence of sufficient positive objective evidence, we are unable to assert that it is more likely than not that we will generate sufficient taxable income to realize net deferred tax assets aside from the U.S. net operating losses that can be carried back to prior year tax returns. Should we achieve a certain level of profitability in the future, we may be in a position to reverse the valuation allowance which would result in a non-cash income statement benefit. The change in valuation allowance for fiscal 2018, 2017 and 2016 was \$43.8 million, \$151.2 million and \$214.2 million, respectively.

Unrecognized Tax Benefits

Current accounting guidance contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement..

A reconciliation of the beginning and ending amounts of unrecognized tax benefits during fiscal 2018, 2017, and 2016 is as follows:

(In thousands)	Fiscal Year		
	2018	2017	2016
Balance, beginning of year	\$105,959	\$ 82,253	\$41,058
Additions for tax positions related to the current year	2,404	2,478	35,768
Additions for tax positions from prior years	451	22,151	7,322
Reductions for tax positions from prior years/statute of limitations expirations	(2,468)	(1,460)	(2,063)
Foreign exchange (gain) loss	(2,462)	537	168
Balance at the end of the period	<u>\$103,884</u>	<u>\$105,959</u>	<u>\$82,253</u>

Included in the unrecognized tax benefits at fiscal 2018 and 2017 is \$14.7 million and \$17.6 million, respectively, that if recognized, would result in a reduction of our effective tax rate. The amounts differ from the long-term liability recorded of \$16.8 million and \$19.4 million as of fiscal 2018 and 2017, respectively, due to accrued interest and penalties. Certain components of the unrecognized tax benefits are recorded against deferred tax asset balances.

We believe that events that could occur in the next 12 months and cause a change in unrecognized tax benefits include, but are not limited to, the following:

- commencement, continuation or completion of examinations of our tax returns by the U.S. or foreign taxing authorities; and
- expiration of statutes of limitation on our tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Uncertainties include, but are not limited to, the impact of legislative, regulatory and judicial developments, transfer pricing and the application of withholding taxes. We regularly assess our tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which we do business. We determined that an estimate of the range of reasonably possible change in the amounts of unrecognized tax benefits within the next 12 months cannot be made.

Classification of Interests and Penalties

We accrue interest and penalties on tax contingencies which are classified as “Provision for income taxes” in our Consolidated Statements of Operations. Accrued interest as of December 30, 2018 and December 31, 2017 was approximately \$2.1 million and \$1.8 million, respectively. Accrued penalties were not material for any of the periods presented.

Tax Years and Examination

We file tax returns in each jurisdiction in which we are registered to do business. In the United States and many of the state jurisdictions, and in many foreign countries in which we file tax returns, a statute of limitations period exists. After a statute of limitations period expires, the respective tax authorities may no longer assess additional income tax for the expired period. Similarly, we are no longer eligible to file claims for refund for any tax that we may have overpaid. The following table summarizes our major tax jurisdictions and the tax years that remain subject to examination by these jurisdictions as of December 30, 2018:

Tax Jurisdictions	Tax Years
United States	2010 and onward
California	2011 and onward
Switzerland	2013 and onward
Philippines	2009 and onward
France	2015 and onward
Italy	2014 and onward

Additionally, certain pre-2010 U.S. corporate tax returns and pre-2011 California tax returns are not open for assessment but the tax authorities can adjust net operating loss and credit carryovers that were generated.

We are under tax examinations in various jurisdictions. We do not expect the examinations to result in a material assessment outside of existing reserves. If a material assessment in excess of current reserves results, the amount that the assessment exceeds current reserves will be a current period charge to earnings.

Note 15. COMMON STOCK

Common Stock

Voting Rights - Common Stock

All common stock holders are entitled to one vote per share on all matters submitted to be voted on by our stockholders, subject to the preferences applicable to any preferred stock outstanding.

Dividends - Common Stock

All common stock holders are entitled to receive equal per share dividends when and if declared by the Board of Directors, subject to the preferences applicable to any preferred stock outstanding. Certain of our debt agreements place restrictions on us and our subsidiaries' ability to pay cash dividends.

Shares Reserved for Future Issuance Under Equity Compensation Plans

We had shares of common stock reserved for future issuance as follows:

<u>(In thousands)</u>	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Equity compensation plans	11,183 ¹	8,824

1 On November 13, 2018, we filed post-effective amendments to registration statements in order to deregister shares of common stock that are no longer required to be registered for issuance under our stock incentive plans. Other than with respect to the SunPower Corporation 2015 Omnibus Incentive Plan, no further awards have been issued under the prior plans and no awards remain outstanding as of December 30, 2018. See "Note 17. Stock-Based Compensation" for additional information.

Note 16. NET LOSS PER SHARE

We calculate basic net loss per share by dividing earnings allocated to common stockholders by the basic weighted average number of common shares outstanding for the period.

Diluted weighted average shares is computed using basic weighted average number of common shares outstanding plus any potentially dilutive securities outstanding during the period using the treasury-stock-type method and the if-converted method, except when their effect is anti-dilutive. Potentially dilutive securities include stock options, restricted stock units, the Upfront Warrants held by Total, and the outstanding senior convertible debentures.

The following table presents the calculation of basic and diluted net loss per share attributable to stockholders:

<u>(In thousands, except per share amounts)</u>	<u>Fiscal Year Ended</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Numerator:			
Net loss attributable to stockholders	<u>\$(811,091)</u>	<u>\$(929,121)</u>	<u>\$(448,635)</u>
Denominator ¹ :			
Basic and diluted weighted-average common shares	<u>140,825</u>	<u>139,370</u>	<u>137,985</u>
Basic and diluted net loss per share attributable to stockholders	<u>\$ (5.76)</u>	<u>\$ (6.67)</u>	<u>\$ (3.25)</u>

1 As a result of our net loss attributable to stockholders for fiscal 2018, 2017 and 2016, the inclusion of all potentially dilutive stock options, restricted stock units, and common shares under noted warrants and convertible debt would be anti-dilutive. Therefore, those stock options, restricted stock units and shares were excluded from the computation of the weighted-average shares for diluted net loss per share for such periods.

The following is a summary of outstanding anti-dilutive potential common stock that was excluded from diluted net loss per share attributable to stockholders in the following periods:

<u>(In thousands)</u>	<u>Fiscal Year Ended</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Stock options	—	—	141
Restricted stock units	5,699	3,917	4,997
Upfront Warrants (held by Total)	9,532	364	3,721
4.00% debentures due 2023	13,922	13,922	13,922
0.75% debentures due 2018	4,975	12,026	12,026
0.875% debentures due 2021	8,203	8,203	8,203

Note 17. STOCK-BASED COMPENSATION

The following table summarizes the consolidated stock-based compensation expense by line item in our Consolidated Statements of Operations:

<u>(In thousands)</u>	<u>Fiscal Year</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cost of SunPower Energy Services revenue	\$ 2,369	\$ 2,599	\$ 5,956
Cost of SunPower Technologies revenue	2,626	2,889	11,133
Research and development	5,497	6,448	11,896
Sales, general and administrative	17,724	22,738	32,514
Total stock-based compensation expense	<u>\$28,216</u>	<u>\$34,674</u>	<u>\$61,499</u>

The following table summarizes the consolidated stock-based compensation expense by type of award:

<u>(In thousands)</u>	<u>Fiscal Year</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Restricted stock units	\$27,922	\$34,548	\$58,562
Change in stock-based compensation capitalized in inventory	294	126	2,937
Total stock-based compensation expense	<u>\$28,216</u>	<u>\$34,674</u>	<u>\$61,499</u>

As of December 30, 2018, the total unrecognized stock-based compensation related to outstanding restricted stock units was \$47.9 million, which we expect to recognize over a weighted-average period of 2.6 years.

Equity Incentive Programs

Stock-based Incentive Plans

During fiscal 2018, we have three stock incentive plans: (i) the Third Amended and Restated 2005 SunPower Corporation Stock Incentive Plan (“2005 Plan”); (ii) the PowerLight Corporation Common Stock Option and Common Stock Purchase Plan (“PowerLight Plan”); and (iii) the SunPower Corporation 2015 Omnibus Incentive Plan (“2015 Plan”). The PowerLight Plan, which was adopted by PowerLight’s Board of Directors in October 2000, was assumed by us by way of the acquisition of PowerLight in fiscal 2007. The 2005 Plan was adopted by our Board of Directors in August 2005, and was approved by shareholders in November 2005. The 2015 Plan, which subsequently replaced the 2005 Plan, was adopted by our Board of Directors in February 2015, and was approved by shareholders in June 2015. On November 13, 2018, we filed post-effective amendments to registration statements associated with the 2005 Plan and the PowerLight Plan, among others, to deregister shares no longer required to be registered for issuance under those plans, as no new awards had been made and all options had been exercised or had expired.

The 2015 Plan allows for the grant of options, as well as grant of stock appreciation rights, restricted stock grants, restricted stock units and other equity rights. The 2015 Plan also allows for tax withholding obligations related to stock option exercises or restricted stock awards to be satisfied through the retention of shares otherwise released upon vesting. The 2015 Plan includes an automatic annual increase mechanism equal to the lower of three percent of the outstanding shares of all classes of our common stock measured on the last day of

the immediately preceding fiscal year, 6 million shares, or such other number of shares as determined by our Board of Directors. In fiscal 2015, our Board of Directors voted to reduce the stock incentive plan's automatic increase from 3% to 2% for 2016. As of December 30, 2018, approximately 11.2 million shares were available for grant under the 2015 Plan.

Incentive stock options, nonstatutory stock options, and stock appreciation rights may be granted at no less than the fair value of the common stock on the date of grant. The options and rights become exercisable when and as determined by our Board of Directors, although these terms generally do not exceed ten years for stock options. We have not granted stock options since fiscal 2008. All previously granted stock options have been exercised or expired and accordingly no options remain outstanding. Under the 2015 Plan, the restricted stock grants and restricted stock units typically vest in equal installments annually over three or four years.

The majority of shares issued are net of the minimum statutory withholding requirements that we pay on behalf of our employees. During fiscal 2018, 2017, and 2016, we withheld 0.7 million, 0.6 million and 1.0 million shares, respectively, to satisfy the employees' tax obligations. We pay such withholding requirements in cash to the appropriate taxing authorities. Shares withheld are treated as common stock repurchases for accounting and disclosure purposes and reduce the number of shares outstanding upon vesting.

Restricted Stock Units and Stock Options

The following table summarizes our non-vested restricted stock units' activities:

	Restricted Stock Units	
	Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Share ¹
Outstanding as of January 1, 2017	6,147	\$21.85
Granted	4,863	6.76
Vested ²	(1,738)	25.87
Forfeited	(1,979)	18.15
Outstanding as of December 31, 2017	7,293	11.83
Granted	4,449	7.77
Vested ²	(2,266)	14.45
Forfeited	(1,816)	10.10
Outstanding as of December 30, 2018	<u>7,660</u>	<u>9.11</u>

¹ We estimate the fair value of our restricted stock awards and units at our stock price on the grant date.

² Vested restricted stock awards include shares withheld on behalf of employees to satisfy the minimum statutory tax withholding requirements.

There were no options outstanding and exercisable as of December 30, 2018. The intrinsic value of the options exercised in fiscal 2018, 2017, and 2016 were zero, \$1.7 thousand, and zero, respectively. There were no stock options granted in fiscal 2018, 2017, and 2016.

Note 18. SEGMENT AND GEOGRAPHICAL INFORMATION

In the fourth quarter of fiscal 2018, in connection with a reorganization of our business to better align and focus resources towards an upstream and downstream business unit structure, we changed our segment reporting from three end-customer segments to upstream and downstream segments: (i) SunPower Technologies and (ii) SunPower Energy Services (see Note 1. *Organization and Summary of Significant Accounting Policies*). Reclassifications of prior period segment information have been made to conform to the current period presentation. These changes did not materially affect our previously reported Consolidated Financial Statements.

Adjustments Made for Segment Purposes

Intersegment Gross Margin

To increase efficiencies and the competitive advantage of our technologies, SunPower Technologies sells solar modules to SunPower Energy Services based on transfer prices determined based on management's assessment of market-based pricing terms. Such intersegment sales and related costs are eliminated at the corporate level to derive our consolidated financial results.

8point3 Energy Partners

We include adjustments related to the sales of projects contributed to 8point3 Energy Partners based on the difference between the fair market value of the consideration received and the net carrying value of the projects contributed, of which, a portion is deferred in proportion to our retained equity interest in 8point3 Energy Partners. Prior to the adoption of ASC 606, these sales were recognized under either real estate, lease, or consolidation accounting guidance depending upon the nature of the individual asset contributed, with outcomes ranging from no, partial, or full profit recognition. We adopted ASC 606 on January 1, 2018, using the full retrospective method, which required us to restate each prior period presented. We recorded a material amount of deferred profit associated with projects sold to 8point3 Energy Partners in 2015, the majority of which had previously been deferred under real estate accounting. Accordingly, our carrying value in the 8point3 Group materially increased upon adoption which required us to evaluate our investment in 8point3 Energy Partners for other-than-temporary impairment ("OTTI"). In accordance with such evaluation, we recognized an OTTI charge on the 8point3 investment balance in fiscal 2017. On June 19, 2018, we sold our equity interest in the 8point3 Group.

Legacy utility and power plant projects

We include adjustments related to the revenue recognition of certain legacy utility and power plant projects based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations and, when relevant, the allocation of revenue and margin to our project development efforts at the time of initial project sale. Prior to the adoption of ASC 606, such projects were accounted for under real estate accounting guidance, under which no separate allocation to our project development efforts occurs and the amount of revenue and margin that is recognized may be limited in circumstances where we have certain forms of continuing involvement in the project. Under ASC 606, such projects are accounted for when the customer obtains control of the promised goods or services which generally results in earlier recognition of revenue and profit than previous U.S. GAAP. Over the life of each project, cumulative revenue and gross profit will eventually be equivalent under both ASC 606 and segment treatments once these projects are completed.

Sale-leaseback transactions

We include adjustments related to the revenue recognition on certain sale-leaseback transactions based on the net proceeds received from the buyer-lessor. Under U.S. GAAP, these transactions are accounted for under the financing method in accordance with real estate accounting guidance. Under such guidance, no revenue or profit is recognized at the inception of the transaction, and the net proceeds from the buyer-lessor are recorded as a financing liability. Imputed interest is recorded on the liability equal to our incremental borrowing rate adjusted solely to prevent negative amortization.

Impairment of property, plant and equipment

In the second quarter of fiscal 2018, we announced our proposed plan to change our corporate structure into upstream and downstream business units, and our long-term strategy to upgrade our existing integrated back connectivity, or IBC, technology to our NGT, or Maxeon 5. Accordingly, we expect to upgrade the equipment associated with our manufacturing operations for the production of Maxeon 5 over the next several years. In connection with these planned changes that will impact the utilization of our manufacturing assets as well as continued pricing challenges in the industry, we determined indicators of impairment existed and therefore performed a recoverability test by estimating future undiscounted net cash flows expected to be generated from the use of these assets groups. Based on the test performed, we determined that our estimate of future undiscounted net cash flows was insufficient to recover the carrying value of the upstream business unit's assets

and consequently performed an impairment analysis by comparing the carrying value of the asset group to its estimated fair value. In accordance with such evaluation, we recognized a non-cash impairment charge on our property, plant and equipment. Such asset impairment is excluded from our segment results as it is non-cash in nature and not reflective of ongoing segment results.

Impairment and sale of residential lease assets

In the fourth quarter of fiscal 2017, we made the decision to sell or refinance our interest in our Residential Lease Portfolio and as a result, determined it was necessary to evaluate the recoverability of the carrying amount of the Residential Lease Portfolio. In accordance with such evaluation, we recognized a non-cash impairment charge on our solar power systems leased and to be leased and an allowance for losses related to financing receivables. In connection with the impairment loss, the carrying values of our solar power systems leased and to be leased were reduced which resulted in lower depreciation charges. Such asset impairment and its corresponding depreciation savings are excluded from the Company's segment results as they are non-cash in nature and not reflective of ongoing segment results.

In the fourth quarter of fiscal 2018, we entered into a joint venture with HA SunStrong Capital LLC ("HA SunStrong Parent"), an affiliate of Hannon Armstrong Sustainable Infrastructure Capital, Inc., to acquire, own, manage, operate, finance, and maintain a portfolio of residential rooftop or ground-mounted solar photovoltaic electric generating systems ("Solar Assets"). Pursuant to the terms of the Purchase and Sale Agreement (the "PSA"), we sold to HA SunStrong Parent, in exchange for consideration of \$10.0 million, membership units representing a 49.0% membership interest in SunStrong Capital Holdings, LLC ("SunStrong"), formerly our wholly-owned subsidiary. Following the closing of the PSA, we deconsolidated certain entities that have historically held the assets and liabilities comprising our residential lease business (the "Residential Lease Portfolio"), as part of our previously announced decision to sell a portion of our interest in the Residential Lease Portfolio, and retained membership units representing a 51% membership interest in SunStrong. The loss on divestment and the remaining unsold residential lease asset impairment with its corresponding depreciation savings are excluded from our segment results as they are non-cash in nature and not reflective of ongoing operating results.

Cost of above-market polysilicon

As described in "Note 10. *Commitments and Contingencies*," we have entered into multiple long-term, fixed-price supply agreements to purchase polysilicon for periods of up to ten years. The prices in select legacy supply agreements, which include a cash portion and a non-cash portion attributable to the amortization of prepayments made under the agreements, significantly exceed current market prices. Additionally, in order to reduce inventory and improve working capital, we have periodically elected to sell polysilicon inventory in the marketplace at prices below our purchase price, thereby incurring a loss. Starting in the first quarter of fiscal 2017, we have excluded the impact of our above-market cost of polysilicon, including the effect of above-market polysilicon on product costs, losses incurred on sales of polysilicon to third parties, and inventory reserves and project asset impairments recorded as a result of above-market polysilicon, from our segment results.

Stock-based compensation

We incur stock-based compensation expense related primarily to our equity incentive awards. We exclude this expense from our segment results.

Amortization of intangible assets

We incur amortization expense on intangible assets as a result of acquisitions, which include patents, project assets, purchased technology, in-process research and development and trade names. We exclude this expense from our segment results.

Depreciation of idle equipment

In the fourth quarter of 2017, we changed the deployment plan for our next generation of solar cell technology, and revised our depreciation estimates to reflect the use of certain assets over their shortened useful life. Such asset depreciation is excluded from our non-GAAP financial measures as it is non-cash in nature and not reflective of ongoing operating results.

Gain on business divestiture

In the third quarter of fiscal 2018, we entered into a transaction pursuant to which the Company sold certain assets and intellectual property related to the production of microinverters for purchase consideration comprised of both cash and stock. In connection with this sale, the Company recognized a gain relating to this business divestiture. Management believes that it is appropriate to exclude this gain from the Company's Non-GAAP financial measures as it is non-cash in nature and not reflective of ongoing operating results.

Unrealized loss on equity investments

In connection with the divestment of the Company's microinverters business in the third quarter of fiscal 2018, the Company received a portion of the consideration in the form of common stock. The Company recognizes adjustments related to the fair value of equity investments with readily determinable fair value based on the changes in the stock price of these equity investments at every reporting period. Under GAAP, unrealized gains and losses due to changes in stock prices for these securities are recorded in earnings while under International Financial Reporting Standards ("IFRS"), an election can be made to recognize such gains and losses in other comprehensive income. Such an election was made by Total S.A., a foreign registrant which reports under the IFRS. Management believes that excluding the unrealized gain or loss on the equity investments is consistent with the Company's reporting process as part of its status as a consolidated subsidiary of Total S.A. and better reflects the Company's ongoing segment results.

Acquisition-related and other costs

In connection with the acquisition of certain assets of SolarWorld Americas, Inc. ("SolarWorld Americas"), which closed on October 1, 2018, the Company incurred legal and accounting fees. In addition to the legal and accounting fees incurred. Management believes that it is appropriate to exclude these from the Company's Non-GAAP financial measures as they would not have otherwise been incurred as part of its business operations and are therefore not reflective of ongoing operating results.

Business reorganization costs

In connection with the reorganization of our business into an upstream and downstream business unit structure, we incurred and expect to continue incurring expenses in the upcoming quarters associated with reclassifying prior period segment information, reorganization of corporate functions and responsibilities to the business units, updating accounting policies and processes and implementing systems to fulfill the requirements of the master supply agreement between the segments. Management believes that it is appropriate to exclude these from the Company's Non-GAAP financial measures as they would not have otherwise been incurred as part of its business operations and are therefore not reflective of ongoing operating results.

Non-cash interest expense

We incur non-cash interest expense related to the amortization of items such as original issuance discounts on certain of our convertible debt. We exclude this expense from our segment results.

Restructuring expense

We incur restructuring expense related to reorganization plans aimed towards realigning resources consistent with our global strategy and improving our overall operating efficiency and cost structure. We exclude this expense from our segment results.

IPO-related costs

We incurred legal, accounting, advisory, valuation, and other costs related to the IPO of 8point3 Energy Partners. We exclude these costs from our segment results.

Other

We combine amounts previously disclosed under separate captions into "Other" when amounts do not have a significant impact on the presented fiscal periods.

Segment and Geographical Information

The following tables present segment results for fiscal 2018, 2017 and 2016 for revenue, gross margin, and adjusted EBITDA, each as reviewed by the CODM, and their reconciliation to our consolidated GAAP results, as well as information about significant customers and revenue by geography based on the destination of the shipments, and property, plant and equipment, net by segment.

(In thousands):	2018		2017		2016	
	SunPower Energy Services	SunPower Technologies	SunPower Energy Services	SunPower Technologies	SunPower Energy Services	SunPower Technologies
Revenue from external customers:						
North America Residential	\$ 673,758	\$ —	\$ 531,291	\$ —	\$ 639,174	\$ —
North America Commercial	422,762	—	596,729	—	415,247	—
Operations and maintenance	47,447	—	42,233	—	37,127	—
International DG	—	322,028	—	209,346	—	153,894
Module sales	—	186,712	—	173,617	—	107,412
Development services and legacy power plant	—	162,227	—	575,342	—	1,350,006
Intersegment revenue	—	388,539	—	466,949	—	446,537
Total segment revenue as reviewed by CODM	<u>\$1,143,967</u>	<u>\$1,059,506</u>	<u>\$1,170,253</u>	<u>\$1,425,254</u>	<u>\$1,091,548</u>	<u>\$2,057,849</u>
Segment gross profit as reviewed by CODM	<u>\$ 142,087</u>	<u>\$ 19,050</u>	<u>\$ 126,049</u>	<u>\$ 135,574</u>	<u>\$ 209,075</u>	<u>\$ 201,741</u>
Adjusted EBITDA	<u>\$ 151,095</u>	<u>\$ 27,980</u>	<u>\$ 109,863</u>	<u>\$ 145,696</u>	<u>\$ 141,885</u>	<u>\$ 243,039</u>

Reconciliation of Segment Revenue to Consolidated GAAP Revenue

(In thousands):	Fiscal Year Ended		
	2018	2017	2016
Total segment revenue as reviewed by CODM	\$2,203,473	2,595,507	3,149,397
Adjustments to segment revenue:			
Intersegment elimination	(388,539)	(466,949)	(446,537)
8point3 Energy Partners	8,588	(7,198)	(29,614)
Utility and power plant projects	4,145	(54,659)	(13,981)
Sale of operating lease assets	—	—	(28,096)
Sale-leaseback transactions	(101,582)	(272,654)	(78,532)
Consolidated GAAP revenue	<u>\$1,726,085</u>	<u>\$1,794,047</u>	<u>\$2,552,637</u>

Reconciliation of Segment Gross Profit to Consolidated GAAP Gross Profit

(In thousands):	Fiscal Year Ended		
	2018	2017	2016
Segment gross profit	\$ 161,137	\$ 261,623	\$ 410,816
Adjustments to segment gross profit:			
Intersegment elimination	(25,386)	(25,151)	(18,045)
8point3 Energy Partners	8,337	2,656	23,157
Utility and power plant projects	1,244	(41,746)	(6,064)
Sale of operating lease assets	—	—	(8,554)
Sale-leaseback transactions	(242)	(31,094)	(11,352)
Impairment of property, plant and equipment	(355,107)	—	—
Impairment of residential lease assets ¹	14,847	—	—
Arbitration ruling	—	—	5,852
Cost of above-market polysilicon	(87,228)	(166,906)	(148,265)
Stock-based compensation expense	(4,996)	(5,489)	(17,090)
Amortization of intangible assets	(8,966)	(10,206)	(7,680)
Depreciation of idle equipment	(721)	(2,300)	—
Non-cash interest expense	—	(32)	(956)
Consolidated GAAP gross profit	<u>\$(297,081)</u>	<u>\$ (18,645)</u>	<u>\$ 221,819</u>

Reconciliation of Segments EBITDA to Loss before income taxes and equity in earnings (losses) of unconsolidated investees

(In thousands):

	Fiscal Year Ended		
	2018	2017	2016
Segment adjusted EBITDA	\$ 179,075	\$ 255,559	\$ 384,924
Adjustments to segment adjusted EBITDA:			
8point3 Energy Partners	8,485	(78,990)	(25,127)
Utility and power plant projects	1,244	(41,746)	(6,602)
Sale of operating lease assets	—	—	(8,607)
Sale-leaseback transactions	(18,802)	(39,318)	(11,699)
Impairment of property, plant and equipment	(369,168)	—	—
Impairment of residential lease assets ¹	(227,507)	(473,709)	—
Cost of above-market polysilicon	(87,228)	(166,906)	(148,265)
Stock-based compensation expense	(28,215)	(34,674)	(61,498)
Amortization of intangible assets	(8,966)	(19,048)	(17,369)
Depreciation of idle equipment	(721)	(2,300)	—
Arbitration ruling	—	—	5,852
IPO-related costs	—	82	304
Acquisition-related and other costs	(17,727)	—	—
Gain on business divestiture	59,347	—	—
Restructuring expense	(17,497)	(21,045)	(207,189)
Goodwill Impairment	—	—	(57,765)
Unrealized loss on equity investments	(6,375)	—	—
Non-cash interest expense	(68)	(128)	(1,057)
Equity in earnings (losses) of unconsolidated investees	17,815	(25,938)	(14,295)
Net loss attributable to noncontrolling interests	(106,406)	(241,747)	(72,780)
Cash interest expense, net of interest income	(86,394)	(79,965)	(57,734)
Depreciation	(120,367)	(164,970)	(156,464)
Corporate	(67,866)	(65,907)	(73,052)
Business reorganization costs	(1,330)	—	—
Other	—	—	31
Loss before income taxes and equity in earnings (losses) of unconsolidated investees	<u>\$(898,671)</u>	<u>\$(1,200,750)</u>	<u>\$(528,392)</u>

¹ For the year ended December 30, 2018 and December 31, 2017, we recorded in aggregate a loss on sale and impairment of residential lease assets of \$252.0 million and \$624.3 million, respectively. As a result of the partnership flip structures with noncontrolling interests where these assets are held in, we allocated an insignificant portion of the impairment charge to the noncontrolling interest using the HLBV method. The net impairment charges attributable to us totaled \$227.5 million and \$473.7 million for the year ended December 30, 2018 and December 31, 2017, respectively. During fiscal 2018, we also recorded \$14.8 million of depreciation savings as a result of the impairment charge recognized in the prior period.

(As a percentage of total revenue):		Fiscal Year		
		2018	2017	2016
Significant Customers:	Business Segment			
Actis GP LLP	Power Plant	*	13%	n/a
8point3 Energy Partners	Power Plant	*	*	10%
Southern Renewable Partnerships, LLC.....	Power Plant	n/a	*	15%

(As a percentage of total revenue):		Fiscal Year		
		2018	2017	2016
Revenue by geography:				
United States		68%	79%	85%
Japan.....		5%	6%	6%
Rest of World.....		27%	15%	9%
		<u>100%</u>	<u>100%</u>	<u>100%</u>

(In thousands):		Fiscal Year	
		2018	2017
SunPower Energy Services		\$512,953	\$ 445,241
SunPower Technologies.....		323,941	698,553
Corporate		2,977	4,051
Property, plant and equipment, net		<u>\$839,871</u>	<u>\$1,147,845</u>

Note 19. SUBSEQUENT EVENT

SELECTED UNAUDITED QUARTERLY FINANCIAL DATA

Consolidated Statements of Operations:

(In thousands, except per share data)	Three Months Ended ¹							
	December 30, 2018	September 30, 2018	July 1, 2018	April 1, 2018	December 31, 2017	October 1, 2017	July 2, 2017	April 2, 2017
Revenue	\$ 456,837	\$ 428,263	\$ 449,097	\$ 391,888	\$ 651,134	\$485,836	\$ 327,981	\$ 329,095
Gross margin	\$ (7,571)	\$ 9,755	\$(310,215)	\$ 10,248	\$ (13,593)	\$ 21,289	\$ 16,167	\$ (45,584)
Net income (loss)	\$(172,146)	\$(113,911)	\$(483,843)	\$(147,597)	\$(753,566)	\$(70,838)	\$(109,577)	\$(236,886)
Net income (loss) attributable to stockholders	\$(158,174)	\$ (89,826)	\$(447,117)	\$(115,974)	\$(572,651)	\$ (46,229)	\$ (90,515)	\$(219,725)
Basic and diluted net loss per share attributable to stockholders	\$ (1.12)	\$ (0.64)	\$ (3.17)	\$ (0.83)	\$ (4.10)	\$ (0.33)	\$ (0.65)	\$ (1.58)

1 Previously reported information for fiscal year 2017 has been restated for the adoption of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. For further discussion of this standard, see Note 1 to the Consolidated Financial Statements.

ITEM 9: *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES*

None.

ITEM 9A: *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management is required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure control and procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 30, 2018 at a reasonable assurance level.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria described in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (“COSO”). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 30, 2018 based on the criteria described in Internal Control-Integrated Framework issued by COSO. Management reviewed the results of its assessment with our Audit Committee.

The effectiveness of the Company’s internal control over financial reporting as of December 30, 2018 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: *OTHER INFORMATION*

None.

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Information appearing under this Item is incorporated herein by reference to our proxy statement for the 2019 annual meeting of stockholders.

We have adopted a code of ethics, entitled Code of Business Conduct and Ethics, that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, and principal accounting officer. We have made it available, free of charge, on our website at www.sunpower.com, and if we amend it or grant any waiver under it that applies to our principal executive officer, principal financial officer, or principal accounting officer, we will promptly post that amendment or waiver on our website as well.

ITEM 11: EXECUTIVE COMPENSATION

Information appearing under this Item is incorporated herein by reference to our proxy statement for the 2019 annual meeting of stockholders.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information appearing under this Item is incorporated herein by reference to our proxy statement for the 2019 annual meeting of stockholders.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information appearing under this Item is incorporated herein by reference to our proxy statement for the 2019 annual meeting of stockholders.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information appearing under this Item is incorporated herein by reference to our proxy statement for the 2019 annual meeting of stockholders.

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Annual Report on Form 10-K:

1. *Financial Statements:*

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Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm	95
Consolidated Balance Sheets	97
Consolidated Statements of Operations.....	98
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2. *Financial Statement Schedule:*

All financial statement schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

3. Exhibits:

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of SunPower Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2011).
3.2	Amended and Restated By-Laws of SunPower Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 7, 2017).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
4.3	Certificate of Designation of Series A Junior Participating Preferred Stock of SunPower Corporation (incorporated by reference to Exhibit 4.6 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2011).
4.6	Indenture, dated as of December 15, 2015 by and between SunPower Corporation and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2015).
4.7	Indenture, dated as of June 11, 2014 by and between SunPower Corporation and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 11, 2014).
10.3	Continuing Agreement for Standby Letters of Credit and Demand Guarantees, dated June 29, 2016 by and among the Company, Deutsche Bank AG New York Branch, and Deutsche Bank Trust Company Americas (incorporated by reference to Exhibit 10.63 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 10, 2016).
10.4	Letter of Credit Facility Agreement, dated June 29, 2016, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., the Subsidiary Applicants party thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference to Exhibit 10.64 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 10, 2016).
10.5	Letter of Credit Facility Agreement, dated June 29, 2016, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., the Subsidiary Applicants party thereto, and Credit Agricole Corporate and Investment Bank (incorporated by reference to Exhibit 10.65 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 10, 2016).
10.6	Letter of Credit Facility Agreement, dated June 29, 2016, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., the Subsidiary Applicants party thereto, and HSBC Bank USA, National Association (incorporated by reference to Exhibit 10.66 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 10, 2016).
10.7	Transfer Agreement, dated June 29, 2016, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., Deutsche Bank AG New York Branch as administrative agent, and the Banks party thereto (incorporated by reference to Exhibit 10.67 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2016).
10.11	Affiliation Agreement, dated April 28, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 99.6 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.12	Amendment to Affiliation Agreement, dated April 28, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 7, 2011).

Exhibit Number	Description
10.13	Second Amendment to Affiliation Agreement, dated December 23, 2011, by and between Total G&P and SunPower Corporation (incorporated by reference to Exhibit 10.4 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2011).
10.14	Amendment No. 3 to Affiliation Agreement, dated February 28, 2012, by and between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.91 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.15	Amendment No. 4 to Affiliation Agreement, dated August 10, 2012, by and between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 2, 2012).
10.16	Affiliation Agreement Guaranty, dated April 28, 2011, between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 99.7 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.17	Research & Collaboration Agreement, dated April 28, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 99.8 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.18	Amendment to Research & Collaboration Agreement, dated June 7, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 7, 2011).
10.19	Registration Rights Agreement, dated April 28, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 99.9 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.22^	SunPower Corporation 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-205207), filed with the Securities and Exchange Commission on June 25, 2015).
10.23^	Forms of agreements under SunPower Corporation 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.60 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 6, 2016).
10.26^	Outside Director Compensation Policy, as amended on July 22, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 29, 2015).
10.27^	Form of Employment Agreement for Executive Officers (incorporated by reference to Exhibit 10.47 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2014).
10.28^	SunPower Corporation Annual Executive Bonus Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 30, 2014).
10.29^	SunPower Corporation Executive Semi-Annual Bonus Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 30, 2014).
10.30^	Form of Indemnification Agreement for Directors and Officers (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2016).
10.31^	2016 Management Career Transition Plan, dated August 10, 2015 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 29, 2015).

Exhibit Number	Description
10.32†	Mortgage Loan Agreement, dated May 6, 2010, by and among SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation (incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 13, 2010).
10.33	Guarantee Agreement, dated May 6, 2010, by and between SunPower Corporation and International Finance Corporation (incorporated by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 13, 2010).
10.34	Amendment No. 1 to Loan Agreement, dated November 2, 2010, by and between SunPower Philippines Manufacturing Ltd. and International Finance Corporation (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2011).
10.35	Mortgage Supplement No. 1, dated November 3, 2010, by and between SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation (incorporated by reference to Exhibit 10.63 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2013).
10.36	Mortgage Supplement No. 2, dated October 9, 2012, by and between SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation (incorporated by reference to Exhibit 10.64 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2013).
10.37	Mortgage Supplement No. 3, dated February 7, 2013, by and between SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 7, 2013).
10.38	Loan Agreement, dated December 1, 2010, by and among California Enterprise Development Authority and SunPower Corporation, relating to \$30,000,000 California Enterprise Development Authority Tax Exempt Recovery Zone Facility Revenue Bonds (SunPower Corporation - Headquarters Project) Series 2010 (incorporated by reference to Exhibit 10.50 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2011).
10.39	First Supplement to Loan Agreement, dated June 1, 2011, by and between California Enterprise Development Authority and SunPower Corporation, relating to \$30,000,000 California Enterprise Development Authority Tax Exempt Recovery Zone Facility Revenue Bonds (SunPower Corporation - Headquarters Project) Series 2010 (incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011).
10.40†	Letter of Credit Facility Agreement, dated August 9, 2011, by and among SunPower Corporation, Total S.A., the Subsidiary Applicants party thereto, the Banks party thereto, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.41†	First Amendment to Letter of Credit Facility Agreement, dated December 20, 2011, by and among SunPower Corporation, Total S.A., the Subsidiary Applicants party thereto, the Banks party thereto, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.65 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.42	Second Amendment to Letter of Credit Facility Agreement, dated December 19, 2012, by and among SunPower Corporation, Total S.A., the Subsidiary Applicants party thereto, the Banks party thereto, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.69 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2013).

Exhibit Number	Description
10.43	Third Amendment to Letter of Credit Facility Agreement, dated December 20, 2013, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.61 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2014).
10.44	Fourth Amendment to Letter of Credit Facility Agreement, dated December 23, 2014, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.66 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2015).
10.45	Fifth Amendment to Letter of Credit Facility Agreement, dated October 7, 2015, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-Q filed with the Securities and Exchange Commission on October 29, 2015).
10.46	Continuing Agreement for Standby Letters of Credit and Demand Guarantees, dated September 27, 2011, by and among SunPower Corporation, Deutsche Bank Trust Company Americas, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.47	Security Agreement, dated September 27, 2011, by and among SunPower Corporation, Deutsche Bank Trust Company Americas, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.59	License and Technology Agreement, dated July 5, 2010, by and among SunPower Technology, Ltd., AU Optronics Singapore Pte. Ltd. and AUO SunPower Sdn. Bhd. (formerly known as SunPower Malaysia Manufacturing Sdn. Bhd.) (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2010).
10.60	Compensation and Funding Agreement, dated February 28, 2012, by and between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 10.90 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.61	Amendment No. 1 to Compensation and Funding Agreement, dated August 10, 2012, by and between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 2, 2012).
10.62	Warrant to Purchase Common Stock, dated February 28, 2012, issued to Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.92 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.69	Letter Agreement, dated May 8, 2017, by and between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2017).
10.70	Amended and Restated Revolving Credit Agreement, dated June 23, 2017, by and among SunPower Corporation, its subsidiaries, SunPower Corporation, Systems, SunPower North America LLC, and SunPower Capital, LLC, and Credit Agricole Corporate and Investment Bank and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 2, 2017).
10.71*	Indenture, dated November 28, 2018, by and between SunStrong 2018-1 Issuer, LLC and Wells Fargo Bank, National Association ("Wells Fargo"), as indenture trustee.
10.72	Purchase and Sale Agreement, dated as of November 5, 2018, by and between SunPower Corporation and HA SunStrong Capital LLC (incorporated by reference to Exhibit 10.1 to the Registrants Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2018).

Exhibit Number	Description
10.73†	Master Supply Agreement, dated as of August 9, 2018, by and between SunPower Corporation and Enphase Energy, Inc. (incorporated by reference to Exhibit 99.1 to Amendment No. 1 of Enphase Energy, Inc.'s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on October 23, 2018).
10.74†*	Amendment No. 1 to Master Supply Agreement, dated as of December 10, 2018, by and between SunPower Corporation and Enphase Energy, Inc.
10.75^	Equity Agreement and Release, dated as of June 25, 2018, by and between SunPower Corporation and Charles D. Boynton (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 1, 2018).
10.76	Term Credit Agreement, dated as of May 22, 2018, by and among SunPower HoldCo, LLC (as borrower), SunPower Corporation (as guarantor), and Credit Agricole Corporate and Investment Bank (as Lender) (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 1, 2018).
10.77	Amendment to Continuing Agreement for Standby Letters of Credit and Demand Guarantees, dated as of June 29, 2016, by and among Deutsche Bank AG New York Branch and Deutsche Bank Trust Company Americas (collectively, as issuer), SunPower Corporation (as applicant), and SunPower Corporation, Systems (as subsidiary applicant), dated as of March 22, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 28, 2018).
10.78*	Amended and Restated Loan Agreement between SunStrong Capital Acquisition, LLC and SunStrong Capital Lender, LLC dated as of November 28, 2018.
10.79*	Loan Agreement between SunStrong 2018-1 Mezzanine, LLC and SunStrong Capital Lender, LLC dated as of November 28, 2018.
21.1*	List of Subsidiaries.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24.1*	Power of Attorney.
31.1*	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2*	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1**	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*+	XBRL Instance Document.
101.SCH*+	XBRL Taxonomy Schema Document.
101.CAL*+	XBRL Taxonomy Calculation Linkbase Document.
101.LAB*+	XBRL Taxonomy Label Linkbase Document.
101.PRE*+	XBRL Taxonomy Presentation Linkbase Document.
101.DEF*+	XBRL Taxonomy Definition Linkbase Document.

Exhibits marked with a carrot (^) are director and officer compensatory arrangements.

Exhibits marked with an asterisk (*) are filed herewith.

Exhibits marked with two asterisks (**) are furnished and not filed herewith.

Exhibits marked with an extended cross (†) are subject to a request for confidential treatment filed with the Securities and Exchange Commission.

Exhibits marked with a cross (+) are XBRL (Extensible Business Reporting Language) information furnished and not filed herewith, are not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise are not subject to liability under these sections.

SUNPOWER®

NOTICE OF THE 2019 ANNUAL MEETING OF STOCKHOLDERS

TO ALL SUNPOWER STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2019 Annual Meeting of Stockholders (the “Annual Meeting”) of SunPower Corporation, a Delaware corporation (“SunPower”), will be held on:

Date: Thursday, May 16, 2019

Time: 9:00 a.m. Pacific Time

Place: Online at www.virtualshareholdermeeting.com/SPWR2019

Virtual Meeting Admission: This year’s Annual Meeting will be a virtual meeting of stockholders, conducted via a live webcast. You will be able to attend the Annual Meeting online, vote your shares electronically, and submit questions during the meeting by visiting www.virtualshareholdermeeting.com/SPWR2019. Have your Notice of Internet Availability of Proxy Materials or proxy card in hand when you access the website and then follow the instructions. To participate in the meeting, you will need the 16-digit control number included on the Notice of Internet Availability of Proxy Materials or proxy card. Online check-in will begin at 8:30 a.m. Pacific Time, and you should allow ample time for the online check-in procedures.

- Items of Business:
1. The re-election of three directors to serve as Class II directors on our Board of Directors;
 2. The approval, in an advisory vote, of our named executive officer compensation;
 3. The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2019; and
 4. The transaction of such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice of the Annual Meeting. On or about April 5, 2019, we began mailing to certain stockholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy materials, including our 2018 Annual Report, via the Internet. Stockholders who did not receive the Notice of Internet Availability of Proxy Materials will receive a paper copy of this notice of the Annual Meeting, the proxy statement, our 2018 Annual Report, and the form of proxy.

All stockholders are cordially invited to attend the Annual Meeting. Only stockholders of record at the close of business on March 21, 2019 (the “Record Date”) are entitled to receive notice of, and to vote at, the Annual Meeting or any adjournment or postponement of the Annual Meeting. Any registered stockholder in attendance at the Annual Meeting and entitled to vote may do so during the meeting even if such stockholder returned a proxy.

San Jose, California
April 5, 2019

FOR THE BOARD OF DIRECTORS



Kenneth Mahaffey
Corporate Secretary

IMPORTANT: WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE, AND SIGN THE PROXY CARD AND MAIL IT PROMPTLY, OR YOU MAY VOTE BY TELEPHONE OR VIA THE INTERNET BY FOLLOWING THE DIRECTIONS ON THE PROXY CARD. ANY ONE OF THESE METHODS WILL ENSURE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING. NO POSTAGE NEED BE AFFIXED TO THE COMPANY-PROVIDED PROXY CARD ENVELOPE IF MAILED IN THE UNITED STATES.

**PROXY STATEMENT FOR
2019 ANNUAL MEETING OF STOCKHOLDERS**

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SUNPOWER CORPORATION
77 Rio Robles
San Jose, California 95134

PROXY STATEMENT FOR
2019 ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The Board of Directors (the “Board”) of SunPower Corporation, a Delaware corporation, is furnishing this proxy statement and proxy card to you in connection with its solicitation of proxies to be used at the Annual Meeting of Stockholders of SunPower Corporation to be held on May 16, 2019 at 9:00 a.m. Pacific Time (the “Meeting Date”), or at any adjournment(s), continuation(s), or postponement(s) of the meeting (the “Annual Meeting”).

This year’s Annual Meeting will be a virtual meeting of stockholders, conducted via a live webcast. You will be able to attend the Annual Meeting online, vote your shares electronically, and submit your questions during the meeting by visiting www.virtualshareholdermeeting.com/SPWR2019. Have your Notice of Internet Availability of Proxy Materials or proxy card in hand when you access the website and then follow the instructions. To participate in the meeting, you will need the 16-digit control number included on the Notice of Internet Availability of Proxy Materials or proxy card.

Online check-in will begin at 8:30 a.m. Pacific Time on the Meeting Date, and you should allow ample time for the online check-in procedures. We will have technicians ready to assist you should you have any technical difficulties accessing the virtual meeting.

We use a number of abbreviations in this proxy statement. We refer to SunPower Corporation as “SunPower,” “the Company,” or “we,” “us,” or “our.” The term “proxy solicitation materials” includes this proxy statement, the notice of the Annual Meeting, and the proxy card. References to “fiscal 2018” mean our 2018 fiscal year, which began on January 1, 2018 and ended on December 30, 2018, while references to “fiscal 2017” mean our 2017 fiscal year, which began on January 2, 2017 and ended on December 31, 2017.

Our principal executive offices are located at 77 Rio Robles, San Jose, California 95134, and our telephone number is (408) 240-5500.

Important Notice Regarding The Availability of Proxy Materials

We have elected to comply with the Securities and Exchange Commission (the “SEC”) “Notice and Access” rules, which allow us to make our proxy solicitation materials available to our stockholders over the Internet. Under these rules, on or about April 5, 2019, we started mailing to certain of our stockholders a Notice of Internet Availability of Proxy Materials (the “Notice of Internet Availability”). The Notice of Internet Availability contains instructions on how our stockholders can both access the proxy solicitation materials and our 2018 Annual Report on Form 10-K for the fiscal year ended December 30, 2018 (the “2018 Annual Report”) online and vote online. By sending the Notice of Internet Availability instead of paper copies of the proxy materials, we expect to lower the costs and reduce the environmental impact of our Annual Meeting.

Our proxy solicitation materials and our 2018 Annual Report are available at www.proxyvote.com.

Stockholders receiving the Notice of Internet Availability may request a paper or electronic copy of our proxy solicitation materials by following the instructions set forth on the Notice of Internet Availability. Stockholders who did not receive the Notice of Internet Availability will continue to receive a paper or electronic copy of our proxy solicitation materials, which were first mailed to stockholders and made public on or about April 5, 2019.

Delivery of Voting Materials

If you would like to further reduce our environmental impact and costs in mailing proxy materials, you can consent to receive all future proxy statements, proxy cards, and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions provided for voting via www.proxyvote.com and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

To reduce the environmental waste and expense of delivering duplicate materials to our stockholders, we are taking advantage of householding rules that permit us to deliver only one set of proxy solicitation materials and our 2018 Annual Report, or one copy of the Notice of Internet Availability, to stockholders who share the same address, unless otherwise requested. Each stockholder retains a separate right to vote on all matters presented at the Annual Meeting.

If you share an address with another stockholder and have received only one set of materials, you may write or call us to request a separate copy of these materials at no cost to you. For future annual meetings, you may request separate materials or request that we only send one set of materials to you if you are receiving multiple copies by writing to us at SunPower Corporation, 77 Rio Robles, San Jose, California 95134, Attention: Corporate Secretary, or calling us at (408) 240-5500.

A copy of our 2018 Annual Report has been furnished with this proxy statement to each stockholder. A stockholder may also request a copy of our 2018 Annual Report by writing to our Corporate Secretary at 77 Rio Robles, San Jose, California 95134. Upon receipt of such request, we will provide a copy of our 2018 Annual Report without charge, including the financial statements required to be filed with the SEC pursuant to Rule 13a-1 of the Securities Exchange Act of 1934 (the “Exchange Act”) for our fiscal 2018. Our 2018 Annual Report is also available on our website at <http://investors.sunpower.com/sec.cfm>.

Record Date and Shares Outstanding

Stockholders who owned shares of our common stock, par value \$0.001 per share, at the close of business on March 21, 2019, which we refer to as the Record Date, are entitled to notice of, and to vote at, the Annual Meeting. On the Record Date, we had 142,372,724 shares of common stock outstanding. For more information about beneficial ownership of our issued and outstanding common stock, please see “*Security Ownership of Management and Certain Beneficial Owners.*”

Board Recommendations

Our Board recommends that you vote:

- “FOR” Proposal One: re-election of each of the nominated Class II directors;
- “FOR” Proposal Two: the approval, on an advisory basis, of the compensation of our named executive officers; and
- “FOR” Proposal Three: the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2019.

Voting

Each holder of shares of common stock is entitled to one vote for each share of common stock held as of the Record Date. Cumulating votes is not permitted under our Restated Certificate of Incorporation (the “Certificate of Incorporation”).

Many of our stockholders hold their shares through a stockbroker, bank, or other nominee, rather than directly in his or her own name. As summarized below, there are distinctions between shares held of record and those beneficially owned.

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Computershare Trust Company N.A., you are considered, with respect to those shares, the stockholder of record and these proxy solicitation materials are being furnished to you directly by us.

Beneficial Owner. If your shares are held in a stock brokerage account, or by a bank or other nominee (also known as shares registered in “street name”), you are considered the beneficial owner of such shares held in street name, and these proxy solicitation materials are being furnished to you by your broker, bank, or other nominee, who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank, or other nominee how to vote your shares, or to vote your shares during the Annual Meeting.

How to Vote. If you hold shares directly as a stockholder of record, you can vote in one of the following four ways:

- (1) Vote via the Internet before the Meeting Date. Go to www.proxyvote.com to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time on May 15, 2019. Have your Notice of Internet Availability or proxy card in hand when you access the website and then follow the instructions.
- (2) Vote by Telephone at 1-800-690-6903 before the Meeting Date. Use a touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on May 15, 2019. Have your Notice of Internet Availability or proxy card in hand when you call and then follow the instructions. This number is toll free in the United States and Canada.
- (3) Vote by Mail before the Meeting Date. Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided, or return the proxy card to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, New York 11717.
- (4) Vote via the Internet during the Annual Meeting. You may attend the Annual Meeting on May 16, 2019 at 9:00 a.m. Pacific Time via the Internet at www.virtualshareholdermeeting.com/SPWR2019 and vote during the Annual Meeting. Have your Notice of Internet Availability or proxy card in hand when you access the website and then follow the instructions.

If you hold shares beneficially in street name, you may submit your voting instructions in the manner prescribed by your broker, bank, or other nominee by following the instructions provided by your broker, bank, or other nominee, or you may vote your shares during the Annual Meeting.

Even if you plan to attend the Annual Meeting, we recommend that you vote your shares in advance as described in options (1), (2), and (3) above so that your vote will be counted if you later decide not to attend the Annual Meeting.

Quorum. A quorum, which is the holders of at least a majority of shares of our stock issued and outstanding and entitled to vote as of the Record Date, is required to be present in person or by proxy at the Annual Meeting in order to hold the Annual Meeting and to conduct business. Your shares will be counted as being present at the Annual Meeting if you attend the Annual Meeting (and are the stockholder of record for your shares), if you vote your shares by telephone or over the Internet, or if you submit a properly executed proxy card. Abstentions and “broker non-votes” are counted as present and entitled to vote for purposes of determining a quorum. Votes against a particular proposal will also be counted both to determine the presence or absence of a quorum and to determine whether the requisite number of voting shares has been obtained.

Explanation of Broker Non-Votes and Abstentions. A “broker non-vote” occurs when a broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. The rules of The New York Stock Exchange (which in this instance also apply to companies listed on The Nasdaq Global Select Market) prohibit brokers from voting in their discretion on any non-routine proposals without instructions from the beneficial owners. If you do not instruct your broker how to vote on a non-routine proposal, your broker will not vote for you. Abstentions are deemed to be entitled to vote for purposes of determining whether stockholder approval of that matter has been obtained, and they would be included in the tabulation of voting results as votes against the proposal.

Votes Required/Treatment of Broker Non-Votes and Abstentions.

Proposal One—Re-election of Class II Directors. Election of a director requires the affirmative vote of the holders of a plurality of votes represented by the shares in attendance or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. The three persons receiving the greatest number of votes at the Annual Meeting shall be elected as Class II directors. Neither “broker non-votes” nor abstentions will affect the outcome of the voting on Proposal One.

Proposal Two—Advisory Vote on Named Executive Officer Compensation. The non-binding advisory vote on named executive officer compensation requires the affirmative vote of the holders of a majority of our stock having voting power and in attendance or represented by proxy at the Annual Meeting. “Broker non-votes” have no effect and will not be counted towards the vote total for this proposal. Abstentions will have the effect of votes against Proposal Two.

Proposal Three—Ratification of the Appointment of Independent Registered Public Accounting Firm for Fiscal Year 2019. Ratification of the appointment of our independent registered public accounting firm requires the affirmative vote of the holders of a majority of our stock having voting power and in attendance or represented by proxy at the Annual Meeting. We do not expect “broker non-votes” since this proposal is considered to be a routine proposal and brokers have discretionary authority to vote on this proposal. Abstentions will have the effect of votes against Proposal Three.

How Your Proxy Will Be Voted

If you complete and submit your proxy card or vote via the Internet or by telephone, the shares represented by your proxy will be voted at the Annual Meeting in accordance with your instructions. If you submit your proxy card by mail, but do not fill out the voting instructions on the proxy card, the shares represented by your proxy will be voted in favor of each of the three proposals. In addition, if any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as directed by the Board. We have not received notice of any other matters that may properly be presented at the Annual Meeting.

Revoking Your Proxy

You may revoke your proxy at any time before the Meeting Date by: (1) submitting a later-dated vote by telephone, by mail, or via the Internet before or at the Annual Meeting; or (2) delivering instructions to us at 77 Rio Robles, San Jose, California 95134 to the attention of our Corporate Secretary. Any notice of revocation sent to us must include the stockholder’s name and must be actually received by us before the Annual Meeting to be effective. Your attendance at the Annual Meeting after having executed and delivered a valid proxy card or vote via the Internet or by telephone will not in and of itself constitute a revocation of your proxy. If you are the stockholder of record or if your shares are held in “street name,” you may revoke your proxy by voting electronically at the Annual Meeting.

Solicitation of Proxies

We will pay for the cost of this proxy solicitation. We may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding or furnishing proxy solicitation materials to such beneficial owners. Proxies may also be solicited personally or by telephone, telegram, or facsimile by certain of our directors, officers, and regular employees, without additional compensation.

Voting Results

We will announce preliminary voting results at the Annual Meeting and publish final results on a Current Report on Form 8-K, which we intend to file with the SEC within four business days after the Meeting Date.

Note Concerning Forward-Looking Statements

Certain of the statements contained in this proxy statement are “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 proxy statement include, but are not limited to, our plans and expectations regarding future financial results, expected operating results, business strategies, the sufficiency of our cash and our liquidity, projected costs and cost reduction measures, development of new products and improvements to our existing products, the impact of recently adopted accounting pronouncements, our manufacturing capacity and manufacturing costs, the adequacy of our agreements with our suppliers, our ability to monetize our solar projects, legislative actions and regulatory compliance, competitive positions, management’s plans and objectives for future operations, our ability to obtain financing, our ability to comply with debt covenants or cure any defaults, our ability to repay our obligations as they come due, our ability to continue as a going concern, our ability to complete certain strategic transactions, 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, risks related to privacy and data security, and the likelihood of any impairment of project assets, long-lived assets, and investments. These forward-looking statements are based on information available to us as of the date of this proxy statement and our 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. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in Part I, Item 1A, “Risk Factors,” and elsewhere in our 2018 Annual Report, which accompanies this proxy statement. Please see these 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.

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, YOU ARE REQUESTED TO COMPLETE, DATE, AND SIGN THE PROXY CARD AND RETURN IT PROMPTLY, OR VOTE BY TELEPHONE OR VIA THE INTERNET BY FOLLOWING THE DIRECTIONS ON THE PROXY CARD. STOCKHOLDERS WHO ATTEND THE ANNUAL MEETING MAY REVOKE A PRIOR PROXY VOTE AND VOTE THEIR SHARES AS SET FORTH IN THIS PROXY STATEMENT.

PROPOSAL ONE

RE-ELECTION OF CLASS II DIRECTORS

Our Board is currently composed of nine directors and divided into three classes, in accordance with Article IV, Section B of our Certificate of Incorporation. Only the terms of the three directors serving as Class II directors are scheduled to expire in 2019. The terms of other directors expire in subsequent years.

On April 28, 2011, we and Total Solar International SAS, formerly known as Total Energies Nouvelles Activités USA, SAS and as Total Gas & Power USA, SAS (“Total”), a subsidiary of Total S.A. (“Total S.A.”), entered into a Tender Offer Agreement (the “Tender Offer Agreement”). Pursuant to the Tender Offer Agreement, on June 21, 2011, Total purchased in a cash tender offer approximately 60% of our then outstanding shares of common stock (the “Tender Offer”). In connection with the Tender Offer, we and Total entered into an Affiliation Agreement that governs the relationship between Total and us following the close of the Tender Offer (the “Affiliation Agreement”). In accordance with the terms of the Affiliation Agreement, our Board has nine members, composed of our chief executive officer, three non-Total-designated members of the Board, and five directors designated by Total. If the ownership of our voting power by Total, together with the controlled subsidiaries of Total S.A., declines below certain thresholds, the number of members of the Board that Total is entitled to designate will be reduced as set forth in the Affiliation Agreement. See “*Certain Relationships and Related Persons Transactions—Agreements with Total Solar International SAS and Total S.A.—Affiliation Agreement.*”

The Board has considered and approved the nomination of Catherine Lesjak, Ladislav Paszkiewicz, and Julien Pouget, our current Class II directors, for re-election as directors at the Annual Meeting. Ms. Lesjak is an independent director. Messrs. Paszkiewicz and Pouget are Total-designated directors. Each nominee has consented to being named in this proxy statement and to serve if re-elected. Unless otherwise directed, the proxy holders will vote the proxies received by them for the three nominees named herein. If any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the present Board to fill the vacancy. We do not expect that any nominee will be unable or will decline to serve as a director. The Class II directors elected will hold office until the annual meeting of stockholders in 2022 or until their successors are elected.

The Class I group of directors consists of François Badoual, Antoine Larenaudie, and Patrick Wood III, who will hold office until the annual meeting of stockholders in 2021 or until their successors are elected. Messrs. Badoual and Larenaudie are Total-designated directors. Mr. Wood is an independent director. The Class III group of directors consists of Helle Kristoffersen, Thomas McDaniel, and Thomas Werner, who will hold office until the annual meeting of stockholders in 2020 or until their successors are elected. Ms. Kristoffersen is a Total-designated director. Mr. McDaniel is an independent director. Mr. Werner is our Chief Executive Officer and Chairman of the Board.

Additional information about the Class II director nominees for re-election, and the Class I and Class III directors, is set forth below.

Class II Directors Nominated for Re-Election at the Annual Meeting

Name	Age	Position(s) with SunPower	Director Since
Catherine Lesjak	60	Director	2013
Ladislav Paszkiewicz	56	Director	2016
Julien Pouget	42	Director	2017

Catherine Lesjak retired from HP Inc. on February 28, 2019 and was the Interim Chief Operating Officer of HP Inc. from July 1, 2018 until January 1, 2019. She served as Executive Vice President and Chief Financial Officer of HP Inc. (formerly Hewlett-Packard Company) (HP) from January 1, 2007 until July 1, 2018. Ms. Lesjak served as interim Chief Executive Officer of HP from August 2010 through October 2010. As a 32-year veteran at HP, Ms. Lesjak held a broad range of financial leadership roles across HP. Before being named as Chief Financial Officer, Ms. Lesjak served as Senior Vice President and Treasurer, responsible for managing HP’s worldwide cash, debt, foreign exchange, capital structure, risk management, and benefits plan administration. Earlier in her career at HP, she managed financial operations for Enterprise Marketing and Solutions and the Software Global Business Unit.

Before that, she was group controller for HP’s Software Solutions Organization and managed HP’s global channel credit risk as controller and credit manager for the Commercial Customer Organization. Ms. Lesjak has a bachelor’s degree in biology from Stanford University and a master of business degree in finance from the University of California, Berkeley.

Ms. Lesjak’s extensive experience as the chief financial officer of a major corporation, with significant presence in both the business-to-consumer and business-to-business markets, allows her to make significant contributions to our strategic business planning and execution. Her background is also valuable in terms of financial oversight and review of our strategic investments. It is based on the Board’s identification of these qualifications, skills, and experience that the Board has concluded that Ms. Lesjak should serve as a director on our Board.

Ladislav Paszkiewicz has served as Senior Vice President, Strategy and Climate, for Total S.A. since September 2016. He previously served as Senior Vice President of Mergers and Acquisitions for Total S.A. from 2015 to 2016. From 2010 to 2014, he was Senior Vice President, Americas, for the Exploration and Production division of Total S.A. Prior to that, he served as Senior Vice President, Middle East, for the same division from 2007 to 2010. Mr. Paszkiewicz has also served as General Manager of the Total group’s subsidiary in Argentina, as head of the Investor Relations Department of Total S.A., and in various other positions in the Total group, which he joined in 1985. Mr. Paszkiewicz holds a master’s degree in business administration from New York University and a master’s degree in finance from the Institut d’Etudes Politiques in Paris, France.

Mr. Paszkiewicz brings significant international strategic and business development experience to the Board. His extensive experience in the energy industry gives him a valuable perspective on the development of our strategy going forward. It is based on the Board’s identification of these qualifications, skills, and experience that the Board has concluded that Mr. Paszkiewicz should serve as a director on our Board.

Julien Pouget has served as Senior Vice President of the Renewables division of Total S.A. since January 1, 2017. From 2014 to 2016, he served as a senior advisor to the President of France, initially responsible for industry, then industry and digital, and finally for the economy. His responsibilities during this time included the restructuring of the French nuclear industry. Prior to his service to the president, Mr. Pouget spent six years in various positions at Alstom Power, including as Vice President of the heat exchangers product line for France, Switzerland, and China, as Vice President and General Manager of Asian activities, and as project leader and head of engineering for the heat exchangers on the Flamanville 3 EPR nuclear plant in France. From 2001 to 2008, Mr. Pouget held various positions in the French Ministry of Industry, and at the state shareholding agency at the French Ministry for Finance and Economy. Mr. Pouget is a chief engineer of the prestigious French Corps de Mines and a graduate of the École Polytechnique.

Mr. Pouget brings significant international managerial and operational experience to the Board. His extensive experience in the energy industry and in government gives him a valuable perspective on policy and the global energy marketplace. It is based on the Board’s identification of these qualifications, skills, and experience that the Board has concluded that Mr. Pouget should serve as a director on our Board.

Class I Directors with Terms Expiring in 2021

Name	Age	Position(s) with SunPower	Director Since
François Badoual	54	Director	2017
Antoine Larenaudie	60	Director	2017
Patrick Wood III	56	Director	2005

François Badoual has served as President and Chief Executive Officer of Total New Energies Ventures, Inc. since August 2017. From 2012 to 2017, he served as Chief Executive Officer of Total Energy Ventures, the corporate venture capital arm for the Total Group. Mr. Badoual also previously served as General Manager and Country Chairman for Total Exploration and Production – Algeria from 2009 to 2012, and as Deputy General Manager for Total Exploration and Production – Angola from 2006 to 2009. Mr. Badoual has held various other positions in the Total Group since 1990, and he has worked in France, Indonesia, United Arab Emirates, and Venezuela. Mr. Badoual holds a degree in civil engineering from École Nationale des Travaux Publics de l’État and an Advanced Master in Regional and Urban Planning from École Nationale des Ponts et Chaussées.

Mr. Badoual brings significant international managerial and operational experience to the Board. His extensive experience in the energy industry gives him a valuable perspective on our efforts to manage our business and project development activities. It is based on the Board's identification of these qualifications, skills, and experience that the Board has concluded that Mr. Badoual should serve as a director on our Board.

Antoine Larenaudie has served as Treasurer of the Total Group since September 2017. Before that, he served as Chief Financial Officer of Total's Gas, Renewables, and Power division and Trading and Shipping division from 2002 to 2017. Mr. Larenaudie has held various other positions in the Total Group since 1990, and he has also worked for Credit Lyonnais Bank in France and London in various positions dealing with international corporations and commodities trading firms. He is a graduate of the École Supérieure de Commerce de Toulouse.

Mr. Larenaudie brings significant international financial management experience to the Board. His extensive experience in the energy industry gives him a valuable perspective on our financial strategy going forward. It is based on the Board's identification of these qualifications, skills, and experience that the Board has concluded that Mr. Larenaudie should serve as a director on our Board.

Pat Wood III has served as President of Hunt Energy Enterprises BEE Network, an energy storage development company, since February 2019, and as a Principal of Wood3 Resources, an energy infrastructure developer, since July 2005. He is active in the development of electric power and natural gas infrastructure assets in North America. From 2001 to 2005, Mr. Wood served as the Chairman of the Federal Energy Regulatory Commission. From 1995 to 2001, he chaired the Public Utility Commission of Texas. Mr. Wood has also been an attorney with Baker & Botts, a global law firm, and an associate project engineer with Arco Indonesia, an oil and gas company, in Jakarta. He currently serves as a director of Quanta Services, Inc. Mr. Wood is a past Board Chairman of Dynegy, a past director of Memorial Resource Development, Inc. and TPI Composites, a former director of the American Council on Renewable Energy, and a member of the National Petroleum Council.

Mr. Wood brings significant strategic and operational management experience to the Board. Mr. Wood has demonstrated strong leadership skills through a decade of regulatory leadership in the energy sector. Mr. Wood brings a unique perspective and extensive knowledge of energy project development, public policy development, governance, and the regulatory process. His legal background also provides the Board with a perspective on the legal implications of matters affecting our business. It is based on the Board's identification of these qualifications, skills, and experience that the Board has concluded that Mr. Wood should serve as a director on our Board, Chairman of the Nominating and Corporate Governance Committee, and Chairman of the Compensation Committee.

Class III Directors with Terms Expiring in 2020

Name	Age	Position(s) with SunPower	Director Since
Helle Kristoffersen	54	Director	2016
Thomas McDaniel	69	Director	2009
Thomas Werner	59	Chief Executive Officer, Director, and Chairman of the Board	2003

Helle Kristoffersen has served as Senior Vice President, Strategy and Corporate Affairs, of the Gas, Renewables, and Power segment for Total S.A. since September 2016. From January 2012 to August 2016, she was Senior Vice President, Strategy and Business Intelligence, at the group level of Total S.A. Prior to that, she served as Deputy Vice President of the same department since January 2011. In 1994, she joined Alcatel, where she spent 16 years and served in particular as Vice President, Corporate Strategy, of Alcatel and subsequently Alcatel-Lucent. She currently serves as a director of Orange, PSA Group (Peugeot), and Direct Energie. Ms. Kristoffersen served as a director of Valeo from 2007 to 2013. Ms. Kristoffersen is a graduate of the École Normale Supérieure and the Paris Graduate School of Economics, Statistics, and Finance (ENSAE). Ms. Kristoffersen also holds a master's degree in econometrics from Université Paris 1.

Ms. Kristoffersen brings significant international strategic and business development experience to the Board. Her extensive experience in the energy and technology industries, including her service on the boards of directors of

several international, publicly listed companies, gives her a valuable perspective on our role in the global marketplace. It is based on the Board's identification of these qualifications, skills, and experience that the Board has concluded that Ms. Kristoffersen should serve as a director on our Board.

Thomas McDaniel was Executive Vice President, Chief Financial Officer, and Treasurer of Edison International, a generator and distributor of electric power and investor in infrastructure and energy assets, before retiring in July 2008 after 37 years of service. Before January 2005, Mr. McDaniel was Chairman, Chief Executive Officer, and President of Edison Mission Energy, a power generation business specializing in the development, acquisition, construction, management, and operation of power production facilities. Mr. McDaniel was also Chief Executive Officer and a director of Edison Capital, a provider of capital and financial services supporting the growth of energy and infrastructure projects, products, and services, both domestically and internationally. Mr. McDaniel has served on our Board since February 2009. He is Chairman of the board of directors of SemGroup, L.P., a midstream energy services company. Mr. McDaniel also served on the advisory board of Cypress Envirosystems, which develops and markets energy efficiency products, and On Ramp Wireless, a communications company serving electrical, gas, and water utilities. Mr. McDaniel formerly served on the board of directors of the Senior Care Action Network (SCAN) from 2000 to 2013 and Aquion Energy, a manufacturer of energy storage systems. Through the McDaniel Family Foundation, he is also actively involved in a variety of charitable activities, such as the Boys and Girls Club of Huntington Beach, Heifer International, and the Free Wheelchair Mission.

Mr. McDaniel brings significant operational and development experience, including extensive experience growing and operating global electric power businesses, to the Board. In addition, Mr. McDaniel's prior experience as a chief financial officer qualifies him as a financial expert, which is relevant to his duties as an Audit Committee member. It is based on the Board's identification of these qualifications, skills, and experience that the Board has concluded that Mr. McDaniel should serve as a director on our Board, Chairman of the Audit Committee, and Chairman of the Finance Committee.

Thomas Werner has served as our Chief Executive Officer, and as a member of our Board, since June 2003, and Chairman of the Board since May 2011. Before joining SunPower, he held the position of Chief Executive Officer of Silicon Light Machines, Inc., an optical solutions subsidiary of Cypress Semiconductor Corporation, from 2001 to 2003. From 1998 to 2001, Mr. Werner served as Vice President and General Manager of the Business Connectivity Group of 3Com Corp., a network solutions company. He has also held a number of executive management positions at Oak Industries, Inc. and General Electric Co. Mr. Werner currently serves as a board member of Cree, Inc., a LED manufacturer, and the Silicon Valley Leadership Group. He served as a member of the board of directors of Silver Spring Networks, a provider of smart grid applications, from March 2009 to January 2018. He is also on the board of trustees of Marquette University. Mr. Werner holds a bachelor's degree in industrial engineering from the University of Wisconsin–Madison, a bachelor's degree in electrical engineering from Marquette University, and a master's degree in business administration from George Washington University.

Mr. Werner brings significant leadership, technical, operational, and financial management experience to the Board. Mr. Werner provides the Board with valuable insight into management's perspective with respect to our operations. Mr. Werner has demonstrated strong executive leadership skills through nearly 20 years of executive officer service with various companies and brings the most comprehensive view of our operational history over the past several years. Mr. Werner also brings to the Board leadership experience through his service on the board of directors for two other organizations, which gives him the ability to compare the way in which management and the boards operate within the companies he serves. It is based on the Board's identification of these qualifications, skills, and experience that the Board has concluded that Mr. Werner should serve as a director on our Board and Chairman of the Board.

Vote Required

Election of a director requires the affirmative vote of the holders of a plurality of votes represented by the shares in attendance or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. The three persons receiving the greatest number of votes at the Annual Meeting shall be elected as Class II directors. Neither "broker non-votes" nor abstentions will affect the outcome of the voting on this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION TO THE BOARD OF EACH OF THE CLASS II DIRECTOR NOMINEES.

BOARD STRUCTURE

Determination of Independence

Our Board has determined that three of our nine directors, namely Ms. Lesjak and Messrs. McDaniel and Wood, each meet the standards for independence as defined by applicable listing standards of The Nasdaq Stock Market and rules and regulations of the SEC. Our Board has also determined that Mr. Werner, our Chief Executive Officer and Chairman of the Board, and Ms. Kristoffersen and Messrs. Badoual, Larenaudie, Paszkiewicz, and Pouget, as directors designated by our controlling stockholder, Total, pursuant to our Affiliation Agreement with Total, are not “independent” as defined by applicable listing standards of The Nasdaq Stock Market. There are no family relationships among any of our directors or executive officers.

Leadership Structure and Risk Oversight

The Board has determined that having a lead independent director assist Mr. Werner, the Chief Executive Officer and Chairman of the Board, is in the best interest of our stockholders. Mr. Wood has served as the lead independent director of the Board since June 2012. The Board believes this structure ensures a greater role for the independent directors in the oversight of our company and encourages active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of the Board. We believe that this leadership structure also is preferred by a significant number of our stockholders.

The Board is actively involved in oversight of risks that could affect our company. This oversight is conducted primarily through committees of the Board, in particular our Audit Committee, as disclosed in the descriptions of each of the committees below and in the respective charters of each committee. The full Board, however, has retained responsibility for general oversight of risks. The Board satisfies this responsibility through full reports by each committee chair regarding the committee’s considerations and actions, as well as through regular reports directly from our officers responsible for oversight of particular risks within our company.

Board Meetings

Our Board held four regular, quarterly meetings, one annual meeting, and 10 special meetings during fiscal 2018. During fiscal 2018, each director attended at least 75% of the aggregate number of meetings of the Board and its committees on which such director served during his or her term, with the exception of Ladislav Paszkiewicz. The average attendance rate at Board meetings held during fiscal 2018 was 86%. The average attendance rate at Board committee meetings held during fiscal 2018 was 96%. Our independent directors held four meetings with management present, as well as four executive sessions during regular, quarterly meetings and two executive sessions during special meetings without management present, during fiscal 2018.

Controlled Company, Nasdaq Listing Standards

Since the Tender Offer in June 2011 (including as of April 5, 2019), Total has owned greater than 50% of our outstanding voting securities and we are therefore considered a “controlled company” within the meaning of The Nasdaq Stock Market rules. As long as we remain a “controlled company,” we are exempt from the rules that would otherwise require that our Board be composed of a majority of independent directors and that our Compensation Committee and Nominating and Corporate Governance Committee be composed entirely of independent directors. This “controlled company” exception does not modify the independence requirements for the Audit Committee, and we comply with the requirements of the Sarbanes-Oxley Act and The Nasdaq Stock Market rules that require that our Audit Committee be composed exclusively of independent directors.

Board Committees

We believe that good corporate governance is important to ensure that we are managed for the long-term benefit of our stockholders. Our Board has established committees to ensure that we maintain strong corporate governance standards. Our Board has standing Audit, Compensation, and Nominating and Corporate Governance Committees. Prior to and during fiscal year 2018, our Board also had a Finance Committee, which was dissolved by the Board on February 7, 2019. Additionally, the Board has in the past established, and may in the future establish, ad hoc committees to assist the Board in fulfilling its oversight responsibilities. The charters of our Audit, Compensation, and Nominating and Corporate

Governance Committees are available on our website at <http://investors.sunpower.com>. You may also request copies of our committee charters free of charge by writing to SunPower Corporation, 77 Rio Robles, San Jose, California 95134, Attention: Corporate Secretary. Below is a summary of our committee structure and membership information.

Director	Audit Committee	Compensation Committee	Finance Committee	Nominating and Corporate Governance Committee
François Badoual	—	—	—	Member
Helle Kristoffersen	—	Member	Member	—
Antoine Larenaudie	—	—	Member	—
Catherine Lesjak ⁽¹⁾	Member	—	Member	—
Thomas McDaniel ⁽¹⁾	Chair	Member	Chair	Member
Ladislav Paszkiewicz	—	—	—	Member
Julien Pouget	—	Member	—	—
Pat Wood III ^{(1)(*)}	Member	Chair	—	Chair

(1) Indicates an independent director.

(*) Indicates the lead independent director.

Audit Committee

Mr. McDaniel is the Chairman of the Audit Committee, appointed in June 2012. Our Audit Committee is a separately-designated standing committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Board has determined that each member of our Audit Committee is “independent” as that term is defined in Section 10A of the Exchange Act and as defined by applicable listing standards of The Nasdaq Stock Market. Each member of the Audit Committee is financially literate and has the financial sophistication required by the applicable listing standards of The Nasdaq Stock Market. The Board has determined that each of Ms. Lesjak and Mr. McDaniel meet the criteria of an “audit committee financial expert” within the meaning of applicable SEC regulations due to their professional experience. Mr. McDaniel’s and Ms. Lesjak’s relevant professional experience is described above under “*Proposal One—Re-Election of Class II Directors.*” The Audit Committee held nine meetings during fiscal 2018.

The purpose of the Audit Committee, pursuant to its charter, is, among other things, to:

- provide oversight of our accounting and financial reporting processes and the audit of our financial statements and internal controls by our independent registered public accounting firm;
- assist the Board in the oversight of: (1) the integrity of our financial statements; (2) our compliance with legal and regulatory requirements; (3) the independent registered public accounting firm’s performance, qualifications, and independence; and (4) the performance of our internal audit function;
- oversee management’s identification, evaluation, and mitigation of major risks to our company;
- prepare an audit committee report as required by the SEC to be included in our annual proxy statement;
- provide to the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board;
- consider questions of actual and potential conflicts of interest (including corporate opportunities) of Board members and corporate officers and review and approve proposed related party transactions that would be required to be disclosed under Item 404 of Regulation S-K, provided that any approval of related party transactions may be made only by the disinterested members of the Audit Committee; and
- oversee any waiver of the Code of Business Conduct and Ethics for directors and executive officers.

The Audit Committee also serves as the representative of the Board with respect to its oversight of the matters described below in the “*Audit Committee Report.*” The Audit Committee has established procedures for (1) the

receipt, retention, and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters, and (2) the confidential, anonymous submission by our employees of concerns regarding accounting or auditing matters. The Audit Committee promptly reviews such complaints and concerns.¹

Compensation Committee

Mr. Wood is the Chairman of the Compensation Committee, appointed in November 2012. Two of the four members of the Compensation Committee, Messrs. McDaniel and Wood, are “independent” as defined by applicable listing standards of The Nasdaq Stock Market. Ms. Kristoffersen and Mr. Pouget were designated by Total to be on the Compensation Committee pursuant to our Affiliation Agreement with Total and are not “independent” as defined by applicable listing standards of The Nasdaq Stock Market. The Compensation Committee held seven meetings during fiscal 2018.

The Compensation Committee, pursuant to its charter, assists the Board in discharging its duties with respect to:

- the formulation, implementation, review, and modification of the compensation of our directors and executive officers;
- the review and preparation of an annual report of the Compensation Committee for inclusion in our annual proxy statement or Annual Report on Form 10-K, in accordance with applicable rules of the SEC and applicable listing standards of The Nasdaq Stock Market;
- the review and discussion with management of the Compensation Discussion and Analysis section of our annual proxy statement or Annual Report on Form 10-K;
- oversight of our company compensation philosophy, which may be performance-based, to reward and retain employees based on achievement of goals; and
- the administration of our equity incentive plans, including the SunPower Corporation 2015 Omnibus Incentive Plan.

We also have a Section 16 Subcommittee of the Compensation Committee consisting solely of independent directors available to approve certain compensation matters in accordance with Rule 16b-3 of the Exchange Act, as recommended by the Compensation Committee. This subcommittee historically also reviewed and approved certain compensation matters in accordance with Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”).

In certain instances, the Compensation Committee has delegated limited authority to Mr. Werner, in his capacity as a Board member, with respect to compensation and equity awards for employees other than our executive officers. For more information on our processes and procedures for the consideration and determination of executive compensation, see “*Compensation Discussion and Analysis*” below.

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee was at any time during fiscal 2018 one of our officers or employees, or is one of our former officers or employees. No member of our Compensation Committee had any relationship requiring disclosure under Item 404 and Item 407(e)(4) of Regulation S-K. Additionally, during fiscal 2018, none of our executive officers or directors was a member of the board of directors, or any committee of the board of directors, or of any other entity such that the relationship would be construed to constitute a compensation committee interlock within the meaning of the rules and regulations of the SEC.

Nominating and Corporate Governance Committee

Mr. Wood is the Chairman of our Nominating and Corporate Governance Committee. Two of the four members of the Nominating and Corporate Governance Committee, Messrs. McDaniel and Wood, are “independent” as defined by applicable listing standards of The Nasdaq Stock Market. Messrs. Badoual and Paszkiewicz were designated by Total to be on the Nominating and Corporate Governance Committee pursuant to our Affiliation Agreement with Total and are not “independent” as defined by applicable listing standards of The Nasdaq Stock Market. The Nominating and Corporate Governance Committee held four meetings during fiscal 2018.

¹ Upon the dissolution of the Finance Committee on February 7, 2019, a portion of the Finance Committee’s oversight responsibilities (including oversight responsibility for certain treasury, financial risk review, insurance review, and other matters) was allocated to the Audit Committee.

The Nominating and Corporate Governance Committee, pursuant to its charter, assists the Board in discharging its responsibilities with respect to:

- the identification of individuals qualified to become directors and the selection or recommendation of candidates for all directorships to be filled by the Board or by the stockholders;
- the evaluation of whether an incumbent director should be nominated for re-election to the Board upon expiration of such director's term, based upon factors established for new director candidates as well as the incumbent director's qualifications, performance as a Board member, and such other factors as the Nominating and Corporate Governance Committee deems appropriate; and
- the development, maintenance, and recommendation of a set of corporate governance principles applicable to us, and periodically reviewing such principles.

The Nominating and Corporate Governance Committee also considers diversity in identifying nominees for directors. In particular, the Nominating and Corporate Governance Committee believes that the members of the Board should reflect a diverse range of talent, skill, and expertise sufficient to provide sound and prudent guidance with respect to our operations and interests. In addition, the Nominating and Corporate Governance Committee has determined that the Board as a whole must have the right diversity, mix of characteristics, and skills for the optimal functioning of the Board in its oversight role.

The Nominating and Corporate Governance Committee believes the Board should be composed of persons with skills in areas such as:

- relevant industries, especially solar products and services;
- technology manufacturing;
- sales and marketing;
- leadership of large, complex organizations;
- finance and accounting;
- corporate governance and compliance;
- strategic planning;
- international business activities; and
- human capital and compensation.

Under our Corporate Governance Principles, during the director nominee evaluation process, the Nominating and Corporate Governance Committee and the Board take the following into account:

- A significant number of directors on the Board should be independent directors, unless otherwise required by applicable law or The Nasdaq Stock Market rules;
- Candidates should be capable of working in a collegial manner with persons of different educational, business, and cultural backgrounds and should possess skills and expertise that complement the attributes of the existing directors;
- Candidates should represent a diversity of viewpoints, backgrounds, experiences, and other demographics;
- Candidates should demonstrate notable or significant achievement and possess senior-level business, management, or regulatory experience that would inure to our benefit;
- Candidates shall be individuals of the highest character and integrity;
- Candidates shall be free from any conflict of interest that would interfere with their ability to properly discharge their duties as a director or would violate any applicable law or regulation;
- Candidates for the Audit Committee and Compensation Committee should have the enhanced independence and financial literacy and expertise that may be required under law or The Nasdaq Stock Market rules;
- Candidates shall be capable of devoting the necessary time to discharge their duties, taking into account memberships on other boards and other responsibilities; and
- Candidates shall have the desire to represent the interests of all stockholders.

Finance Committee

Mr. McDaniel was the Chairman of the Finance Committee. Two of the four former members of the Finance Committee, Ms. Lesjak and Mr. McDaniel, are “independent” as defined by applicable listing standards of The Nasdaq Stock Market. Ms. Kristoffersen and Mr. Larenaudie were designated by Total to be on the Finance Committee pursuant to our Affiliation Agreement with Total and are not “independent” as defined by applicable listing standards of The Nasdaq Stock Market. The Finance Committee held four meetings during fiscal 2018. Pursuant to approval of the Board, the Finance Committee was dissolved on February 7, 2019. A portion of the Finance Committee’s oversight responsibilities were allocated to the Audit Committee, and the remainder to the Board.

Prior to its dissolution, the Finance Committee assisted the Board in discharging its duties with respect to:

- The review, evaluation, and approval of financing transactions, including credit facilities, structured finance, issuance of debt and equity securities in private and public transactions, sales of project assets or ownership therein to publicly traded entities in which we have an equity interest greater than 10% or their subsidiaries, and the repurchase of debt and equity securities (other than financing activity exceeding \$50 million, which requires the review and approval of the Board);
- The review of our annual operating plan for recommendation to the Board, and the monitoring of capital spend as compared with the annual operating plan;
- The review and recommendation to the Board of investments, acquisitions, divestitures, and other corporate transactions; and
- General oversight of our treasury activities, and the review, at least annually, of our counterparty credit risk and insurance programs.

CORPORATE GOVERNANCE

Stockholder Communications with Board

We provide a process by which stockholders may send communications to our Board, any committee of the Board, our non-management directors, or any particular director. Stockholders can contact our non-management directors by sending such communications to the Chairman of the Nominating and Corporate Governance Committee, c/o Corporate Secretary, SunPower Corporation, 77 Rio Robles, San Jose, California 95134. Stockholders wishing to communicate with a particular Board member, a particular Board committee, or the Board as a whole may send a written communication to our Corporate Secretary, SunPower Corporation, 77 Rio Robles, San Jose, California 95134. The Corporate Secretary will forward such communication to the full Board, to the appropriate committee, or to any individual director or directors to whom the communication is addressed, unless the communication is unduly hostile, threatening, illegal, or harassing, in which case the Corporate Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

Directors' Attendance at Our Annual Meetings

Although we do not have a formal policy that mandates the attendance of our directors at our annual stockholder meetings, our directors are encouraged to attend. All of our directors are expected to attend the 2019 Annual Meeting, and five of our directors attended our annual meeting of stockholders held on May 17, 2018 (the "2018 Annual Meeting").

Submission of Stockholder Proposals for the 2020 Annual Meeting

As a SunPower stockholder, you may submit a proposal, including director nominations, for consideration at future annual meetings of stockholders.

Stockholder Proposals. Only stockholders meeting certain criteria outlined in our Amended and Restated By-Laws (the "By-Laws") are eligible to submit nominations for election to the Board or to propose other proper business for consideration by stockholders at an annual meeting. Under the By-Laws, stockholders who wish to nominate persons for election to the Board or propose other proper business for consideration by stockholders at an annual meeting must give proper written notice to us not earlier than 120 days and not later than 90 days before the first anniversary of the preceding year's annual meeting, provided that in the event that an annual meeting is called for a date that is not within 25 days before or after such anniversary date, notice by the stockholder in order to be timely must be received not later than the close of business on the tenth day following the day on which we mail or publicly announce our notice of the date of the annual meeting, whichever occurs first. Therefore, notices regarding nominations of persons for election to the Board and proposals of other proper business for consideration at the 2020 annual meeting of stockholders must be submitted to us no earlier than January 17, 2020 and no later than February 16, 2020. If the date of the 2020 annual meeting is moved more than 25 days before or after the anniversary date of the 2019 Annual Meeting, the deadline will instead be the close of business on the tenth day following notice of the date of the 2020 annual meeting of stockholders or public disclosure of such date, whichever occurs first. We have discretionary power, but are not obligated, to consider stockholder proposals submitted after February 16, 2020 for the 2020 annual meeting.

Stockholder proposals will also need to comply with SEC regulations, such as Rule 14a-8 of the Exchange Act regarding the inclusion of stockholder proposals in any Company-sponsored proxy material. In order to be included in our proxy materials for the 2020 annual meeting of stockholders, pursuant to Rule 14a-8 of the Exchange Act the submission deadline for stockholder proposals is December 7, 2019. All written proposals must be received by our Corporate Secretary, at our corporate offices at 77 Rio Robles, San Jose, California 95134 by the close of business on the required deadline in order to be considered for inclusion in our proxy materials for the 2020 annual meeting of stockholders.

Nomination of Director Candidates. Our Nominating and Corporate Governance Committee will consider director candidates recommended by our stockholders. Such nominations should be directed to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, SunPower Corporation, 77 Rio Robles, San Jose, California 95134. In addition, the stockholder must give notice of a nomination to our Corporate Secretary, and such notice must be received within the time period described above under “*Stockholder Proposals.*” Any such proposal must include the following:

- the name, age, business address, residential address, and record address of such nominee;
- the principal occupation or employment of such nominee;
- the class or series and number of shares of our stock owned beneficially or of record by such nominee;
- any information relating to the nominee that would be required to be disclosed in our proxy statement;
- the nominee holder for, and number of, shares owned beneficially but not of record by such person;
- whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement, or understanding (including any derivative or short positions, profit interests, options, or borrowed or loaned shares) has been made, the effect or intent of which is to mitigate loss to or manage risk or benefit of share price changes for, or to increase or decrease the voting power of, such person with respect to any share of our stock;
- to the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or re-election as a director on the date of such stockholder’s notice;
- a description of all arrangements or understandings between or among such persons pursuant to which the nomination(s) are to be made by the stockholder and any relationship between or among the stockholder giving notice and any person acting in concert, directly or indirectly, with such stockholder and any person controlling, controlled by, or under common control with such stockholder, on the one hand, and each proposed nominee, on the other hand; and
- a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice.

If a director nomination is made pursuant to the process set forth above, the Nominating and Corporate Governance Committee will apply the same criteria in evaluating the nominee as it would any other board nominee candidate, and will recommend to the Board whether or not the stockholder nominee should be included as a candidate for election in our proxy statement. The nominee and nominating stockholder should be willing to provide any information reasonably requested by the Nominating and Corporate Governance Committee in connection with its evaluation. The Board will make the final determination whether or not a nominee will be included in the proxy statement and on the proxy card for election.

Once either a search firm selected by the Nominating and Corporate Governance Committee or a stockholder has provided our Nominating and Corporate Governance Committee with the identity of a prospective candidate, the Nominating and Corporate Governance Committee communicates the identity and known background and experience of the candidate to the Board. If warranted by a polling of the Board, members of our Nominating and Corporate Governance Committee and/or other members of our senior management may interview the candidate. If the Nominating and Corporate Governance Committee reacts favorably to a candidate, the candidate is next invited to interview with the members of the Board who are not on the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee then makes a final determination whether to recommend the candidate to the Board for directorship. The Nominating and Corporate Governance Committee currently has not set specific minimum qualifications or criteria for nominees that it proposes for Board membership, but evaluates the entirety of each candidate’s credentials. The Nominating and Corporate Governance Committee believes, however, that we will be best served if our directors bring to the Board a variety of diverse experience and backgrounds and, among other things, demonstrated integrity, executive leadership, and financial, marketing, or business knowledge and experience. See “*Board Structure—Nominating and Corporate Governance Committee*” for factors considered by the Nominating and Corporate Governance Committee and the Board in considering director nominees.

Corporate Governance Principles

We believe that strong corporate governance practices are the foundation of a successful, well-run company. The Board has adopted Corporate Governance Principles that set forth our core corporate governance principles, including:

- oversight responsibilities of the Board;
- election and responsibilities of the lead independent director;
- role of Board committees and assignment and rotation of members;
- review of the Code of Business Conduct and Ethics and consideration of related party transactions;
- independent director meetings without management and with outside auditors;
- Board's access to employees;
- annual review of director compensation;
- membership criteria and selection of the Board;
- annual review of Board performance;
- director orientation and continuing education;
- stock ownership guidelines for certain of our executive officers and directors;
- annual review of performance and compensation of executive officers; and
- succession planning for key executive officers.

Our Corporate Governance Principles are available on our website at <http://investors.sunpower.com>.

Code of Business Conduct and Ethics; Related Persons Transactions Policy and Procedures

It is our general policy to conduct our business activities and transactions with the highest level of integrity and ethical standards and in accordance with all applicable laws. In addition, it is our policy to avoid situations that create an actual or potential conflict between our interests and the personal interests of our officers and directors. Such principles are described in our Code of Business Conduct and Ethics, which was revised on December 19, 2018. Our Code of Business Conduct and Ethics is applicable to our directors, officers, and employees (including our principal executive officer, principal financial officer, and principal accounting officer) and is designed to promote compliance with the laws applicable to our business, accounting standards, and proper and ethical business methods and practices. Our Code of Business Conduct and Ethics is available on our website at <http://investors.sunpower.com/corporate-governance.cfm> under the link for "Code of Conduct." You may also request a copy by writing to us at SunPower Corporation, 77 Rio Robles, San Jose, California 95134, Attention: Corporate Secretary. If we amend our Code of Business Conduct and Ethics or grant a waiver applicable to our principal executive officer, principal financial officer, or principal accounting officer, we will post a copy of such amendment or waiver on our website. Under our Corporate Governance Principles, the Audit Committee is responsible for reviewing and recommending changes to our Code of Business Conduct and Ethics.

Pursuant to our Corporate Governance Principles and the charter of our Audit Committee, our Audit Committee will consider questions of actual and potential conflicts of interest (including corporate opportunities) of directors and officers and approve or prohibit such transactions. The Audit Committee will review and approve in advance all proposed related party transactions that would be required to be disclosed under Item 404 of Regulation S-K, in compliance with the applicable Nasdaq Stock Market rules. A related party transaction will only be approved if the Audit Committee determines that it is in our best interests. If a director is involved in the transaction, he or she will be recused from all voting and approval processes in connection with the transaction.

Certain Relationships and Related Persons Transactions

Other than the compensation agreements and other arrangements described herein, and the transactions described below, since the start of our last fiscal year on January 1, 2018, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we have been or will be a party:

- in which the amount involved exceeded or will exceed \$120,000; and
- in which any director, director nominee, executive officer, beneficial owner of more than 5% of any class of our common stock, or any immediate family member of such persons had or will have a direct or indirect material interest.

Agreements with Total and Total S.A.

Amended and Restated Credit Support Agreement

We and Total S.A. entered into an Amended and Restated Credit Support Agreement (the “Credit Support Agreement”) on June 29, 2016, which amended and restated the Credit Support Agreement dated April 28, 2011, by and between Total S.A. and us, as amended, which was entered into in connection with the Tender Offer.

Under the Credit Support Agreement, Total S.A. has agreed to enter into one or more guarantee agreements (each a “Guaranty”) with banks providing letter of credit facilities to us in support of certain of our businesses and for other permitted purposes. Total S.A. will guarantee the payment to the applicable issuing bank of our obligation to reimburse a draw on a letter of credit and pay interest thereon in accordance with the letter of credit facility between such bank and us. At any time until December 31, 2018, we may request that Total S.A. provide a Guaranty in support of our payment obligations with respect to a letter of credit facility. Such letters of credit must be issued no later than December 31, 2018 and expire no later than March 31, 2020. Total S.A. is required to issue and enter into the Guaranty requested by us, subject to certain terms and conditions. In addition, Total S.A. will not be required to enter into the Guaranty if, after giving effect to our request for a Guaranty, the sum of (a) the aggregate amount available to be drawn under all guaranteed letter of credit facilities, (b) the amount of letters of credit available to be issued under any guaranteed facility, and (c) the aggregate amount of draws (including accrued but unpaid interest) on any letters of credit issued under any guaranteed facility that have not yet been reimbursed by us, would exceed \$500 million in the aggregate. Such maximum amounts of credit support available to us can be reduced upon the occurrence of specified events.

In consideration for the commitments of Total S.A. pursuant to the Credit Support Agreement, we are required to pay Total S.A. a guaranty fee for each letter of credit that is the subject of a Guaranty under the Credit Support Agreement and was outstanding for all or part of the preceding calendar quarter, which fee (applied on a tiered basis) will be equal to: (x) the average daily amount of the undrawn amount outstanding on each guaranteed letter of credit plus any drawn amounts that have not been reimbursed by us or Total S.A., (y) multiplied by (1) 2.35% for letters of credit issued or extended if our leverage ratio (subject to reduction or increase consistent with the minimum leverage covenant set forth in the Revolving Credit Agreement among us, Crédit Agricole Corporate and Investment Bank (“Crédit Agricole”), as agent, and the lenders party thereto, as amended from time to time) (the “Leverage Ratio”) is less than or equal to 4.5 to 1.0; or (2) if the Leverage Ratio is greater than 4.5 to 1.0, 2.35% for letters of credit issued or extended for amounts less than \$200 million; 4.50% for amounts greater than or equal to \$200 million and less than \$300 million; 6.50% for amounts greater than or equal to \$300 million and less than \$400 million; and 8.00% for amounts greater than or equal to \$400 million and less than or equal to \$500 million (z) multiplied by the number of days during such calendar quarter that such letter of credit was outstanding, divided by 365. As an example, if at the end of a fiscal quarter our leverage ratio is greater than 4.5 to 1.0 and we had \$250 million in letters of credit outstanding during 50 days of the preceding calendar quarter, the guarantee fee would be equal to \$0.95 million ($(\$200 \text{ million} * 2.35\% + \$50 \text{ million} * 4.5\%) * 50/365$). In addition, we are required to pay Total S.A. a commitment fee equal to 0.50% times the average daily available facility amount for the preceding calendar quarter. We are also required to reimburse Total S.A. for payments made under any Guaranty and certain expenses of Total S.A., plus interest on both. In fiscal 2018, we incurred guaranty fees of approximately \$5.3 million to Total S.A. under the Credit Support Agreement.

We have agreed to undertake certain actions, including, but not limited to, ensuring that our payment obligations to Total S.A. rank at least equal in right of payment with all of our other present and future indebtedness, other than certain permitted secured indebtedness. We have also agreed to refrain from taking certain actions, including

refraining from making any dividend distributions so long as we have any outstanding repayment obligation to Total S.A. resulting from a draw on a guaranteed letter of credit.

The Credit Support Agreement will terminate following December 31, 2018, after the later of the satisfaction of all obligations thereunder and the termination or expiration of each Guaranty provided thereunder.

The Credit Support Agreement may not be assigned by us without the prior written consent of Total S.A. Total S.A., as the initial guarantor (but not any assignee of Total S.A.), may assign its rights and obligations under the Credit Support Agreement without our consent to an entity that is a Total S.A. subsidiary and which satisfies certain credit requirements. In connection with an assignment to an assignee that is rated lower than A/A2, Total S.A. would be required to either (a) pay to us an assignment fee equal to \$10 million as of June 29, 2016 and reduced by \$1 million at the beginning of each calendar quarter thereafter until reduced to zero or (b) agree to pay us a make-whole amount based on a calculation of the amount actually paid by us to banks that are party to letter of credit facilities (both guaranteed and non-guaranteed) and to lenders in revolving credit facilities permitted under the Credit Support Agreement in increased costs as a result of Total S.A.'s assignment of its rights and obligations under the Credit Support Agreement. Such make-whole amount would be payable on a quarterly basis from the assignment date through the termination date of the Credit Support Agreement.

Under the Credit Support Agreement, we have agreed to undertake certain actions, including, but not limited to, ensuring that our payment obligations to Total S.A. rank at least equal in right of payment with all of our other present and future indebtedness, other than certain permitted secured indebtedness. We also agreed to refrain from taking certain actions as detailed in the Credit Support Agreement, including (1) amending any agreements related to any guaranteed letter of credit facility, (2) granting any lien to secure indebtedness unless (a) an identical lien was granted to Total S.A. and (b) such other lien was at all times equal or subordinate to the priority of the lien granted to Total S.A. under (a), and (3) making any equity distributions.

Under the Credit Support Agreement, following a Trigger Event (as defined in the agreement and described below), and during its continuation, Total S.A. could elect not to enter into any additional Guarantees; declare all or any portion of the outstanding amounts owed by us to Total S.A. to be due and payable; direct banks that had provided guaranteed letter of credit facilities to stop all issuances of any additional letters of credit under such facilities; access and inspect our relevant financial records and other documents upon reasonable notice to us; and exercise all other rights it may have had under applicable law, provided that at its discretion, Total S.A. could also rescind such actions.

Each of the following events constitute a "Trigger Event":

- we default with respect to our reimbursement obligations to Total S.A. described above or any other payment obligation under the Credit Support Agreement that is 30 days overdue for which Total S.A. demands payment in writing;
- any representation or warranty made by us in the Credit Support Agreement was false, incorrect, incomplete, or misleading in any material respect when made and is not cured within 15 days after notice thereof by Total S.A.;
- we fail, and continue to fail for 15 days, to observe or perform any material covenant, obligation, condition, or agreement in the Credit Support Agreement;
- we default in the observance or performance of any agreement, term, or condition contained in a guaranteed letter of credit facility that would constitute an event of default or similar event thereunder (other than an obligation to pay any amount, the payment of which was guaranteed by Total S.A.), up to or beyond any grace period provided in such facility, unless waived by the applicable bank and Total S.A.;
- we or any of our subsidiaries default in the observance or performance of any agreement, term, or condition contained in any bond, debenture, note, or other indebtedness such that the holders of such indebtedness could accelerate the payment of \$25 million or more of such indebtedness; and
- certain bankruptcy or insolvency events.

In addition to the Credit Support Agreement, we and Total S.A. entered into a letter agreement (the "Letter Agreement") on May 8, 2017 to facilitate the issuance by Total S.A. of one or more guaranties of our payment obligations of up to \$100 million (the "Support Amount") under the Amended and Restated Revolving Credit Agreement with Credit Agricole Corporate and Investment Bank, as "administrative agent," and the other lenders

party thereto. In consideration for the commitments of Total S.A. pursuant to the Letter Agreement, we are required to pay a guarantor commitment fee of 0.50% per annum for the unutilized Support Amount and a guaranty fee of 2.35% per annum of the outstanding guaranties. The maturity date of the Letter Agreement is August 26, 2019.

Affiliation Agreement

In connection with the Tender Offer, we and Total entered into an affiliation agreement (the “Affiliation Agreement”). The Affiliation Agreement was amended on June 7, 2011, December 12, 2011, February 28, 2012, and August 10, 2012. The Affiliation Agreement governs the relationship following the closing of the Tender Offer between SunPower, on the one hand, and Total S.A., Total, any other affiliate of Total S.A. and any member of a group of persons formed for the purpose of acquiring, holding, voting, disposing of, or beneficially owning our voting stock of which Total S.A. or any of its affiliates is a member (the “Total Group”), on the other hand.

Standstill. Following the closing of the Tender Offer and during the Standstill Period (as defined below), Total, Total S.A., and the Total Group may not:

- effect or seek, or announce any intention to effect or seek, any transaction that would result in the Total Group beneficially owning shares in excess of the Applicable Standstill Limit (as defined below), or take any action that would require us to make a public announcement regarding the foregoing;
- request that (i) we, (ii) our Board members that are independent directors and not appointed to the Board by Total (the “Disinterested Directors”), or (iii) our officers or employees, amend or waive any of the standstill restrictions applicable to the Total Group described above; or
- enter into any discussions with any third party regarding any of the foregoing.

In addition, no member of the Total Group may, among other things, solicit proxies relating to the election of directors to our Board without the prior approval of the Disinterested Directors.

The Total Group is, however, permitted to either (i) make and consummate a Total Tender Offer or (ii) propose and effect a Total Merger so long as, in each case, Total complies with certain advance notice and prior negotiation obligations, including providing written notice to us at least 120 days before commencing or proposing such Total Tender Offer or Total Merger and making its designees reasonably available for the purpose of negotiation with the Disinterested Directors concerning such Total Tender Offer or Total Merger.

The “Standstill Period” is the period beginning on the date of the Affiliation Agreement and ending on the earlier to occur of:

- a change of control of our company;
- the first time that the Total Group beneficially owns less than 15% of outstanding voting power of our company;
- we or our Board take or fail to take certain of the actions described below under “—*Events Requiring Stockholder Approval by Total*” or fail to comply with certain of the covenants described below under “—*Covenants of Total and SunPower*” during the time when Total, together with the controlled subsidiaries of Total S.A., owns 50% or less of the outstanding voting power of our company or 40% or less of the outstanding voting power of our company when at least \$100 million in Guarantees are outstanding under the Credit Support Agreement;
- a tender offer for at least 50% of the outstanding voting power of our company is commenced by a third party after the time when Total, together with the controlled subsidiaries of Total S.A., owns 50% or less of the outstanding voting power of our company or 40% or less of the outstanding voting power of our company when at least \$100 million in Guarantees are outstanding under the Credit Support Agreement; and
- the termination of the Affiliation Agreement.

The “Applicable Standstill Limit” is 70% of the lower of (i) the then outstanding shares of our common stock or (ii) the then outstanding voting power of our company.

During the Standstill Period, the Total Group will not be in breach of its standstill obligations described above if any member of the Total Group holds beneficial ownership of shares of our common stock in excess of the Applicable Standstill Limit solely as a result of:

- recapitalizations, repurchases, or other actions taken by us or our controlled subsidiaries that have the effect of reducing the number of shares of our common stock then outstanding;
- the issuance of shares of our common stock to Total in connection with the acquisition of Tenesol SA; or
- the rights specified in any “poison pill” share purchase rights plan having separated from the shares of our common stock and a member of the Total Group having exercised such rights.

Transfer of Control. If any member or members of the Total Group seek to transfer, in one or a series of transactions, either (i) 40% or more of the outstanding shares of our common stock or (ii) 40% or more of the outstanding voting power of our company to a single person or group, then such transfer must be conditioned on, and may not be effected, unless the transferee either:

- makes a tender offer to acquire 100% of the voting power of our company, at the same price per share of voting stock and using the same form of consideration to be paid by the transferee to the Total Group; or
- proposes a merger providing for the acquisition of 100% of the voting power of our company, at the same price per share of voting stock and using the same form of consideration to be paid by the transferee to the Total Group.

Total’s Rights to Maintain. The Total Group has the following rights to maintain its ownership in us until (i) the first time that the Total Group owns less than 40% of the outstanding voting power of our company, or (ii) until the first time that Total transfers shares of our common stock to a person other than Total S.A. or a controlled subsidiary of Total S.A. and, as a result of such transfer, Total S.A. and its subsidiaries own less than 50% of the outstanding voting power of our company.

If we propose to issue new securities primarily for cash in a financing transaction, then Total has the right to purchase a portion of such new securities equal to its percentage ownership in us. Total can also elect to purchase our securities in open market transactions or through privately negotiated transactions in an amount equal to its percentage ownership in connection with such issuance of new securities. If we propose to issue new securities in consideration for our purchase of a business or assets of a business, then Total has the right to purchase additional securities in the open market or through privately-negotiated transactions equal to its percentage ownership in us. Total has similar rights in the event that we issue or propose to issue (including pursuant to our equity plans or as the result of the conversion of our convertible securities) securities that, together with all other issuances of securities by us since the end of the preceding fiscal quarter, aggregate to more than 1% of our fully diluted equity. Total has a nine-month grace period, subject to certain extensions to satisfy regulatory conditions, to acquire securities in the open market or through privately negotiated transactions in connection with any of the securities issuances described above.

SunPower Board. The Affiliation Agreement provides that Total is entitled to designate nominees to our Board, subject to the maintenance of certain ownership thresholds described below. See “*Proposal One*” above for more details on our current Board membership.

So long as Total, together with the controlled subsidiaries of Total S.A., owns at least 10% of the outstanding voting power of our company, then our Board must use its reasonable best efforts to elect the directors designated by Total as follows:

- until the first time that Total, together with the controlled subsidiaries of Total S.A., owns less than 50% of the voting power of our company, Total will be entitled to designate five nominees to serve on our Board;
- until the first time that Total, together with the controlled subsidiaries of Total S.A., owns less than 50% but not less than 40% of the voting power of our company, Total will be entitled to designate four nominees to serve on our Board;
- until the first time that Total, together with the controlled subsidiaries of Total S.A., owns less than 40% but not less than 30% of the voting power of our company, Total will be entitled to designate three nominees to serve on our Board;

- until the first time that Total, together with the controlled subsidiaries of Total S.A., owns less than 30% but not less than 20% of the voting power of our company, Total will be entitled to designate two nominees to serve on our Board; and
- until the first time that Total, together with the controlled subsidiaries of Total S.A., owns less than 20% but not less than 10% of the voting power of our company, Total will be entitled to designate one nominee to serve on our Board.

For as long as they are serving on our Board, the directors designated by Total will be allocated across the three classes that comprise our Board in a manner as equal as practicable.

Subject to the listing standards of The Nasdaq Stock Market, until the first time that Total, together with the controlled subsidiaries of Total S.A., owns less than 30% of the outstanding voting power of our company:

- the Audit Committee will be composed of three Disinterested Directors;
- the Compensation Committee and the Nominating and Corporate Governance Committee will each be composed of two Disinterested Directors and two directors designated by Total; and
- any other standing committee will be composed of two Disinterested Directors and two directors designated by Total.

Until the first time that Total, together with the controlled subsidiaries of Total S.A., own less than 10% of the outstanding voting power of our company, a representative of Total will, subject to certain exceptions, be permitted to attend all meetings of our Board or any committee thereof in a non-voting, observer capacity (other than any committee whose sole purpose is to consider a transaction for which there exists an actual conflict of interest between the Total Group, on the one hand, and us and any of our affiliates, on the other hand).

Events Requiring Specific Board Approval. At any time when Total, together with the controlled subsidiaries of Total S.A., owns at least 30% of the outstanding voting power of our company, neither the Total Group nor we (or any of our affiliates) may effect any of the following without first obtaining the approval of a majority of the Disinterested Directors:

- any amendment to our Certificate of Incorporation or By-Laws;
- any transaction that, in the reasonable judgment of the Disinterested Directors, involves an actual conflict of interest between the Total Group, on the one hand, and us and any of our affiliates, on the other hand;
- the adoption of any shareholder rights plan or the amendment or failure to renew our existing shareholder rights plan;
- except as provided above, the commencement of any tender offer or exchange offer by the Total Group for shares of our common stock or securities convertible into shares of our common stock, or the approval of a merger of us or any company that we control with a member of the Total Group;
- any voluntary dissolution or liquidation of our company or any company that we control;
- any voluntary bankruptcy filing by us or any company that we control or the failure to oppose any other person's bankruptcy filing or action to appoint a receiver of our company or any company that we control;
- any delegation of all or a portion of the authority of our Board to any committee thereof;
- any amendment, modification, or waiver of any provision of the Affiliation Agreement;
- any modification of, or action with respect to, director's and officer's insurance coverage; or
- any reduction in the compensation of the Disinterested Directors.

Events Requiring Supermajority Board Approval. At any time when Total, together with the controlled subsidiaries of Total S.A., owns at least 30% of the outstanding voting power of our company, neither Total nor we (nor any of Total's or our affiliates, respectively) may, without first obtaining the approval of two-thirds of our directors (including at least one Disinterested Director), effect any approval or adoption of our annual operating plan or budget that has the effect of reducing the planned letter of credit utilization in any given year by more than 10% below the applicable maximum letter of credit amount in the Credit Support Agreement.

Events Requiring Stockholder Approval by Total. Until the first time that Total, together with the controlled subsidiaries of Total S.A., owns 50% or less of the outstanding voting power of our company or 40% or less of the outstanding voting power of our company when at least \$100 million in Guarantees are outstanding pursuant to the Credit Support Agreement and, thereafter, for so long as (1) any loans by Total S.A. to us remain outstanding, (2) any guarantees by Total S.A. of any of our indebtedness remain outstanding, or (3) any other continuing obligation of Total S.A. to or for the benefit of us remain outstanding (“Total Stockholder Approval Period”), neither we (including any of our controlled subsidiaries) nor our Board may effect any of the following without first obtaining the approval of Total:

- any amendment to our Certificate of Incorporation or By-Laws;
- any transaction pursuant to which we or any company that we control acquires or otherwise obtains the ownership or exclusive use of any business, property, or assets of a third party if as of the date of the consummation of such transaction the aggregate net present value of the consideration paid or to be paid exceeds the lower of (i) 15% of our then-consolidated total assets or (ii) 15% of our market capitalization;
- any transaction pursuant to which a third party obtains ownership or exclusive use of any of our business, property, or assets or those of any company that we control if as of the date of the consummation of such transaction the aggregate net present value of the consideration received or to be received exceeds the lower of (i) 10% of our then-consolidated total assets or (ii) 10% of our market capitalization;
- the adoption of any shareholder rights plan or certain changes to our existing shareholder rights plan;
- except for the incurrence of certain permitted indebtedness, the incurrence of additional indebtedness in excess of the difference, if any, of 3.5 times our LTM EBITDA (as defined in the Affiliation Agreement) less our Outstanding Gross Debt (as defined in the Affiliation Agreement);
- subject to certain exceptions, any voluntary dissolution or liquidation of our company or any company that we control;
- any voluntary bankruptcy filing by us or any company that we control or the failure to oppose any other person’s bankruptcy filing or action to appoint a receiver of our company or any company that we control; or
- any repurchase of our common stock.

Certain Matters Related to SunPower’s Shareholder Rights Plan. Until the Total Group beneficially owns less than 15% of the outstanding voting power of our company, neither we nor our Board is permitted to adopt any shareholder rights plan or make certain changes to our existing shareholder rights plan without the approval of Total.

Covenants of Total and SunPower. In order to effect the transactions contemplated by the Affiliation Agreement, each of Total and we have committed to taking certain actions. With respect to us, such actions include:

- amending our By-Laws to provide that the Total Group may call a special meeting of stockholders in certain circumstances;
- taking certain actions to exculpate Total S.A., Total, any controlled subsidiary of Total S.A., and those of our directors designated by Total from corporate opportunities, to the fullest extent permitted by applicable law;
- taking certain actions to render Delaware’s business combination statute inapplicable to the Total Group and certain future transferees of the Total Group;
- making certain amendments to our shareholder rights plan, including excluding the Total Group from the definition of “Acquiring Person” under such plan;
- renewing our existing shareholder rights plan so long as the Total Group beneficially owns at least 15% of our outstanding voting power; and
- providing Total with certain of our financial information from time to time.

Termination. The Affiliation Agreement generally terminates upon the earlier to occur of (i) Total, together with the controlled subsidiaries of Total S.A., owning less than 10% of the outstanding voting power of our company or (ii) Total, together with the controlled subsidiaries of Total S.A., owning 100% of the outstanding voting power of our company.

Affiliation Agreement Guaranty

Total S.A. entered into a guaranty (the “Affiliation Agreement Guaranty”) in connection with the Tender Offer and entry into the Affiliation Agreement, pursuant to which Total S.A. unconditionally guarantees the full and prompt payment of Total S.A.’s, Total’s, and each Total S.A. controlled company’s payment obligations under the Affiliation Agreement and the full and prompt performance of their respective representations, warranties, covenants, duties, and agreements contained in the Affiliation Agreement.

Research & Collaboration Agreement

In connection with the Tender Offer, we and Total entered into a Research & Collaboration Agreement (the “R&D Agreement”) that establishes a framework under which the parties engage in long-term research and development collaboration (the “R&D Collaboration”). The R&D Collaboration encompasses a number of different projects (“R&D Projects”), with a focus on advancing our technology position in the crystalline silicon domain, as well as ensuring our industrial competitiveness.

The R&D Agreement contemplates a joint committee (the “R&D Strategic Committee”) to identify, plan, and manage the R&D Collaboration. Due to the impracticability of anticipating and establishing all of the legal and business terms that would be applicable to the R&D Collaboration or to each R&D Project, the R&D Agreement sets forth broad principles applicable to the parties’ potential R&D Collaboration, and the R&D Strategic Committee establishes the particular terms governing each particular R&D Project consistent with the terms set forth in the R&D Agreement. In fiscal 2018, Total contributed \$0.1 million to us under the R&D Agreement.

Registration Rights Agreement

In connection with the Tender Offer, we and Total entered into a customary registration rights agreement (the “Registration Rights Agreement”) related to Total’s ownership of shares of our common stock. The Registration Rights Agreement provides Total with shelf registration rights, subject to certain customary exceptions, and up to two demand registration rights in any 12-month period, also subject to certain customary exceptions. Total also has certain rights to participate in any registrations of securities that we initiate. We will generally pay all costs and expenses we incur and that Total incurs in connection with any shelf or demand registration (other than selling expenses incurred by Total). We and Total have also agreed to certain indemnification rights under the Registration Rights Agreement. The Registration Rights Agreement terminates on the first date on which: (i) the shares held by Total constitute less than 5% of our then outstanding common stock; (ii) all of our securities held by Total may be immediately resold pursuant to Rule 144 promulgated under the Exchange Act during any 90-day period without any volume limitation or other restriction; or (iii) we cease to be subject to the reporting requirements of the Exchange Act.

The Registration Rights Agreement was amended on May 29, 2013, in connection with the issuance of our 0.75% Senior Convertible Debentures due 2018, to provide that convertible debentures and our common stock underlying such debentures are “registrable securities” within the meaning of the Registration Rights Agreement.

Stockholder Rights Plan

On April 28, 2011, before the execution of the Tender Offer Agreement, we entered into an amendment (the “Rights Agreement Amendment”) to the Rights Agreement, dated August 12, 2008, by and between us and Computershare Trust Company, N.A., as Rights Agent (the “Rights Agreement”), in order to, among other things, render the rights therein inapplicable to each of: (i) the approval, execution, or delivery of the Tender Offer Agreement; (ii) the commencement or consummation of the Tender Offer; (iii) the consummation of the other transactions contemplated by the Tender Offer Agreement and the related agreements; and (iv) the public or other announcement of any of the foregoing.

On June 14, 2011, we entered into a second amendment to the Rights Agreement (the “Second Rights Agreement Amendment”), in order to, among other things, exempt Total, Total S.A., and certain of their affiliates and certain members of a group of which they may become members from the definition of “Acquiring Person” thereunder, such that the rights issuable pursuant to the Rights Agreement will not become issuable in connection with the completion of the Tender Offer.

By-Laws Amendment

On June 14, 2011, our Board approved amendments of our By-Laws as required under the Affiliation Agreement. The amendments: (i) allow any member of the Total Group to call a meeting of stockholders for the sole purpose of considering and voting on a proposal to effect a Total Merger or a Transferee Merger (as defined in the Affiliation Agreement); (ii) provide that the number of directors of our Board shall be determined from time to time by resolution adopted by the affirmative vote of a majority of our entire Board at any regular or special meeting; and (iii) require, before the termination of the Affiliation Agreement, the approval of a majority of our independent directors to amend our By-Laws so long as Total, together with the controlled subsidiaries of Total S.A., owns at least 30% of our voting securities as well as require, before the termination of the Affiliation Agreement, Total's written consent during the Total Stockholder Approval Period to amend the By-Laws. In November 2011, our By-Laws were amended to remove restrictions prohibiting stockholder consents in writing. On November 3, 2017, our By-Laws were amended to provide that the designation of the office of president is not mandatory, in addition to effecting certain other minor clarifying changes for purposes of administrative ease and alignment with our current organization.

The Credit Support Agreement, Letter Agreement, Affiliation Agreement, Affiliation Agreement Guaranty, Research and Collaboration Agreement, Registration Rights Agreement, Rights Agreement Amendment, Second Rights Agreement Amendment, and By-Law amendments, and amendments thereto, as described above, are attached to, and more fully described in, our Forms 8-K as filed with the SEC on May 2, 2011, June 7, 2011, June 15, 2011, December 23, 2011, May 9, 2017, and November 7, 2017, our Solicitation/Recommendation Statement on Form 14D-9 filed with the SEC on May 3, 2011, and our Forms 10-Q as filed with the SEC on November 2, 2012 and August 10, 2016.

Upfront Warrant

On February 28, 2012, we issued to Total a warrant (the "Upfront Warrant") that is exercisable to purchase 9,531,677 shares of our common stock at an exercise price of \$7.8685 per share, subject to adjustment for customary anti-dilution and other events. The Upfront Warrant, which is governed by a Private Placement Agreement, dated December 23, 2011, and a Compensation and Funding Agreement, dated February 28, 2012, as amended, is exercisable at any time for seven years after its issuance, provided that, so long as at least \$25 million in aggregate of our convertible debt remains outstanding, such exercise will not cause any "person," including Total S.A., to, directly or indirectly, including through one or more wholly owned subsidiaries, become the "beneficial owner" (as such terms are defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act) of more than 74.99% of the voting power of our common stock at such time, a circumstance which would trigger the repurchase or conversion of our existing convertible debt. The Upfront Warrant expired on February 27, 2019.

Sale of 0.75% Debentures Due 2018

In May 2013, we issued \$300 million in aggregate principal amount of our 0.75% senior convertible debentures due 2018 (the "2018 Debentures") in a private offering. An aggregate principal amount of \$200 million of the 2018 Debentures were sold to Total by the initial purchasers of the 2018 Debentures. The 2018 Debentures were convertible into shares of our common stock at any time based on an initial conversion rate of 40.0871 shares of common stock per \$1,000 principal amount of 2018 Debentures (which is equivalent to an initial conversion price of approximately \$24.95 per share of our common stock), subject to adjustment under certain circumstances. The 2018 Debentures were subject to redemption at our option under certain circumstances. On June 1, 2018, the 2018 Debentures were redeemed at maturity.

Sale of 0.875% Debentures Due 2021

In June 2014, we issued \$400 million in aggregate principal amount of our 0.875% senior convertible debentures due 2021 (the "2021 Debentures") in a private offering. An aggregate principal amount of \$250 million of the 2021 Debentures were sold to Total by the initial purchasers of the 2021 Debentures. The 2021 Debentures are convertible into shares of our common stock at any time based on an initial conversion rate of 20.5071 shares of common stock per \$1,000 principal amount of 2021 Debentures (which is equivalent to an initial conversion price of approximately \$48.76 per share of our common stock), subject to adjustment under certain circumstances. The holders of the 2021 Debentures may require us to repurchase their 2021 Debentures under certain circumstances. The 2021 Debentures are subject to redemption at our option under certain circumstances.

Sale of 4.00% Debentures Due 2023

In December 2015, we issued \$425 million in aggregate principal amount of our 4.00% senior convertible debentures due 2023 (the “2023 Debentures”) in a private offering. An aggregate principal amount of \$100 million of the 2023 Debentures were sold to Total by the initial purchasers of the 2023 Debentures. The 2023 Debentures are convertible into shares of our common stock at any time based on an initial conversion rate of 32.7568 shares of common stock per \$1,000 principal amount of 2023 Debentures (which is equivalent to an initial conversion price of approximately \$30.53 per share of our common stock), subject to adjustment under certain circumstances. The holders of the 2023 Debentures may require us to repurchase their 2023 Debentures under certain circumstances. The 2023 Debentures are subject to redemption at our option under certain circumstances.

Joint Solar Projects

In the ordinary course of our business, from time to time we enter into agreements with Total or its affiliates in connection with certain of our international project co-development initiatives, whereby SunPower and Total split the associated costs.

During the first quarter of fiscal 2017, in connection with a co-development project between us and Total, Total made an approximately \$0.5 million payment to us in exchange for our 50% ownership interest in the co-development project. At closing of the transaction, we received reimbursement of our equity contributions in the project from Total in the amount of approximately \$0.5 million.

During the fourth quarter of fiscal 2017, we sold our remaining noncontrolling interests in a co-development project entity to Total, for which we received payment from Total in the amount of \$6.0 million.

In connection with a co-development solar project between us, Total, and an independent third party investor, we sold a 25% ownership interest in the company owning such solar project to Total and a 50% ownership interest in such company to the independent third party investor. The amount received from Total was not material to us for fiscal 2018. We expected to sell the remaining 25% of our ownership interest to Total during the fourth quarter of 2018 and to supply photovoltaic modules in late 2019 to the project. However, recent amendments to the feed-in-tariff rules in Japan have had a significant impact on the project’s ability to secure financing. Although financial closing of the transaction did not occur in the fourth quarter of fiscal 2018 as expected, discussions between the equity owners and the lenders are ongoing, and we anticipate reaching financial close in fiscal 2019, or otherwise exploring other alternatives to monetize our investment in the project.

In fiscal 2018, we received an aggregate of approximately \$0.3 million from Total and its affiliates under EPC services and O&M services agreements, in respect of projects in which Total has a direct or indirect material interest. As of December 30, 2018, we had \$0.02 million of “Contract assets” and \$3.8 million of “Accounts receivable, net” on our Consolidated Balance Sheets related to projects in which Total and its affiliates have a direct or indirect material interest.

Supply Agreements

On November 9, 2016, we and Total executed a four-year, up to 200-megawatt (MW) supply agreement to support the solarization of certain Total facilities. This agreement, which was amended and restated in March 2017 with changes not material to us, covers the supply of 150 MW of Maxeon 2 (formally known as E-series) panels with an option to purchase up to another 50 MW of P-Series solar panels. As of December 30, 2018, we had \$18.4 million of “Contract liabilities, current portion” and \$45.3 million of “Contract liabilities, net of current portion” on our Consolidated Balance Sheets related to the aforementioned supply agreement.

On March 19, 2018, we and Total, each through certain affiliates, entered into an agreement whereby we agreed to sell 3.42 MW of photovoltaic modules to Total for a development project in Chile. This agreement provided for payment from Total in the amount of approximately \$1.3 million, 10% of which was paid upon execution of the agreement.

On January 7, 2019, we and Total, each through certain affiliates, entered into an agreement whereby we agreed to sell 3.7 MW of photovoltaic modules to Total for a ground-mounted solar installation in Dubai. This agreement provided for payment from Total in the amount of approximately \$1.35 million, 10% of which was paid after execution of the agreement.

On March 4, 2019, we and Total, each through certain affiliates, entered into an agreement whereby we agreed to sell 10 MW of photovoltaic modules to Total for commercial rooftop solar installations in Dubai. This agreement provided for payment from Total in the amount of approximately \$3.16 million, 10% of which is payable in April 2019.

AUDIT COMMITTEE REPORT

The Audit Committee of our Board serves as the representative of the Board with respect to its oversight of:

- our accounting and financial reporting processes and the audit of our financial statements;
- the integrity of our financial statements;
- our internal controls;
- our compliance with legal and regulatory requirements and efficacy of and compliance with our corporate policies;
- the independent registered public accounting firm’s appointment, qualifications, and independence; and
- the performance of our internal audit function.

The Audit Committee also reviews the performance of our independent registered public accounting firm, Ernst & Young LLP, in the annual audit of financial statements and in assignments unrelated to the audit, and reviews the independent registered public accounting firm’s fees.

The Audit Committee provides the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board. The Audit Committee reviews our financial disclosures and meets privately, outside the presence of our management, with our independent registered public accounting firm. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements in our Annual Report on Form 10-K for our fiscal year ended December 30, 2018 with management, including a discussion of the quality and substance of the accounting principles, the reasonableness of significant judgments made in connection with the audited financial statements, and the clarity of disclosures in the financial statements. The Audit Committee reports on these meetings to our Board.

Our management has primary responsibility for preparing our financial statements and for our financial reporting process. In addition, our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our independent registered public accounting firm, Ernst & Young LLP, is responsible for expressing an opinion on the conformity of our financial statements to generally accepted accounting principles and the effectiveness of our internal control over financial reporting.

The Audit Committee reports as follows:

- (1) The Audit Committee has reviewed and discussed the audited financial statements for fiscal 2018 with our management.
- (2) The Audit Committee has discussed with Ernst & Young LLP, our independent registered public accounting firm, the matters required to be discussed by Auditing Standard No. 1301, “Communications with Audit Committees” issued by the Public Company Accounting Oversight Board.
- (3) The Audit Committee has received the written disclosures and the letter from Ernst & Young LLP required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the Audit Committee regarding independence, and has discussed with Ernst & Young LLP its independence, including whether Ernst & Young LLP’s provision of non-audit services to us is compatible with its independence.

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax, and other services performed by the independent registered public accounting firm. The policy provides for pre-approval by the Audit Committee (or its Chair pursuant to delegated authority) of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that fiscal year, the Audit Committee (or its Chair pursuant to delegated authority) must approve the specific service before the independent registered public accounting firm is engaged to perform such services for us.

Based on the review and discussion referred to in items (1) through (3) above, the Audit Committee recommended to our Board, and the Board approved, the inclusion of our audited financial statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018, as filed with the SEC.

The foregoing report was submitted by the Audit Committee of the Board and shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A promulgated by the SEC or Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any prior or subsequent filing by us under the Securities Act of 1933 or the Exchange Act.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Thomas McDaniel, Chair
Catherine Lesjak
Patrick Wood III

DIRECTOR COMPENSATION

The following table sets forth a summary of the compensation we paid to our non-employee directors for fiscal 2018. The table does not include Mr. Werner, who did not receive separate compensation for his service on the Board.

2018 Director Compensation Table

Name	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾⁽³⁾	Total (\$)
Total-designated members of the Board	—	—	—
Catherine Lesjak	100,000	300,009	400,009
Thomas McDaniel	100,000	300,009	400,009
Pat Wood III	125,000	300,009	425,009

- (1) The amounts reported in this column represent the aggregate cash retainers received by the non-employee directors for fiscal 2018, but do not include amounts reimbursed to the non-employee directors for expenses incurred in connection with attending Board and committee meetings.
- (2) The amounts reported in this column represent the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board (or FASB) Accounting Standards Codification (“ASC”) Topic 718 for restricted stock units granted to our non-employee directors in fiscal 2018, as further described below. Restricted stock units are fully vested on the date of grant. Each non-employee director received the following grants of restricted stock units on the following dates with the following grant date fair values (please note that some amounts reported may not add up exactly due to rounding on an award-by-award basis):

Non-Employee Director	Grant Date	Restricted Stock Units (#)	Grant Date Fair Value (\$)
Catherine Lesjak	02/12/2018	10,886	75,005
	05/11/2018	8,611	75,002
	08/13/2018	10,745	75,000
	11/12/2018	11,830	75,002
Thomas McDaniel	02/12/2018	10,886	75,005
	05/11/2018	8,611	75,002
	08/13/2018	10,745	75,000
	11/12/2018	11,830	75,002
Pat Wood III	02/12/2018	10,886	75,005
	05/11/2018	8,611	75,002
	08/13/2018	10,745	75,000
	11/12/2018	11,830	75,002

- (3) As of December 30, 2018, no other non-employee directors held stock awards and no non-employee directors held stock options.

2018 Director Compensation Program

Our outside director compensation policy provides for the compensation set forth below for our non-employee directors, other than the Total-nominated directors:

- an annual fee of \$400,000 (\$100,000 quarterly) for our non-employee directors (other than the Chairman of the Board) for service on our Board and on Board committees;
- if our Chairman is an independent director, an annual fee of \$450,000 (\$112,500 quarterly) to our Chairman of the Board for service on our Board and on Board committees; and
- an additional annual fee of \$25,000 (\$6,250 quarterly) to the lead independent director.

The Compensation Committee assessed the competitiveness of director compensation from multiple perspectives. The assessment included a review of market data from several groups, including:

- the same compensation peers used to assess named executive officer compensation;
- a group of public U.S. companies with majority outside ownership by another company; and
- a broader market of all U.S. companies with annual revenues between \$500 million and \$5 billion.

As part of its assessment, the Compensation Committee also considered the relative workload and responsibilities borne by the independent directors, which we believe are higher than many other public companies for a number of reasons, including the fact that we have a controlling stockholder, that there are relatively fewer independent directors on our Board, and that each of them serves on, or chairs, multiple committees. We review director pay on an annual basis to monitor for changes in competitive pay levels and workload and responsibilities.

Our policy provides that these annual fees are prorated on a quarterly basis for any director that joins the Board during the year. The \$25,000 additional fee payable to the lead independent director is paid in cash. Any fees payable to the Chairman of the Board are paid in the form of restricted stock units. The other fees are paid on a quarterly basis, 25% in cash on or about the date of the quarterly Board meeting and 75% in the form of fully-vested restricted stock units on the eleventh day in the second month of each quarter (or on the next trading day if such day is not a trading day). Any fractional shares resulting from this calculation are rounded up to a full share. The restricted stock units are settled in shares of our common stock within seven days of the date of grant. Because Mr. Werner is our Chief Executive Officer, he is not separately compensated for his service as Chairman of the Board. Similarly, because each of our Total-nominated directors do not qualify as independent directors under our director compensation policy, such individuals receive no director compensation.

Stock Ownership Guidelines

In 2015, we adopted stock ownership guidelines for our chief executive officer, certain executive officers, and non-employee directors. Under the guidelines and subject to certain exceptions, non-employee directors are expected to own shares of our common stock that have a value equal to five times the annual cash retainer they receive for serving on our Board, with ownership measured at the end of each calendar year. Shares may be owned directly by the individual, owned by the individual's spouse, or held in trust for the benefit of the individual's family. Each non-employee director is expected to maintain ownership at or above the threshold applicable to them beginning the later of December 31, 2020 or five years after first becoming subject to the guidelines.

PROPOSAL TWO

ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and Section 14A of the Exchange Act, we are asking our stockholders to again vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC's rules.

As described in detail under the headings "*Compensation Discussion and Analysis*" and "*Executive Compensation*," we have adopted an executive compensation philosophy designed to deliver competitive total compensation to our executive officers upon the achievement of financial and strategic performance objectives. In order to implement that philosophy, the Compensation Committee has established a disciplined process for adopting executive compensation programs and individual executive officer pay actions that includes the analysis of competitive market data, a review of each executive officer's role, performance assessments, and consultation with the Compensation Committee's independent compensation consultant. Please read the "*Compensation Discussion and Analysis*" and "*Executive Compensation*" sections for additional details about our executive compensation programs, including information about the fiscal 2018 compensation of our named executive officers.

2018 Compensation Features. Our compensation programs are intended to attract, retain and reward executive officers who contribute to SunPower's success and to align with the Company's short-term and long-term performance. The Compensation Committee annually reviews the compensation programs for our named executive officers to ensure they achieve the desired goals. In fiscal 2018, among the program features incorporated by the Compensation Committee to implement the executive compensation philosophy stated above are the following:

- Actual payouts under our performance-based cash bonus programs (specifically, the 2018 Corporate Annual Bonus Program and the Executive Semi-Annual Incentive Bonus Plan) for our named executive officers were determined based on performance against a number of objectives: Non-GAAP revenue, adjusted EBITDA, and cash and cash equivalents metrics² and corresponding performance targets, along with corporate milestone performance targets, a safety modifier based on company safety performance, and individual modifiers assigned based on individual performance.
- Long-term incentives in the form of time- and performance-based restricted stock units comprised a large portion of each named executive officer's compensation and are linked to the long-term performance of our stock. Restricted stock units generally vest over four years, and performance-based restricted stock units are earned only after the achievement of corporate performance targets and also generally vest over a four-year period.
- Earning performance-based restricted stock units depends on the achievement of performance targets corresponding to our non-GAAP revenue, adjusted EBITDA, adjusted cash and cash equivalents, and operating expense and cost of goods sold overhead reduction metrics, as well as other individualized metrics (in the case of certain of our executive officers).
- Individual performance was also measured for each half of the fiscal year based on each named executive officer's achievement of his or her personal Key Results, which support our corporate, strategic, and operational milestones, as well as other individual performance factors, as evaluated by our chief executive officer (or, in the case of our chief executive officer, by the Board) in connection with the assignment of an individual modifier to each named executive officer.
- Our change of control severance agreements do not entitle our named executive officers to payment without termination of employment following a change of control (a "double trigger").

Our financial and operational performance was the key factor in the compensation decisions and outcomes for fiscal 2018, as further described in the "*Compensation Discussion and Analysis*" and "*Executive Compensation*" sections. One of the core tenets of our executive compensation philosophy is our emphasis on performance pay. As highlighted in the Compensation Components chart in the "*Compensation Discussion and Analysis*" section, in fiscal 2018, a large portion of our named executive officers' target compensation (87% for our chief executive officer and averaging 79% for our other named executive officers) consisted of annual and semi-annual incentive bonus programs and long-term equity incentives.

² Non-GAAP revenue and adjusted EBITDA (defined as net income before income taxes, interest income, depreciation, and amortization) are non-GAAP financial measures. See Appendix A, "Use of Non-GAAP Financial Measures."

The Compensation Committee believes that our executive compensation programs, executive officer pay levels, and individual pay actions approved for our executive officers, including our named executive officers, are directly aligned with our executive compensation philosophy and fully support its goals. In fiscal 2018: (i) performance with respect to our annual revenue metric exceeded the minimum performance level but fell short of the target performance level, (ii) performance with respect to our adjusted EBITDA metric exceeded the relevant target performance levels but did not reach the maximum performance level, (iii) performance with respect to our adjusted cash and cash equivalents metric exceeded the minimum performance level but fell short of the target performance level, and (iv) performance with respect to our operating expense and cost of goods sold overhead reduction metric exceeded the minimum performance level but fell short of the target performance level, which, combined, resulted in regular performance-based restricted stock awards granted to our named executive officers other than the chief executive officer and William Mulligan (our former Executive Vice President, Global Operations) being earned at 97.1% of the target level. Our corporate performance in fiscal 2018 also resulted in aggregate cash bonus awards under our performance-based cash bonus programs at approximately 97.4% of the target level.

In fiscal 2018, our chief executive officer and Dr. Mulligan earned the majority of the annual performance-based restricted stock awards awarded to them based on: (i) performance with respect to our annual revenue metric which exceeded the minimum performance level but fell short of the target performance level, (ii) performance with respect to our adjusted EBITDA metric which exceeded the relevant target performance levels but did not reach the maximum performance level, and (iii) performance with respect to our adjusted cash and cash equivalents metric which exceeded the minimum performance level but fell short of the target performance level, which, combined, resulted in performance-based restricted stock awards granted to our chief executive officer being earned at 99.4% of the target level.

In fiscal 2018, our chief executive officer earned additional performance-based restricted stock awards based on (i) performance with respect to operating expense and cost of goods sold overhead reduction metric which exceeded the minimum performance level but fell short of the target performance level and (ii) performance with respect to reorganization of corporate operating expenses into the business units achieved at the maximum level, which, combined, resulted in additional performance-based restricted stock awards granted to our chief executive officer being earned at 120% of the target level.

In fiscal 2018, Dr. Mulligan earned additional performance-based restricted stock awards based on (i) performance with respect to operating expense and cost of goods sold overhead reduction metric which exceeded the minimum performance level but fell short of the target performance level and (ii) performance with respect to business unit cash flow metric which exceeded the relevant target performance level but did not reach the maximum performance level, which, combined, resulted in additional performance-based restricted stock awards granted to Dr. Mulligan being earned at 117.7% of the target level.

We are asking our stockholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a “say-on-pay” proposal, gives our stockholders the opportunity to express their views on our named executive officers’ compensation. This vote is not intended to address any specific compensation item, but rather the overall compensation of our named executive officers and the philosophy, policies, and practices described in this proxy statement. Accordingly, the Board recommends that our stockholders vote “FOR” the following resolution at the Annual Meeting:

“RESOLVED, that, on an advisory basis, the compensation of SunPower’s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and related narratives and descriptions in SunPower’s proxy statement for the Annual Meeting, is hereby APPROVED.”

Vote Required

The non-binding advisory vote on named executive officer compensation requires the affirmative vote of the holders of a majority of our stock having voting power and in attendance or represented by proxy at the Annual Meeting. “Broker non-votes” have no effect and will not be counted towards the vote total for this proposal. Abstentions will have the effect of votes against this proposal.

Although the say-on-pay vote is advisory, and therefore not binding on us, the Compensation Committee, or our Board, our Board and our Compensation Committee value the opinions of our stockholders. To the extent there is any significant vote against our named executive officers' compensation as disclosed in this proxy statement, we expect to consider our stockholders' concerns and the Compensation Committee expects to evaluate whether any actions are necessary to address those concerns.

THE BOARD RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC, ON A NON-BINDING, ADVISORY BASIS.

EXECUTIVE OFFICERS

Biographical information for our executive officers, other than Mr. Werner, is listed below. Biographical information for Mr. Werner, who is both a director and an executive officer of the Company, can be found in the section entitled “*Proposal One—Re-Election of Class II Directors.*”

Name	Age	Position
Kenneth Mahaffey	50	Executive Vice President and General Counsel
William Mulligan III	58	Former Executive Vice President, Global Operations
Douglas Richards	60	Executive Vice President, Administration
Manavendra Sial	42	Executive Vice President and Chief Financial Officer

Kenneth Mahaffey is the Executive Vice President, General Counsel, and Chief Ethics and Compliance Officer of SunPower with responsibility for the Company’s global legal organization. He is an accomplished executive with more than 20 years of legal experience. Mr. Mahaffey joined SunPower in 2006 as a founding member of our legal department. During his tenure, Mr. Mahaffey has managed attorneys and professionals around the globe who handle all legal, contract, regulatory, and compliance matters in support of the Company’s core business segments. He has also provided lead support for the Company’s corporate functions, including finance, mergers and acquisitions, marketing, policy, and communication. Mr. Mahaffey has deep expertise in renewable energy law, finance, corporate governance, and compliance matters. Before joining SunPower, he worked as an attorney in private practice managing a variety of commercial and litigation matters. Mr. Mahaffey has a Bachelor of Arts degree from University of California, San Diego, and a Juris Doctor degree from McGeorge School of Law, University of the Pacific.

William Mulligan III served as our Executive Vice President, Global Operations, from February 2017 to March 2019, and was responsible for leading our global operations and worldwide materials sourcing. Dr. Mulligan originally joined SunPower in 1998 and worked for more than 12 years as Vice President of research and development, where he led the development of our photovoltaic cell technology and the world’s highest efficiency commercial solar panel. He left SunPower in 2010, but returned four years later with our acquisition of SolarBridge, where he was serving as President and Chief Executive Officer. Most recently, he was SunPower’s Vice President, Upstream Strategy. He also served on the board of directors of Dongfang Huansheng Photovoltaic (Jiangsu) Co., Ltd., our manufacturing joint venture in China. Dr. Mulligan has more than 30 years of solar and microelectronics industry experience, and prior to SunPower served in various engineering and management positions at JX Crystals, Inc., the National Renewable Energy Laboratory, AstroPower, and Fairchild/National Semiconductor. Dr. Mulligan received dual undergraduate degrees in chemistry and history from the University of Washington, a master’s of science in chemical engineering from the University of Michigan, and his doctorate in materials science from the Colorado School of Mines. He holds 10 patents and has authored more than 30 publications related to solar energy.

Douglas Richards has served as our Executive Vice President, Administration, since November 2011. From April 2010 to October 2011, Mr. Richards served as our Executive Vice President, Human Resources and Corporate Services. From September 2007 to March 2010, Mr. Richards served as our Vice President, Human Resources and Corporate Services. From 2006 to 2007, Mr. Richards was Vice President of Human Resources and Administration for SelectBuild, a construction services company and a wholly owned subsidiary of BMHC, and from 2000 to 2006, Mr. Richards was Senior Vice President of Human Resources and Administration for BlueArc, a provider of high performance unified network storage systems to enterprise markets. Before BlueArc, Mr. Richards spent 10 years at Compaq Computer Corporation and five years at Apple Computer, Inc. in various management positions. Mr. Richards graduated from California State University, Chico, with a Bachelor of Arts degree in public administration.

Manavendra Sial has served as our Executive Vice President and Chief Financial Officer since May 2018, leading the Company’s treasury, project finance, investor relations, financial planning, and accounting organizations. Previously, he served as the chief financial officer for VECTRA, a \$1 billion technology-driven diversified industry business, which was a portfolio company of certain funds managed by affiliates of Apollo Global Management, LLC. Prior to VECTRA, Mr. Sial was with SunEdison in various global finance and operations leadership roles from 2011 to 2015, including chief financial officer of MEMC’s solar energy and materials divisions. He also spent 11 years with General Electric (GE) in a variety of roles, from FP&A leader for the Energy Services unit to Chief Financial Officer of Power Delivery for GE’s Transmission and Distribution group. He earned his master’s degree in business administration from Duke University’s Fuqua School of Business and his Bachelor of Commerce from Delhi University in India.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis provides a detailed review and analysis of our compensation policies and programs that applied to our named executive officers during the fiscal year ended December 30, 2018. Our named executive officers, as set forth in the following table, were our chief executive officer, our chief financial officer and former chief financial officer, and the next three most highly compensated executive officers serving as of December 30, 2018.

Name	Title
Thomas Werner	Chief Executive Officer
Charles Boynton ⁽¹⁾	Former Executive Vice President and Chief Financial Officer
Manavendra Sial ⁽²⁾	Executive Vice President and Chief Financial Officer
Kenneth Mahaffey	Executive Vice President and General Counsel
William Mulligan III	Former Executive Vice President, Global Operations
Douglas Richards	Executive Vice President, Administration

(1) Mr. Boynton served as our Chief Financial Officer until May 9, 2018 and remained an Executive Vice President of the Company through July 1, 2018.

(2) Mr. Sial became Chief Financial Officer of the Company on May 9, 2018.

Executive Summary

Our compensation programs are intended to align our named executive officers' interests with those of our stockholders by rewarding performance that meets or exceeds the goals that the Compensation Committee establishes, with the ultimate objective of increasing stockholder value. We have adopted an executive compensation philosophy designed to deliver competitive total compensation upon the achievement of financial and strategic performance objectives. The total compensation received by our named executive officers varies based on corporate and individual performance, as measured against performance goals. Therefore, a significant portion of each named executive officer's total pay is tied to Company performance (see the "2018 Compensation Components" chart below).

In fiscal 2018, we achieved \$1.815 billion in non-GAAP revenue and Adjusted EBITDA of \$111 million (a GAAP net loss of \$5.76 per diluted share), and ended the year with \$309 million in cash and cash equivalents in fiscal 2018, exceeding our performance target for Adjusted EBITDA, and exceeding the minimum performance target level for revenue and cash and cash equivalents.

For fiscal 2018, our financial performance and performance against other strategic initiatives were the key factors in the compensation decisions and outcomes for the year, consistent with our commitment to pay for performance. Highlights of our named executive officer compensation program in 2018 were as follows:

- **Commitment to pay for performance.** A significant majority of our named executive officers' target compensation (87% for our chief executive officer, and averaging 79% for our other named executive officers) consisted of semi-annual and annual bonus programs and long-term equity incentives.
- **Cash bonus payouts below target.** Our annual bonus program incorporated financial metrics that we believe align our compensation practices with our business goals and, correspondingly, align executives' interests with stockholders' interests. Achievement of performance targets related to our revenue, adjusted EBITDA, and cash and cash equivalents, along with achievement of our corporate milestone performance targets and individual modifiers assigned based on individual performance determined the actual payouts under our performance-based cash bonus programs (specifically, the 2018 Corporate Annual Bonus Program and the Amended and Restated Executive Semi-Annual Incentive Bonus Plan, which we refer to as our Executive Semi-Annual Plan) for our named executive officers. In 2018, we introduced a safety modifier in the 2018 Corporate Annual Bonus Program to reinforce our safety culture. Our corporate performance in fiscal 2018 resulted in aggregate cash bonus awards under these programs at approximately 97%. Performance metrics, thresholds, and targets are further described below in "*Executive Compensation—Non-Equity Incentive Plan Compensation.*"

³ To supplement its consolidated financial results presented in accordance with U.S. generally accepted accounting principles (GAAP), the Company uses non-GAAP measures that are adjusted for certain items from the most directly comparable GAAP measures, as described in Appendix A, "Use of Non-GAAP Financial Measures."

- **Performance based stock units achieved below target.** Certain performance-based restricted stock units granted in 2018 to each of our named executive officers other than Mr. Werner and Dr. Mulligan were only earned if we achieved performance targets set in respect of our annual revenue, Adjusted EBITDA, cash and cash equivalent metrics, and corporate restructuring performance goals targeting operating expense and cost of goods sold overhead reduction. Performance with respect to the revenue target, cash and cash equivalents target, and corporate restructuring target exceeded the minimum performance levels but fell short of the target performance levels, and performance with respect to the Adjusted EBITDA target exceeded the target performance level but fell short of the maximum, which resulted in 97% of these equity awards being earned. Performance metrics, thresholds, and targets are further described below in “*Executive Compensation—Equity Incentive Plan Compensation.*”
- **Increased focus on corporate restructuring and cash management performance.** Additional performance-based restricted stock units granted in 2018 to Mr. Werner and Dr. Mulligan were only earned if we achieved performance targets set in respect of other specified metrics relating to corporate restructuring, cost and expense, and cash management. In fiscal 2018, Mr. Werner earned additional performance-based restricted stock awards based on (i) performance with respect to operating expense and cost of goods sold overhead reduction targets, which exceeded the minimum performance level but fell short of the target performance level, and (ii) performance with respect to reorganization of corporate operating expenses into the business units achieved at the maximum level, which, combined, resulted in additional performance-based restricted stock awards granted to Mr. Werner being earned at 120% of the target level. Dr. Mulligan earned additional performance-based restricted stock awards based on (i) performance with respect to operating expense and cost of goods sold overhead reduction targets, which exceeded the minimum performance level but fell short of the target performance level, and (ii) performance with respect to business unit cash flow targets, which exceeded the relevant target performance level but did not reach the maximum performance level, which, combined, resulted in additional performance-based restricted stock awards granted to Dr. Mulligan being earned at 118% of the target level. Those awards, as well as performance metrics, and achievement levels with respect to all such awards, are further described below in “*Executive Compensation—Equity Incentive Plan Compensation.*”

At our 2018 Annual Meeting of Stockholders, our stockholders voted to approve, on an advisory basis, the compensation of our named executive officers, as disclosed in the proxy statement for that meeting. We refer to this vote as our Say-on-Pay vote. Our Compensation Committee considered the results of the Say-on-Pay vote (which received approximately 86% approval of the votes cast) at its meetings after the Say-on-Pay vote when it set annual executive compensation. After our Compensation Committee reviewed the stockholders’ approval of the Say-on-Pay vote in 2018, our Compensation Committee decided to maintain the general framework of our fiscal 2017 compensation policies and programs for our named executive officers in fiscal 2018, with certain modifications, including updating our peer group, introduction of a safety modifier in performance-based cash bonus awards, and the introduction of new performance metrics in equity awards focused on corporate restructuring, operating expense and cost of goods sold overhead reduction, and cash management objectives, as the Committee believed such programs continued to be in the best interest of our stockholders.

The following discussion should be read together with the information we present in the compensation tables, the footnotes and narratives to those tables, and the related disclosure appearing in “*Executive Compensation*” below.

General Philosophy and Objectives

In fiscal 2018, we continued to operate a compensation program designed primarily to reward our named executive officers based on our financial performance and the achievement of corporate objectives consistent with increasing long-term stockholder value. Our 2018 executive compensation program was based on the following primary objectives:

- to attract, retain, and reward executive officers who contribute to our success; and
- to align compensation programs with our short- and long-term performance.

In order to implement our philosophy, the Compensation Committee has a disciplined process for adopting executive compensation programs and individual executive officer pay actions that includes the analysis of competitive market data, a review of each executive officer's role, performance assessments, and consultation with the Compensation Committee's independent compensation consultant, as described below.

The Compensation Committee believes that the most effective executive compensation program is one that rewards the achievement of specific corporate and financial goals, with the ultimate objective of increasing stockholder value. In addition, we believe the mix of base salary, performance-based cash awards, and time-based and performance-based equity awards provides proper incentives without encouraging excessive risk taking. We believe that the risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on our company.

Compensation Setting Process

The Compensation Committee is responsible for managing the compensation of our executive officers, including our named executive officers, in a manner consistent with our compensation philosophy. In accordance with the "controlled company" exception under the applicable listing standards of The Nasdaq Stock Market, our Compensation Committee is composed of two independent directors and two directors designated by our controlling stockholder, Total. We also have a Section 16 Subcommittee of the Compensation Committee consisting solely of independent directors available to approve certain compensation matters in accordance with Rule 16b-3 of the Exchange Act.

The Compensation Committee establishes our compensation philosophy and objectives and annually reviews and, as necessary and appropriate, adjusts each named executive officer's compensation. The Compensation Committee offered our named executive officers total target compensation opportunities ranging from the 50th percentile to the 75th percentile of our peer group of companies (as further described below) during fiscal 2018. In general, the Compensation Committee's philosophy is to set total target compensation between the 50th percentile and 75th percentile of our peer group. Individual named executive officer compensation may be above or below this range based on experience, scope of position, and individual performance.

When determining appropriate compensation for the named executive officers, the Compensation Committee considered the advice of an independent compensation consultant, recommendations from management and internal compensation specialists, practices of companies within our peer group, our performance, our business plan, and individual performance. As part of this process, the compensation consultant prepared a competitive analysis of our compensation program, and management presented its recommendations regarding base salary, time- and performance-based equity awards, and performance targets under our 2018 Annual Bonus Programs and Executive Semi-Annual Bonus Plan to the Compensation Committee for its review and consideration. The Compensation Committee accepts, rejects, or accepts as modified, management's various recommendations regarding compensation for the named executive officers other than our chief executive officer. The Compensation Committee also approves, after modification, management's recommendations on various performance targets and milestones. The Compensation Committee met without our chief executive officer when reviewing and establishing his compensation.

In addition, we hired Mr. Sial as our new chief financial officer in May 2018. In consultation with the Compensation Committee, management considered peer company comparisons, internal pay equity, and Mr. Sial's experience in determining his base salary, target bonus, new hire equity grant, and other new hire bonuses and perquisites, which are further described below in "*Perquisites and Other Compensation*."

Compensation Consultant

In fiscal 2018, the Compensation Committee directly engaged and retained Semler Brossy, a compensation consulting firm, as its compensation consultant. The Compensation Committee selected Semler Brossy on the basis of its experience and familiarity with the technology industry after soliciting and reviewing proposals from a number of firms, including its former compensation consultant, Radford, a compensation consulting firm. Also in fiscal 2018, the Compensation Committee directly engaged and retained Radford to identify a list of our peer group of companies. The Compensation Committee selected Radford on the basis of its experience and familiarity with both the Company and the technology industry. Radford continued to serve as the Compensation Committee's compensation consultant through March 2018, when the role formally transitioned to Semler Brossy.

Radford provided the Compensation Committee with market information on the peer companies, as well as aggregated data on the broader technology market with respect to base salaries, cash bonus awards as a percentage of base salaries, total cash compensation, equity awards, and total direct compensation. In fiscal 2018, Semler Brossy also advised the Compensation Committee in connection with evaluating our compensation practices, developing and implementing our executive compensation program and philosophy, establishing total compensation targets, and setting specific compensation components to reach the determined total compensation targets for fiscal 2019. Semler Brossy did not provide any services to us other than advising the Compensation Committee and management, at the direction of the Compensation Committee, on executive compensation issues. The Compensation Committee has considered and assessed all relevant factors, including, but not limited to, those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Exchange Act, that could give rise to a potential conflict of interest with respect to the compensation consultants described above. Based on this review, the Compensation Committee determined that no material conflict of interest has been raised by the work performed by either Radford or Semler Brossy.

Peer Group

In fiscal 2018, the Compensation Committee directly engaged and retained Radford to identify, and Semler Brossy to review, a list of our peer group of companies. The Compensation Committee established the peer group used in connection with fiscal 2018 compensation decisions consistent with the Compensation Committee's belief that the peer group should be based on companies that design and manufacture products with similar complexity, companies more likely to have robust sales channels including direct to consumers, companies offering end-to-end solutions to customers, and technology-driven companies. In comparison to our peer group used for purposes of setting fiscal 2017 compensation, our peer group in fiscal 2018 was updated to remove Advanced Micro Devices, Lam Research Corporation, Analog Devices, Inc., Linear Technology Corporation, ARRIS Group, Inc., NVIDIA Corporation, ON Semiconductor Corporation, Quanta Services, Inc., Sensata Technologies Holding, SolarCity Corporation (acquired by Tesla Motors, Inc.), Hexcel Corporation, Trimble Navigation Limited, Juniper Networks, Inc., Waters Corporation, Woodward, Inc., KLA Tencor Corporation, and Xilinx, Inc. and to add Generac Holdings, Mueller Water Products, Plexus, Canadian Solar, EnerSys, SunRun, Tetra Tech, TransAlta, and Tutor Perini. We made these changes taking into account how well the companies met our selection criteria, as well as our own restructuring changes, the refocusing of our business, and changes in solar markets. The final peer group was selected using a mix of the following factors:

- Publicly traded semiconductor, clean technology, and broader high-technology industry companies; and
- Companies with between one-third and three times of each of our annual revenues, market value and employee headcount.

The Compensation Committee believes the characteristics of our fiscal 2018 peer group mirror those of our core business as closely as possible. The companies included in our peer group for purposes of establishing fiscal 2018 compensation are listed below:

- | | |
|---------------------------------|-------------------|
| • Marvell Technology Group Ltd. | • AVX Corporation |
| • Mueller Water Products | • Belden Inc. |
| • Canadian Solar | • Plexus |
| • EnerSys | • SunRun |
| • First Solar, Inc. | • Tetra Tech |
| • FLIR Systems, Inc. | • TransAlta |
| • Generac Holdings | • Tutor Perini |
| • Itron, Inc. | • Viavi Solutions |

Market and Peer Group Data

In making its compensation decisions for our named executive officers for fiscal 2018, the Compensation Committee compared the total compensation of each named executive officer to the compensation of individuals in comparative positions at companies in the peer group based on information that management obtained from public filings, supplemented by data Radford provided from surveys. In general, the Compensation Committee evaluates base salaries relative to the 50th percentile of the peer group and both performance-based cash bonus awards and long-term time- and performance-based equity awards generally between the 50th percentile and 75th percentile of the peer group.

In establishing incentive opportunities, the Compensation Committee focused on corporate performance so that if our corporate performance was achieved at target levels, the Compensation Committee expected that our named executive officers' total pay would be between the 50th percentile of the peer group and the 75th percentile of the peer group. The Compensation Committee viewed comparisons to peer group and market data as just the beginning, and not the end, of its discussion regarding our named executive officers' pay opportunities for fiscal 2018, and looked to individual performance, the named executive officer's experience in the executive role, and the executive's scope of responsibility being narrower or broader than that of comparable positions at our peer group companies to establish final pay opportunities either above or below the initial market data comparisons.

In fiscal 2018, target cash compensation (base salary plus target bonus opportunity) was set between the 50th and 75th percentile for each named executive officer except for Mr. Mahaffey. Mr. Mahaffey's target cash compensation was set at the 25th percentile due to his limited time in the role. He was promoted to the position of Executive Vice President and General Counsel on November 1, 2016.

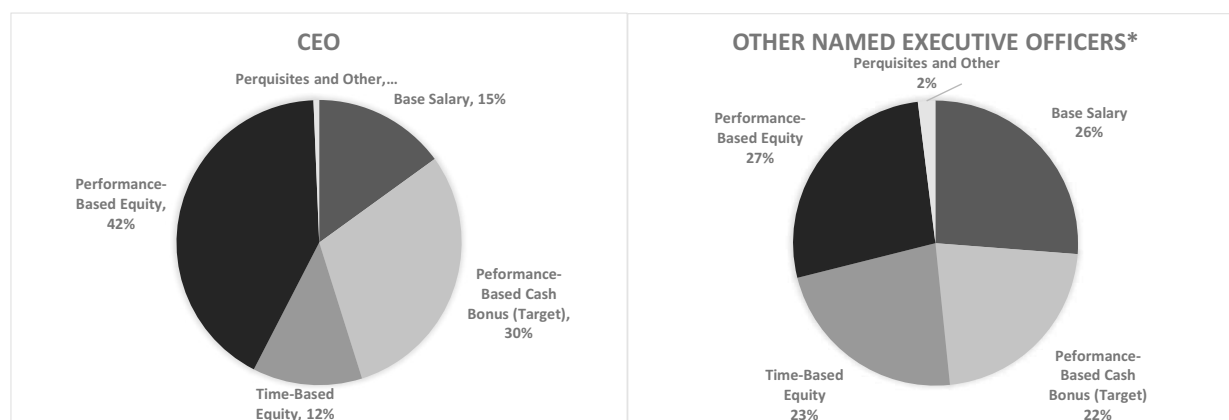
2018 Compensation Components

For fiscal 2018, the Compensation Committee allocated total compensation among various pay elements consisting of base salary, performance-based cash bonus awards, time-based equity awards, performance-based equity awards, and perquisites and other compensation. The table below provides an overview of each element of compensation and is followed by a further discussion and analysis of the specific decisions that we made for each element for fiscal 2018:

Compensation Component	Objective and Basis	Form	Practice
Base salary	Fixed compensation that is set at a competitive level for each position to reward demonstrated experience and skills.	Cash	Competitive market ranges are generally established around the 50 th percentile, with consideration for experience and scope of role relative to comparable positions in one peer group.
Performance-based cash bonus awards	Semi-annual and annual incentives that drive our performance and align executives' interests with stockholders' interests.	Cash	Target incentives are set as a percentage of base salary and are set between the 50 th to the 75 th percentile. Actual payment is calculated based on achievement of corporate and individual goals.
Time-based equity awards	Long-term incentive that aligns executives' interests with stockholders' interests and helps retain executives through long-term vesting periods.	Restricted stock units	Target equity awards (time-based plus performance-based) generally set between the 50 th percentile and the 75 th percentile.
Performance-based equity awards	Long-term incentive that focuses and rewards our performance and aligns executives' interests with stockholders' interests and helps retain executives through long-term vesting periods.	Performance stock units	Target equity awards (time-based plus performance-based) generally set between the 50 th percentile and the 75 th percentile. Actual payment is calculated based on achievement of corporate goals.
Perquisites and other compensation	Offered to attract and retain talent and to maintain competitive compensation packages.	Various	We do not generally provide any special perquisites to our named executive officers. Newly hired executive officers may receive one-time signing bonuses or other similar payments to attract them to join the company. Named executive officers are eligible for certain severance benefits pursuant to their employment agreements and our 2016 Management Career Transition Plan. Named executive officers are eligible to participate in health and welfare benefits and 401(k) matching available to all employees.

The relative proportion of each element for fiscal 2018, as set forth below, was based generally on the Compensation Committee's comparison of compensation that we offered our named executive officers against compensation offered by peer group companies to their named executive officers, the tax and accounting consequences of certain types of equity compensation, and a desire to allocate a higher proportion of total compensation to performance-based and equity incentive awards.

2018 Compensation Components



* Other Named Executive Officers excludes Manavendra Sial, who was hired in May 2018.

Analysis of Fiscal 2018 Compensation Decisions

Base Salary. For fiscal 2018, the Compensation Committee chose not to adjust the base salaries of our named executive officers, after taking into account target cash and total compensation levels relative to market data, executive officer performance and experience in their role, and the executive's scope of responsibility in comparison to comparable positions at our peer group companies.

The table below sets forth the salaries in effect in fiscal 2018 compared with the salaries in effect in fiscal 2017 for each of our named executive officers:

Name	2017 Base Salary ⁽¹⁾	2018 Base Salary ⁽²⁾
Thomas Werner	428,154 ⁽³⁾	600,000
Manavendra Sial ⁽⁴⁾	—	425,000
Charles Boynton ⁽⁵⁾	470,000	470,000
Kenneth Mahaffey	325,000	325,000
William Mulligan III	380,000	380,000
Douglas Richards	370,000	370,000

(1) These amounts represent 2017 base salaries after April 1, 2017.

(2) These amounts represent 2018 base salaries after April 1, 2018.

(3) Reflects a reduced salary of \$1, net of benefit costs, for the first fiscal quarter of 2017, which was reinstated at its previous annualized amount of \$600,000 on April 1, 2017.

(4) Mr. Sial joined the Company as an Executive Vice President on May 2, 2018, and became our Chief Financial Officer on May 9, 2018.

(5) Mr. Boynton served as our Chief Financial Officer until May 9, 2018, and remained an Executive Vice President of the Company through July 1, 2018.

Performance-Based Cash Bonus Awards. As in the prior fiscal year, we maintained two overall performance-based cash bonus programs during fiscal 2018 in order to link bonus payments to corporate financial goals and operational objectives and to individual performance. The first program was our Executive Performance Bonus Plan, under which we adopted the 2018 Corporate Annual Bonus Program. All of our named executive officers participated in the 2018 Corporate Annual Bonus Program, which is discussed in more detail below. The second program was our Executive Semi-Annual Incentive Bonus Plan (referenced as our Semi-Annual Bonus Plan).

The supplemental table below entitled “*Estimated Possible Payouts Under Semi-Annual and Annual Bonus Programs*” sets forth each named executive officer's target and maximum payout opportunities under both the 2018 Corporate Annual Bonus Program and the Semi-Annual Bonus Plan. Under the terms of both bonus plans, failure to achieve certain corporate or individual metrics could have resulted in zero payouts to an individual for a given period. The column entitled “*2018 Total Non-Equity Incentive Plan Compensation*” in our 2018 Summary Compensation Table below and the footnotes thereto detail the actual payouts awarded under these two bonus plans to each named executive officer for fiscal 2018.

Estimated Possible Payouts Under Semi-Annual and Annual Bonus Programs

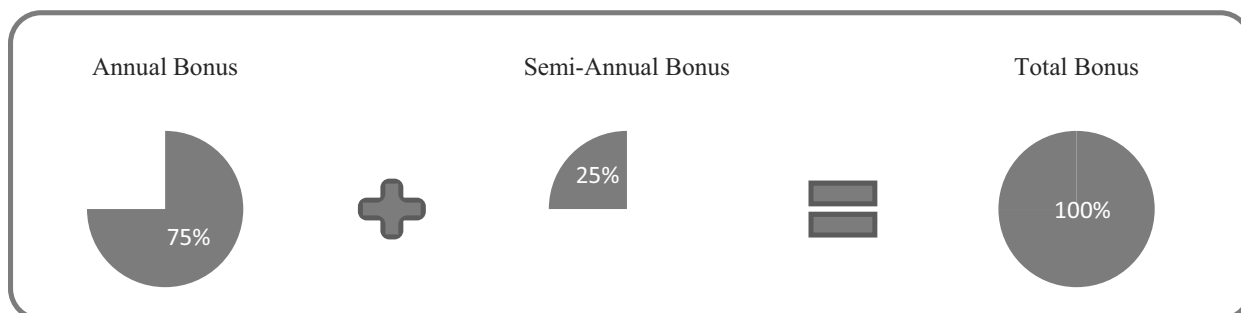
Name	2018 Semi-Annual Bonus Plan Target (Aggregate) (\$)	2018 Semi-Annual Bonus Plan Maximum (Aggregate) (\$)	2018 Corporate Annual Bonus Program Target (\$)	2018 Corporate Annual Bonus Program Maximum (\$)
Thomas Werner	300,000	468,750	900,000	1,350,000
Manavendra Sial ⁽¹⁾	95,625	149,414	286,875	430,313
Charles Boynton ⁽²⁾	105,750	165,234	317,250	475,875
Kenneth Mahaffey	60,938	95,215	182,813	274,219
William Mulligan III	85,500	133,594	256,500	384,750
Douglas Richards	74,000	115,625	222,000	333,000

- (1) Mr. Sial joined the Company as an Executive Vice President on May 2, 2018, and became Chief Financial Officer of the Company on May 9, 2018. Target and Maximum possible payout are shown at an annualized rate. Actual payouts determined based on date of hire.
- (2) Mr. Boynton served as our Chief Financial Officer until May 9, 2018, and remained an Executive Vice President of the Company through July 1, 2018. Target and Maximum possible payout are shown at an annualized rate. Actual payouts determined based on employment through separation date.

Because we generally set base salaries for our executive officers at the 50th percentile of the market of salaries for executive officers in similar positions and with similar responsibilities at comparable companies, we rely on performance-based cash bonus awards to elevate target total cash compensation to between the 50th percentile and the 75th percentile.

In fiscal 2018, we allocated 75% of each named executive officer's aggregate annual target cash bonus awards under the applicable 2018 Annual Bonus Program and 25% under the Executive Semi-Annual Bonus Plan, to tie a significant proportion of our named executive officers' incentive compensation to our full fiscal year operating and financial results.

Bonus Calculation:



The table below summarizes the total target payout levels for each named executive officer in each of fiscal 2017 and fiscal 2018, as well as the target payout levels under the 2018 Annual Bonus Programs and the Executive Semi-Annual Bonus Plan (for fiscal 2018), expressed as a percentage of annual base salary. For fiscal 2018, the Compensation Committee maintained target payout levels under these programs at the same percentage of annual salary for each of our named executive officers, after it evaluated the market data, individual performance, and the scope of the named executive officer roles.

Name	2017 Total Target Payout (including Annual and Semi-Annual Programs) as Percentage of Annual Salary	2018 Total Target Payout (including Annual and Semi-Annual Programs) as Percentage of Annual Salary	2018 Semi-Annual Bonus Plan Target Payout as Percentage of Annual Salary	2018 Annual Bonus Programs Target Payout as Percentage of Annual Salary
Thomas Werner ⁽¹⁾	200%	200%	50%	150%
Manavendra Sial ⁽²⁾	—	90%	22.5%	67.5%
Charles Boynton ⁽³⁾	90%	90%	22.5%	67.5%
Kenneth Mahaffey	75%	75%	18.7%	56.3%
William Mulligan III	—	90%	22.5%	67.5%
Douglas Richards	80%	80%	20%	60%

- (1) Target percentages were set based on Mr. Werner's salary as of April 1, 2017, following reinstatement of his regular annual salary.
- (2) Mr. Sial joined the Company as an Executive Vice President on May 2, 2018, and became Chief Financial Officer of the Company on May 9, 2018. Actual payouts were determined based on date of hire.
- (3) Mr. Boynton served as our Chief Financial Officer until May 9, 2018, and remained an Executive Vice President of the Company through July 1, 2018. Actual payouts were determined based on employment through separation date.

Actual bonus payments for each named executive officer under the 2018 Annual Bonus Programs and the Semi-Annual Bonus Plan are formula-driven, and the formulas are used to calculate actual bonus payments. See “*Executive Compensation—Non-Equity Incentive Plan Compensation*” below for more information about these formulas.

In fiscal 2018, we continued to use the annual revenue, Adjusted EBITDA, and cash and cash equivalents metrics, which we believe to be reflective of the results of our operations, and we added a safety modifier, based on our annual Total Recordable Injury Rate (TRIR). TRIR is a measurement of the total number of fatalities, permanent disability cases, occupational lost-time accidents, restricted work cases, and medical treatments divided by the number of worked hours, and then multiplied by 1 million. Total payout factor under the 2018 Annual Bonus Programs was subject to modification, capped at +10% or -10%, based on achievement with respect to our TRIR target.

Each of our named executive officers participated in our 2018 Corporate Annual Bonus Program, which required the achievement of corporate targets established in respect of our: annual revenue metric (33.3% of payout), annual Adjusted EBITDA metric (33.3% of payout), and cash and cash equivalents metric (33.3% of payout), as adjusted by the safety modifier.

In fiscal 2018, we achieved the following, as calculated under the 2018 Corporate Annual Bonus Program (in millions of dollars):

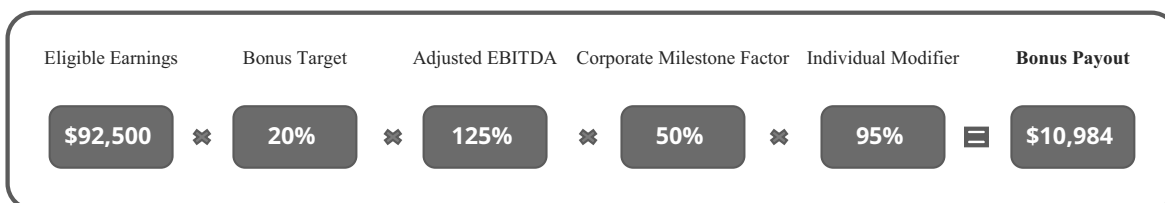
Metric	Annual Revenue	Adjusted EBITDA	Cash and Cash Equivalents	Safety Modifier	Total
2018 Target	\$2,075	\$ 68	\$340	.90	
Actual Achievement	\$1,815	\$111	\$309	1.02	
Payout Factor	23%	46%	31%	98%	97.4%

Earned bonus amounts are reflected under “*2018 Total Non-Equity Incentive Plan Compensation*” in the 2018 Summary Compensation Table below.

Payments to our named executive officers under our Semi-Annual Bonus Plan required the achievement of corporate targets set in respect of our semi-annual profitability metric and quarterly corporate key results, as modified

by an individual modifier assigned by the chief executive officer (or, in the case of our chief executive officer, by the Board) based on his or her individual performance. Such individual modifiers are expressed as a percentage, capped at 125%, and are combined with a corporate milestones factor and the level of achievement of our corporate targets, to calculate bonus payments under the plan.

Example Calculation:



We incorporate a “management by objective” system throughout our organization to establish performance goals that supplement our financial goals. Management establishes five-year corporate key results, and then derives from them annual and quarterly corporate key results, which we refer to as corporate milestones. Each corporate milestone is reviewed, revised, and approved by our Board, and subsequently the scores are reviewed and approved by our Compensation Committee. In addition, each named executive officer, other than our chief executive officer, establishes quarterly personal goals, which we refer to as Key Results, which are approved by the chief executive officer and are intended to be aligned with each quarter’s corporate milestones. Quarterly corporate milestones in fiscal 2018 included sensitive business objectives applicable to our entire company, focusing on strategic transactions, revenue and margin targets, confidential cost and production targets, technology milestones, bookings targets, major customer transactions, new product development, and manufacturing plans and enhancements. For fiscal 2018, personal Key Results objectives included confidential revenue and margin targets, product development, and achieving booking targets, among other operational goals. The Board determined the chief executive officer’s Key Results, which consisted solely of the quarterly corporate milestones selected after discussion with the chief executive officer. These Corporate Milestones and individual Key Results are typically challenging in nature and designed to encourage the individual to achieve success in his or her position during the performance period. At the end of the year, the Compensation Committee determines the chief executive officer’s individual modifier, and the chief executive officer determines the individual modifier for each other named executive officer, based on achievement of their respective individual Key Results.

In fiscal 2018, we achieved an average score of 86% on corporate milestones, and the average individual modifier assigned to our named executive officers was 97%. The maximum individual modifier was 100% and the minimum individual modifier was 90%. Factors considered in determining individual modifiers include performance against corporate, individual key results and annual objectives, and adherence to Company values.

Equity Awards. Our Compensation Committee believes that long-term Company performance is best achieved by an ownership culture that encourages long-term performance by our executive officers through the use of equity-based awards. Our SunPower Corporation 2015 Omnibus Incentive Plan, or 2015 Equity Plan, permits the grant of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, and other stock-based awards. Consistent with our goal to attract, retain, and reward executive officers who contribute to our long-term success in fiscal 2018, our long-term equity awards ranged from the 50th percentile to the 75th percentile of our peer group. The Compensation Committee considered the long-term equity awards made to our chief executive officer in 2017, and in fiscal 2018 set Mr. Werner’s target long-term equity awards at the 50th percentile in order to align his at-risk compensation with stockholder returns and to promote long-term retention. Our other named executive officers’ long-term equity awards were between the 50th percentile and 75th percentile, considering individual performance, the named executive officer’s experience in the executive role, the executive’s scope of responsibility being narrower or broader than that of comparable positions at our peer group companies, and equity burn-rate and shareholder dilution.

The Compensation Committee then allocated long-term equity awards between time-based and performance-based restricted stock units. To balance the advantages of both time-based and performance-based awards, the Compensation Committee decided that annual long-term equity incentive awards granted to Mr. Boynton, Mr. Mahaffey, and Mr. Richards in fiscal 2018 would be made half in the form of performance-based restricted stock

units (which could be earned in amounts between 0% and 150% of the target amount) and half in the form of time-based restricted stock units, all of which would vest over four years. We believe that time-based restricted stock units provide a more effective retention tool while performance-based restricted stock units provide a stronger performance driver.

The Compensation Committee decided that annual long-term equity incentive awards granted to Mr. Werner in fiscal 2018 would be in the form of 65,000 time-based restricted stock units, all of which would vest over two years, and 65,000 in the form of performance-based restricted stock units (which could be earned in amounts between 0% and 150% of the target amount), all of which would vest over two years based on 2018 Corporate Annual Bonus Program Revenue, Adjusted EBITDA, and Cash and Cash Equivalents performance goals. In addition to these annual awards, the Compensation Committee granted an additional 90,000 performance-based restricted stock units (which could be earned in amounts between 0% and 150% of the target amount) to Mr. Werner, to be earned based on the achievement of performance goals tied to our 2018 Corporate Annual Bonus Program and our Semi-Annual Bonus Plan, all of which would vest on March 31, 2020, as additional incentive for performance, and as a long-term retention measure. In 2018, the Compensation Committee also decided to grant an additional 50,000 performance-based restricted stock units (which could be earned in amounts between 0% and 150% of the target amount) to Mr. Werner, to be earned based on the achievement of performance goals tied to corporate restructuring objectives, all of which would vest over two years on March 31, 2020, as additional incentive for performance, and as a long-term retention measure.

The Compensation Committee decided that annual long-term equity incentive awards granted to Dr. Mulligan in fiscal 2018 would be in the form of 37,500 time-based restricted stock units, all of which would vest over four years, and 37,500 in the form of performance-based restricted stock units (which could be earned in amounts between 0% and 150% of the target amount) based on 2018 Corporate Annual Bonus Program Revenue, Adjusted EBITDA, and Cash and Cash Equivalents performance goals, all of which would vest over four years. In 2018, the Compensation Committee also decided to grant an additional 20,000 performance-based restricted stock units (which could be earned in amounts between 0% and 150% of the target amount) to Dr. Mulligan, to be earned based on the achievement of performance goals tied to corporate cost and expense management and cash management objectives for his business unit, all of which would vest over four years, as additional incentive for performance, and as a long-term retention measure.

The Compensation Committee approved a new hire grant to Mr. Sial in fiscal 2018 in the form of 100,000 time-based restricted stock units, all of which would vest over four years. In addition, the Committee approved an additional grant of 160,000 restricted stock units in December 2019, vesting over two years, as recognition for performance in the role and as an additional long-term retention measure.

Awards granted and earned in fiscal 2018 were as follows:

Name	Time-Based Restricted Stock Units	Performance-Based Restricted Stock Units (Target)	Performance-Based Restricted Stock Units Earned
Thomas Werner	65,000	205,000	218,420
Manavendra Sial ⁽¹⁾	260,000	-0-	-0-
Charles Boynton ⁽²⁾	50,000	50,000	-0-
Kenneth Mahaffey	42,500	42,500	41,268
William Mulligan III	37,500	57,500	60,815
Douglas Richards	45,000	45,000	43,695

(1) Mr. Sial joined the Company as an Executive Vice President on May 2, 2018, and became Chief Financial Officer of the Company on May 9, 2018.

(2) Mr. Boynton served as our Chief Financial Officer until May 9, 2018, and remained an Executive Vice President of the Company through July 1, 2018.

We used performance-based restricted stock units as incentive compensation during fiscal 2018 to align our named executive officers' compensation with corporate performance. In connection with our annual review of executive officer compensation, the Compensation Committee approved performance targets for performance stock unit awards to each of our executive officers other than our chief executive officer and Dr. Mulligan in respect of the following: annual revenue metric (25% of the award), Adjusted EBITDA metric (25% of the award), cash and cash

equivalents metric (25% of the award), and corporate restructuring metrics (25% of the award), and a formula under which actual awards would be calculated after completion of fiscal 2018. The Compensation Committee also approved performance targets for a performance stock unit award to Dr. Mulligan in respect of the following: annual revenue metric (33.3% of the award), Adjusted EBITDA metric (33.3% of the award), cash and cash equivalents metric (33.3% of the award), and a formula under which the actual award would be calculated after completion of fiscal 2018.

In addition, the Compensation Committee approved performance targets for performance stock units awarded to our chief executive officer tied to actual payouts under our 2018 Corporate Annual Bonus Program and Semi-Annual Bonus Plan. See “*Executive Compensation—Equity Incentive Plan Compensation*” below for more information about these metrics, targets, and formulas.

These annual performance metrics for each of these awards were selected on the basis of the operating plan approved by our Board after considering expectations regarding our future growth and strategy, as well as potential challenges in achieving such growth and strategic goals. One-year performance periods provide us more flexibility in an uncertain business environment. The performance targets were established at a level that the Compensation Committee determined to be challenging for our named executive officers to achieve. In fiscal 2018, our named executive officers achieved a 17% payout factor in respect of the annual revenue target, a 34% payout factor in respect of the annual Adjusted EBITDA target, a 23% payout factor in respect of the cash and cash equivalents target, and a 23% payout factor in respect of the corporate restructuring target, resulting in a combined 97% payout for each of our executive officers other than Mr. Werner and Dr. Mulligan.

In fiscal 2018, Mr. Werner achieved a 23% payout factor in respect of the annual revenue target, a 46% payout factor in respect of the annual Adjusted EBITDA target, and a 31% payout factor in respect of the cash and cash equivalents target, resulting in a combined 99% payout on 125,000 of the performance-based stock units awarded to him. Mr. Werner achieved a 114% payout factor in respect of achievement of 2018 Semi-Annual Bonus on 30,000 of the performance-based stock units awarded to him. Mr. Werner achieved a 120% payout factor in respect of achievement of the corporate restructuring objectives on 50,000 of the performance-based stock units awarded to him.

In fiscal 2018, Dr. Mulligan achieved a 23% payout factor in respect of the annual revenue target, a 46% payout factor in respect of the annual Adjusted EBITDA target, and a 31% payout factor in respect of the cash and cash equivalents target, resulting in a combined 99% payout on 37,500 of the performance-based stock units awarded to him. Dr. Mulligan achieved a 118% payout factor in respect of achievement of cost, expense, and cash management objectives on 20,000 of the performance-based stock units awarded to him.

The performance-based restricted stock units earned by our named executive officers other than our chief executive officer began vesting in four equal annual installments, subject to continued service, starting March 1, 2019. Certain performance-based restricted stock units granted to our chief executive officer will vest in two equal installments, subject to continued service, starting March 31, 2019, and certain other performance-based restricted stock units granted to our chief executive officer will vest in full on March 31, 2020, subject to continued service.

For fiscal 2018, our Compensation Committee continued to grant time-based restricted stock units that vest in four equal annual installments to our named executive officers (two equal annual installments for our chief executive officer), subject to continued service, starting March 1, 2019.

Perquisites and Other Compensation. As in prior years, we generally do not provide any special perquisites to our named executive officers. We provided certain perquisites and other health and welfare and retirement benefits, such as health, vision, and life insurance coverage and participation in and matching contributions under our 401(k) defined contribution plan, which benefits are generally available to all employees. In 2018, we offered housing assistance and additional travel expense reimbursement to Mr. Sial in connection with his new hire offer. The arrangement, which is limited to the first twelve months of his employment, provides for a furnished apartment, rental car, and reasonable travel expenses for weekly round-trip travel from St. Louis, Missouri, to San Jose, California.

For more information about these arrangements and benefits, see footnote 4 to the “*2018 Summary Compensation Table*” below.

Pension Benefits. None of our named executive officers participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us.

Nonqualified Deferred Compensation. None of our named executive officers participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us.

Employment and Severance Arrangements

Change in Control Arrangements. We are party to employment agreements with certain of our executive officers, including our named executive officers, which provide severance benefits for employment terminations in connection with a change of control. The change of control severance arrangements generally entitle each named executive officer to certain calculated payments tied to base salary and bonus targets and accelerated vesting of his outstanding equity awards, but only upon termination by us without cause or by the executive for good reason (as those terms are defined in the agreements) in connection with a change of control of the Company (a “double trigger” arrangement). The Compensation Committee believes that these reinforce and encourage the continued attention and dedication of our named executive officers to their assigned duties without the distraction arising from the possibility of a change of control, and to enable and encourage our named executive officers to focus their attention on obtaining the best possible outcome for our stockholders without being influenced by personal concerns regarding the possible impact of a change of control on their job security and benefits. For more information, see “*Executive Compensation—Employment Agreements*” and “*Executive Compensation—Potential Payments Upon Termination or Change of Control*.”

Severance Arrangements. We also maintain our 2016 Management Career Transition Plan, adopted in August 2015, which generally entitles each named executive officer to certain calculated payments tied to salary and bonus targets, healthcare benefits, and outplacement assistance if the individual is terminated without cause. Under his employment agreement, our chief executive officer also receives limited accelerated vesting of outstanding equity awards if terminated without cause or if he resigns for good reason.

The Compensation Committee believes that the 2016 Management Career Transition Plan provides benefits that are consistent with industry practice. We believe that entering into change of control and severance arrangements with certain of our executives has helped us attract and retain excellent executive talent and that offering standard packages avoids case-by-case negotiations. Without these provisions, our named executive officers may not have chosen to accept employment with us or remain employed by us. The severance arrangements also promote stability and continuity in our senior management team. For more information, please see “*Executive Compensation—Employment Agreements*,” “*Executive Compensation—2016 Management Career Transition Plan*” and “*Executive Compensation—Potential Payments Upon Termination or Change of Control*” below.

Section 162(m) Considerations

Section 162(m) of the Code generally limits the deduction a company may take for compensation paid to certain executive officers to the extent the compensation for any such individual exceeds \$1 million for the taxable year, unless the compensation qualifies as “qualified performance-based compensation” under Section 162(m) of the Code. This exception has been repealed such that compensation paid to certain executives in excess of \$1 million will not be deductible unless it qualifies for transition relief applicable to certain arrangements in place as of November 2, 2017. Our Compensation Committee considers deductibility as one of a number of factors considered in determining appropriate levels or methods of compensation. Accordingly, we may award compensation that is not deductible for federal income tax purposes.

Stock Ownership Guidelines

In 2015, our Board adopted Stock Ownership Guidelines for Executives and Directors. Under these guidelines and subject to certain exceptions, our chief executive officer is expected to own shares of our stock that have a value equal to five times his annual salary, with ownership measured at the end of each calendar year. Although Mr. Werner was required to satisfy the stock ownership guidelines beginning five years after their implementation in 2015, he already owns shares with a value in excess of the guidelines. Other named executive officers are expected to own shares that have a value equal to their annual salary beginning five years after such officer first becomes subject to the guidelines. None of our executive officers other than Mr. Werner are currently subject to the guidelines. Shares may be owned directly by the individual, or owned by the individual’s spouse, or held in trust for the benefit of the individual’s spouse or family.

Other Disclosures

Under our insider trading policy, our executive officers, directors, and employees are prohibited from engaging in short sales of our securities, establishing margin accounts or otherwise pledging our securities, hedging our securities, or buying or selling options, puts, or calls on our securities.

We do not have a policy regarding adjustment or recovery of awards or payments if the relevant performance goals or measures upon which they are based are restated or otherwise adjusted so that awards or payments are reduced.

COMPENSATION COMMITTEE REPORT

The following report has been submitted by the Compensation Committee of the Board:

The Compensation Committee of the Board has reviewed and discussed our Compensation Discussion and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018 and definitive proxy statement on Schedule 14A for our 2019 Annual Meeting, each as filed with the SEC. The foregoing report was submitted by the Compensation Committee of the Board and shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A promulgated by the SEC or Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any prior or subsequent filing by us under the Securities Act of 1933 or the Exchange Act.

COMPENSATION COMMITTEE OF
THE BOARD OF DIRECTORS

Helle Kristoffersen
Thomas McDaniel
Julien Pouget
Patrick Wood III, *Chair*

April 5, 2019

EXECUTIVE COMPENSATION

Compensation of Named Executive Officers

The 2018 Summary Compensation Table below quantifies the compensation for each of our named executive officers for services rendered during fiscal 2018 and, as applicable, fiscal 2017 and fiscal 2016. The primary elements of each named executive officer's total compensation during fiscal 2018 are reported in the table below and include, among others, base salary, performance-based cash bonuses under our 2018 Corporate Annual Bonus Program and Semi-Annual Bonus Plan, awards of restricted stock units subject to time-based vesting, and awards of performance-based restricted stock units subject to achievement of financial targets and subsequent time-based vesting.

2018 Summary Compensation Table

Name and Principal Position	Year	Salary (\$) ⁽¹⁾	Bonus (\$)	Stock Awards (\$) ⁽²⁾	Non-Equity Incentive Plan Compensation (\$) ⁽³⁾	All Other Compensation (\$) ⁽⁴⁾	Total (\$)
Thomas Werner Chief Executive Officer and Chairman of the Board	2018	600,000	-0-	2,165,300	1,218,369	25,018	4,008,687
	2017	428,154 ⁽⁸⁾	-0-	2,973,600	819,471	24,991	4,246,216
	2016	347,959 ⁽⁸⁾	-0-	6,773,488	-0-	24,436	7,145,883
Manavendra Sial Executive Vice President and Chief Financial Officer ⁽⁵⁾	2018	266,442	100,000	1,907,600	245,480	79,400	2,598,922
Charles Boynton Executive Vice President and Chief Financial Officer ⁽⁶⁾	2018	253,077		789,000	231,056	1,098,603	2,371,736
	2017	470,000	30,000	885,000	406,919	31,372	1,823,291
	2016	465,077		949,592	90,097	30,949	1,535,715
Kenneth Mahaffey Executive Vice President and General Counsel	2018	325,000	-0-	670,650	240,539	30,594	1,266,783
	2017	325,000	-0-	283,200	227,819	31,007	867,026
	2016	272,057	-0-	951,938	49,124	28,221	1,301,340
William Milligan III Former Executive Vice President, Global Operations ⁽⁷⁾	2018	380,000	-0-	754,550	342,365	30,706	1,507,621
	2017	364,481	-0-	531,000	296,319	31,068	1,222,868
Douglas Richards Executive Vice President, Administration	2018	370,000	-0-	710,100	296,316	21,330	1,397,746
	2017	370,000	-0-	672,600	277,810	21,474	1,341,884
	2016	370,000	-0-	656,400	63,714	22,088	1,112,202

- (1) The amounts reported in this column for fiscal 2018 reflect each named executive officer's salary for fiscal 2018 plus payments for paid time off and holidays.
- (2) The amounts reported in the "Stock Awards" column for fiscal 2018 represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 of stock awards granted during the year (time-based and performance-based restricted stock units), excluding the effect of certain forfeiture assumptions. For the performance-based restricted stock units reported in this column for fiscal 2018, such amounts are based on the probable outcome of the relevant performance conditions as of the grant date. Assuming that the highest level of performance is achieved for these awards, the grant date fair value of the performance-based restricted stock unit awards would be: Mr. Werner, \$2,518,313; Mr. Boynton, \$610,500; Mr. Mahaffey, \$518,925; Dr. Mulligan, \$702,075; and Mr. Richards, \$549,450. See Note 17 to our consolidated financial statements in our 2018 Annual Report for details as to the assumptions used to determine the aggregate grant date fair value of these awards. See also our discussion of stock-based compensation under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates" in our 2018 Annual Report
- (3) The amounts reported in this column for fiscal 2018 reflect the amounts earned under our 2018 Annual Bonus Programs and our Semi-Annual Bonus Plan. Additional information about non-equity incentive plan compensation earned during fiscal 2018 is set forth in "Executive Compensation—Non-Equity Incentive Plan Compensation" below.

- (4) The amounts reported in this column for fiscal 2018 as “All Other Compensation” consist of the elements summarized in the table below.

Name	Health Benefits (\$)	Group Life Insurance (\$)	401(k) Match (\$)	Housing & Travel Perquisite	Severance	Total (\$)
Thomas Werner	15,832	936	8,250			25,018
Manavendra Sial ⁽¹⁾	11,888	442	907	66,163		79,400
Charles Boynton ⁽²⁾	13,527	428	8,250		1,076,398	1,098,603
Kenneth Mahaffey	21,837	507	8,250			30,594
William Mulligan III	21,863	593	8,250			30,706
Douglas Richards	12,503	577	8,250			21,330

- (1) Mr. Sial joined the Company on May 2, 2018. We offered housing assistance and additional travel expense reimbursement to Mr. Sial in connection with his new hire offer. The arrangement, which is limited to the first twelve months of his employment, provides for a furnished apartment, rental car, and reasonable travel expenses for weekly round-trip travel from St. Louis, Missouri, to San Jose, California.
- (2) Mr. Boynton left the Company on July 1, 2018. We entered into a Separation and Release agreement with Mr. Boynton, providing him severance consistent with the 2016 Management Career Transition Plan as set forth in “*Employment and Severance Agreements*” below. In addition, the agreement provided for accelerated vesting of 53,232 outstanding restricted stock units on July 1, 2018.
- (5) Mr. Sial joined the Company as an Executive Vice President on May 2, 2018, and became Chief Financial Officer of the Company on May 9, 2018.
- (6) Mr. Boynton served as our Chief Financial Officer until May 9, 2018, and remained an Executive Vice President of the Company through July 1, 2018.
- (7) Dr. Mulligan was promoted to Executive Vice President, Operations, on February 10, 2017, from his previous position as Vice President, Upstream Strategy.
- (8) Reflects an annualized salary of \$600,000, which was reduced at Mr. Werner’s request as of August 1, 2016 to \$1, net of benefit costs, for the remainder of fiscal 2016, and the reduction was extended through the first fiscal quarter of 2017. Mr. Werner’s full salary was reinstated as of April 1, 2017.

Grants of Plan-Based Awards

During fiscal 2018, our named executive officers were granted plan-based restricted stock units and performance stock units under our SunPower Corporation 2015 Omnibus Incentive Plan, which we refer to as our 2015 Equity Plan. They were also granted cash bonus awards under our 2018 Corporate Annual Bonus Program. The following table sets forth information regarding the stock awards and cash bonus awards granted to each named executive officer during fiscal 2018.

2018 Grants of Plan-Based Awards Table

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽²⁾			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Thomas Werner	— ⁽³⁾	450,000	900,000	1,350,000	—	—	—	—	—
	— ⁽⁴⁾	300,000	300,000	468,750	—	—	—	—	—
	4/12/2018 ⁽⁵⁾	—	—	—	32,500	65,000	97,500	—	529,100
	4/12/2018 ⁽⁵⁾	—	—	—	25,000	50,000	75,000	—	407,000
	4/12/2018 ⁽⁶⁾	—	—	—	-0-	30,000	46,875	—	244,200
Manavendra Sial	4/12/2018 ⁽⁷⁾	—	—	—	30,000	60,000	90,000	—	488,400
	2/16/2018 ⁽⁸⁾	—	—	—	—	—	—	65,000	496,600
	— ⁽³⁾	143,438	286,875	430,313	—	—	—	—	—
	— ⁽⁴⁾	95,625	95,625	149,414	—	—	—	—	—
Charles Boynton	5/18/2018 ⁽⁹⁾	—	—	—	—	—	—	100,000	930,000
	12/14/2018 ⁽¹⁰⁾	—	—	—	—	—	—	160,000	977,600
	— ⁽³⁾	158,625	317,250	475,875	—	—	—	—	—
Thomas Werner	— ⁽⁴⁾	105,750	105,750	165,234	—	—	—	—	—
	4/12/2018 ⁽¹¹⁾	—	—	—	25,000	50,000	75,000	—	407,000
	2/16/2018 ⁽¹²⁾	—	—	—	—	—	—	50,000	382,000

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽²⁾			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Kenneth Mahaffey	— ⁽³⁾	91,407	182,813	274,220	—	—	—	—	—
	— ⁽⁴⁾	60,938	60,938	95,216	—	—	—	—	—
	4/12/2018 ⁽¹¹⁾	—	—	—	21,250	42,500	63,750	—	345,950
	2/16/2018 ⁽¹²⁾	—	—	—	—	—	—	42,500	324,700
William Mulligan III	— ⁽³⁾	128,250	256,500	384,750	—	—	—	—	—
	— ⁽⁴⁾	85,500	85,500	133,594	—	—	—	—	—
	4/12/2018 ⁽¹¹⁾	—	—	—	18,750	37,500	56,250	—	305,250
	4/12/2018 ⁽¹¹⁾	—	—	—	10,000	20,000	30,000	—	162,800
	2/16/2018 ⁽¹²⁾	—	—	—	—	—	—	37,500	286,500
Douglas Richards	— ⁽³⁾	111,000	222,000	333,000	—	—	—	—	—
	— ⁽⁴⁾	74,000	74,000	115,625	—	—	—	—	—
	04/12/2018 ⁽¹¹⁾	—	—	—	22,500	45,000	67,500	—	366,300
	02/16/2018 ⁽¹²⁾	—	—	—	—	—	—	45,000	343,800

- (1) Additional information about estimated possible payouts under non-equity incentive plan awards is set forth above in the “*Estimated Possible Payouts Under Semi-Annual and Annual Bonus Programs Table*.”
- (2) The amounts reported in these columns represent performance-based restricted stock unit opportunities. The Compensation Committee approved the awards on April 12, 2018. The grant date fair value of these awards is reported based on the probable outcome of the applicable performance conditions and is consistent with the estimate of aggregate compensation cost, if any, expected to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. See Note 17 to our consolidated financial statements in our 2018 Annual Report for details as to the assumptions used to determine the aggregate grant date fair value of these awards. See also our discussion of stock-based compensation under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” in our 2018 Annual Report.
- (3) Consists of an award under our 2018 Corporate Annual Bonus Program. Achievement levels for certain performance targets could reduce payouts to zero when the applicable formula is applied, as further described below.
- (4) Consists of an award under our Semi-Annual Bonus Plan. Achievement levels for certain performance targets could reduce payouts to zero when the applicable formula is applied, as further described below.
- (5) Consists of an award of restricted stock units, subject to achievement of specific performance metrics in addition to time-based vesting requirements, under the 2015 Equity Plan. Failure to achieve certain performance metrics could result in zero restricted stock units being awarded. The maximum attainable award is 150% of target. The closing price of our common stock was \$8.14 on April 12, 2018. Actual awards were determined in the first quarter of 2019 and are described in “*Equity Incentive Plan Compensation*” below. The earned award vests ratably on March 1, 2019 and March 1, 2020.
- (6) Consists of an award of restricted stock units, subject to achievement of specific performance metrics in addition to time-based vesting requirements, under the 2015 Equity Plan. Failure to achieve certain performance metrics could result in zero restricted stock units being awarded. The maximum attainable award is 156.25% of target. The closing price of our common stock was \$8.14 on April 12, 2018. Actual awards were determined in the first quarter of 2019 and are described in “*Equity Incentive Plan Compensation*” below. The earned award vests in full on March 31, 2020.
- (7) Consists of an award of restricted stock units, subject to achievement of specific performance metrics in addition to time-based vesting requirements, under the 2015 Equity Plan. Failure to achieve certain performance metrics could result in zero restricted stock units being awarded. The maximum attainable award is 150% of target. The closing price of our common stock was \$8.14 on April 12, 2018. Actual awards were determined in the first quarter of 2019 and are described in “*Equity Incentive Plan Compensation*” below. The earned award vests in full on March 31, 2020.
- (8) Consists of an award of restricted stock units, subject to time-based vesting requirements, under the 2015 Equity Plan. The closing price of our common stock was \$7.64 on February 16, 2018. The award vests ratably on March 31, 2019 and March 31, 2020.
- (9) Consists of an award of restricted stock units, subject to time-based vesting requirements, under the 2015 Equity Plan. The closing price of our common stock was \$9.30 on May 18, 2018. The award vests ratably on May 5, 2019, May 5, 2020, May 5, 2021, and May 5, 2022.
- (10) Consists of an award of restricted stock units, subject to time-based vesting requirements, under the 2015 Equity Plan. The closing price of our common stock was \$6.11 on December 14, 2018. The award vests ratably on December 5, 2019 and December 5, 2020.
- (11) Consists of an award of restricted stock units, subject to achievement of specific performance metrics in addition to time-based vesting requirements, under the 2015 Equity Plan. Failure to achieve certain performance metrics could result in zero restricted stock units being awarded. The maximum attainable award is 150% of target. The closing price of our common stock was \$8.14 on April 12, 2018. Actual awards were determined in the first quarter of 2019 and are described in “*Equity Incentive Plan Compensation*” below. The earned award vests ratably on March 1, 2019, March 1, 2020, March 1, 2021, and March 1, 2022.
- (12) Consists of an award of restricted stock units, subject to time-based vesting requirements, under the 2015 Equity Plan. The closing price of our common stock was \$7.64 on February 16, 2018. The award vests ratably on March 1, 2019, March 1, 2020, March 1, 2021, and March 1, 2022.

Non-Equity Incentive Plan Compensation

2018 Annual Bonus Programs. In 2018, we maintained four tailored bonus programs under our Executive Annual Bonus Plan (collectively, the “Annual Bonus Programs”). Awards under each of the Annual Bonus Programs, including the 2018 Corporate Annual Bonus Program, were formula-driven. Each of our named executive officers were participants in the 2018 Corporate Annual Bonus Program, and none participated in or received payments under any of the other Annual Bonus Programs, and accordingly, those programs are not discussed in detail here.

2018 Corporate Annual Bonus Program. At the beginning of fiscal 2018, the Compensation Committee established and approved minimum, target, and maximum levels in respect of three performance criteria for the 2018 Corporate Annual Bonus Program: (1) an annual revenue metric, (2) an annual Adjusted EBITDA metric, and (3) a cash and cash equivalents metric. We refer to this score as our Combined Corporate Metrics score. In addition, we introduced a safety modifier based on the company’s Total Recordable Injury Rate for the year.

Our annual revenue metric is based on our non-GAAP annual revenue. Our annual Adjusted EBITDA metric is based on our annual earnings before interest, taxes, depreciation, and amortization, with certain adjustments such as amounts related to utility and power plant projects and the sale of operating lease assets, as further described in “Use of Non-GAAP Financial Measures.” Our cash and cash equivalents metric is as measured on the Company’s balance sheet as of the end of the fiscal year. Each of these measures is subject to adjustment to exclude the effect of certain transactions outside of the normal course of business, as well as other events as specified in the Annual Executive Bonus Plan and the applicable 2018 Annual Bonus Program. Each named executive officer would earn: (i) 33.3% of his target bonus under the 2018 Corporate Annual Bonus Program upon the achievement of the revenue target, (ii) 33.3% of his target bonus under the 2018 Corporate Annual Bonus Program upon the achievement of the Adjusted EBITDA target, and (iii) 33.3% of his target bonus under the 2018 Corporate Annual Bonus Program upon achievement of the cash and cash equivalents target. In order to encourage our named executive officers to exceed the performance targets, our Compensation Committee set the maximum payment under the program at 150% of target. Payment for each target is determined based on performance achievement relative to minimum, target, and maximum levels, as follows:

Performance Level Achieved	Bonus Payment as Percentage of Bonus Target
Below minimum	No bonus paid
At minimum	50% of target bonus (minimum award for minimum achievement)
Between minimum and target	Prorated on a straight-line basis, between 50% and 100%
At target	100% of target
Between target and maximum	Prorated on a straight-line basis, between 100% and 150%
At or above maximum	150% of target

The annual performance targets, set at the beginning of fiscal 2018, were assessed at the end of the year. Based on our actual results in fiscal 2018, results were calculated for each of the targets, as presented below in the aggregate (in millions of dollars).

Performance Criterion	Minimum	Target	Maximum	Achievement	Payment as % of Target Payment
Revenue	\$1,660	\$2,075	\$2,490	\$1,815	23%
Adjusted EBITDA	\$ 0	\$ 68	\$ 125	\$ 111	46%
Adjusted Cash and Cash Equivalents	\$ 150	\$ 340	\$ 500	\$ 309	31%

The safety modifier based on the company’s Total Recordable Injury Rate (TRIR) for the year, set at the beginning of fiscal 2018, was also assessed at the end of the year, and applied to the bonus payout. The maximum payout modifier for TRIR was set to 110% for achieving a .90 TRIR or below and the minimum payout modifier for TRIR was set to 90% for achieving a TRIR of 1.10 or greater. Achieving a TRIR result of 1.00 would result in a TRIR modifier equal to 100%. Based on our actual results in fiscal 2018, results were calculated in comparison to the target, as presented below.

Performance Criterion	Minimum	Target	Maximum	Achievement	Payment as % of Target Payment
SunPower Total Recordable Injury Rate	1.10	1.00	.90	1.02	98%

Based on the actual results achieved, bonuses were earned and paid to our named executive officers at 97.4% in the aggregate.

Semi-Annual Bonus Plan. Awards under the Semi-Annual Bonus Plan were also formula-driven, with targets in respect of a semi-annual Adjusted EBITDA metric and corporate performance metrics, consisting of a set of corporate milestones representing key results in support our corporate business plan. The Adjusted EBITDA metric is as measured of the Company’s profitability. Each named executive officer is further assigned an individual modifier by his or her manager, or, in the case of our chief executive officer, by the Board, meant to take into account individual performance and accomplishments. These metrics were then incorporated into the plan’s formula. Each named executive officer’s individual modifier could result in no award being payable even if we achieved our quarterly profitability metric and corporate key results targets in the event that the individual modifier was determined to be zero. If threshold corporate key results were achieved and we exceeded our semi-annual Adjusted EBITDA target, bonus payments could exceed 100% of target, up to a maximum payment of 156.25% (based on the semi-annual Adjusted EBITDA metric), depending on the individual modifier.

Payments under the Semi-Annual Bonus Plan were made as follows:

Achievement of Semi-Annual Profitability Metric Target	Achievement of Corporate Key Results	Payment
Under target	Under 60%	No payment
Between target and maximum	60% or over but under 80%	50% payment Payment = 2018 semi-annual salary multiplied by Semi-Annual Bonus Plan target bonus (%) multiplied by semi-annual Adjusted EBITDA metric achievement (up to a maximum of 125%) multiplied by individual modifier (up to a maximum of 125%) multiplied by 50%
At target	80% or over	100% payment Payment = 2018 semi-annual salary multiplied by Semi-Annual Bonus Plan target bonus (%) multiplied by semi-annual profitability metric achievement (up to a maximum of 125%) multiplied by individual modifier (up to a maximum of 125%)
Between target and maximum	80% or over	Greater than 100% payment Payment = 2018 semi-annual salary multiplied by Semi-Annual Bonus Plan target bonus (%) multiplied by semi-annual profitability metric achievement (up to a maximum of 125%) multiplied by individual modifier (up to a maximum of 125%)
Under target	80% or over	No payment

Quarterly corporate milestones in fiscal 2018 included sensitive business objectives applicable to our entire company, focusing on strategic transactions, revenue and margin targets, confidential cost and production targets, technology milestones, bookings targets, major customer transactions, new product development, and manufacturing plans and enhancements. The quarterly corporate key results scores were 85.6%, 82.3%, 84.5%, and 92.2% for each quarter in fiscal 2018, respectively. Individual modifiers for the named executive officers ranged from 90% to 100%, and averaged 97%, for both the first half and the second half of fiscal 2018.

Equity Incentive Plan Compensation

In addition to time-based restricted stock unit awards, to further align executive compensation with maximizing stockholder value, our Compensation Committee granted to our named executive officers certain performance-based equity awards, consisting of restricted stock units, or RSUs, that would be released and begin time-based vesting only upon achievement of certain corporate or individual performance objectives.

Our Compensation Committee met at the beginning of 2018 and established and approved target levels in respect of four performance criteria for our traditional performance-based equity awards to named executive officers other than Mr. Werner and Dr. Mulligan: (1) an annual revenue metric, (2) an annual Adjusted EBITDA metric, (3) an annual cash and cash equivalents metric, and (4) an annual operating expense and cost of goods sold overhead reduction metric. Each eligible named executive officer would earn 25% of his target performance-based RSUs upon the achievement of the annual revenue metric target, 25% of his target performance-based RSUs upon the achievement of the Adjusted EBITDA metric target, 25% of his target performance-based RSUs upon the achievement of the cash and cash equivalents target and the remaining 25% of his target performance-based RSUs upon the achievement of the operating expense and cost of goods sold overhead reduction target. The three financial metrics (Revenue, Adjusted EBITDA, and Cash and Cash Equivalents) and their corresponding targets are the same as those for our 2018 Corporate Annual Bonus Program (and the Corporate Metrics Score portion of each of the other 2018 Annual Bonus Programs), described above in “*Executive Compensation—Non-Equity Incentive Plan Compensation.*” Payment for each target was determined based on the performance metric achieved relative to minimum, target, and maximum performance levels, as shown in the table below.

The Compensation Committee approved performance targets for our traditional performance-based equity awards to Mr. Werner and Dr. Mulligan in respect of the following: annual revenue metric (33.3% of the award), Adjusted EBITDA metric (33.3% of the award), cash and cash equivalents metric (33.3% of the award). The three financial metrics and their corresponding targets are the same as those for our 2018 Corporate Annual Bonus Program (and the Corporate Metrics Score portion of each of the other 2018 Annual Bonus Programs), described above in “*Executive Compensation—Non-Equity Incentive Plan Compensation.*” Payment for each target was determined based on the performance metric achieved relative to minimum, target, and maximum performance levels, as shown in the table below.

The Compensation Committee approved performance targets for a special performance-based equity award with a target of 50,000 restricted stock units to Mr. Werner in respect of two performance criteria: (1) an annual operating expense and cost of goods sold overhead reduction metric, and (2) reorganization of corporate operating expense into the business units. Mr. Werner would earn 50% of these performance-based restricted stock units upon the achievement of each metric, respectively. The annual operating expense and cost of goods sold overhead reduction metrics and targets were the same as those specified in annual performance-based equity awards to the other named executive officers. Payment for each metric was determined based on the performance relative to minimum, target, and maximum performance levels, as shown in the table below.

In addition, the Compensation Committee approved performance targets for a special performance-based equity award with a target of 20,000 restricted stock units to Dr. Mulligan in respect of two performance criteria: (1) an annual operating expense and cost of goods sold overhead reduction metric, and (2) business unit cash management. Dr. Mulligan would earn 50% of these performance-based restricted stock units upon the achievement of each metric, respectively. The annual operating expense and cost of goods sold overhead reduction metrics and targets were the same as those specified in annual performance-based equity awards to the other named executive officers. Payment for each metric was determined based on the performance relative to minimum, target, and maximum performance levels, as shown in the table below.

Percentage of Performance Target Achieved	Grant of RSUs as Percentage of Target RSUs
Below minimum	No RSUs earned
At minimum	50% of target RSUs (minimum award for minimum achievement)
Between minimum and target	Prorated on a straight-line basis, between 50% and 100%
At target	100% of target
Between target and maximum	Prorated on a straight-line basis, between 100% and 150%
At or above maximum	150% of target

The performance-based restricted stock units earned by our named executive officers other than our chief executive officer began vesting in four equal annual installments, subject to continued service, starting March 1, 2019. Certain performance-based restricted stock units granted to our chief executive officer will vest in two equal installments, subject to continued service, starting March 31, 2019, and certain other performance-based restricted stock units granted to our chief executive officer will vest in full on March 31, 2020, subject to continued service.

For fiscal 2018, our Compensation Committee continued to grant time-based restricted stock units that vest in four equal annual installments to our named executive officers (two equal annual installments for our chief executive officer), subject to continued service, starting March 1, 2019.

With respect to our 2018 performance-based equity awards to named executive officers other than Mr. Werner and Dr. Mulligan, we achieved 17% of our annual revenue metric target, 34% of our Adjusted EBITDA metric target, 23% of our cash and cash equivalents metric target, and 23% of our operating expense and cost of goods sold overhead reduction metric target. Based on our actual results in fiscal 2018, performance-based restricted stock units were earned by such named executive officers for achievement of each of these metric targets.

With respect to our 2018 regular performance-based equity awards to Mr. Werner and Dr. Mulligan, we achieved 23% of our annual revenue metric target, 46% of our Adjusted EBITDA metric target, and 31% of our cash and cash equivalents metric target. Based on our actual results in fiscal 2018, performance-based restricted stock units were earned by Mr. Werner and Dr. Mulligan for achievement of each of these metric targets.

With respect to our 2018 special performance-based equity award of 50,000 units to Mr. Werner, we achieved 45% of our operating expense and cost of goods sold overhead reduction metric target and 75% of our corporate operating expense reorganization metric target.

The named executive officers' targets and earned performance-based RSUs are described above in "*Compensation Discussion and Analysis—Analysis of Fiscal 2018 Compensation Decisions—Equity Awards.*"

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding the outstanding equity awards held by our named executive officers as of December 30, 2018.

Outstanding Equity Awards at 2018 Fiscal Year-End Table

Name	Grant Date	Stock Awards	
		Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) ⁽¹⁾
Thomas Werner	03/31/2016 ⁽²⁾	10,275	51,991
	03/31/2016 ⁽³⁾	8,610	43,567
	03/31/2016 ⁽⁴⁾	35,800	181,148
	03/31/2016 ⁽⁵⁾	120,000	607,200
	03/10/2017 ⁽⁶⁾	17,700	89,562
	03/10/2017 ⁽⁶⁾	90,000	455,400
	03/10/2017 ⁽⁷⁾	112,500	569,250
	03/10/2017 ⁽⁸⁾	112,500	569,250
	02/16/2018 ⁽⁹⁾	65,000	328,900
	04/12/2018 ⁽¹⁰⁾	65,000	328,900
	04/12/2018 ⁽¹⁰⁾	60,000	303,600
	04/12/2018 ⁽¹¹⁾	60,000	303,600
	04/12/2018 ⁽¹¹⁾	34,170	172,900
Manavendra Sial	05/18/2018 ⁽¹²⁾	100,000	506,000
	12/14/2018 ⁽¹³⁾	160,000	809,600
Kenneth Mahaffey	01/27/2016 ⁽¹⁴⁾	6,930	35,066
	03/21/2016 ⁽⁴⁾	4,250	21,505
	03/21/2016 ⁽⁴⁾	1,200	6,072
	11/01/2016 ⁽¹⁵⁾	25,000	126,500
	03/10/2017 ⁽⁷⁾	30,000	151,800
	02/26/2018 ⁽¹⁶⁾	42,500	215,050
	02/26/2018 ⁽¹⁷⁾	42,500	215,050
William Mulligan III	03/21/2016 ⁽⁴⁾	4,500	22,770
	03/10/2017 ⁽⁷⁾	28,125	142,313
	03/10/2017 ⁽⁸⁾	28,125	142,313
	02/16/2018 ⁽¹⁶⁾	37,500	189,750
	04/12/2018 ⁽¹⁷⁾	37,500	189,750
	04/12/2018 ⁽¹⁷⁾	23,540	119,111
Douglas Richards	02/22/2016 ⁽¹⁸⁾	2,153	10,894
	02/22/2016 ⁽⁴⁾	7,500	37,950
	03/10/2017 ⁽⁷⁾	35,625	180,263
	03/10/2017 ⁽⁸⁾	35,625	180,263
	02/16/2018 ⁽¹⁶⁾	45,000	227,700
	02/16/2018 ⁽¹⁷⁾	45,000	227,700

- (1) The closing price of our common stock on December 28, 2018 (the last trading day of fiscal 2018) was \$5.06.
- (2) On March 31, 2016, the named executive officer was awarded a number of performance-based restricted stock units within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2017. The earned award vests in four equal annual installments on March 1, 2017, March 1, 2018, March 1, 2019, and March 1, 2020, subject to the recipient's continued employment with us.
- (3) On March 31, 2016, the named executive officer was awarded a number of performance-based restricted stock units within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2017. The earned award vests in full on March 31, 2020, subject to the recipient's continued employment with us.
- (4) Each of these awards of restricted stock units provided for vesting in four equal annual installments on each of March 1, 2017, March 1, 2018, March 1, 2019, and March 1, 2020, subject to the recipient's continued employment with us.

- (5) Each of these awards of restricted stock units provided for one-time vesting on March 31, 2020 subject to the recipient's continued employment with us.
- (6) On March 10, 2017, the named executive officer was awarded a number of performance-based restricted stock units within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2018 and is described in "Equity Incentive Plan Compensation" above. The earned award vests in full on March 31, 2020, subject to the recipient's continued employment with us.
- (7) On March 10, 2017, the named executive officer was awarded a number of performance-based restricted stock units within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2018 and is described in "Equity Incentive Plan Compensation" above. The earned award vests in four equal annual installments on March 1, 2018, March 1, 2019, March 1, 2020, and March 1, 2021, subject to the recipient's continued employment with us.
- (8) Each of these awards of restricted stock units provided for vesting in four equal annual installments on each of March 1, 2018, March 1, 2019, March 1, 2020, and March 1, 2021, subject to the recipient's continued employment with us.
- (9) Each of these awards of restricted stock units provided for vesting in two equal annual installments on each of March 1, 2019 and March 1, 2020, subject to the recipient's continued employment with us.
- (10) On April 12, 2018, the named executive officer was awarded a number of performance-based restricted stock units within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2019 and is described in "Equity Incentive Plan Compensation" above. The earned award vests in two equal annual installments on March 1, 2019 and March 1, 2020, subject to the recipient's continued employment with us.
- (11) On April 12, 2018, the named executive officer was awarded a number of performance-based restricted stock units within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2019 and is described in "Equity Incentive Plan Compensation" above. The earned award will vest on March 31, 2020, subject to the recipient's continued employment with us.
- (12) Each of these awards of restricted stock units provided for vesting in three equal annual installments on each of May 5, 2019, May 5, 2020, May 5, 2021, and May 5, 2022, subject to the recipient's continued employment with us.
- (13) Each of these awards of restricted stock units provided for vesting in two equal annual installments on each of December 5, 2019 and December 5, 2020, subject to the recipient's continued employment with us.
- (14) Each of these awards of restricted stock units provided for vesting in four equal annual installments on each of January 25, 2017, January 25, 2018, January 25, 2019, and January 25, 2020, subject to the recipient's continued employment with us.
- (15) Each of these awards of restricted stock units provided for vesting in four equal annual installments on each of November 1, 2017, November 1, 2018, November 1, 2019, and November 1, 2020, subject to the recipient's continued employment with us.
- (16) Each of these awards of restricted stock units provided for vesting in three equal annual installments on each of March 01, 2019, March 01, 2020, March 01, 2021, and March 01, 2022, subject to the recipient's continued employment with us.
- (17) On April 12, 2018, the named executive officer was awarded a number of performance-based restricted stock units within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2019 and is described in "Equity Incentive Plan Compensation" above. The earned award vests in four equal annual installments on March 1, 2019, March 1, 2020, March 1, 2021, and March 1, 2022, subject to the recipient's continued employment with us.
- (18) On February 22, 2016, the named executive officer was awarded a number of performance-based restricted stock units within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2017. The earned award vests in four equal annual installments on each March 1, 2017, March 1, 2018, March 1, 2019, and March 1, 2020, subject to the recipient's continued employment with us.

The following table sets forth the number of shares acquired pursuant to the vesting of stock awards held by our named executive officers during fiscal 2018 and the aggregate dollar amount realized by our named executive officers upon such events. Because there were no shares acquired by our named executive officers pursuant to the exercise of options during fiscal 2018, we have not included columns pertaining to option awards in the table below.

2018 Option Exercises and Stock Vested Table

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) ⁽¹⁾
Thomas Werner	128,031	903,899
Manavendra Sial ⁽²⁾	-0-	-0-
Charles Boynton ⁽³⁾	103,476	763,012
Kenneth Mahaffey	32,451	221,744
William Mulligan III	26,000	181,560
Douglas Richards	39,366	277,924

- (1) The aggregate dollar value realized upon the vesting of a stock award represents the fair market value of the underlying shares on the vesting date multiplied by the number of shares vested.
- (2) Mr. Sial joined in the company as of May 2, 2018 as Executive Vice President, and assumed the position of Chief Financial Officer on May 9, 2018.
- (3) Mr. Boynton served as our Chief Financial Officer until May 9, 2018, and remained an Executive Vice President of the Company through July 1, 2018.

Potential Payments Upon Termination or Change of Control

Tabular Disclosure of Termination Payments. Our employment agreements with our named executive officers contain provisions that provide for payments upon certain events of termination and change of control. See “*Employment and Severance Agreements*” below for a detailed description of these agreements. The following tables summarize the estimated payments that would have been made on December 30, 2018 which our named executive officers would be eligible to receive upon the following termination events, assuming each such event had occurred on December 28, 2018, the last business day of fiscal 2018:

- termination with cause or voluntary resignation without good reason;
- involuntary termination without cause or voluntary resignation for good reason in connection with a change of control;
- involuntary termination without cause or voluntarily resignation for good reason not in connection with a change of control;
- retirement; or
- discontinued service due to death or disability.

The dollar value identified with respect to each type of equity award is based on each named executive officer’s accelerated restricted stock units as of December 30, 2018 and is based on the \$5.06 per share closing price for our common stock on December 28, 2018, the last trading day of fiscal 2018. No named executive officers held unvested stock options as of December 30, 2018. For more information on each officer’s outstanding equity awards as of December 30, 2018, please see the “*Outstanding Equity Awards At 2018 Fiscal-Year End Table*” above. The tables do not include unpaid regular salary, nor the impact of certain “best net” provisions of each named executive officer’s employment agreement that provides that, in the event any payments under such employment agreement would constitute parachute payments under Section 280G of the Code or be subject to the excise tax of Section 4999 of the Code, then such payments should be either delivered in full or reduced to result in no portion being subject to such tax provisions and still yield the greatest payment to the individual on an after tax basis.

Termination Payments Table

Name	Termination Scenario	Continued Salary (\$)	Bonus and Accelerated Non-Equity Incentive Plan Awards (\$)	Accelerated Restricted Stock Units (\$) ⁽¹⁾⁽²⁾	Continued Medical Benefits and Gross Up (\$)	Outplacement Services (\$)	Accrued Paid Time Off and Sabbatical (\$)	Total (\$)
Thomas Werner	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	69,231	69,231
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	1,200,000	2,400,000	4,001,473	70,325	15,000	69,231	7,756,029
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	1,200,000	1,200,000	1,686,498	70,325	15,000	69,231	4,241,054
	Retirement	—	—	—	—	—	69,231	69,231
	Death or disability	—	—	3,933,568	—	—	69,231	4,002,799
Manavendra Sial	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	850,000	765,000	1,315,600	77,240	15,000	—	3,022,840
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	425,000	382,500	—	77,240	15,000	—	899,740
	Retirement	—	—	—	—	—	—	—
	Death or disability	—	—	1,315,600	—	—	—	1,315,600
Charles Boynton	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	470,000	166,385	408,289	16,724	15,000	—	1,076,398
	Retirement	—	—	—	—	—	—	—
	Death or disability	—	—	—	—	—	—	—
Kenneth Mahaffey ⁽³⁾	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	650,000	487,500	764,809	102,064	15,000	—	2,019,373
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	325,000	243,750	—	102,064	15,000	—	685,814
	Retirement	—	—	—	—	—	—	—
	Death or disability	—	—	771,043	—	—	—	771,043

Name	Termination Scenario	Continued Salary (\$)	Bonus and Accelerated Non-Equity Incentive Plan Awards (\$)	Accelerated Restricted Stock Units (\$) ⁽¹⁾⁽²⁾	Continued Medical Benefits and Gross Up (\$)	Outplacement Services (\$)	Accrued Paid Time Off and Sabbatical (\$)	Total (\$)
William Mulligan III ⁽⁴⁾	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	760,000	684,000	804,869	102,064	15,000	—	2,365,933
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	380,000	342,000	—	102,064	15,000	—	839,064
	Retirement	—	—	—	—	—	—	—
	Death or disability	—	—	788,095	—	—	—	788,095
Douglas Richards	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	740,000	592,000	858,166	51,306	15,000	—	2,256,472
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	370,000	296,000	—	51,306	15,000	—	732,306
	Retirement	—	—	—	—	—	—	—
	Death or disability	—	—	864,769	—	—	—	864,769

- (1) In connection with a change of control, accelerated restricted stock units' calculation assumes that the change of control does not involve Total or one of its affiliates.
- (2) Awards under the SunPower Corporation 2015 Omnibus Incentive Plan provide for accelerated vesting upon death or disability.
- (3) Mr. Mahaffey was promoted to Executive Vice President and General Counsel on November 1, 2016, from his previous position as General Counsel, Global Business Units.
- (4) Dr. Mulligan was promoted to Executive Vice President, Operations, on February 10, 2017, from his previous position as Vice President, Upstream Strategy.

Employment and Severance Agreements

We have entered into employment agreements with certain of our executive officers, including our named executive officers. In August 2015, we adopted a severance policy entitled the 2016 Management Career Transition Plan, which replaced our 2014 Management Career Transition Plan. Additionally, our named executive officers are entitled to receive certain payments from us or our affiliates in the event of certain termination events in connection with a change of control.

Employment Agreements. We are party to employment agreements with several executive officers, including the named executive officers. Each employment agreement provides that the executive's employment is "at-will" and may be terminated at any time by either party. Each employment agreement generally provides for a three-year term that will automatically renew unless we provide notice of our intent not to renew at least 120 days before the renewal date. The agreements do not specify salary, bonus, or other basic compensation terms, but instead provide that each executive's base salary, annual bonus, and equity compensation will be determined in accordance with our normal practices. The primary purpose of the agreements is to provide certain severance benefits for employment terminations in connection with a change of control (as defined in the agreement). In the event an executive's employment is terminated by us without cause (as defined in the agreement), or if the executive resigns for good reason (as defined in the agreement), and if such termination or resignation occurs during the period three months prior to, and ending 36 months following, a change of control, then the agreements also provide that the executive is entitled to the following benefits:

- a lump-sum payment equivalent to 24 months of such executive's base salary;

- a lump-sum payment equal to any earned but unpaid annual bonus for a completed fiscal year;
- a lump-sum payment equal to the product of (a) such executive's target bonus for the then current fiscal year, multiplied by (b) two;
- continuation of such executive's and such executive's eligible dependents' coverage under our benefit plans for up to 24 months, at our expense;
- a lump-sum payment equal to such executive's accrued and unpaid base salary and paid time off;
- reimbursement of up to \$15,000 for services of an outplacement firm mutually acceptable to us and the executive;
- annual make-up payments for taxes incurred by the executive in connection with benefit plans' coverage; and
- all of such executive's unvested options, shares of restricted stock and restricted stock units (including performance-based restricted stock units) will become fully vested and (as applicable) exercisable as of the termination date and remain exercisable for the time period otherwise applicable to such equity awards following such termination date. In addition, Mr. Werner's agreement provides for full accelerated vesting upon termination of employment without cause or resignation for good reason, regardless of whether such termination is in connection with a change of control; provided, however, that absent a change of control, no such accelerated vesting or lapsing shall apply to Mr. Werner's performance-based equity awards.

Under the employment agreements, "cause" means the occurrence of any of the following, as determined by us in good faith:

- acts or omissions constituting gross negligence or willful misconduct on the part of the executive with respect to the executive's obligations or otherwise relating to our business,
- the executive's conviction of, or plea of guilty or nolo contendere to, crimes involving fraud, misappropriation or embezzlement, or a felony crime of moral turpitude,
- the executive's violation or breach of any fiduciary duty (whether or not involving personal profit) to us, except to the extent that his violation or breach was reasonably based on the advice of our outside counsel, or willful violation of any of our published policies governing the conduct of it executives or other employees, or
- the executive's violation or breach of any contractual duty to us which duty is material to the performance of the executive's duties or results in material damage to us or our business;

provided that if any of the foregoing events is capable of being cured, we will provide notice to the executive describing the nature of such event and the executive will thereafter have 30 days to cure such event.

In addition, under the employment agreements, "good reason" means the occurrence of any of the following without the executive's express prior written consent:

- a material reduction in the executive's position or duties,
- a material breach of the employment agreement,
- a material reduction in the executive's aggregate target compensation, including the executive's base salary and target bonus on a combined basis, excluding a reduction that is applied to substantially all of our other senior executives; provided, however, that for purposes of this clause, whether a reduction in target bonus has occurred shall be determined without any regard to any actual bonus payments made to the executive, or
- a relocation of the executive's primary place of business for the performance of his duties to us to a location that is more than 45 miles from our current business location.

The executive shall be considered to have "good reason" under the employment agreement only if, no later than 90 days following an event otherwise constituting "good reason" under the employment agreement, the executive gives notice to us of the occurrence of such event and we fail to cure the event within 30 days following its receipt of such notice from the executive, and the executive terminates service within 36 months following a change of control.

If any of the severance payments, accelerated vesting and lapsing of restrictions would constitute a “parachute payment” within the meaning of Section 280G of the Code and be subject to excise tax or any interest or penalties payable with respect to such excise tax, then the executive’s benefits will be either delivered in full or delivered as to such lesser extent which would result in no portion of such benefits being subject to such taxes, interest or penalties, whichever results in the executive receiving, on an after-tax basis, the greatest amount of benefits.

Before receiving the benefits described in the employment agreements, the executive will be required to sign a separation agreement and release of claims. In addition, the benefits will be conditioned upon the executive not soliciting our or our affiliates’ (as defined in the employment agreement) employees, consultants, customers, or users for one year following the termination date. Mr. Werner’s agreement also provides that, if his termination without cause or resignation for good reason is not in connection with a change of control, his severance benefits will be conditioned upon a non-competition arrangement lasting one year following employment termination.

2016 Management Career Transition Plan. In August 2015, we adopted the 2016 Management Career Transition Plan, (the “Severance Plan”), which replaced our 2014 Management Career Transition Plan. The Severance Plan generally terminates on the third anniversary of the effective date. The Severance Plan addresses severance for certain employment terminations, and payments are only made if the executive or employee is not already entitled to severance benefits under a separate employment agreement. Participants in the Severance Plan include our Chief Executive Officer, Thomas Werner, and those employees who have been employed by the Company for at least six months and report directly to him (including our other named executive officers), as well as other key employees of the Company who are provided with written notice from the chief executive officer that they are Severance Plan participants. Under the terms of the Severance Plan, Mr. Werner and the other named executive officers will be eligible for benefits following a termination of employment by us without cause (as defined in the Severance Plan). Such benefits include:

- a lump-sum payment equivalent to 12 months (or 24 months in Mr. Werner’s case) of such executive’s base salary;
- a lump-sum payment equal to any earned but unpaid annual bonus for a completed fiscal year;
- a lump-sum payment equal to the pro rata portion of such executive’s actual bonus for the then current fiscal year, based on the number of whole calendar months between the start of the fiscal year and the termination date;
- continuation of such executive’s and such executive’s eligible dependents’ coverage under the Company’s health benefit plans for up to 12 months (or 24 months in Mr. Werner’s case), at the Company’s expense;
- a lump-sum payment equal to such executive’s accrued and unpaid base salary and paid time off;
- annual make-up payments for taxes incurred by the executive in connection with such health benefit plans’ coverage; and
- reimbursement of up to \$15,000 for services of an outplacement firm mutually acceptable to the Company and the executive.

CEO Pay Ratio

Pursuant to Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are required to provide the following information about the relationship of the annual total compensation of Thomas Werner, our chief executive officer (the “CEO”), to the median of the annual total compensation of all of our employees, excluding Mr. Werner:

For fiscal 2018, our last completed fiscal year:

- we have estimated the median of the annual total compensation of all our employees, excluding Mr. Werner, to be \$9,450; and
- Mr. Werner’s annual total compensation, for purposes of determining the CEO Pay Ratio, was \$4,009,187.

Based on this information, for fiscal 2018, the ratio of the annual total compensation of Mr. Werner, our CEO, to the median of the annual total compensation of all our employees, excluding Mr. Werner, was estimated to be 424:1. This pay ratio is a reasonable estimate calculated in a manner consistent with SEC rules based on our payroll and employment records and the methodology and assumptions described below. Our pay ratio is not an element that the Compensation Committee considers in setting the compensation of our CEO, nor is our CEO’s compensation a material element that management considers in making compensation decisions for non-officer employees.

Item 402(u) of Regulation S-K requires companies to identify the median employee only once every three years. We identified the median employee in 2018, and we believe that changes in our employee population or employee compensation arrangements since we identified the median employee do not result in a significant change to our pay ratio disclosure. The employee population decreased 10% during such time period with no significant change to employee compensation arrangements, and the percentage of U.S. employees of the total global workforce did not change from approximately 15%.

The median employee identified in 2018 terminated employment with the company during 2018. As allowed under Item 402(u) of Regulation S-K, we have substituted the terminated employee with another employee with substantially similar compensation as the terminated employee, based on the compensation measures used to select the original median employee. The “median employee” is a full-time, hourly employee located in Mexico. We totaled all of the elements of the employee’s compensation for fiscal 2018 in accordance with the requirements of the applicable SEC rules and converted the amounts from Mexican Pesos to U.S. dollars using the relevant monthly average currency exchange rate of 18.7152 Mexican Pesos per U.S. dollar. This resulted in an annual total compensation of \$9,450, of which \$6,389 is base salary and \$3,061 is comprised of bonus and other compensation such as overtime pay and other cash allowances.

With respect to the annual total compensation of our chief executive officer, we took the amount reported in the “Total” column of our 2018 Summary Compensation Table.

Because the SEC rules for identifying the median of the annual total compensation of our employees and calculating the pay ratio based on that employee’s annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices, the pay ratio reported by other companies may not be comparable to the pay ratio for our Company, as other companies have headquarters offices in different countries, have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their pay ratios.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding beneficial ownership of our common stock as of March 21, 2019 (except as described below) by:

- each of our directors;
- our “named executive officers”;
- our directors, director nominees, and executive officers as a group; and
- each person (including any “group” as that term is used in Section 13(d)(3) of the Exchange Act) who is known by us to beneficially own more than 5% of any class of our common stock.

Applicable beneficial ownership percentages listed below are based on 142,372,724 shares of common stock outstanding as of March 21, 2019. The business address for each of our directors and executive officers is our corporate headquarters at 77 Rio Robles, San Jose, California 95134.

	Common Stock Beneficially Owned ⁽¹⁾	
	Number of Shares	%
Directors and Named Executive Officers		
François Badoual	—	—
Charles Boynton ⁽²⁾	32,441	*
Helle Kristoffersen	—	—
Antoine Larenaudie	—	—
Catherine Lesjak	110,905	*
Kenneth Mahaffey	100,044	*
Thomas McDaniel ⁽³⁾	220,663	*
William Mulligan ⁽⁴⁾	85,505	*
Ladislav Paszkiewicz	—	—
Julien Pouget	—	—
Douglas Richards	121,906	*
Manavendra Sial ⁽⁵⁾	25,000	—
Thomas Werner ⁽⁶⁾	635,931	*
Pat Wood III	153,281	*
All Directors and Executive Officers as a Group (14 persons)	1,485,676	1.04%
Other Persons		
Total S.A. Total Solar International SAS ⁽⁷⁾ 2 place Jean Millier La Défense 6 92400 Courbevoie France	86,979,137	57.69%

* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares underlying restricted stock units and options held by that person that will vest or be exercisable within 60 days of March 21, 2019 are deemed to be outstanding. Such shares, however, are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Mr. Boynton served as our Chief Financial Officer until May 9, 2018, and remained an Executive Vice President of the Company through July 1, 2018.
- (3) Includes 220,547 shares of common stock held indirectly in the McDaniel Trust dtd 7/26/2000, of which Mr. McDaniel and his spouse are co-trustees.
- (4) Includes 2,000 shares of common stock held by Dr. Mulligan’s wife.
- (5) Includes 25,000 restricted stock units vesting within 60 days of March 21, 2019. Mr. Sial joined the Company as an Executive Vice President on May 2, 2018, and became Chief Financial Officer of the Company on May 9, 2018.

- (6) Includes 32,500 restricted stock units vesting within 60 days of March 21, 2019 and 1,218 shares of common stock held by The Werner Family Trust (“WF Trust”), of which Mr. Werner and his wife are co-trustees and the beneficiaries are the surviving spouse between Thomas Werner and Suzanne Werner, to be followed by Jessica Werner and Katheryn Werner. Thomas and Suzanne Werner have been delegated joint control and voting power over the WF Trust.
- (7) Includes 5,126,775 shares of common stock issuable upon conversion of the convertible debentures issued by us to Total Energies Nouvelles Activités USA, SAS on June 11, 2014 and 3,275,680 shares of common stock issuable upon conversion of the convertible debentures issued by us to Total Energies Nouvelles Activités USA, SAS on December 15, 2015.

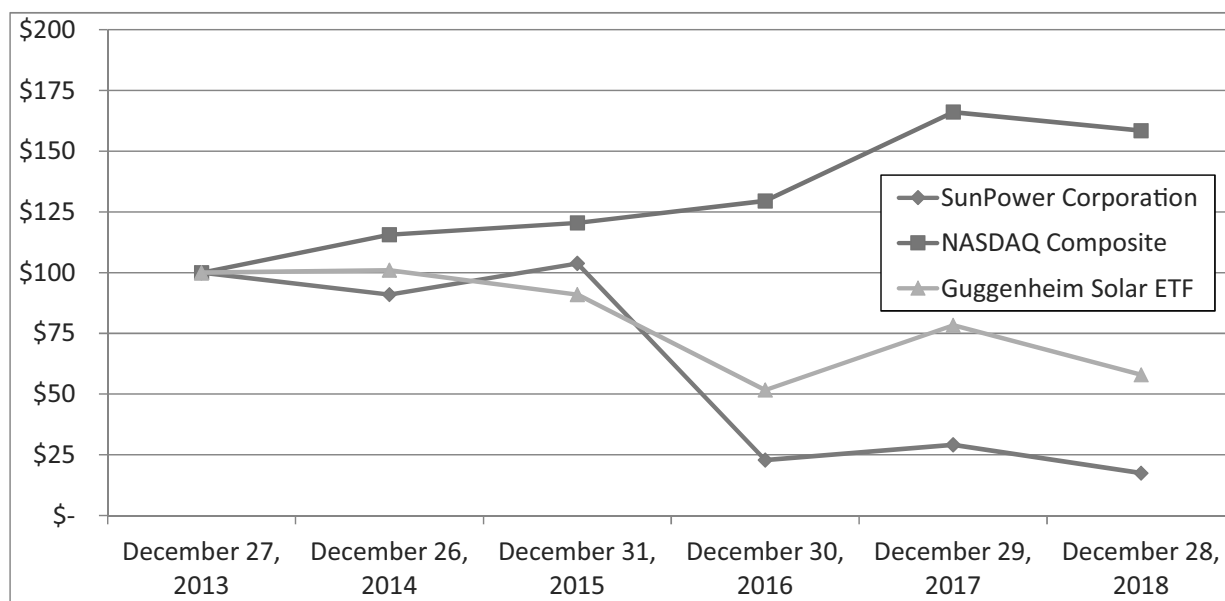
Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires certain of our executive officers and our directors, and persons who own more than 10% of a registered class of our equity securities, to file an initial report of ownership on Form 3 and reports of changes in ownership on Forms 4 or 5 with the SEC and The Nasdaq Global Select Market. Such executive officers, directors, and greater than 10% stockholders are also required by SEC regulations to furnish us with copies of all Section 16 forms that they file. We periodically remind our directors and executive officers of their reporting obligations and assist in making the required disclosures once we have been notified that a reportable event has occurred. We are required to report in this proxy statement any failure by any of the above-mentioned persons to make timely Section 16 reports.

Based solely on our review of the copies of such forms received by us, and written representations from our directors and executive officers, we are unaware of any instances of noncompliance, or late compliance, with Section 16(a) filing requirements by our directors, executive officers, or greater than 10% stockholders during fiscal 2018, except as follows: (i) the Form 4 filing for Thomas McDaniel’s acquisition of 8,611 restricted stock units on May 11, 2018 and immediate conversion of such restricted stock units to shares of common stock was made on May 23, 2018, with the delay due to technical issues with the filing, and (ii) the Form 4 filing for Vidul Prakash’s sale of shares of common stock on November 27, 2018 was made on January 8, 2019, due to delayed reporting of the transaction.

COMPANY STOCK PRICE PERFORMANCE

The following graph compares the performance of an investment in our common stock from December 27, 2013 through December 28, 2018, with the Nasdaq Composite index and with the Guggenheim Solar ETF. The graph assumes \$100 was invested on December 27, 2013 in our common stock at the closing price of \$28.91 per share, at the closing price for the Nasdaq Composite and at the closing price for the Guggenheim Solar ETF. In addition, the graph assumes that any dividends were reinvested on the date of payment without payment of any commissions. The performance shown in the graph represents past performance and should not be considered an indication of future performance. The following graph is not, and shall not be deemed to be, filed as part of our Annual Report on Form 10-K. Such graph should not be deemed filed or incorporated by reference into any of our filings under the Securities Act of 1933, or the Exchange Act, except to the extent specifically incorporated by reference therein by us.



**ASSUMES \$100 INVESTED ON DECEMBER 27, 2013
(ASSUMES DIVIDEND REINVESTED)
UNTIL FISCAL YEAR ENDED DECEMBER 30, 2018**

	December 26, 2014	December 31, 2015	December 30, 2016	December 29, 2017	December 28, 2018
SunPower Corporation	\$ 91.04	\$103.80	\$ 22.86	\$ 29.16	\$ 17.50
Nasdaq Composite	\$115.64	\$120.47	\$129.51	\$166.08	\$158.41
Guggenheim Solar ETF	\$100.96	\$ 91.04	\$ 51.67	\$ 78.37	\$ 57.91

EQUITY COMPENSATION PLAN INFORMATION

The following table provides certain information as of December 30, 2018 with respect to our equity compensation plans under which our equity securities are authorized for issuance (in thousands, except dollar figures).

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	—	—	11,183
Total ⁽¹⁾	—	—	11,183

- (1) As of December 30, 2018, no options remained outstanding under our equity incentive plans, including the plan we assumed in connection with the acquisition of PowerLight Corporation, now known as SunPower Corporation, Systems, in January 2007. Under the terms of our equity incentive plans, we may issue incentive or non-statutory stock options, restricted stock awards, restricted stock units, or stock purchase rights to directors, employees, and consultants to purchase common stock. The SunPower Corporation 2015 Omnibus Incentive Plan includes an automatic share reserve increase feature effective for fiscal 2016 through fiscal 2025. This share reserve increase feature will cause an annual and automatic increase in the number of shares of our common stock reserved for issuance under the Stock Incentive Plan in an amount each year equal to the least of: 3% of the outstanding shares of our common stock measured on the last day of the immediately preceding fiscal year; 6,000,000 shares; and such other number of shares as determined by our Board. On January 1, 2019, the share reserve increase feature caused an automatic increase of 4,235,385 (3%) shares for fiscal 2019.

PROPOSAL THREE

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2019

The Board, upon recommendation of the Audit Committee, has reappointed the firm of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 29, 2019, subject to ratification by our stockholders.

Ernst & Young LLP has served as our auditor since May 3, 2012. A representative of Ernst & Young LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so, and is expected to be available to respond to appropriate questions.

Stockholder ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm is not required by our By-Laws or other applicable legal requirements. However, the Board is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate governance.

If the stockholders fail to ratify the selection of our independent registered accounting firm, the Audit Committee and the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board, at its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our and our stockholders' best interests.

Ernst & Young LLP

Ernst & Young LLP fees incurred by us for fiscal 2017 and 2018 were as follows:

Services	2017 (\$)	2018 (\$)
Audit Fees	4,702,292	5,859,755
Audit-Related Fees	341,734	137,420
Tax Fees	1,588,948	1,440,168
All Other Fees	2,790	11,200
Total	6,635,764	7,448,544

- **Audit Fees:** Audit fees for fiscal 2017 and 2018 were for professional services rendered in connection with audits of our consolidated financial statements, statutory audits of our subsidiary companies, quarterly reviews, and assistance with documents that we filed with the SEC (including our Forms 10-Q and 8-K) for periods covering fiscal 2017 and 2018.
- **Audit-Related Fees:** Audit-related fees for 2017 and 2018 were for professional services rendered in connection with consultations with management on various accounting matters, including the Company's previously announced business re-segmentation.
- **Tax Fees:** Tax fees for 2017 and 2018 were for tax compliance and consulting services.
- **All Other Fees:** Other fees in 2017 and 2018 were for access to technical accounting services.

Audit Committee Pre-Approval

As required by Section 10A(i)(1) of the Exchange Act, our Audit Committee has adopted a pre-approval policy requiring that the Audit Committee pre-approve all audit and permissible non-audit services to be performed by our independent registered public accounting firm. Any proposed service that has received pre-approval but which will exceed pre-approved cost limits will require additional pre-approval by the Audit Committee. In addition, pursuant to Section 10A(i)(3) of the Exchange Act, the Audit Committee has established procedures by which the Audit Committee may from time to time delegate pre-approval authority to the Chairman of the Audit Committee. If the Chairman exercises this authority, he must report any pre-approval decisions to the full Audit Committee at its next meeting. The independent registered public accounting firm and our management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with the committee's pre-approval, and the fees for the services performed to date.

During fiscal 2017 and 2018, all services provided to us by Ernst & Young LLP were pre-approved by the Audit Committee in accordance with the pre-approval policy described above. The scope and services were reviewed and approved by the Audit Committee before the services were rendered. Ernst & Young LLP and our Audit Committee have each concluded that Ernst & Young LLP's objectivity and ability to exercise impartial judgment on all issues encompassed with the audit engagement has not been impaired because (i) the services did not include prohibited non-audit related services and (ii) the fees we paid were insignificant both to Ernst & Young LLP and to SunPower.

Vote Required

The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2019 requires the affirmative vote of the holders of a majority of our stock having voting power and in attendance or represented by proxy at the Annual Meeting. We do not expect "broker non-votes" on this proposal since this proposal is considered to be a routine proposal and brokers have discretionary authority to vote on this proposal. Abstentions will have the effect of votes against this proposal.

APPENDIX A

Use of Non-GAAP Financial Measures

Adjustments Based on International Financial Reporting Standards (IFRS)

Our non-GAAP results include adjustments to recognize revenue and profit under IFRS that are consistent with the adjustments made in connection with our reporting process as part of our status as a consolidated subsidiary of Total S.A., a foreign public registrant which reports under IFRS. Differences between GAAP and IFRS reflected in our non-GAAP results are further described below. In these situations, we believe that IFRS enables us to better evaluate our revenue and profit generation performance, and assists in aligning the perspectives of our management and noncontrolling shareholders with those of Total S.A., our controlling shareholder.

- *8point3.* We include adjustments related to the sales of projects contributed to 8point3 Energy Partners LP (8point3), a joint YieldCo vehicle we formed with First Solar, Inc. to own, operate, and acquire solar energy generation assets, based on the difference between the fair market value of the consideration received and the net carrying value of the projects contributed, of which a portion is deferred in proportion to our retained equity stake in 8point3 and its subsidiaries. On June 19, 2018, we sold our equity interest in the 8point3 Group.
- *Legacy utility and power plant projects.* We include adjustments related to the revenue recognition of certain utility and power plant projects based on percentage-of-completion accounting and, when relevant, the allocation of revenue and margin to our project development efforts at the time of initial project sale.
- *Sale-leaseback transactions.* We include adjustments related to the revenue recognition on certain sale-leaseback transactions based on the net proceeds received from the buyer-lessor. Under GAAP, these transactions are accounted for under the financing method in accordance with real estate accounting guidance.
- *Unrealized loss in equity investments.* In connection with the divestment of our microinverters business in the third quarter of fiscal 2018, we received a portion of the consideration in the form of common stock. We recognized adjustments related to the fair value of equity investments with readily determinable fair value based on the changes in the stock price of these equity investments at every reporting period. Under GAAP, unrealized gains and losses due to changes in stock prices for these securities are recorded in earnings while under International Financial Reporting Standards (“IFRS”), an election can be made to recognize such gains and losses in other comprehensive income.

Other Non-GAAP Adjustments

- *Impairment and sale of residential lease assets.* In the fourth quarter of fiscal 2017, we made the decision to sell or refinance our interest in the residential lease portfolio and as a result of this triggering event, determined it was necessary to evaluate the potential for impairment in our ability to recover the carrying amount of the residential lease portfolio. In accordance with such evaluation, we recognized a non-cash impairment charge on our solar power systems leased and to be leased and an allowance for losses related to financing receivables. In connection with the impairment loss, the carrying values of the Company’s solar power systems leased and to be leased were reduced which resulted in lower depreciation charges. In the fourth quarter of fiscal 2018, we entered into a joint venture with HA SunStrong Capital LLC (“HA SunStrong Parent”), an affiliate of Hannon Armstrong Sustainable Infrastructure Capital, Inc., to acquire, own, manage, operate, finance, and maintain a portfolio of residential rooftop or ground-mounted solar photovoltaic electric generating systems. Pursuant to the terms of the Purchase and Sale Agreement (the “PSA”), we sold to HA SunStrong Parent, in exchange for consideration of \$10.0 million, membership units representing a 49.0% membership interest in SunStrong Capital Holdings, LLC (“SunStrong”), formerly our wholly owned subsidiary. Following the closing of the PSA, we deconsolidated certain entities that have historically held the assets and liabilities comprising our residential lease business, as part of our previously announced decision to sell a portion of our interest in the portfolio of residential lease assets, and retained membership units representing a 51% membership interest in SunStrong. The loss on divestment and the remaining unsold residential lease asset impairment with its corresponding depreciation savings are excluded from the Company’s segment results as they are non-cash in nature and not reflective of ongoing operating results.

- *Impairment of property, plant, and equipment.* In the second quarter of fiscal 2018, we announced our proposed plan to change the corporate structure into the Upstream business unit and Downstream business unit, and long-term strategy to replace IBC technology to NGT. Accordingly, the Company expects to upgrade the equipment associated with our manufacturing operations for the production of NGT over the next several years. In connection with these events, the Company determined indicators of impairment existed and therefore performed an evaluation of the recoverability of the asset group. In accordance with such evaluation, we recognized a non-cash impairment charge on our property, plant, and equipment. Such asset impairment is excluded from the Company's segment results as it is non-cash in nature and not reflective of ongoing segment results.
- *Cost of above-market polysilicon.* We have entered into multiple long-term, fixed-price supply agreements to purchase polysilicon for periods of up to 10 years. The prices in select legacy supply agreements, which incorporate a cash portion and a non-cash portion attributable to the amortization of prepayments made under the agreements, significantly exceed current market prices. Additionally, in order to reduce inventory and improve working capital, we have periodically elected to sell polysilicon inventory in the marketplace at prices below the Company's purchase price, thereby incurring a loss. We believe that it is appropriate to exclude the impact of its above-market cost of polysilicon, including the effect of above-market polysilicon on product costs, losses incurred on sales of polysilicon to third parties, and inventory reserves and project asset impairments from the Company's non-GAAP financial measures as they are not reflective of ongoing operating results and do not contribute to a meaningful evaluation of a Company's past operating performance.
- *Stock-based compensation.* Stock-based compensation relates primarily to our equity incentive awards, and is a non-cash expense that is dependent on market forces that are difficult to predict. We believe that this adjustment for stock-based compensation provides a basis to measure our core performance, including compared with the performance of other companies, without the period-to-period variability created by stock-based compensation.
- *Amortization of intangible assets.* We incur amortization of intangible assets as a result of acquisitions, which includes patents, purchased technology, project pipeline assets, and in-process research and development. We believe that it is appropriate to exclude these amortization charges as they arise from prior acquisitions, are not reflective of ongoing operating results, and do not contribute to a meaningful evaluation of our past operating performance.
- *Depreciation of idle equipment.* In the fourth quarter of 2017, we changed the deployment plan for our next generation of solar cell technology, which made certain then temporarily idle equipment obsolete, and therefore retired that affected equipment. Such asset depreciation is excluded from our non-GAAP financial measures as it is non-cash in nature and not reflective of ongoing operating results. Excluding this data provides investors with a basis to compare our performance against the performance of other companies without such charges.
- *Gain on business divestiture.* In the third quarter of fiscal 2018, we entered into a transaction pursuant to which we sold certain assets and intellectual property related to the production of microinverters for purchase consideration comprised of both cash and stock. In connection with this sale, we recognized a gain relating to this business divestiture. We believe that it is appropriate to exclude this gain from our non-GAAP financial measures as it is non-cash in nature and not reflective of ongoing operating results.
- *Acquisition-related and other costs.* In connection with the acquisition of certain assets of SolarWorld Americas, Inc. ("SolarWorld Americas"), which closed on October 1, 2018, we incurred legal and accounting fees. We believe that it is appropriate to exclude these costs from our non-GAAP financial measures as they would not have otherwise been incurred as part of our business operations and are therefore not reflective of ongoing operating results.
- *Business reorganization costs.* In connection with the reorganization of our business into an upstream and downstream business unit structure, we incurred and expect to continue incurring expenses in the upcoming quarters associated with reclassifying prior period segment information, reorganization of corporate functions and responsibilities to the business units, updating accounting policies and processes and implementing systems to fulfill the requirements of the master supply agreement between the segments. We believe that it is appropriate to exclude these from our non-GAAP financial measures as they would not have otherwise been incurred as part of our business operations and are therefore not reflective of ongoing operating results.

- *Non-cash interest expense.* We incur non-cash interest expense related to the amortization of items such as original issuance discounts on our debt. We exclude non-cash interest expense because the expense does not reflect our financial results in the period incurred.
- *Restructuring expense.* We incur restructuring expenses related to reorganization plans aimed towards realigning resources consistent with our global strategy and improving our overall operating efficiency and cost structure. We excluded restructuring charges from non-GAAP financial measures because they are not considered core operating activities and such costs have historically occurred infrequently.
- *IPO-related costs.* Costs incurred related to the initial public offering of 8point3 included legal, accounting, advisory, valuation, and other expenses, as well as modifications to or terminations of certain existing financing structures in preparation for sale to 8point3. As these costs are non-recurring in nature, excluding this data provides us with a basis to evaluate the Company’s performance, including compared with the performance of other companies, without similar impacts.
- *Tax effect.* This amount is used to present each of the adjustments described above on an after-tax basis in connection with the presentation of non-GAAP net income and non-GAAP net income per diluted share. The Company’s non-GAAP tax amount is based on estimated cash tax expense and reserves. We forecast our annual cash tax liability and allocate the tax to each quarter in a manner generally consistent with its GAAP methodology. This approach is designed to enhance our ability to understand the impact of the Company’s tax expense on its current operations, provide improved modeling accuracy, and substantially reduce fluctuations caused by GAAP to non-GAAP adjustments, which may not reflect actual cash tax expense.
- *Adjusted EBITDA adjustments.* When calculating Adjusted EBITDA, in addition to adjustments described above, we exclude the impact during the period of the following items:
 - Cash interest expense, net of interest income
 - Provision for (benefit from) income taxes
 - Depreciation

We use this non-GAAP financial measure to enable us to evaluate the Company’s performance, including compared with the performance of other companies. For more information about these non-GAAP financial measures, see the tables captioned “Reconciliations of GAAP Measures to Non-GAAP Measures” set forth in our Form 8-K filed on February 13, 2019.

Executive Officers

Thomas H. Werner

President, Chief Executive Officer
and Chairman of the Board

Manavendra Sial

Executive Vice President
and Chief Financial Officer

Kenneth Mahaffey

Executive Vice President
and General Counsel

Douglas J. Richards

Executive Vice President,
Administration

Jeffrey Waters

Chief Executive Officer,
SunPower Technologies

Vichheka Heang

Corporate Controller
and Principal Accounting Officer

Board of Directors

Thomas H. Werner

Chairman of the Board

François Badoual

Director

Antoine Larenaudie

Director

Helle Kristoffersen

Director

Catherine Lesjak

Director

Thomas R. McDaniel

Director

Ladislav Paszkiewicz

Director

Julien Pouget

Director

Patrick Wood III

Director

Corporate Headquarters

SunPower Corporation
77 Rio Robles
San Jose, California 95134
408.240.5500

[sunpower.com](https://www.sunpower.com)

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