

SUNPOWER CORP  
Form 10-K  
February 15, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

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 Corporation  
(Exact Name of Registrant as Specified in Its Charter)  
Delaware 94-3008969  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)  
77 Rio Robles, San Jose, California 95134  
(Address of Principal Executive Offices and Zip Code)  
(408) 240-5500  
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:  
Title of each class Name of each exchange on which registered  
Common Stock \$0.001 par value Nasdaq Global Select Market  
Preferred Stock Purchase Rights Nasdaq Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes T No o

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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   
(Do not check if a 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 July 2, 2017 was \$552 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 30, 2017. 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 registrant on June 30, 2017.

The total number of outstanding shares of the registrant's common stock as of February 9, 2018 was 139,926,880.

#### DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for the registrant's 2018 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™, InvisiModule™, Hitesol®, Greenbotics®, Customer Cost of Energy™ ("CCOE™"), SunPower Spectrum™, Helix™, Equinox™, Signature™, SolarBuddy, and The Power of One™. Other trademarks appearing in this report are the property of their respective owners.

#### Unit of Power

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

#### Levelized Cost of Energy ("LCOE")

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

#### Customer Cost of Energy ("CCOE")

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

#### Cautionary Statement Regarding Forward-Looking Statements

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

The following information should be read in conjunction with the Consolidated Financial Statements and the

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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 Smart Energy software solutions that enable customers to effectively manage and optimize their CCOE measurement;

- installation, construction, and ongoing maintenance and monitoring services; and

- financing solutions that provide customers 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.

##### Residential

##### Residential Systems

We offer a complete set of residential solutions that deliver value to homeowners and our dealer partners. We have developed the capability to deliver AC panels with factory-integrated microinverters. AC system architecture, as compared with DC systems, facilitates direct panel installation, eliminating the need to mount or assemble additional components on the roof or the side of a building, driving down system costs, improving overall system reliability, and providing improved, cleaner design aesthetics. As part of our complete solution approach, we offer our Equinox residential market product, a fully-integrated solar platform utilizing Maxeon cells, AC panel architecture, and EnergyLink monitoring hardware to combine solar power production and energy management, allowing residential customers to quickly and easily complete their system installations and to ensure always-on connectivity so

homeowners can easily access their data anytime, anywhere. The Equinox platform is also sold with our Smart Energy software analytics, which provides our customers with detailed information about their energy consumption and production, enabling them to further reduce their energy costs.

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

We support our hardware development with investments in our proprietary set of advanced monitoring applications (the "SunPower Monitoring System") and our EnergyLink customer portal, which enable customers to gain visibility into their solar system production and household energy consumption. This software is available for use on the web or through the SunPower mobile application on smartphones and tablets.



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### Sales Channels, Residential Leasing Program, and other Financing Options

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

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

Historically, we have 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 have an approximately 36.5% 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 obligates us to support the Divestiture Transaction. The Divestiture Transaction is subject to customary conditions and approvals, and the details and timing are subject to change. Successful closure of the Divestiture Transaction is not assured. While the Divestiture Transaction is pending, 8point3 Energy Partners is limited in its ability to acquire projects from us; however, we are not restricted in selling residential systems to other parties. In the event that the 8point3 Merger Agreement terminates without the closing of the Divestiture Transaction, 8point3 Energy Partners will retain rights of first offer on certain of our solar energy projects.

For additional information on transactions with, and our current plan to divest our interest in, 8point3 Energy Partners, please see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 10. Equity Method Investments" and "—Note 18. Subsequent Events."

### 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

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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 global dealer network and to 8point3 Energy Partners, and sales of our O&M services. For additional information on our current plan to divest our interest in 8point3 Energy Partners, see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 10. Equity Method Investments" and "—Note 18. Subsequent Events."

### Power Plants

#### SunPower Solutions

In 2017, SunPower established the SunPower Solutions division of the Power Plant segment 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. The Company remains focused on transitioning from project development to equipment supply through SunPower Solutions.

We offer Power Plant customers the Oasis system, a modular product which combines SunPower solar panels, DC electrical components, and sun tracking technology into a scalable 2.5 MW solar power block. Oasis streamlines the construction process while optimizing the use of available land by conforming to the contours of the production site. The power block kits are shipped pre-assembled to the job site for rapid field installation. More than 2 GW of the Oasis system is installed or under contract worldwide. The Oasis system was deployed at the 748 MW Solar Star Projects in California, one of the world's largest operating solar power plants. The Oasis system also offers a variety of value-added features such as the Oasis GEO design optimization software, Oasis plant operating software, and the Oasis robotic cleaning system which has been used to clean over 10 GW of panels globally offering significant performance and operational benefits to project owners.

The Oasis single axis tracking system automatically pivots solar panels to track the sun's movement throughout the day. This tracking feature increases the amount of sunlight that is captured and converted into energy by up to 30% over flat or fixed-tilt systems, depending on geographic location and local climate conditions. The third-generation Oasis tracking system offers significant customer benefits such as improved land utilization, higher energy production, lower-cost operations and maintenance, and higher reliability over competing products.

In addition to the Oasis platform, the SunPower Solutions division sells SunPower's high performance P-Series, E-Series, and X-Series panels to power plant customers around the world. SunPower's family of utility power plant PV panels deliver higher efficiency and energy yield with lower degradation than competing panels.

#### Utility-Scale Solar Power System Construction and Development

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

We enter into turnkey EPC agreements with customers under which we design, engineer, construct, commission, and deliver functioning rooftop- and ground-mounted solar power systems. This includes the development, execution, and sale of solar power plants, which generally include the sale or lease of related real estate. In connection with such

development projects, the plants and project development rights, initially owned by us, are later sold to third parties. In the United States, commercial and electric utility customers typically choose to purchase solar electricity under a PPA with an investor or financing company that buys the system from us. In other areas, such as the Middle East, Africa, and South America, projects are typically purchased by an investor or financing company and operated as central-station solar power plants.

#### 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, EPC services for power plant construction, and power plant O&M services. Our utility-scale solar power systems are typically purchased by an investor or financing company and operated as central-station solar power plants.

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We are able to utilize various means to finance our utility-scale power plant development and construction projects, which include arranging tax equity financing structures, utilizing non-recourse project debt facilities in conjunction with project sales to 8point3 Energy Partners. For additional information on our current plan to divest our interest in 8point3 Energy Partners, see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 10. Equity Method Investments" and "—Note 18. Subsequent Events."

### Operations and Maintenance

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

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

### Technology

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

- superior performance, including the ability to generate up to 45% more power per unit area than conventional solar cells;

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• superior aesthetics, with our uniformly black surface design that eliminates highly visible reflective grid lines and metal interconnection ribbons;

• superior reliability, as confirmed by multiple independent reports and internal reliability data;

• superior energy production per rated watt of power, as confirmed by multiple independent reports; and

• solar power systems that are designed to generate electricity over a system life typically exceeding 25 years.

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

### Panels

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

### Balance of System Components

"Balance of system components" are components of a solar power system other than the solar panels, and include mounting structures, charge controllers, grid interconnection equipment, and other devices, depending on the specific requirements of a particular system and project.

### Inverters

Every solar power system needs an inverter to transform the direct current electricity collected from the solar panels into utility-grade AC power that is ready for use. We sell inverters manufactured by third parties, some of which are

SunPower-branded. We also have integrated microinverter technology that converts DC generated by a single solar photovoltaic panel into AC directly on the panel. We continue to develop next generation microinverters for use with our high efficiency solar panels. Panels with these factory-integrated microinverters perform better in shaded applications compared to conventional string inverters and allow for optimization and monitoring at the solar panel level, enabling maximum energy production by the solar system.

#### Warranties

SunPower provides a combined 25-year standard solar panel product and power warranty for defects in materials and workmanship. The solar product warranty also warrants that E-Series and X-Series 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



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warranty period. We also pass through long-term warranties from the original equipment manufacturers of certain system components to customers for periods ranging from five to 20 years. In addition, we generally warrant our workmanship on installed systems for periods ranging up to 25 years.

### Smart Energy

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

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

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

We continue 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.

### Research and Development

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

### Supplier Relationships, Manufacturing, and Panel Assembly

We purchase polysilicon, ingots, wafers, solar cells, balance of system components, and inverters from various manufacturers on both a contracted and a purchase order basis. We have contracted with some of our suppliers for multi-year supply agreements. Under such agreements, we have annual minimum purchase obligations and in certain

cases prepayment obligations. Please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations" for further information regarding the amount of our purchase obligations in fiscal 2018 and beyond. Under other supply agreements, we are required to make prepayments to vendors over the terms of the arrangements. As of December 31, 2017, advances to suppliers totaled \$216.0 million. We may be unable to recover such prepayments if the credit conditions of these suppliers materially deteriorate or if we are otherwise unable to fulfill our obligations under these supply agreements. For further information regarding our future prepayment obligations, please see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 9. Commitments and Contingencies—Advances to Suppliers." We currently believe our supplier relationships and various short- and long-term contracts will afford us the volume of material and services required to meet our planned output over the next several years. For more information about risks related to our supply chain, including without limitation risks relating to announced tariffs on solar cells and modules imported into the U.S., please see "Item 1A. Risk Factors—Risks Related to Our Supply Chain."

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

Polysilicon is melted and grown into crystalline ingots and sawed into wafers by business partners specializing in those processes. The wafers are processed into solar cells in our manufacturing facilities located in the Philippines and Malaysia. During fiscal 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 400 MW. The solar cell manufacturing facility we own and operate in Malaysia has a total rated annual capacity of over 800 MW.

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

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

### Customers

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

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

### Competition

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

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

Power Plant Products: Hanwha Corporation, JA Solar Holdings Co., Trina Solar Ltd., Yinli Green Energy Holding Co., Ltd., Jinko Solar, Array Technologies, Inc. Soltec, Nextracker, Convert Italia, Arctech, First Solar Inc., Canadian Solar, and Conergy.

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

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

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

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

- total system price;
- LCOE evaluation;
- CCOE evaluation;
- power efficiency and performance;
- aesthetic appearance of solar panels and systems;
- speed and ease of installation through modular solutions such as Oasis and Helix systems;
- strength of distribution relationships;
- availability of third-party financing and investments;
- established sales channels to customers;
- 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, "Demand Better Solar," "Equinox Energy Systems and Design," "Equinox Solar Systems and Design," "Light on Land," "Oasis Geo," "PowerGuard," "Powering a Brighter Tomorrow," "PV-Dock," "SunPower Horizons," "Maxeon," "Oasis," "EnergyLink," "Equinox," "Helix," "InvisiMount," "Pantheon," "Serengeti," "Smarter Solar," "Solar Showdown," "SolarBridge," "Solaire," "Solaire Generation," "SunTile," "SunPower Electric," "SuPo Solar," "Tenesol, sun access provider," "TrueAC," "Greenbotics," "More Energy. For Life.," "The Planet's Most Powerful Solar," "The Power of One," and "The World's Standard for Solar," 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 31, 2017, we held registrations for 34 trademarks in the United States, and had 10 trademark registration applications pending. We also held 107 trademark registrations and had 43 trademark applications pending in foreign jurisdictions. We typically require our business partners to enter into confidentiality and non-disclosure agreements before we

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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 31, 2017, we held 507 patents in the United States, which will expire at various times through 2036, and had 310 U.S. patent applications pending. We also held 545 patents and had 896 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 the residential and commercial markets we often sell large volumes of solar panel, mounting systems, and other solar equipment to third parties, which are typically ordered by our third-party global dealer network and customers under standard purchase orders with relatively short delivery lead-times. We often require project financing for development and construction of our solar power plant projects, which require significant investments before the equity is later sold to investors. Our solar power system project backlog would therefore exclude sales contracts signed and completed in the same quarter and contracts still conditioned upon obtaining financing. Based on these reasons, we believe backlog at any particular date is not necessarily a meaningful indicator of our future revenue for any particular period of time.

## Regulations

### Public Policy Considerations

Different policy mechanisms have been used by governments to accelerate the adoption of solar power. Examples of customer-focused financial mechanisms include capital cost rebates, performance-based incentives, feed-in tariffs, tax credits, and net metering. Some of these government mandates and economic incentives are scheduled to be reduced or to expire, or could be eliminated altogether. Capital cost rebates provide funds to customers based on the cost and size of a customer's solar power system. Performance-based incentives provide funding to a customer based on the energy produced by their solar power system. Feed-in tariffs pay customers for solar power system generation based

on energy produced, at a rate generally guaranteed for a period of time. Tax credits reduce a customer's taxes at the time the taxes are due. Net metering allows customers to deliver to the electric grid any excess electricity produced by their on-site solar power systems, and to be credited for that excess electricity at or near the full retail price of electricity.

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



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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 "Tariffs imposed pursuant to Section 201 of the Trade Act of 1974 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."

### The Iran Threat Reduction and Syria Human Rights Act of 2012

Section 13(r) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires us to disclose whether Total S.A. or any of its affiliates (collectively, the "Total Group") knowingly engaged during the 2017 calendar year in certain Iran-related activities. While the Total Group has not engaged in any activity that would be required to be disclosed pursuant to subparagraphs (B) or (C) of Section 13(r) (1), affiliates of Total S.A. may be deemed to have engaged in certain transactions or dealings with the government of Iran that would require disclosure pursuant to Section 13(r) (1) (A) and (D), as discussed below. Unless otherwise noted, all foreign currency translations to U.S. dollars in this section are made using exchange rates as of December 31, 2017.

### Exploration & Production

Following the suspension of certain international economic sanctions against Iran on January 16, 2016, the Total Group commenced various business development activities in Iran. Following the Heads of Agreement ("HOA") signed on November 8, 2016 by National Iranian Oil Company ("NIOC"), Total E&P South Pars S.A.S. ("TEPSP") (a wholly-owned affiliate of Total S.A.), CNPC International Ltd. ("CNPCI") (a wholly-owned affiliate of China National Petroleum Company) and Petropars Ltd. ("Petropars") (a wholly-owned affiliate of NIOC), these parties negotiated and then signed a 20-year risked service contract on July 3, 2017 (the "Risked Service Contract") for the development and production of phase 11 of the South Pars gas field ("SP11"). The project is expected to have a production capacity of 2 Bcf/d or 400,000 boe/d including condensate, and to supply the Iranian domestic market starting in 2021. TEPSP (50.1%) is the operator of the SP11 project alongside CNPCI (30%) and Petropars (19.9%). These companies entered into a joint operating agreement in July 2017 concerning, among other things, the governance of their obligations under the Risked Service Contract and the designation of TEPSP as the project's operator. A branch office of TEPSP was opened in 2017 in Tehran for this purpose.

The SP11 project is expected to be developed in two phases. The first phase, with an estimated cost of approximately \$2 billion-equivalent, consists of 30 wells and 2 wellhead platforms connected to existing onshore treatment facilities by 2 subsea pipelines. Since the November 2016 HOA signature, Total S.A. has conducted engineering studies on behalf of the consortium and it initiated calls for tender during the third quarter of 2017 in order to award the contracts

required to start developing the project in early 2018. At a later stage, once required by reservoir conditions, a second phase is expected to be launched involving the construction of offshore compression facilities.

The total required investment for the SP11 project is expected to be approximately \$4 billion-equivalent, of which TEPSP would finance 50.1% via equity contributions and payments in non-U.S. currency. In the event of new or reinstated international economic sanctions, if such sanctions were to prevent TEPSP from performing under the Risked Service Contract, TEPSP expects to be able to withdraw from the Contract and recover its past costs from NIOC (unless such recovery is prevented by sanctions).

Also in 2017, the memorandum of understanding (“MOU”) entered into between Total S.A. and NIOC on January 16, 2016 to assess potential developments in Iran in compliance with remaining applicable international economic sanctions was amended to extend the MOU’s duration and include an additional potential oil and gas project, North Azadegan. In 2017, NIOC provided Total S.A. with technical data on the Azadegan oil field so that it could assess potential development of this field.

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Representatives of Total S.A. held technical meetings in 2017 with representatives of NIOC and its affiliated companies in 2017 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 S.A. signed two MOUs in 2017 with two international companies to evaluate the Azadegan oil field opportunity with NIOC.

During 2017, in connection with anticipated activities under the aforementioned Risked Service Contract and MOUs, and to discuss other new project opportunities, representatives of Total S.A. attended meetings with the Iranian oil and gas ministry and several Iranian companies with ties to the government of Iran. After the signing ceremony of the Risked Service Contract, senior management of Total S.A. attended a meeting with the President of Iran. In connection with travel to Iran in 2017 by employees of the Total Group, Total S.A. made payments to Iranian authorities for visas, airport services, exit fees, and similar travel-related charges. In addition, representatives of Total S.A. had a meeting in France with the Iranian ambassador and hosted official visits in France of representatives from the Iran Ministry of Petroleum, NIOC, and affiliates of NIOC for demonstrations of Total S.A.'s technical capabilities and expertise.

Following the signature of a confidentiality agreement in late 2016 among the Oman Ministry of Oil and Gas, NIGEC (a subsidiary of NIOC) and a group of international companies, including Total S.A., representatives of the Total Group attended meetings in 2017 with the parties to the agreement, including NIGEC, to discuss a potential project for the construction, operation and maintenance of a pipeline to supply natural gas from Iran to Oman as well as to market such gas.

Neither revenues nor profits were recognized from any of the aforementioned activities in 2017, except that TEPSP received payments of approximately \$15 million equivalent from its partners under the Risked Service Contract, including NIOC, for the reimbursement of their respective shares of past costs incurred by TEPSP under the HOA and their respective shares of the costs and expenditures incurred in 2017 under the Risked Service Contract.

Concerning payments to Iranian entities in 2017, Total Iran BV (100%) and TEPSP (on behalf of the SP11 project joint venture partners) collectively made payments of approximately IRR 7 billion (approximately \$210,000) to (i) the Iranian administration for taxes and social security contributions concerning the personnel of the aforementioned branch office and residual buyback contract-related obligations, and (ii) Iranian public entities for payments with respect to the maintenance of the aforementioned branch office (e.g., utilities, telecommunications). Total S.A. expects similar types of payments to be made by these affiliates in 2018 albeit in higher amounts due to increased business development activity in Iran.

Furthermore, Total E&P UK Limited ("TEP UK"), a wholly-owned affiliate, holds a 43.25% interest in a joint venture at the Bruce field in the UK with BP Exploration Operating Company Limited ("BP", 37%), BHP Billiton Petroleum Great Britain Ltd (16%) and Marubeni Oil & Gas (North Sea) Limited (3.75%). This joint venture is party to an agreement (the "Bruce Rhum Agreement") governing certain transportation, processing and operation services provided to a joint venture at the Rhum field in the UK that is co-owned by BP (50% operator) and the Iranian Oil Company UK Ltd ("IOC"), a subsidiary of NIOC (50%). In 2017, TEP UK liaised directly with IOC concerning its interest in the Bruce Rhum Agreement and it provided services to IOC under the Bruce Rhum Agreement. TEP UK is also party to an agreement with BP whereby TEP UK shall under certain conditions use reasonable endeavors to export Rhum natural gas liquids from the St Fergus Terminal. TEP UK conducts activities pursuant to this agreement only when the primary export route for Rhum natural gas liquids is not available, and is subject to BP having title to all of the Rhum natural gas liquids to be exported, and a valid OFAC license for the activity. In 2017, the aforementioned activities generated for TEP UK gross revenue of approximately £3.9 million (approximately \$5.3 million) and net profit of approximately £2.3 million (approximately \$3.1 million). TEP UK expects to continue these activities in 2018.

Other segments

The Total Group does not own or operate any refineries or chemical plants in Iran and did not purchase Iranian hydrocarbons prior to 2016 when prohibited by applicable EU and U.S. economic.

The Total Group continued its trading activities with Iran in 2017 via its wholly-owned affiliate TOTSA TOTAL OIL TRADING SA, which purchased approximately 58 Mb of Iranian crude oil for nearly €2.6 billion (approximately \$3.1 billion) pursuant to a mix of spot and term contracts. In connection with these purchases, CSSA Chartering and Shipping Services SA, a wholly-owned affiliate, chartered vessels owned by an entity with ties to the government of Iran to transport this crude oil. Total S.A. is not able to estimate the gross revenue and net profit related to these purchases, because most of this crude oil was used to supply the Total Group's refineries. However, approximately 6.6 Mb of this crude oil were sold to entities outside of the Total Group. In addition, in 2017 approximately 14 Mb of petroleum products were bought from/sold to entities with ties to the

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government of Iran. These activities generated gross revenue of nearly €1.1 billion (approximately \$1.3 billion) and a net loss of approximately €5.7 million (approximately \$6.9 million). The affiliates expect to continue these activities in 2018.

Saft Groupe S.A. (“Saft”), a wholly-owned affiliate of the Total Group, in 2017 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 2017, this activity generated gross revenue of approximately €3.2 million (approximately \$3.8 million) and net profit of approximately €0.4 million (approximately \$0.5 million). Saft expects to continue this activity in 2018.

Saft also attended the Iran Oil Show in 2017, where it discussed business opportunities with Iranian customers, including those with direct or indirect ties with the Iranian government. Saft expects to conduct similar business development activities in 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 in 2017 for possible investments in renewable energy projects in Iran, including meetings with ministries of the Iranian government. Neither revenues nor profits were recognized from this activity in 2017, and the company expects to continue this activity in 2018.

In relation to a non-binding MOU signed in 2016 with National Petrochemical Company (“NPC”), a company owned by the government of Iran, to consider a project for the construction in Iran of a steam cracker and polyethylene production lines, representatives of Total Raffinage Chimie (“TRC”), a wholly-owned affiliate of Total S.A., made several visits to Iran in 2017 to discuss the project with representatives of NPC. In addition, the Iranian Ministry of Petroleum issued in January 2017 a resolution allocating to the potential project certain amounts of ethane, ethylene and polyethylene. This resolution was renewed by the Ministry of Petroleum in July 2017. No revenue or profit from these activities was recognized in 2017 and similar activities are expected to continue in 2018.

The company Le Joint Français, a wholly-owned affiliate of Total S.A., sold vehicular O-ring seals in 2017 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 €700,000 (approximately \$841,540) and net profit of approximately €34,000 (approximately \$40,875). The company expects to continue this activity in 2018.

Paulstra S.N.C., a wholly-owned affiliate of Total S.A., obtained in 2017 an order from Iran Khodro to sell vehicular anti-vibration systems over a 5-year period. In 2017, this activity generated gross revenue of approximately €270,000 (approximately \$324,594) and net profit of approximately €20,000 (approximately \$24,044). Paulstra S.N.C. also sold vehicular anti-vibration systems in 2017 to Saipa, an Iranian company in which the Industrial & Development Organization of Iran holds a 35.75% interest. This activity generated gross revenue of approximately €3,000 (approximately \$3,607) and net profit of approximately €900 (approximately \$1,082). The company expects to continue these activities in 2018.

Hutchinson S.N.C., a wholly-owned affiliate of Total S.A., sold vehicular body sealing and hoses in 2017 to Iran Khodro. This activity generated gross revenue of approximately €2.7 million (approximately \$3.2 million) and net profit of approximately €171,000 (approximately \$205,576). The company expects to continue these activities in 2018.

Industrielle Desmarquoy S.N.C., a wholly-owned affiliate of Total S.A., sold vehicular plastic sealing in 2017 to Iran Khodro. This activity generated gross revenue of approximately €7,400 (approximately \$8,896) and net profit of approximately €600 (approximately \$721). The company expects to continue this activity in 2018.

Hanwha Total Petrochemicals (“HTC”), a joint venture in which Total Holdings UK Limited (a wholly-owned affiliate of Total S.A.) holds a 50% interest and Hanwha General Chemicals holds a 50% interest, purchased nearly 44 Mb of condensates from NIOC for approximately KRW 2,600 billion (approximately \$2.4 billion). These condensates are used as raw material for certain of HTC’s steam crackers. HTC also chartered seven tankers of condensates with National Iranian Tanker Company (NITC), a subsidiary of NIOC, for approximately KRW 16 billion (approximately \$14.9 million). The Total Group expects to continue these activities in 2018.

Total Research & Technology Feluy, a wholly-owned affiliate of Total S.A., Total Marketing & Services, a company wholly-owned by Total S.A. and six employees (“TMS”), and TRC paid in 2017 fees totaling approximately €4,000 (approximately \$4,809) to Iranian authorities related to various patents, consistent with the authorization for certain transactions and payments in connection with patent, trademark, copyright or other intellectual property protection under Section 560.509 of the U.S. Iranian Transactions and Sanctions Regulations. Similar payments are expected to be made in 2018.

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The members of the Total Group paid fees in 2017 of approximately €2,000 (approximately \$2,404) to Iranian authorities related to the maintenance and protection of trademarks and designs. Similar payments are expected to be made in 2018.

Until December 2012, at which time it sold its entire interest, the Total Group held a 50% interest in the lubricants retail company Beh Total (now named Beh Tam) along with Behran Oil (50%), a company controlled by entities with ties to the government of Iran. As part of the sale of the Total Group's interest in Beh Tam, Total S.A. agreed to license the trademark "Total" to Beh Tam for an initial 3-year period for the sale by Beh Tam of lubricants to domestic consumers in Iran. In 2014, Total E&P Iran ("TEPI"), a wholly-owned affiliate, received, on behalf of Total S.A., royalty payments of approximately IRR 24 billion (nearly \$1 million) from Beh Tam for such license. These payments were based on Beh Tam's sales of lubricants during the previous calendar year. In 2015, royalty payments were suspended notably due to a procedure brought by the Iranian tax authorities against TEPI. As of the end of 2017, no royalty payments had been received since 2015, but the payment of outstanding royalties in favor of Total S.A. is expected in 2018. In addition, representatives of Total Oil Asia-Pacific Ltd, a wholly-owned affiliate of Total S.A., made several visits to Behran Oil during 2017 regarding the potential purchase of 50% of the share capital of Beh Tam. As of the end of 2017, no agreement had been reached and no money was paid or received by either company. Further discussions are expected to take place in 2018.

Total Marketing Middle East FZE, a wholly-owned affiliate of Total S.A., sold lubricants to Beh Tam in 2017. The sale in 2017 of approximately 392 tons of lubricants and special fluids generated gross revenue of approximately AED 8.1 million (approximately \$2.2 million) and net profit of approximately AED 3.7 million (approximately \$1.0 million). The company expects to continue this activity in 2018.

Total Marketing France ("TMF"), a company wholly-owned by TMS, provided in 2017 fuel payment cards to the Iranian embassy and delegation to UNESCO in France for use in the Total Group's service stations. In 2017, these activities generated gross revenue of approximately €17,000 (approximately \$20,437) and net profit of approximately €1,000 (approximately \$1,202). The company expects to continue this activity in 2018.

TMF also sold jet fuel in 2017 to Iran Air as part of its airplane refueling activities in France. The sale of approximately one million liters of jet fuel generated gross revenue of approximately €450,000 (approximately \$540,990) and net profit of approximately €9,500 (approximately \$11,421). The company expects to continue this activity in 2018.

Total Belgium, a wholly-owned affiliate of Total S.A., provided in 2017 fuel payment cards to the Iranian embassy in Brussels (Belgium) for use in the Total Group's service stations. In 2017, these activities generated gross revenue of approximately €1,500 (approximately \$1,803) and net profit of approximately €300 (approximately \$361). The company expects to continue this activity in 2018.

Proxifuel, a wholly-owned affiliate of Total S.A., sold in 2017 domestic heating oil to the Iranian embassy in Brussels. In 2017, these activities generated gross revenue of less than €1,000 (approximately \$1,202) and net profit of less than €100 (approximately \$120). The company expects to continue this activity in 2018.

Caldeo, a company wholly-owned by TMS, sold in 2017 domestic heating oil to the Iranian embassy in France, which generated gross revenue of approximately €1,100 (approximately \$1,322) and net profit of less than €200 (approximately \$240). The company expects to continue this activity in 2018.

Total Lubrificants, a company owned 99.99% by TMS (the remaining shares being held by one employee and five non-Total Group individual shareholders), received in 2017 three payments totaling €350,000 (approximately \$420,770) from NITC in payment of unpaid invoices from 2010. The company may receive similar payments in 2018.

#### Employees

As of December 31, 2017, we had approximately 7,306 full-time employees worldwide, of which 1,106 were located in the United States, 1,883 were located in the Philippines, 1,601 were located in Malaysia, and 2,716 were located in other countries. Of these employees, 5,206 were engaged in manufacturing, 937 in construction projects, 282 in research and development, 420 in sales and marketing, and 461 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.



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Geographic Information

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

Seasonal Trends

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

Available Information

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

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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 and utility-scale and power plant customers, and, consequently: the amount, timing and mix of sales to our large commercial, utilities, and power plant customers, often for a single medium or large-scale project, may cause large fluctuations in our revenue and other financial results because, at any given time, a single large-scale project can account for a material portion of our total revenue in a given quarter;

our inability to monetize our projects as planned, or any delay in obtaining the required government support or initial payments to begin recognizing revenue under the relevant recognition criteria, and the corresponding revenue impact, may similarly cause large fluctuations in our revenue and other financial results;

our ability to monetize projects as planned is also subject to market conditions, including fluctuations in demand based on the availability of regulatory incentives and other factors, changes in the internal rate of return expected by customers in light of market conditions, the increasing number of power plants being constructed or available for sale and competition for financing, which can make both financing and disposition more challenging and may significantly affect project sales prices;

market conditions may deteriorate after we have committed to projects, resulting in delays in disposing of projects, or changes in amounts realized on disposition, which may lead to significant fluctuations in the period-over-period profile of our results of operations and our cash available for working capital needs;

in the event a project is subsequently canceled, abandoned, or is deemed unlikely to occur, we will charge all prior capital costs as an operating expense in the quarter in which such determination is made, which could materially adversely affect operating results;

a delayed disposition of a project could require us to recognize a gain on the sale of assets instead of recognizing revenue;

our agreements with these customers may be canceled if we fail to meet certain product specifications or materially breach 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 and utility-scale power plant customers, whether due to a loss or delay of projects or an inability to collect, could have a significant negative impact on our business. See also "Item 7A. Quantitative and Qualitative Disclosures About Market Risk." See also 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

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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."

Tariffs imposed pursuant to Section 201 of the Trade Act of 1974 could significantly and adversely affect our business, revenues, margins, results of operations, and cash flows.

On January 23, 2018, the President 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") 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 will be 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. It is uncertain how the quota will be allocated and administered, and further guidance is pending from the International Trade Commission. Tariffs went into effect on February 7, 2018.

The tariffs imposed, if our products are not ultimately exempted, could materially and adversely affect our business and results of operations. Although we are actively engaged in efforts to obtain an exemption for our technology from these tariffs, and are pursuing other mitigating actions, there is no guarantee that these efforts will be successful. In the near term, uncertainty surrounding the potential implications of the tariffs imposed to the U.S. solar market, and whether specific products may be excluded, 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, if our products are ultimately determined to be subject to them, 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 trade case, factors indicated that the carrying values of our long-lived assets associated with our manufacturing operations might not be recoverable. As a result, we performed an impairment evaluation utilizing the information available to us as of the filing date, and our estimate of undiscounted

cash flows indicated that such carrying amounts were expected to be recovered. Nonetheless, as more information becomes available, it is reasonably possible that our estimate of undiscounted cash flows may change in the near term, resulting in the need to write down certain long-lived assets to fair value. Our estimate of cash flows might change in relation to the implications of the remedies imposed as a result of the Section 201 trade case, the results of which could materially and adversely impact our business, revenues, margins, results of operations and estimated future cash flows. While

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our estimate of undiscounted cash flows exceeded the long-lived assets carrying amounts, based on the information currently available for evaluation as of the filing date, uncertainties surrounding the interpretations of the ruling, including the applicability of the quotas and potential product and country exclusions remain. We will perform a comprehensive review of our long-term strategy as a result of these tariffs in the coming months and as a result, we may be exposed to impairment in the future, which could be material to our results of operations. Any of the above factors would materially and adversely affect our business, revenues, margins, assets recoverability, results of operations, and cash flows. 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—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.”

The successful execution of our strategic plans is dependent in part upon our ability to pursue and successfully complete certain strategic transactions, divestitures, and other ventures, and failure to consummate such transactions could materially adversely affect our business, financial condition, and results of operations.

A significant element of our strategic plan is to pursue and successfully complete certain strategic transactions, divestitures, and other ventures that complement our ongoing restructuring plans. We may divest certain interests or business segments, or enter into similar transactions, in order to enhance our liquidity and further our strategic objectives.

It is possible that we may not be able to identify suitable prospective buyers for the non-core assets we seek to divest, or if we do identify such buyers, we may not be successful in negotiating and completing those transactions on terms acceptable to us, or at all. The inability to identify suitable prospective buyers or strategic partners, or the inability to complete such transactions, could negatively affect the execution of our business strategy.

Even if we succeed in engaging appropriate prospective buyers or strategic partners upon commercially acceptable terms, the transactions involve various risks, including potential disruption of existing operations, diversion of management and financial resources, inefficiency during transition periods, and possible loss of key employees and customers. Strategic transactions are subject to numerous other uncertainties, including unforeseen transaction fees and expenses, satisfaction of conditions precedent to closing such transactions, required regulatory approvals, and potential initiation of legal proceedings in response to such transactions, as well as reputational harm that may result. There can also be no assurance that the expected strategic and financial benefits of any such transactions, once consummated, will materialize. The failure of one or more of our strategic transactions to yield anticipated results, or the realization of any of the risks described above, could have a material adverse effect on our business, financial condition, and results of operations.

For example, as further discussed under "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 6. Leasing", we are exploring the sale of our residential lease portfolio interest, and, although this transaction is in the early stages and no final decision as to any particular structure has been reached, we determined it was necessary to record net impairment charges of \$624.3 million for the year ended December 31, 2017 in our Residential Segment. Due to the fact that the residential lease portfolio assets are held in partnership flip structures with noncontrolling interests, the Company allocated the portion of the impairment charge related to such noncontrolling interests through the hypothetical liquidation at book value ("HLBV") method. This allocation resulted in an additional net loss attributable to noncontrolling interests and redeemable controlling interests of \$150.6 million. As a result, the net impairment charges attributable to SunPower stockholders totaled \$473.7 million for the year ended December 31, 2017 and were recorded within the Residential Segment. The impairment evaluation includes uncertainty because it requires management to make assumptions and to apply significant judgment in determining the fair value of the residential lease portfolio. 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, details and timing of which are subject to change as the sales process continues, we may be exposed to additional impairment charges in the future, which could be material to our results of operations.

We may fail to realize the expected benefits of our YieldCo strategy, including our current plan to divest our interest in 8point3 Energy Partners, which could materially adversely affect our business, financial condition, and results of operations.

In June 2015, 8point3 Energy Partners LP ("8point3 Energy Partners"), a joint YieldCo vehicle formed by us and First Solar, Inc. ("First Solar") to own, operate and acquire solar energy generation assets, launched an initial public offering of Class

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A shares representing its limited partner interests. The IPO was consummated on June 24, 2015, whereupon the Class A shares were listed on The NASDAQ Global Select Market under the trading symbol “CAFD.”

Immediately after the IPO, we contributed a portfolio of solar generation assets to 8point3 Energy Partners in exchange for cash proceeds as well as equity interests in several 8point3 Energy Partners affiliated entities (collectively, the “8point3 Group”). Additionally, we entered into a Right of First Offer Agreement with 8point3 Energy Partners in connection with the IPO under which we granted 8point3 Energy Partners a right of first offer to purchase certain of our solar energy projects that are in various stages of development in our project pipeline. In connection with the divestiture transaction discussed below, we have entered into a waiver agreement with 8point3 Energy Partners waiving their rights of first offer while the transaction is pending. If the divestiture transaction does not close successfully, the 8point3 Energy Partners rights of first offer will be reinstated. We have sold four of these projects to 8point3 Energy Partners to date.

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

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 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 obligates us to support the transaction. The Divestiture Transaction is subject to customary conditions and approvals, and the details and timing are subject to change. Successful closure of the Divestiture Transaction is not assured.

We believe that the viability of our YieldCo strategy, unless and until the sale of our equity interest in the 8point3 Group is completed, will depend, among other things, upon our ability to continue to develop revenue-generating solar assets, to build and manage relationships with sponsors, and to productively manage our relationship with First Solar (including within the context of the sale process) and the 8point3 Group, which are subject to the project-level, joint venture relationship, business, and industry risks described herein. There can be no assurance that we will be able to successfully close the Divestiture Transaction. If we are unable to successfully close the Divestiture Transaction within a reasonable time frame, our business, financial condition, and results of operations could be materially adversely affected (including without limitation by depriving us of a source of liquidity to repay our convertible debentures due June 1, 2018). In addition, if we are unable to close the Divestiture Transaction, there is no assurance that we will be able to realize the strategic and financial benefits that we expect to derive from our YieldCo strategy and our investment in the 8point3 Group in particular, our business, financial condition and results of operations could be materially adversely affected.

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

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

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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 all segments of our business. Our plans to continue to grow our residential lease program may be delayed if credit conditions prevent us from obtaining or maintaining arrangements to finance the program. We are actively arranging additional third-party financing for our residential lease program; however, if we encounter challenging credit markets, we may be unable to arrange additional financing partners for our residential lease program in future periods, which could have a negative impact on our sales. In the event we enter into a material number of additional leases without obtaining corresponding third-party financing, our cash, working capital and financial results could be negatively affected. In addition, a rise in interest rates would likely increase our customers' cost of financing or leasing our products and could reduce their profits and expected returns on investment in our products. The general reduction in available credit to would-be borrowers or lessees, worldwide economic uncertainty, and the condition of worldwide housing markets could delay or reduce our sales of products to new homebuilders and authorized resellers. In conjunction with our efforts to generate more available liquid funds and simplify our balance sheets, we made the decision to sell our interest in the residential lease asset portfolio, which is comprised of assets under operating leases and financing receivables related to sales-type leases, and engaged an external investment banker to assist with our related marketing efforts in the fourth quarter of fiscal 2017. To date, although this transaction is in the early stages and no final decision on any particular structure has yet been reached, the Company has obtained information from potential purchasers regarding their expression of interest in a potential transaction. For more information, see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 6. 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, as well as tariffs imposed pursuant to the recent Section 201 action, which are applicable to our products if our products are not ultimately exempted, 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

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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 of our solar panels as compared with those of our competitors, our pricing will become less competitive, we could lose market share and our margins would be adversely affected. We have new products, such as our P-Series, which have not yet been mass-deployed in the market. We need to prove their reliability in the field as well as drive