FLAGSTAR BANCORP INC
Form 4
March 01, 2006

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
HAMMOND THOMAS J

(Last) (First) (Middle)

5151 CORPORATE DRIVE

(Street)

TROY, MI 48098

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FLAGSTAR BANCORP INC [(NYSE:FBC)]

3. Date of Earliest Transaction (Month/Day/Year)
02/28/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman of the Board

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Flagstar Bancorp, Inc. Common Stock	02/28/2006		S		1,000	D	$ 15.44	10,746,040	I	By Trust
Flagstar Bancorp, Inc. Common Stock	02/28/2006		S		1,400	D	$ 15.45	10,744,640	I	By Trust
Flagstar Bancorp,	02/28/2006		S		500	D	$ 15.46	10,744,140	I	By Trust

Inc. Common Stock									
Flagstar Bancorp, Inc. Common Stock	02/28/2006		S		2,000	D	$ 15.47	10,742,140	I	By Trust
Flagstar Bancorp, Inc. Common Stock	02/28/2006		S		1,700	D	$ 15.48	10,740,440	I	By Trust
Flagstar Bancorp, Inc. Common Stock								25,745	D	
Flagstar Bancorp, Inc. Common Stock								54,391.26 (1)	I	By 401(k) Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HAMMOND THOMAS J 5151 CORPORATE DRIVE TROY, MI 48098	X	X	Chairman of the Board	

Signatures

/s/ Thomas J. Hammond	03/01/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Because the stock fund component of the 401(k) Plan is accounted for in unit accounting, the number of share equivalents is based on the closing price of Flagstar Bancorp, Inc. common stock on February 28, 2006.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Three Months Ended
June 28, 2015

Revenue

Gross margin
Revenue and Gross margin by segment (in thousands, except percentages):

Residential

Commercial

Power Plant

Residential

Commercial

Power Plant
As reviewed by CODM

$
152,205

$
62,984

$
161,518

$
35,410

23.3
%

$
4,016

6.4
%

$
26,717

16.5
%
Utility and power plant projects

—

—

4,313

—

—

4,328

Stock-based compensation

—

—

—

(1,212
)

(531
)

(1,516
)

Other

—

—

—

1,028

657

1,984

GAAP

$
152,205

$
62,984

$
165,831

$
35,226

23.1
%

$
4,142

6.6
%

$
31,513

19.0
%

Revenue and Gross margin by segment (in thousands, except percentages):	Six Months Ended July 3, 2016 Revenue Residential	Commercial	Power Plant	Gross margin Residential		Commercial		Power Plant	
As reviewed by CODM	$347,509	$162,733	$325,196	$79,832	23.0%	$20,305	12.5%	$11,477	3.5%
8point3 Energy Partners	2,599	—	13,975	904		(179)		4,127	
Utility and power plant projects	—	—	(13,453)	—		—		(7,685)	
Sale of operating lease assets	(20,586)	—	—	(6,078)		—		—	
Sale-leaseback transactions	—	(12,646)	—	—		(2,988)		—	

Stock-based compensation	—	—	—	(2,479)		(1,397)		(5,713)	
Other	—	—	—	224		(403)		2,884	
GAAP	$329,522	$150,087	$325,718	$72,403	22.0%	$15,338	10.2%	$5,090	1.6%

	Six Months Ended June 28, 2015								
	Revenue			Gross margin					
Revenue and Gross margin by segment (in thousands, except percentages):	Residential	Commercial	Power Plant	Residential		Commercial		Power Plant	
As reviewed by CODM	$307,529	$112,047	$387,732	$70,688	23.0%	$7,041	6.3%	$76,575	19.7%
Utility and power plant projects	—	—	14,583	—		—		15,579	
Stock-based compensation	—	—	—	(2,134)		(919)		(2,772)	
Other	—	—	—	(776)		203		(1,786)	
GAAP	$307,529	$112,047	$402,315	$67,778	22.0%	$6,325	5.6%	$87,596	21.8%

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(In thousands):	Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015
EBITDA as reviewed by CODM				
Distributed Generation				
Residential	$37,092	$75,082	$66,670	$107,706
Commercial	244	(2,088)	(2,196)	(8,988)
Power Plant	(15,922)	20,796	(24,800)	51,973
Corporate and unallocated	8,490	(30,235)	(3,464)	(28,305)
Total EBITDA as reviewed by CODM	$29,904	$63,555	$36,210	$122,386
Reconciliation to Consolidated Statements of Income (Loss)				
8point3 Energy Partners	(18,039)	4,688	(28,758)	4,688
Utility and power plant projects	(4,128)	4,328	(7,685)	15,579
Sale of operating lease assets	(2,979)	—	(6,099)	—
Sale-leaseback transactions	(2,988)	—	(2,988)	—
Stock-based compensation	(16,475)	(14,040)	(32,995)	(27,586)
Other	2,235	(13,838)	(6,373)	(37,908)
Cash interest expense, net of interest income	(13,144)	(8,023)	(25,328)	(19,115)
Benefit from (provision for) income taxes	(6,648)	659	(9,829)	(1,692)
Depreciation	(37,730)	(30,820)	(71,556)	(59,424)
Net loss attributable to stockholders	$(69,992)	$6,509	$(155,401)	$(3,072)

(As a percentage of total revenue):		Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015
Significant Customers:	Business Segment				
8point3 Energy Partners	Power Plant	*	*	14%	*
MidAmerican Energy Holdings Company	Power Plant	*	15 %	*	25 %
Customer C	Power Plant	19%	*	10%	*

(As a percentage of total revenue):	Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015
Revenue by geography:				
United States	79 %	62 %	78 %	66 %
Japan	6 %	15 %	5 %	15 %
Rest of World	15 %	23 %	17 %	19 %
	100%	100 %	100%	100 %

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Note 16. SUBSEQUENT EVENTS

August 2016 Restructuring Plan

On August 9, 2016, the Company adopted and began implementing initiatives to realign the Company’s downstream investments, optimize the Company’s supply chain and reduce operating expenses, in response to expected near-term challenges primarily relating to the Company’s power plant segment. In connection with the realignment, which is expected to be completed by the end of fiscal 2017, the Company expects approximately 1,200 employees to be affected, primarily in the Philippines, representing approximately 15% of the Company’s global workforce. The Company expects to incur restructuring charges totaling approximately $30 million to $45 million, consisting primarily of severance benefits, asset impairments, lease and related termination costs, and other associated costs. A substantial portion of such charges are expected to be incurred in the third quarter of fiscal 2016, and the Company expects more than 50% of total charges to be cash. The actual timing and costs of the plan may differ from the Company’s current expectations and estimates.

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ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended January 3, 2016 filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q include, but are not limited to, our plans and expectations regarding future financial results, expected operating results, business strategies, projected costs and cost reduction, development of new products and improvements to our existing products, our manufacturing capacity and manufacturing costs, the adequacy of our agreements with our suppliers, our ability to monetize utility projects, competitive positions, management's plans and objectives for future operations, the sufficiency of our cash and our liquidity, our ability to obtain financing, our ability to comply with debt covenants or cure any defaults, trends in average selling prices, the success of our joint ventures and acquisitions, expected capital expenditures, warranty matters, outcomes of litigation, our exposure to foreign exchange, interest and credit risk, general business and economic conditions in our markets, industry trends, the impact of changes in government incentives, expected restructuring charges, and the likelihood of any impairment of project assets, long-lived assets, and investments. These forward-looking statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q 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. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, those discussed in the section titled “Risk Factors” included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended January 3, 2016, and our other filings with the Securities and Exchange Commission ("SEC"). 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.

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.

Overview

SunPower is a leading global energy company that delivers complete solar solutions to residential, commercial, and power plant customers worldwide through an array of hardware, software, and financing options and through utility-scale solar power system construction and development capabilities, O&M services, and "Smart Energy" solutions. Our Smart Energy initiative is designed to add layers of intelligent control to homes, buildings and grids—all personalized through easy-to-use customer interfaces. Of all the solar cells commercially available to the mass market, we believe our solar cells have the highest conversion efficiency, a measurement of the amount of sunlight converted by the solar cell into electricity. For more information about our business, please refer to the section titled "Part I. Item 1. Business" in our Annual Report on Form 10-K for the fiscal year January 3, 2016.

Unit of Power

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

Levelized Cost of Energy ("LCOE")

LCOE is an evaluation of the life-cycle energy cost and life-cycle energy production of an energy producing system. It allows alternative technologies to be compared across different scales of operation, investment or operating time periods. It

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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.

Seasonal Trends

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

Fiscal Years

We have a 52-to-53-week fiscal year that ends on the Sunday closest to December 31. Accordingly, every fifth or sixth year will be a 53-week fiscal year. The current fiscal year, fiscal 2016, is a 52-week fiscal year, while fiscal year 2015 was a 53-week fiscal year and had a 14-week fourth fiscal quarter. The first quarter of fiscal 2016 ended on July 3, 2016, while the first quarter of fiscal 2015 ended on June 28, 2015. The first quarters of fiscal 2016 and fiscal 2015 were both 13-week quarters.

Outlook

Demand

We remain focused on each of our three business segments. We believe that our key growth areas will be in our U.S. market in our Residential business and in emerging markets in our Commercial and Power Plant businesses. We plan to focus our development resources on a limited number of core markets, primarily in the Americas, where we believe we have a sustainable competitive advantage. Outside of these core markets, we will focus our power plant business on the sale of our new Oasis complete solution, incorporating Performance Series panel technology, to developers and EPC companies in global markets. We are working to expand our global components sales capabilities and international commercial opportunities. We also expect to grow our Power Plants business with investments in project development pipelines and in conjunction with our HoldCo strategy of retaining development projects on our balance sheet for longer periods of time in order to optimize the economic value that we receive at the time of sale in light of market conditions. Market conditions, however, can deteriorate after we have committed to projects; for example, shifts in the timing of demand and changes in the internal rate of return ("IRR") that our customers expect can significantly affect project sale prices. A pronounced increase in expected customer and investor IRR rates in light of market conditions may drive lower overall project sale prices.

In June 2015, 8point3 Energy Partners, our joint YieldCo vehicle formed to own, operate, and acquire solar energy generation assets, completed its initial public offering. 8point3 Energy Partners remains a source of demand for our business and we plan to continue to sell to it our solar energy generating assets, including utility-scale solar power plants, commercial solar projects, and portfolios of residential solar power systems. We have used and expect to continue to use additional financing structures and sources of demand in order to maximize economic returns. For additional information on transactions

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with 8point3 Energy Partners and associated revenue recognition, please see "Note 9. Equity Method Investments – Equity Investment in 8point3 Energy Partners" and "– Related-Party Transactions with Investees."

In late fiscal 2015, the U.S. government enacted a budget bill that extended the solar commercial investment tax credit (the “Commercial ITC”) under Section 48(c) of the Internal Revenue Code of 1986 (the “IRC”) and the individual solar investment tax credit under Section 25D of the IRC (together with the Commercial ITC, the “ITC”) for five years, at rates gradually decreasing from 30% through 2019 to 22% in 2021. After 2021, the Commercial ITC is retained at 10%. We also saw other recent developments that contributed to a favorable policy environment, including (i) a significant focus on reducing world-wide carbon emissions through such events as the COP21 sustainable innovation forum held in Paris and the announcement of the Clean Power Plan in the United States, and (ii) domestic policy measures such as the extension of bonus depreciation and approval of California Net Metering "NEM 2.0." We believe these factors will strengthen long-term demand for our products in all three business segments in U.S. and global markets and provide us an opportunity to expand our suite of energy solutions and complement our strong, existing core business. However, in the near term, the extension of the ITC could have adverse impacts on our business, as it may reduce the pressure for commercial or residential customers to make purchases before the end of 2016, which was the time when the ITC had previously been set to expire, and instead may push demand from these customers into fiscal 2017 and 2018. For more information about the ITC and other policy mechanisms, please refer to the section titled "Part I. Item 1. Business—Regulations—Public Policy Considerations" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016. For more information about how we avail ourselves of the benefits of public policies and the risks related to public policies, please see the risk factors set forth under the caption "Part I. Item 1A. Risk Factors," including "Risks Related to Our Sales Channels—The reduction, modification or elimination of government incentives could cause our revenue to decline and harm our financial results" and "Risks Related to Our Sales Channels—Existing regulations and policies and changes to these regulations and policies may present technical, regulatory, and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products and services" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016 and under the caption “Part I. Item 1A. Risk Factors,” including “Our operating results are subject to significant fluctuations and are inherently unpredictable.” in this Quarterly Report on Form 10-Q.

Supply

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

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

We continue to improve our unique, differentiated solar cell and panel technology. We emphasize improvement of our solar cell efficiency and LCOE and CCOE performance through enhancement of our existing products, development of new products and reduction of manufacturing cost and complexity in conjunction with our overall cost-control strategies. We are

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now producing our solar cells with over 25% efficiency in the lab, have reached production panel efficiencies over 24%, and have started up our first high-volume Performance Series production lines in Mexico.

We are expanding our solar cell manufacturing capacity through the construction of a facility in the Philippines with a planned annual capacity of 350 MW once fully operational, which is expected to occur in fiscal 2016; initial production launched during the fourth quarter of fiscal 2015. We plan to close our Philippine panel assembly facility and transfer the equipment to our latest generation, lower cost facilities in Mexico. As part of this realignment, we expect to expand panel assembly capacity for our highest efficiency X-Series panels while ramping production of our new Performance Series technology.

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

We also work with our suppliers and partners to ensure the reliability of our supply chain. We have contracted with some of our suppliers for multi-year supply agreements, under which we have annual minimum purchase obligations. We also have certain purchase obligations under our material supply agreement with our joint venture AUOSP, which is a supplier of our cells. For more information about our purchase commitments and obligations, please see "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations" and "Note 8. Commitments and Contingencies" in the Notes to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

We currently believe our supplier relationships and various short- and long-term contracts will afford us the volume of material and services required to meet our planned output; however, we face the risk that the pricing of our long-term contracts may exceed market value. We purchase our polysilicon under fixed-price long-term supply agreements; purchases in fiscal 2015 under these agreements significantly exceeded market value and the volume contracted to be purchased in fiscal 2016 exceeds our planned utilization, which may result in higher inventory balances until we are able to fully utilize the polysilicon inventory in future periods. Additionally, we face the risk that our joint venture AUOSP may not remain financially healthy or a reliable source in our supply chain. For more information about these risks, please see "—Our long-term, firm commitment supply agreements could result in excess or insufficient inventory, place us at a competitive disadvantage on pricing, or lead to disputes, each of which could impair our ability to meet our cost reduction roadmap" and "—We will continue to be dependent on a limited number of third-party suppliers for certain raw materials and components for our products, which could prevent us from delivering our products to our customers within required timeframes and could in turn result in sales and installation delays, cancellations, penalty payments and loss of market share" under "Part 1. Item 1A. Risk Factors—Risks Related to Our Supply Chain" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

M&A

During fiscal 2015 and the first half of 2016, we made strategic acquisitions and investments that will allow us to service a broader market with enhanced expertise. We look for similar investment opportunities to expand our business and portfolio of technology by making investments that will enable us to achieve our strategic vision.

Financing

We are able to utilize various means to finance our utility-scale power plant development and construction projects, including our ability to sell projects to 8point3 Energy Partners. Through our investments in and involvement with the 8point3 Group, as well as through the use of our various other financing structures, we seek to access a lower cost of capital, in order to enable the continued development of our project pipeline described below in our key U.S. market and in select, sustainable foreign markets. As part of this strategy, we plan to retain these 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.

Projects Under Contract

The table below presents significant construction and development projects under contract as of July 3, 2016:

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Project	Location	Size (MW)	Third-Party Owner / Purchaser	Power Purchase Agreement(s)	Expected Substantial Completion of Project[2]
Prieska Solar Project[1]	South Africa	86	Mulilo Prieska PV (RF) Proprietary Limited	Eskom Holdings Soc LTD	2016
Henrietta Solar Project	California, USA	128	Southern Renewable Partnerships, LLC	PG&E	2016
Boulder Solar Project	Nevada, USA	125	Southern Renewable Partnerships, LLC	NV Energy	2016
Rio Bravo Solar Projects	California, USA	50	Duke Energy Renewables Solar, LLC	Southern California Edison	2016

1 We have entered into an EPC agreement and a long-term fixed price O&M agreement with the owners of the Prieska Solar Project, which includes a subsidiary of Total S.A.

2 Expected completion of revenue recognition assumes completion of construction in the stated fiscal year.

As of July 3, 2016, an aggregate of approximately $511.5 million of remaining revenue is expected to be recognized on projects reflected in the table above through the expected completion dates noted. Projects will be removed from the table above in the period in which substantially all of the revenue for such project has been recognized.

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

The table below presents significant construction and development projects with executed PPAs, but not sold or under contract as of July 3, 2016:

Project	Location	Size (MW)	Power Purchase Agreement(s)	Expected Substantial Completion of Project[1]
El Pelicano Solar Project	Chile	111	Empresa de Transporte de Pasajeros Metro S.A.	2017
Stanford Solar Generating Station[2]	California, USA	68	Stanford University	2016
Turlock Solar Generating Station[2]	California, USA	68	Turlock Irrigation District	2016
Boulder Solar Project II	Nevada, USA	50	Sierra Pacific Power Company	2016

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

2 ROFO Project—pursuant to a Right of First Offer Agreement between SunPower and OpCo, the 8point3 Group has rights of first offer on interests in these projects. For additional information on 8point3 Energy Partners and related transactions, please refer to the section titled "Note 6. Fair Value Measurements" and "Note 9. Equity Method Investments" in the Notes to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

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

Results of Operations

Revenue

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(In thousands)	Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	% Change	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015	% Change
Distributed Generation						
Residential	$177,715	$152,205	17%	$329,522	$307,529	7%
Commercial	97,846	62,984	55%	150,087	112,047	34%
Power Plant	144,891	165,831	(13)%	325,718	402,315	(19)%
Total revenue	$420,452	$381,020	10%	$805,327	$821,891	(2)%

Total Revenue: Our total revenue increased by ten percent during the three months ended July 3, 2016 as compared to the three months ended June 28, 2015 due to increased sales of solar power systems in our Residential and Commercial Segments, partially offset by a decline in revenue in our Power Plant Segment, primarily driven by a decrease in the sale of power plant components. Our total revenue decreased two percent during the six months ended July 3, 2016 as compared to the six months ended June 28, 2015, due to a decline in Power Plant revenue primarily driven by a decrease in component sales during the first half of fiscal 2016 which was partially offset by higher revenue in our Residential and Commercial Segments driven by increased sales of solar power systems in both segments.

Concentrations: The Power Plant Segment as a percentage of total revenue recognized was approximately 34% and 40% during the three and six months ended July 3, 2016 as compared to 44% and 49% during the three and six months ended June 28, 2015, respectively. The revenue for the Power Plant Segment as a percentage of total revenue recognized decreased primarily due to declines in Power Plants component revenue and an increase in revenue from sales of solar power systems in our Residential and Commercial Segments.

The table below represents our significant customers that accounted for greater than 10 percent of total revenue in each of the three and six months ended July 3, 2016 and June 28, 2015.

Revenue		Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015
Significant Customers:	Business Segment				
8point3 Energy Partners	Power Plant	*	*	14%	*
MidAmerican Energy Holdings Company	Power Plant	*	15 %	*	25 %
Customer C	Power Plant	19%	*	10%	*

*denotes less than 10% during the period

Residential Revenue: Residential revenue increased 17% and seven percent during the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, primarily due to an increase in sales of residential solar power systems in North America driven by stronger sales through our dealer network, an increase in the number of leases placed in service under our residential leasing program within the United States, and an increase in the proportion of capital leases relative to total leases placed in service. This increase in revenue in North America was partially offset by a decline in the sales of solar power components and systems to our residential customers in Japan, where a reduction in the country's feed-in tariff during the last half of fiscal 2015 continued to reduce demand for solar power systems and the volatility of the value of the Japanese Yen reduced demand for imported goods in general.

Commercial Revenue: Commercial revenue increased 55% and 34% during the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, primarily because of stronger sales of commercial components and systems in North America due to a favorable policy environment, partially offset by a decrease in commercial component and system sales in Japan, where a reduction in the country's feed-in tariff during the during the last half of fiscal 2015 continued to reduce demand for solar power systems and the volatility of the value of the Japanese Yen reduced demand for imported goods in general.

Power Plant Revenue: Power Plant revenue decreased 13% and 19% during the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, primarily due to a decline in component sales to Power Plant customers in Japan, France, and China, partially offset by an increase in revenue recognized on certain large-scale utility projects in the North America.

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Cost of Revenue

(In thousands)	Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	% Change	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015	% Change
Distributed Generation						
Residential	$138,959	$116,979	19%	$257,119	$239,751	7%
Commercial	89,523	58,842	52%	134,749	105,722	27%
Power Plant	150,676	134,318	12%	320,628	314,719	2%
Total cost of revenue	$379,158	$310,139	22%	$712,496	$660,192	8%
Total cost of revenue as a percentage of revenue	90 %	81 %		88 %	80 %	
Total gross margin percentage	10 %	19 %		12 %	20 %	

Total Cost of Revenue: Our total cost of revenue increased 22% and eight percent during the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, primarily as a result of the increase in the recognition of revenue and corresponding costs of certain large-scale solar power systems within the United States during the first half of fiscal 2016, as well as impairment charges totaling $16.5 million taken on certain solar power development projects during the second quarter of fiscal 2016.

Gross Margin

	Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	% Change	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015	% Change
Distributed Generation						
Residential	22%	23%	(1)%	22%	22%	—%
Commercial	9%	7%	2%	10%	6%	4%
Power Plant	(4)%	19%	(23)%	2%	22%	(20)%

Residential Gross Margin: Gross margin for our Residential Segment decreased one percentage point and remained flat during the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, as a result of declining average selling prices in Japan, where a reduction in the country's feed-in tariff during the last half of fiscal 2015 continued to reduce demand for solar power systems and the volatility of the value of the Japanese Yen reduced demand for imported goods in general, partially offset by an increased volume of sales with favorable margins for residential leases and higher average selling prices for residential components and systems in North America.

Commercial Gross Margin: Gross margin for our Commercial Segment increased two and four percentage points during the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, primarily due to an increase in the volume of projects and sales of components and systems with favorable margins as a result of a more favorable policy environment in North America, partially offset by declining average selling prices in Japan, where a reduction in the country's feed-in tariff during the during the last half of fiscal 2015 continued to reduce demand for solar power systems and the volatility of the value of the Japanese Yen reduced demand for imported goods in general.

Power Plant Gross Margin: Gross margin for our Power Plant Segment decreased 23 and 20 percentage points during the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, primarily due to the substantial completion of certain large-scale solar power projects with favorable margins during the second half of fiscal 2015 and because, during the first half of fiscal 2016, we deferred the recognition of any profit on the sale of projects involving real estate to 8point3 Energy Partners under the accounting treatment described in "Note 9. Equity Method Investments—Equity Investment in 8point3 Energy Partners" in this Quarterly Report on Form 10-Q. Additionally, during the second quarter of fiscal 2016 we experienced pressure on project pricing due to increased global competition and also recorded impairment charges totaling $15.6 million on certain solar power development projects as a result of a variety of factors, including an increase in the internal rate of return expected by our customers in light of market conditions.

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Research and Development ("R&D")

(In thousands)	Three Months Ended July 3, 2016	June 28, 2015	% Change	Six Months Ended July 3, 2016	June 28, 2015	% Change
R&D	$31,411	$20,560	53%	$64,117	$41,728	54%
As a percentage of revenue	7 %	5 %		8 %	5 %	

R&D expense increased $10.9 million and $22.4 million, in the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, primarily due to an increase in labor costs as a result of additional headcount and salary related expenses, as well as an increase in other net expenses such as materials, consulting and outside services as we continue to develop our next generation solar technology and expand our product offering. The remaining increase was a result of other net expenses to support R&D programs as well as amortization of intangible assets attributable to R&D activity. These increases were partially offset by contributions under the R&D Agreement with Total.

Sales, General and Administrative ("SG&A")

(In thousands)	Three Months Ended July 3, 2016	June 28, 2015	% Change	Six Months Ended July 3, 2016	June 28, 2015	% Change
SG&A	$84,683	$81,520	4%	$182,474	$158,734	15%
As a percentage of revenue	20 %	21 %		23 %	19 %	

SG&A expense increased $3.2 million and $23.7 million in the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, due to an increase in selling and marketing expenses as we grow our sales teams and increase our marketing activity for residential and commercial products in North America and through digital media, as well as increases in other costs related to ongoing legal proceedings and non-cash charges primarily related to depreciation and the amortization and disposition of intangible assets.

Restructuring Charges

(In thousands)	Three Months Ended July 3, 2016	June 28, 2015	% Change	Six Months Ended July 3, 2016	June 28, 2015	% Change
Restructuring charges	$117	$1,749	(93)%	$213	$5,330	(96)%
As a percentage of revenue	— %	— %		— %	1 %	

Restructuring charges decreased $1.6 million and $5.1 million during the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, due to the substantial completion in fiscal 2015 of the activities associated with legacy restructuring plans approved in fiscal 2014, 2012 and 2011.

See "Item 1. Financial Statements—Notes to Consolidated Financial Statements—Note 7. Restructuring" for further information regarding our restructuring plans.

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Other Income (Expense), Net

	Three Months Ended			Six Months Ended		
(In thousands)	July 3, 2016	June 28, 2015	% Change	July 3, 2016	June 28, 2015	% Change
Interest income	$806	$494	63%	$1,503	$1,050	43%
Interest expense	(13,950)	(8,517)	64%	(26,831)	(24,198)	11%
Other, net	(5,822)	14,982	(139)%	(12,054)	12,362	(198)%
Other income (expense), net	$(18,966)	$6,959	(373)%	$(37,382)	$(10,786)	247%
As a percentage of revenue	(5)%	2 %		(5)%	(1)%	

Other income (expense), net decreased $25.9 million and $26.6 million, in the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015, respectively, primarily driven by the gain recognized on the sale of a residential lease portfolio to 8point3 Energy Partners during the second quarter of fiscal 2015, an increase in interest expense in fiscal 2016 due to the issuance of the 4.00% debentures due 2023 late in the fourth quarter of fiscal 2015, as well as unfavorable changes in the fair value of foreign currency derivatives and other net expenses.

Income Taxes

	Three Months Ended			Six Months Ended		
(In thousands)	July 3, 2016	June 28, 2015	% Change	July 3, 2016	June 28, 2015	% Change
Benefit from (provision for) income taxes	$(6,648)	$659	(1,109)%	$(9,829)	$(1,692)	481%
As a percentage of revenue	(2)%	— %		(1)%	— %	

In the three and six months ended July 3, 2016, our income tax provision of $6.6 million and $9.8 million, respectively, on a loss before income taxes and equity in earnings of unconsolidated investees of $93.9 million and $191.4 million, respectively, was primarily due to the projected tax expense in profitable jurisdictions, the recognition of U.S. prepaid income tax due to intercompany transactions, and provision-to-return adjustments in U.S. and foreign jurisdictions. In the three and six months ended June 28, 2015, our income tax benefit of $0.7 million and income tax provision of $1.7 million, respectively, on a loss before income taxes and equity in earnings of unconsolidated investees of $26.0 million and $54.9 million, respectively, was primarily due to projected tax expense, partially offset by discrete benefits pertaining to tax settlements in certain foreign jurisdictions in the three months ended June 28, 2015. The increase in income tax provision for the three and six months ended July 3, 2016 as compared to the three and six months ended June 28, 2015 is primarily due to an the recognition of tax expense from intercompany transactions and provision-to return adjustments in US and foreign jurisdictions in the first half of 2016 and discrete tax benefits realized in the second quarter of fiscal 2015 related to the settlement of foreign audits.

A material amount of our total revenue is generated from customers located outside of the United States, and a substantial portion of our assets and employees are located outside of the United States. U.S. income taxes and foreign withholding taxes have not been provided on the undistributed earnings of our non-U.S. subsidiaries as such earnings are intended to be indefinitely reinvested in operations outside the United States to the extent that such earnings have not been currently or previously subjected to taxation of the United States.

We record a valuation allowance to reduce our U.S. and French deferred tax assets to the amount that is more likely than not to be realized. In assessing the need for a valuation allowance, we consider historical levels of income, expectations and risks associated with the estimates of future taxable income and ongoing prudent and feasible tax planning strategies. In the event we determine that we would be able to realize additional deferred tax assets in the future in excess of the net recorded amount, or if we subsequently determine that realization of an amount previously recorded is unlikely, we would record an adjustment to the deferred tax asset valuation allowance, which would change income tax in the period of adjustment. As of July 3, 2016, we believe there is insufficient evidence to realize additional deferred tax assets.

Equity in Earnings of Unconsolidated Investees

(In thousands)	Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	% Change	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015	% Change
Equity in earnings of unconsolidated investees	$8,350	$1,864	348%	$7,586	$4,055	87%
As a percentage of revenue	2.0 %	0.5 %		1 %	0.5 %	

Our equity in earnings of unconsolidated investees increased $6.5 million and $3.5 million, in the three and six months ended July 3, 2016, compared to the three and six months ended June 28, 2015, respectively, primarily due to our share of the earnings generated by the activities of the 8point3 Group during the first half of fiscal 2016.

Net Loss

(In thousands)	Three Months Ended July 3, 2016	Three Months Ended June 28, 2015	% Change	Six Months Ended July 3, 2016	Six Months Ended June 28, 2015	% Change
Net loss	$(92,181)	$(23,466)	293%	$(193,598)	$(52,516)	269%

Net loss increased by $68.7 million in the three months ended July 3, 2016 as compared to the three months ended June 28, 2015. The increase in net loss was primarily driven by: (i) a $29.6 million decrease in gross margin, primarily due to the substantial completion of certain large-scale solar power projects with favorable margins during the second half of fiscal 2015 and because we recognized revenue, but deferred all profit, on projects involving real estate pursuant to real estate accounting guidelines and, additionally, because we recorded impairment charges totaling $16.5 million on certain solar power development projects in the second quarter of fiscal 2016; (ii) a $25.9 million decrease in other income (expense), net primarily driven by the gain recognized on the sale of a residential lease portfolio to 8point3 Energy Partners during the second quarter of fiscal 2015, an increase in interest expense in fiscal 2016 due to the issuance of the 4.00% debentures due 2023, as well as unfavorable changes in the fair value of foreign currency derivatives; (iii) a $14.0 million increase in operating expenses due to increased marketing spend and increased headcount in R&D and sales departments in addition to certain non-cash charges; and (iv) a $7.3 million increase in provision for income taxes primarily due to the recognition of tax expense from intercompany transactions and provision-to return adjustments in US and foreign jurisdictions in the second quarter of 2016 and discrete tax benefits realized in the second quarter of fiscal 2015 related to the settlement of foreign audits that reduced the overall tax provision in the period. The increase in net loss was partially offset by: (i) a $6.5 million increase in equity in earnings of unconsolidated investees due to our share of the earnings generated by the activities of the 8point3 Group; and (ii) a $1.6 million decrease in restructuring charges due to the substantial completion in fiscal 2015 of the activities associated with legacy restructuring plans.

Net loss increased by $141.1 million in the six months ended July 3, 2016, as compared to the six months ended June 28, 2015. The increase in net loss was primarily driven by: (i) a $68.9 million decrease in gross margin, primarily due to the substantial completion of certain large-scale solar power projects with favorable margins during the second half of fiscal 2015 and because we recognized revenue, but deferred all profit, on projects involving real estate pursuant to real estate accounting guidelines and, additionally, because we recorded impairment charges totaling $16.5 million on certain solar power development projects in the second quarter of fiscal 2016; (ii) a $46.1 million increase in operating expenses due to increased marketing spend and increased headcount in R&D and sales departments in addition to certain non-cash charges; (iii) a $26.6 million increase in other expense, net primarily driven by the gain recognized on the sale of a residential lease portfolio to 8point3 Energy Partners during the second quarter of fiscal 2015, an increase in interest expense in fiscal 2016 due to the issuance of the 4.00% debentures due 2023, as well as unfavorable changes in the fair value of foreign currency derivatives; and (iv) an $8.1 million increase in provision for income taxes primarily due to the recognition of tax expense from intercompany transactions and provision-to return adjustments in US and foreign jurisdictions in the first half of 2016 and discrete tax benefits realized in the second quarter of fiscal 2015 related to the settlement of foreign audits that reduced the overall tax provision in the period. The increase in net loss was partially offset by: (i) a $5.1 million decrease in restructuring charges due to the substantial completion in fiscal 2015 of the activities associated with legacy restructuring plans; and (ii) a $3.5 million increase in equity in earnings of unconsolidated investees due to our share of the earnings generated by the activities of the 8point3 Group in the first half of fiscal 2016.

Information about other significant variances in our results of operations is described above.

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Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

(In thousands)	Three Months Ended			Six Months Ended		
	July 3, 2016	June 28, 2015	% Change	July 3, 2016	June 28, 2015	% Change
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	$22,189	$29,975	(26)%	$38,197	$49,444	(23)%

We have entered into facilities with third-party tax equity investors under which the investors invest in a structure known as a partnership flip. We determined that we hold controlling interests in these less-than-wholly-owned entities and therefore we have fully consolidated these entities. We apply the hypothetical liquidation at book value method in allocating recorded net income (loss) to each investor based on the change in the reporting period, of the amount of net assets of the entity to which each investor would be entitled to under the governing contractual arrangements in a liquidation scenario.

In the three months ended July 3, 2016 and June 28, 2015, we attributed $22.2 million and $30.0 million, respectively, of net losses primarily to the third-party investors as a result of allocating certain assets, including tax credits and accelerated tax depreciation benefits, to the investors. The $7.8 million decrease in net loss attributable to noncontrolling interests and redeemable noncontrolling interests is primarily attributable to a decrease in income per watt for leases placed in service under new facilities executed with third-party investors, partially offset by an increase in total number of leases placed in service under new and existing facilities with third-party investors.

In the six months ended July 3, 2016 and June 28, 2015, we attributed $38.2 million and $49.4 million, respectively, of net losses primarily to the third-party investors as a result of allocating certain assets, including tax credits and accelerated tax depreciation benefits, to the investors. The $11.2 million decrease in net loss attributable to noncontrolling interests and redeemable noncontrolling interests is primarily attributable to a decrease in income per watt for leases placed in service under new facilities executed with third-party investors, partially offset by an increase in total number of leases placed in service under new and existing facilities with third-party investors.

Critical Accounting Estimates

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles, which requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues, and expenses recorded in our financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. In addition to our most critical estimates discussed below and in our 2015 Annual Report on Form 10-K, we also have other key accounting policies that are less subjective and, therefore, judgments involved in their application would not have a material impact on our reported results of operations (See "Note 1. The Company and Summary of Significant Accounting Policies" under "Item 8. Financial Statements and Supplementary Data-Notes to Consolidated Financial Statements" in our 2015 Annual Report on Form 10-K and Note 1. on this Form 10-Q).

Valuation of Long-Lived Assets

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

Valuation of Project Assets - Plant and Land

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Project assets consist primarily of capitalized costs relating to solar power system projects in various stages of development that we incur prior to the sale of the solar power system to a third-party. These costs include costs for land and costs for developing and constructing a solar power system. Development costs can include legal, consulting, permitting, and other similar costs. Once we enter into a definitive sales agreement, we reclassify these project asset costs to deferred project costs within "Prepaid expenses and other current assets" in our Consolidated Balance Sheet until we have met the criteria to recognize the sale of the project asset or solar power project as revenue. We release these project costs to cost of revenue as each respective project asset or solar power system is sold to a customer, since the project is constructed for a customer (matching the underlying revenue recognition method).

We evaluate the realizability of project assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We consider the project to be recoverable if it is anticipated to be sellable for a profit once it is either fully developed or fully constructed or if costs incurred to date may be recovered via other means, such as a sale prior to the completion of the development cycle. We examine a number of factors to determine if the project will be profitable, including whether there are any environmental, ecological, permitting, or regulatory conditions that have changed for the project since the start of development. In addition, we must anticipate market conditions, such as the future cost of energy and changes in the factors that our future customers use to value our project assets in sale arrangements, including the internal rate of return that customers expect. Changes in such conditions could cause the cost of the project to increase or the selling price of the project to decrease. Due to the development, construction, and sale timeframe of our larger solar projects, we classify project assets which are not expected to be sold within the next 12 months as "Project assets - plants and land, net of current portion" on the Consolidated Balance Sheets. Once specific milestones have been achieved, we determine if the sale of the project assets will occur within the next 12 months from a given balance sheet date and, if so, we then reclassify the project assets as current.

Valuation of Inventories

Inventories are valued at the lower of cost or market value. We evaluate the realizability of our inventories, including future purchase commitments under fixed-price long-term supply agreements, based on assumptions about expected demand and market conditions. Our assumption of expected demand is developed based on our analysis of bookings, sales backlog, sales pipeline, market forecast and competitive intelligence. Our assumption of expected demand is compared to available inventory, production capacity, future polysilicon purchase commitments, available third-party inventory and growth plans. Our factory production plans, which drive materials requirement planning, are established based on our assumptions of expected demand. We respond to reductions in expected demand by temporarily reducing manufacturing output and adjusting expected valuation assumptions as necessary. In addition, expected demand by geography has changed historically due to changes in the availability and size of government mandates and economic incentives.

We evaluate the terms of our long-term inventory purchase agreements with suppliers, including joint ventures, for the procurement of polysilicon, ingots, wafers, and solar cells and establish accruals for estimated losses on adverse purchase commitments as necessary, such as lower of cost or market value adjustments, forfeiture of advanced deposits and liquidated damages. Obligations related to non-cancellable purchase orders for inventories match current and forecasted sales orders that will consume these ordered materials and actual consumption of these ordered materials are compared to expected demand regularly. We anticipate total obligations related to long-term supply agreements for inventories will be realized because quantities are less than management's expected demand for its solar power products. Other market conditions that could affect the realizable value of our inventories and are periodically evaluated by management include the aging of inventories on hand, historical inventory turnover ratio, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer concentrations, the current market price of polysilicon as compared to the price in our fixed-price arrangements, and product merchantability, among other factors. If, based on assumptions about expected demand and market conditions, we determine that the cost of inventories exceeds its net realizable value or inventory is excess or obsolete, we record a write-down or accrual, which may be material, equal to the difference between the cost of inventories and the estimated net realizable value. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required that could negatively affect our gross margin and operating results. If actual market conditions are more favorable, we may have higher gross margin when products that have been previously written down are sold in the normal course of business.

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Liquidity and Capital Resources

Cash Flows

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

(In thousands)	Six Months Ended July 3, 2016	June 28, 2015
Net cash used in operating activities	$(669,992)	$(325,441)
Net cash provided by (used in) investing activities	$(164,656)	$184,532
Net cash provided by (used in) financing activities	$469,904	$(187,630)

Operating Activities

Net cash used in operating activities in the six months ended July 3, 2016 was $670.0 million and was primarily the result of: (i) a net loss of $193.6 million; (ii) a $433.4 million increase in project assets primarily related to the construction of our Commercial and Power Plant solar energy projects in North America; (iii) a $115.0 million increase in inventories driven by construction of our solar energy projects; (iv) a $95.1 million increase in long-term financing receivables related to our net investment in sales-type leases; (v) a $23.3 million increase in accounts receivable, primarily driven by billings; (vi) a $23.0 million decrease in billings in excess of costs and estimated earnings driven by the recognition revenue and corresponding costs of certain utility-scale projects; (vii) a $7.6 million increase in equity in earnings of unconsolidated investees; and (viii) a $5.9 million decrease in customer advances. This was partially offset by: (i) other net non-cash charges of $118.4 million related to depreciation, non-cash interest charges and stock-based compensation; (ii) a $48.7 million decrease in prepaid expenses and other assets, primarily related to recognition of revenue and corresponding costs of certain utility-scale projects; (iii) a $40.6 million decrease in advance payments made to suppliers; (iv) a $12.1 million increase in accounts payable and other accrued liabilities, primarily attributable to contributions from noncontrolling interests attributable to pre-COD projects; (v) a $6.3 million decrease in costs and estimated earnings in excess of billings driven by milestone billings; and (vi) a $0.8 million net change in deferred income taxes.

Net cash used in operating activities in the six months ended June 28, 2015 was $325.4 million and was primarily the result of: (i) a net loss of $52.5 million; (ii) a $311.8 million increase in project assets primarily related to our Quinto Solar Energy Project; (iii) a $130.7 million increase in inventories driven by project assets for construction of solar power systems for Commercial and Power Plant projects in North America and purchases of polysilicon; (iv) a $69.3 million increase in long-term financing receivables related to our net investment in sales-type leases; (v) a $66.1 million decrease in accounts payable and other accrued liabilities; (vi) a $27.9 million gain on the sale of a residential lease portfolio to 8point3 Energy Partners; (vii) a $12.5 million decrease in customer advances; (viii) a $6.7 million in excess tax benefit from stock-based compensation; (ix) a $4.1 million increase in equity in earnings of unconsolidated investees; and (x) a $5.8 million net change in deferred income taxes and other liabilities. This was partially offset by: (i) a $138.6 million decrease in costs and estimated earnings in excess of billings driven by a decrease related to the Solar Star Projects; (ii) a $65.2 million decrease in accounts receivable; (iii) other net non-cash charges of $94.2 million related to depreciation, non-cash interest charges and stock-based compensation; (iv) a $29.4 million decrease in prepaid expenses and other assets driven by an increase in deferred costs related to the Solar Star Projects; (v) a $25.1 million decrease in advance payments made to suppliers; and (vi) a $9.3 million increase in billings in excess of costs and estimated earnings driven by an increase related to the Solar Star Projects.

Investing Activities

Net cash used in investing activities in the six months ended July 3, 2016 was $164.7 million, which included (i) $141.8 million in capital expenditures primarily related to the expansion of our solar cell manufacturing capacity and costs associated with solar power systems, leased and to be leased; (ii) $10.3 million paid for investments in consolidated and unconsolidated investees; (iii) $9.8 million in payments to 8point3 Energy Partners; and (iv) a $2.7 million increase in restricted cash.

Net cash provided by investing activities in the six months ended June 28, 2015 was $184.5 million, which included $341.2 million in proceeds from 8point3 Energy Partners. This was partially offset by (i) a $120.6 million related to capital expenditures primarily related to the expansion of our solar cell manufacturing capacity and costs associated with solar power systems, leased and to be leased; (ii) a $28.4 million increase in restricted cash; and (iii) $7.1 million paid for investments in unconsolidated investees.

Financing Activities

Net cash provided by financing activities in the six months ended July 3, 2016 was $469.9 million, which included: (i) $396.1 million in net proceeds from the issuance of non-recourse power plant and commercial financing, net of issuance costs; (ii) $51.1 million in net proceeds from the issuance of non-recourse residential financing, net of issuance costs; and (iii) $50.3 million of net contributions from noncontrolling interests and redeemable noncontrolling interests related to the residential lease projects. This was partially offset by: (i) $19.7 million in purchases of treasury stock for tax withholding obligations on vested restricted stock; and (ii) $7.9 million in repayments of bank loans and other debt.

Net cash used in financing activities in the six months ended June 28, 2015 was $187.6 million, which included: (i) a $249.6 million net payment to settle the 4.50% debentures due 2015 and the 4.50% Bond Hedge; (ii) $240.2 million in repayments of bank loans, project loans and other debt, primarily in the Quinto Credit Facility; (iii) $40.3 million in purchases of stock for tax withholding obligations on vested restricted stock; and (iv) $40.0 million of repayments of residential lease financing. This was partially offset by: (i) $190.5 million in net proceeds from the issuance of project loans; (ii) $87.4 million of net contributions from noncontrolling interests and redeemable noncontrolling interests related to the residential lease program; (iii) $54.8 million in proceeds from the issuance of non-recourse debt financing, net of issuance costs; (iv) $29.3 million in proceeds from 8point3 Energy Partners; (v) $15.0 million in net proceeds from sale-leaseback financing; and (vi) $5.5 million in other net financing activities.

Debt and Credit Sources

Convertible Debentures

As of July 3, 2016, an aggregate principal amount of $425.0 million of the 4.00% debentures due 2023 remained issued and outstanding. The 4.00% debentures due 2023 were issued on December 15, 2015. Interest on the 4.00% debentures due 2023 is payable on January 15 and July 15 of each year, beginning on July 15, 2016. Holders are able to exercise their right to convert the debentures at any time into shares of our common stock at an initial conversion price approximately equal to $30.53 per share, subject to adjustment in certain circumstances. If not earlier repurchased or converted, the 4.00% debentures due 2023 mature on January 15, 2023. Holders may require us to repurchase all or a portion of their 4.00% debentures due 2023, upon a fundamental change, as described in the related indenture, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. If we undergo a non-stock change of control fundamental change, as described in the related indenture, the 4.00% debentures due 2023 will be subject to redemption at our option, in whole but not in part, for a period of 30 calendar days following a repurchase date relating to the non-stock change of control fundamental change, at a cash redemption price equal to 100% of the principal amount plus accrued and unpaid interest. Otherwise, the 4.00% debentures due 2023 are not redeemable at our option prior to the maturity date. In the event of certain events of default, Wells Fargo Bank, National Association ("Wells Fargo"), the trustee, or the holders of a specified amount of then-outstanding 4.00% debentures due 2023 will have the right to declare all amounts then outstanding due and payable.

As of July 3, 2016, an aggregate principal amount of $400.0 million of the 0.875% debentures due 2021 remained issued and outstanding. The 0.875% debentures due 2021 were issued on June 11, 2014. Interest on the 0.875% debentures due 2021 is payable on June 1 and December 1 of each year. Holders are able to exercise their right to convert the debentures at any time into shares of our common stock at an initial conversion price approximately equal to $48.76 per share, subject to adjustment in certain circumstances. If not earlier repurchased or converted, the 0.875% debentures due 2021 mature on June 1, 2021. Holders may require us to repurchase all or a portion of their 0.875% debentures due 2021, upon a fundamental change, as described in the related indenture, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. If we undergo a non-stock change of control fundamental change, as described in the related indenture, the 0.875% debentures due 2021 will be subject to redemption at our option, in whole but not in part, for a period of 30 calendar days following a repurchase date relating to the non-stock change of control fundamental change, at a cash redemption price equal to 100% of the principal amount plus accrued and unpaid interest. Otherwise, the 0.875% debentures due 2021 are not redeemable at our option prior to the maturity date. In the event of certain events of default, Wells Fargo, the trustee, or the holders of a specified amount of then-outstanding 0.875% debentures due 2021 will have the right to declare all amounts then outstanding due and payable.

As of July 3, 2016, an aggregate principal amount of $300.0 million of the 0.75% debentures due 2018 remained issued and outstanding. The 0.75% debentures due 2018 were issued on May 29, 2013. Interest on the 0.75% debentures due 2018 is payable on June 1 and December 1 of each year. Holders are able to exercise their right to convert the debentures at any time into shares of our common stock at an initial conversion price equal to $24.95 per share. The applicable conversion rate may be subject to adjustment in certain circumstances. If not earlier converted, the 0.75% debentures due 2018 mature on June 1, 2018. Holders may require us to repurchase all or a portion of their 0.75% debentures due 2018, upon a fundamental change,

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as described in the related indenture, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. If we undergo a non-stock change of control fundamental change, as described in the related indenture, the 0.75% debentures due 2018 will be subject to redemption at our option, in whole but not in part, for a period of 30 calendar days following a repurchase date relating to the non-stock change of control fundamental change, at a cash redemption price equal to 100% of the principal amount plus accrued and unpaid interest. Otherwise, the 0.75% debentures due 2018 are not redeemable at our option prior to the maturity date. In the event of certain events of default, Wells Fargo, the trustee, or the holders of a specified amount of then-outstanding 0.75% debentures due 2018 will have the right to declare all amounts then outstanding due and payable. Please see "Part I. Item 1A. Risk Factors—Risks Related to our Debt and Equity Securities—Conversion of our outstanding 0.75% debentures, 0.875% debentures, 4.00% debentures, and future substantial issuances or dispositions of our common stock or other securities, could dilute ownership and earnings per share or cause the market price of our stock to decrease" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

Mortgage Loan Agreement with IFC

On May 6, 2010, we entered into a mortgage loan agreement with IFC. Under the loan agreement, we borrowed $75.0 million and are required to repay the amount borrowed starting two years after the date of borrowing, in 10 equal semiannual installments over the following 5 years. We are required to pay interest of LIBOR plus 3% per annum on outstanding borrowings; a front-end fee of 1% on the principal amount of borrowings at the time of borrowing; and a commitment fee of 0.5% per annum on funds available for borrowing and not borrowed. We may prepay all or a part of the outstanding principal, subject to a 1% prepayment premium. We have pledged certain assets as collateral supporting repayment obligations.

As of July 3, 2016, we had $25.0 million outstanding under the mortgage loan agreement. Additionally, in accordance with the terms of the mortgage loan agreement, we are required to establish a debt service reserve account which shall contain the amount, as determined by IFC, equal to the aggregate principal and interest due on the next succeeding interest payment date after such date. As of July 3, 2016, we had restricted cash and cash equivalents of $9.2 million related to the IFC debt service reserve.

Loan Agreement with California Enterprise Development Authority ("CEDA")

On December 29, 2010, we borrowed from CEDA the proceeds of the $30.0 million aggregate principal amount of CEDA's tax-exempt Recovery Zone Facility Revenue Bonds (SunPower Corporation - Headquarters Project) Series 2010 (the "Bonds") maturing April 1, 2031 under a loan agreement with CEDA. Certain of our obligations under the loan agreement were contained in a promissory note dated December 29, 2010 issued by us to CEDA, which assigned the promissory note, along with all right, title and interest in the loan agreement, to Wells Fargo, as trustee, with respect to the Bonds for the benefit of the holders of the Bonds. The Bonds bear interest at a fixed-rate of 8.50% per annum.

As of July 3, 2016, the $30.0 million aggregate principal amount of the Bonds was classified as "Long-term debt" in our Consolidated Balance Sheets.

Revolving Credit Facility with Credit Agricole

On July 3, 2013, we entered into a revolving credit agreement with Credit Agricole, as administrative agent, and certain financial institutions, under which we may borrow up to $250.0 million. On August 26, 2014, we entered into an amendment to the revolving credit facility that extends, among other things, the maturity date of the facility from July 3, 2016 to August 26, 2019 (the "Maturity Date"). Amounts borrowed may be repaid and reborrowed until the

Maturity Date. On February 17, 2016, the Company entered into an amendment to the credit agreement, expanding the available borrowings under the revolving credit facility to $300.0 million and adding a $200.0 million letter of credit subfacility, subject to the satisfaction of certain conditions. The revolving credit facility includes representations, covenants, and events of default customary for financing transactions of this type. The revolving credit facility was entered into in conjunction with the delivery by Total S.A. of a guarantee of our obligations under the facility. On January 31, 2014, (i) our obligations under the revolving credit facility became secured by a pledge of certain accounts receivable and inventory, (ii) certain of our subsidiaries entered into guaranties of the revolving credit facility, and (iii) Total S.A.'s guarantee of our obligations under the revolving credit facility expired.

We are required to pay (a) interest on outstanding borrowings under the facility of (i) with respect to any LIBOR rate loan, an amount ranging from 1.50% to 2.00% (depending on our leverage ratio from time to time) plus the LIBOR rate divided by a percentage equal to one minus the stated maximum rate of all reserves required to be maintained against "Eurocurrency liabilities" as specified in Regulation D; and (ii) with respect to any alternate base rate loan, an amount ranging from 0.50% to 1.00% (depending on our leverage ratio from time to time) plus the greater of (1) the prime rate, (2) the Federal Funds rate plus 0.50%, and (3) the one-month LIBOR rate plus 1%; and (b) a commitment fee ranging from 0.25% to 0.35% (depending on our

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leverage ratio from time to time) per annum on funds available for borrowing and not borrowed. We will be required to pay interest on letters of credit under the agreement of (a) with respect to any performance letter of credit, an amount ranging from 0.90% to 1.20% (depending on our leverage ratio from time to time); and (b) with respect to any other letter of credit, an amount ranging from 1.50% to 2.00% (depending on our leverage ratio from time to time).

As of July 3, 2016, we had $18.2 million of outstanding borrowings under the revolving credit facility, all of which were related to letters of credit.

2016 Letter of Credit Facility Agreements

In June 2016, we entered into a Continuing Agreement for Standby Letters of Credit and Demand Guarantees with Deutsche Bank and Deutsche Bank Trust (the “2016 Non-Guaranteed LC Facility”) which provides for the issuance, upon request by us, of letters of credit to support our obligations in an aggregate amount not to exceed $50.0 million. The 2016 Non-Guaranteed LC Facility will terminate on June 29, 2018. As of July 3, 2016, letters of credit issued and outstanding under the 2016 Non-Guaranteed LC Facility totaled $46.8 million.

In June 2016, we entered into bilateral letter of credit facility agreements (the “2016 Guaranteed LC Facilities”) with The Bank of Tokyo-Mitsubishi UFJ, Crédit Agricole, and HSBC. Each letter of credit facility agreement provides for the issuance, upon our request, of letters of credit by the issuing bank thereunder in order to support certain of our obligations until December 31, 2018. Payment of obligations under each of the letter of credit facilities are guaranteed by Total S.A. pursuant to the Credit Support Agreement. Aggregate letter of credit amounts may be increased upon the agreement of the respective parties but, otherwise, may not exceed $75.0 million with The Bank of Tokyo-Mitsubishi UFJ, $75.0 million with Credit Agricole and $175.0 million with HSBC, for a total capacity of $325.0 million. Each letter of credit issued under one of the letter of credit facilities generally must have an expiration date, subject to certain exceptions, no later than the earlier of (a) two years from completion of the applicable project and (b) March 31, 2020.

In June 2016, in connection with the 2016 Guaranteed LC Facilities, we entered into a transfer agreement to transfer to the 2016 Guaranteed LC Facilities all existing outstanding letters of credit issued under our letter of credit facility agreement with Deutsche Bank, as administrative agent, and certain financial institutions, entered into in August 2011 and amended from time to time. In connection with the transfer of the existing outstanding letters of credit, the aggregate commitment amount under the August 2011 letter of credit facility was permanently reduced to zero on June 29, 2016. As of July 3, 2016, letters of credit issued and outstanding under the August 2011 letter of credit facility with Deutsche Bank totaled zero. As of July 3, 2016, letters of credit issued and outstanding under the 2016 Guaranteed LC Facilities totaled $246.0 million.

September 2011 Letter of Credit Facility with Deutsche Bank Trust

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

As of July 3, 2016 letters of credit issued under the Deutsche Bank Trust facility totaled $4.3 million, which was fully collateralized with restricted cash as classified on the Consolidated Balance Sheets.

Revolving Credit Facility with Mizuho and Goldman Sachs

On May 4, 2016, we entered into a revolving credit facility (the "Construction Revolver") with Mizuho Bank Ltd., as administrative agent, and Goldman Sachs Bank USA, under which we may borrow up to $200 million. The Construction Revolver also includes a $100 million accordion feature. Amounts borrowed under the Construction Revolver may be repaid and reborrowed in support of our commercial and small scale utility projects in the United States until the May 4, 2021 maturity date. The Construction Revolver includes representations, covenants, and events of default customary for financing transactions of this type.

Borrowings under the Construction Revolver bear interest at the applicable LIBOR rate plus 1.50% for the first two years (with the final year at LIBOR plus 1.75%). All outstanding indebtedness under the facility may be voluntarily prepaid in whole or in part without premium or penalty (with certain limitations to partial repayments), other than customary breakage costs. The Construction Revolver is secured by the assets of, and equity in, the various project companies to which the borrowings relate, but is otherwise non-recourse to us and our other affiliates.

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As of July 3, 2016, outstanding borrowings under the Construction Revolver totaled $12.3 million.

Non-recourse Financing and Other Debt

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

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

In fiscal 2016, we entered into bridge loans to finance solar power systems and leases under our residential lease program. The loans are repaid over terms ranging from two to seven years. Some loans may be prepaid without penalties at our option at any time, while other loans may be prepaid, subject to a prepayment fee, after one year. During the three and six months ended July 3, 2016, we had net proceeds of $17.1 million and $34.1 million, respectively, in connection with these loans. As of July 3, 2016, the aggregate carrying amount of these loans, presented in "Short-term debt" and "Long-term debt" on our Consolidated Balance Sheets, was $33.8 million.

In fiscal 2014 and 2015, we entered into long-term loans to finance solar power systems and leases under our residential lease program. The loans are repaid over their terms of between 17 and 18 years, and may be prepaid without penalty at our option beginning seven years after the original issuance of the loan. During the three and six months ended July 3, 2016, we had net proceeds (repayments) of $(1.1) million and $2.1 million, respectively, in connection with these loans. During the three and six months ended June 28, 2015, we had net proceeds of $54.4 million and $54.0 million, respectively, in connection with these loans. As of July 3, 2016, and January 3, 2016, the aggregate carrying amount of these loans, presented in "Short-term debt" and "Long-term debt" on our Consolidated Balance Sheets, was $174.1 million and $171.8 million, respectively.

We have entered into multiple arrangements under which solar power systems are financed by third-party investors or customers, including by a legal sale of the underlying asset that is accounted for as a borrowing under relevant accounting guidelines as the requirements to recognize the transfer of the asset were not met. Under the terms of these arrangements, the third parties make an upfront payment to us, which we recognize as a liability that will be reduced over the term of the arrangement as lease receivables and government incentives are received by the third party. As the liability is reduced, we make a corresponding reduction in receivables. We use this approach to account for both operating and sales-type leases with our residential lease customers in our consolidated financial statements. During the three and six months ended July 3, 2016, we had net proceeds of $7.8 million and $14.9 million, respectively, in connection with these facilities. During the three and six months ended June 28, 2015, we had net repayments of $29.4

million and $40.0 million, respectively, in connection with these facilities. As of July 3, 2016 and January 3, 2016, the aggregate carrying amount of these facilities, presented in "Accrued liabilities" and "Other long-term liabilities" on our Consolidated Balance Sheets, was $49.2 million and $36.8 million, respectively (see Note 4).

We also enter into facilities with third-party tax equity investors under which the investors invest in a structure known as a partnership flip. We hold controlling interests in these less-than-wholly-owned entities and therefore fully consolidate these entities. We account for the portion of net assets in the consolidated entities attributable to the investors as noncontrolling interests in our consolidated financial statements. Noncontrolling interests in subsidiaries that are redeemable at the option of the noncontrolling interest holder are classified accordingly as redeemable, between liabilities and equity on the Company's Consolidated Balance Sheets. During the three and six months ended July 3, 2016, we had net contributions of $31.5 million and $50.3 million, respectively, under these facilities and attributed losses of $20.2 million and $36.8 million, respectively, to the non-controlling interests corresponding principally to certain assets, including tax credits, which were allocated to the non-controlling interests during the periods. During the three and six months ended June 28, 2015, we had net contributions of

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$43.7 million and $87.4 million, respectively, under these facilities and attributed losses of $30.1 million and $49.7 million, respectively, to the non-controlling interests corresponding principally to certain assets, including tax credits, which were allocated to the non-controlling interests during the periods. As of July 3, 2016 and January 3, 2016, the aggregate carrying amount of these facilities, presented in “Redeemable non-controlling interests in subsidiaries” and “Non-controlling interests in subsidiaries” on our Consolidated Balance Sheets, was $140.7 million and $128.6 million, respectively.

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

In fiscal 2016, we entered into the Construction Revolver credit facility to support the construction of our commercial and small scale utility projects in the United States. As of July 3, 2016, the aggregate carrying value of the Construction Revolver, presented in "Long-term debt" on our Consolidated Balance Sheets, was $12.3 million.

In fiscal 2016, we entered into a long-term credit facility to finance the 125 MW utility-scale Boulder power plant project in Nevada. During both the three and six months ended July 3, 2016, we had net proceeds of $110.9 million in connection with the facility. As of July 3, 2016, the aggregate carrying amount of this facility, presented in "Short-term debt" and "Long-term debt" on our Consolidated Balance Sheets, was $117.8 million.

In fiscal 2016, we entered into a short-term credit facility to finance the utility-scale Rio Bravo power plant projects in California, with an aggregate size of approximately 50 MW. During both the three and six months ended July 3, 2016, we had net proceeds of $77.3 million in connection with the facility. As of July 3, 2016, the aggregate carrying amount of this facility, presented in "Short-term debt" on our Consolidated Balance Sheets, was $80.1 million.

In fiscal 2016, we entered into a short-term credit facility to finance the 20 MW utility-scale Wildwood power plant project in California. During both the three and six months ended July 3, 2016, we had net proceeds of $25.0 million in connection with the facility. As of July 3, 2016, the aggregate carrying amount of this facility, presented in "Short-term debt" on our Consolidated Balance Sheets, was $26.1 million.

In fiscal 2016, we entered into a long-term credit facility to finance several related utility-scale power plant projects in California, including the Stanford and Turlock projects, with an aggregate size of approximately 350 MW. During the three and six months ended July 3, 2016, we had net proceeds of $112.8 million and $192.2 million, respectively, in connection with the facility. As of July 3, 2016, the aggregate carrying amount of this facility, presented in "Short-term debt" and "Long-term debt" on our Consolidated Balance Sheets, was $201.6 million.

In fiscal 2015, we entered into a long-term credit facility to finance the 128 MW utility-scale Henrietta utility-scale power plant in California. As of both July 3, 2016 and January 3, 2016, the aggregate carrying amount of this loan, presented in "Short-term debt" and "Long-term debt" on our Consolidated Balance Sheets, was $216.7 million.

In fiscal 2015, we entered into a long-term credit facility to finance the 60 MW Hooper utility-scale power plant in Colorado. In fiscal 2016, we repaid the full amount outstanding. During both the three and six months ended July 3, 2016, we had net repayments of $37.4 million in connection with the facility. As of January 3, 2016, the carrying amount of this facility, presented in "Long-term debt" on our Consolidated Balance Sheets, was $37.3 million.

In fiscal 2013, we entered into a long-term loan agreement to finance a 5.4 MW utility and power plant operating in Arizona. As of both July 3, 2016, and January 3, 2016, the aggregate carrying amount under this loan, presented in

"Short-term debt" and "Long-term debt" on our Consolidated Balance Sheets, was $8.0 million.

Other debt is further composed of non-recourse project loans in EMEA, which are scheduled to mature through 2028.

See Note 5 for discussion of the Company’s sale-leasebacks accounted for under the financing method.

Liquidity

As of July 3, 2016, we had unrestricted cash and cash equivalents of $590.1 million as compared to $954.5 million as of January 3, 2016. Our cash balances are held in numerous locations throughout the world and as of July 3, 2016, we had approximately $144.0 million held outside of the United States. This offshore cash is used to fund operations of our business in the Europe and Asia Pacific regions as well as non-U.S. manufacturing operations, which require local payment for product materials and other expenses. The amounts held outside of the United States represent the earnings of our foreign subsidiaries

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which, if repatriated to the United States under current law, would be subject to United States federal and state tax less applicable foreign tax credits. Repatriation of earnings that have not been subjected to U.S. or foreign withholding tax and that have been indefinitely reinvested outside the U.S. could result in additional United States federal income tax or foreign withholding tax payments in future years.

On July 5, 2010, we formed AUOSP, our joint venture with AUO. Under the terms of the joint venture agreement, we and AUO each own 50% of AUOSP. We are each obligated to provide additional funding to AUOSP in the future. Under the joint venture agreement, each shareholder agreed to contribute additional amounts to the joint venture amounting to $169.0 million, or such lesser amount as the parties may mutually agree (see the Contractual Obligations table below). In addition, if AUOSP, or either shareholder requests additional equity financing for AUOSP, then the shareholders will each be required to make additional cash contributions of up to $50.0 million in the aggregate. See also "Part I. Item 1A. Risk Factors—Risks Related to Our Operations—If we experience interruptions in the operation of our solar cell production lines, or we are not successful in operating our joint venture AUOSP, our revenue and results of operations may be materially and adversely affected" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

We expect total capital expenditures related to purchases of property, plant and equipment in the range of $225 million to $245 million in fiscal 2016 in order to increase our manufacturing capacity, improve our current and next generation solar cell manufacturing technology, and other projects. In addition, we expect to invest a significant amount of capital to develop solar power systems and plants for sale to customers. The development of solar power plants can require long periods of time and substantial initial investments. Our efforts in this area may consist of all stages of development, including land acquisition, permitting, financing, construction, operation and the eventual sale of the projects. We often choose to bear the costs of such efforts prior to the final sale to a customer, which involves significant upfront investments of resources (including, for example, large transmission deposits or other payments, which may be non-refundable), land acquisition, permitting, legal and other costs, and in some cases the actual costs of constructing a project, in advance of the signing of PPAs and EPC contracts and the receipt of any revenue, much of which is not recognized for several additional months or years following contract signing. Any delays in disposition of one or more projects could have a negative impact on our liquidity.

Certain of our customers also require performance bonds issued by a bonding agency or letters of credit issued by financial institutions, which are returned to us upon satisfaction of contractual requirements. If there is a contractual dispute with the customer, the customer may withhold the security or make a draw under such security, which could have an adverse impact on our liquidity. Obtaining letters of credit may require adequate collateral. All letters of credit issued under our 2016 Guaranteed LC Facilities are guaranteed by Total S.A. pursuant to the Credit Support Agreement. Our September 2011 letter of credit facility with Deutsche Bank Trust is fully collateralized by restricted cash, which reduces the amount of cash available for operations. As of July 3, 2016, letters of credit issued under the Deutsche Bank Trust facility amounted to $4.3 million which were fully collateralized with restricted cash on the Consolidated Balance Sheets.

In fiscal 2011, we launched our residential lease program with dealers in the United States, in partnership with a third-party financial institution, which allows customers to obtain SunPower systems under lease agreements up to 20 years, subject to financing availability. We have entered into facilities with financial institutions that will provide financing to support additional residential solar lease projects. Under the terms of certain programs, we receive upfront payments for periods under which the third-party financial institution has agreed to assume collection risk for certain residential leases. Changes in the amount or timing of upfront payments received from the financial institutions may have an impact on our cash position within the next twelve months. The normal collection of monthly rent payments for leases placed in service is not expected to have a material impact on our cash position within the next twelve months. We have entered into multiple facilities with third-party investors under which both parties will invest in entities that hold SunPower solar power systems and leases with residential customers. We determined that we hold a controlling interest in these less-than-wholly-owned entities and have fully consolidated these entities as a result (see "Item 1. Financial Statements—Notes to Consolidated Financial Statements—Note 5. Leasing"). During the six months ended July 3, 2016, we received $57.2 million in contributions from investors under the related facility agreements. Additionally, during fiscal 2014, 2015 and 2016, we entered into several long-term non-recourse loans to finance solar power systems and leases under our residential lease program. In fiscal 2016, we drew down $4.3 million of proceeds, net of issuance costs, under the loan agreements. The loans have 17- and 18-year terms and as of July 3, 2016, the short-term and long-term balances of the loans were $4.3 million and $169.8 million, respectively. We are actively arranging additional third-party financing for our residential lease program; however, the credit markets are unpredictable, and if they become challenging, we may be unable to arrange additional financing partners for our residential lease program in future periods, which could have a negative impact on our sales. In the unlikely event that we enter into a material number of additional leases without promptly obtaining corresponding third-party financing, our cash and working capital could be negatively affected.

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Solar power plant projects often require significant up-front investments. These include payments for preliminary engineering, permitting, legal, and other expenses before we can determine whether a project is feasible. We often make arrangements with third-party financiers to acquire and build solar power systems or to fund project construction using non-recourse project debt. As of July 3, 2016, outstanding amounts related to our project financing totaled $870.5 million.

We believe that our current cash, cash equivalents, cash expected to be generated from operations and funds available under our existing credit facilities will be sufficient to meet our working capital and fund our committed capital expenditures over the next 12 months, including the development and construction of solar power systems and plants. Additionally, we work with our vendors to obtain favorable payment terms, when possible, in order to actively monitor and manage our working capital. We expect to be able to supplement our short-term liquidity, if necessary, with broad access to capital markets and additional credit facilities, including non-recourse debt, made available by various domestic and foreign financial institutions. However, there can be no assurance that our liquidity will be adequate over time or that we will in fact have access to capital markets on reasonable terms or at all. A significant portion of our revenue is generated from a limited number of customers and large projects and our inability to execute these projects, or to collect from these customers or for these projects, would have a significant negative impact on our business. Our capital expenditures and use of working capital may be greater than we expect if we decide to make additional investments in the development and construction of solar power plants and sales of power plants and associated cash proceeds are delayed, or if we decide to accelerate increases in our manufacturing capacity internally or through capital contributions to joint ventures. We generally obtain project financing in connection with the construction of solar power plants, which financing may not be available on terms acceptable to us. In addition, we could in the future make additional investments in our joint ventures or guarantee certain financial obligations of our joint ventures, which could reduce our cash flows, increase our indebtedness and expose us to the credit risk of our joint ventures. See also "Risks Related to Our Sales Channels—A limited number of customers and large projects are expected to continue to comprise a significant portion of our revenues and any decrease in revenues from those customers or projects, payment of liquidated damages, or an increase in related expenses, could have a material adverse effect on our business, results of operations and financial condition," and "Risks Related to Our Liquidity—We may be unable to generate sufficient cash flows or obtain access to external financing necessary to fund our operations and make adequate capital investments as planned due to the general economic environment and the continued market pressure driving down the average selling prices of our solar power products," among other factors in Part I. "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

On February 17, 2016, we entered into an amendment to the credit agreement with Credit Agricole to expand the available borrowings under the revolving credit facility to $300.0 million and to add a $200.0 million letter of credit subfacility, subject to the satisfaction of certain conditions. As of July 3, 2016, we had $281.8 million available to us under the revolving credit facility. Proceeds from our revolving credit facility with Credit Agricole may be used for general corporate purposes. Our revolving credit facility with Credit Agricole requires that we maintain certain financial ratios, including the ratio that our debt at the end of each quarter to our EBITDA for the last twelve months, as defined, will not exceed 4.5 to 1. It is possible that we may not be in compliance with this or other covenants in the future, which could affect the availability of borrowings under the line, if not remedied. Additionally, on May 4, 2016, we entered into the Construction Revolver credit facility, under which we may borrow up to $200 million, with a $100 million accordion feature, in support of our commercial and small scale utility projects in the United States until its May 4, 2021 maturity date, subject to certain conditions. As of July 3, 2016, we had $187.7 million available to us under the Construction Revolver credit facility. There are no assurances, however, that we will have sufficient available cash to repay our indebtedness or that we will be able to refinance such indebtedness on similar terms to the expiring indebtedness. If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain other debt financing. The current economic environment, however, could limit our ability to raise capital by issuing new equity or debt securities on acceptable terms, and lenders may be unwilling to lend funds on acceptable terms in the amounts that would be required to supplement cash flows to support operations. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders (and the potential for further dilution upon the exercise of warrants or the conversion of convertible debt) and may not be available on favorable terms or at all, particularly in light of the current conditions in the financial and credit markets. Additional debt would result in increased expenses and would likely impose new restrictive covenants which may be similar or different than those restrictions contained in the covenants under our current loan agreements and debentures. In addition, financing arrangements, including project financing for our solar power plants and letters of credit facilities, may not be available to us, or may not be available in amounts or on terms acceptable to us.

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Contractual Obligations

The following table summarizes our contractual obligations as of July 3, 2016:

		Payments Due by Fiscal Period			
(In thousands)	Total	2016 (remaining six months)	2017-2018	2019-2020	Beyond 2020
Convertible debt, including interest[1]	$1,257,862	$11,502	$344,194	$41,000	$861,166
IFC mortgage loan, including interest[2]	25,621	7,851	17,770	—	—
CEDA loan, including interest[3]	67,627	1,289	5,100	5,100	56,138
Other debt, including interest[4]	1,031,582	233,203	225,886	92,262	480,231
Future financing commitments[5]	179,108	176,742	2,366	—	—
Operating lease commitments[6]	127,075	8,737	28,587	24,817	64,934
Sale-leaseback financing[7]	116,733	8,219	16,986	14,930	76,598
Capital lease commitments[8]	5,324	565	2,068	1,238	1,453
Non-cancellable purchase orders[9]	244,939	244,939	—	—	—
Purchase commitments under agreements[10]	1,413,622	518,656	554,389	337,577	3,000
Total	$4,469,493	$1,211,703	$1,197,346	$516,924	$1,543,520

1 Convertible debt, including interest, relates to the aggregate of $1,125.0 million in outstanding principal amount of our senior convertible debentures on July 3, 2016. For the purpose of the table above, we assume that all holders of the outstanding debentures will hold the debentures through the date of maturity, and upon conversion, the values of the senior convertible debentures will be equal to the aggregate principal amount with no premiums.

2 IFC mortgage loan, including interest, relates to the $25.0 million outstanding principal amount as of July 3, 2016. Under the loan agreement, we are required to repay the amount borrowed, starting 2 years after the date of borrowing, in 10 equal semiannual installments over the following 5 years. We are required to pay interest of LIBOR plus 3% per annum on outstanding borrowings; a front-end fee of 1% on the principal amount of borrowings at the time of borrowing; and a commitment fee of 0.5% per annum on funds available for borrowing and not borrowed.

3 CEDA loan, including interest, relates to the proceeds of the $30.0 million aggregate principal amount of the Bonds. The Bonds mature on April 1, 2031 and bear interest at a fixed rate of 8.50% through maturity.

4 Other debt, including interest, primarily relates to non-recourse finance projects and solar power systems and leases under our residential lease program as described in "Item 1. Financial Statements—Notes to Consolidated Financial Statements—Note 8. Commitments and Contingencies."

5 We and AUO agreed in the joint venture agreement to contribute additional amounts to AUOSP through 2016 amounting to $169.0 million by each shareholder, or such lesser amount as the parties may mutually agree. Further, in connection with purchase and joint venture agreements with non-public companies, we will be required to provide additional financing to such parties of up to $10.1 million, subject to certain conditions.

6 Operating lease commitments primarily relate to certain solar power systems leased from unaffiliated third parties over minimum lease terms of up to 20 years and various facility lease agreements.

7 Sale-leaseback financing relates to future minimum lease obligations for solar power systems under sale-leaseback arrangements which were determined to include integral equipment and accounted for under the financing method.

8 Capital lease commitments primarily relate to certain buildings, manufacturing and equipment under capital leases in Europe for terms of up to 12 years.

9 Non-cancellable purchase orders relate to purchases of raw materials for inventory and manufacturing equipment from a variety of vendors.

10 Purchase commitments under agreements relate to arrangements entered into with several suppliers, including joint ventures, for polysilicon, ingots, wafers, and Solar Renewable Energy Credits, among others. These agreements specify future quantities and pricing of products to be supplied by the vendors for periods up to 8 years and there are certain consequences, such as forfeiture of advanced deposits and liquidated damages relating to previous purchases, in the event that we terminate the arrangements.

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Liabilities Associated with Uncertain Tax Positions

Due to the complexity and uncertainty associated with our tax positions, we cannot make a reasonably reliable estimate of the period in which cash settlement will be made for our liabilities associated with uncertain tax positions in other long-term liabilities. Therefore, they have been excluded from the table above. As of July 3, 2016, total liabilities associated with uncertain tax positions were $44.1 million and are included in "Other long-term liabilities" in our Consolidated Balance Sheets as they are not expected to be paid within the next twelve months.

Off-Balance-Sheet Arrangements

As of July 3, 2016, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Currency Exchange Risk

Our exposure to movements in foreign currency exchange rates is primarily related to sales to European customers that are denominated in Euros. Revenue generated from European customers represented 5% of our total revenue in both the three and six months ended July 3, 2016, and 10% and 9% of our total revenue in the three and six months ended June 28, 2015, respectively. A 10% change in the Euro exchange rate would have impacted our revenue by approximately $2.0 million and $3.8 million in the three and six months ended July 3, 2016, respectively, and $3.7 million and $7.2 million in the three and six months ended June 28, 2015, respectively.

In the past, we have experienced an adverse impact on our revenue, gross margin and profitability as a result of foreign currency fluctuations. When foreign currencies appreciate against the U.S. dollar, inventories and expenses denominated in foreign currencies become more expensive. Strengthening of the Malaysian Ringgit against the U.S. dollar would increase AUOSP's liability under the facility agreement with the Malaysian government which in turn would negatively impact our equity in earnings (loss) of the unconsolidated investee. An increase in the value of the U.S. dollar relative to foreign currencies could make our solar power products more expensive for international customers, thus potentially leading to a reduction in demand, our sales and profitability. Furthermore, many of our competitors are foreign companies that could benefit from such a currency fluctuation, making it more difficult for us to compete with those companies.

We currently conduct hedging activities which involve the use of option and forward currency contracts that are designed to address our exposure to changes in the foreign exchange rate between the U.S. dollar and other currencies. As of July 3, 2016, we had outstanding hedge option currency contracts and forward currency contracts with aggregate notional values of $93.7 million and $5.1 million, respectively. As of January 3, 2016, we had outstanding hedge option currency contracts and forward currency contracts with aggregate notional values of zero and $35.7 million, respectively. Because we hedge some of our expected future foreign exchange exposure, if associated revenues do not materialize we could experience a reclassification of ineffective gains or losses into earnings. Such a reclassification could adversely impact our revenue, margins and results of operations. We cannot predict the impact of future exchange rate fluctuations on our business and operating results.

Credit Risk

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

We enter into agreements with vendors that specify future quantities and pricing of polysilicon to be supplied for periods up to 10 years. Under certain agreements, we are required to make prepayments to the vendors over the terms of the arrangements. As of July 3, 2016 and January 3, 2016, advances to suppliers totaled $318.5 million and $359.1 million, respectively. Two suppliers accounted for 85% and 15% of total advances to suppliers as of July 3, 2016, and 82% and 16% as of January 3, 2016.

We enter into foreign currency derivative contracts and convertible debenture hedge transactions with high-quality financial institutions and limit the amount of credit exposure to any single counterparty. The foreign currency derivative contracts are limited to a time period of 15 months or less. We regularly evaluate the credit standing of our counterparty financial institutions.

Interest Rate Risk

We are exposed to interest rate risk because many of our customers depend on debt financing to purchase our solar power systems. An increase in interest rates could make it difficult for our customers to obtain the financing necessary to purchase our solar power systems on favorable terms, or at all, and thus lower demand for our solar power products, reduce revenue and adversely impact our operating results. An increase in interest rates could lower a customer's return on investment in a system or make alternative investments more attractive relative to solar power systems, which, in each case, could cause our customers to seek alternative investments that promise higher returns or demand higher returns from our solar power systems, reduce gross margin and adversely impact our operating results. This risk is significant to our business because our

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sales model is highly sensitive to interest rate fluctuations and the availability of credit, and would be adversely affected by increases in interest rates or liquidity constraints.

Our interest expense would increase to the extent interest rates rise in connection with our variable interest rate borrowings. As of July 3, 2016, the outstanding principal balance of our variable interest borrowings was $723.8 million. We do not believe that an immediate 10% increase in interest rates would have a material effect on our financial statements. In addition, lower interest rates would have an adverse impact on our interest income. Our investment portfolio primarily consists of $112.6 million in money market funds as of July 3, 2016 which exposes us to interest rate risk. Due to the relatively short-term nature of our investment portfolio, we do not believe that an immediate 10% increase in interest rates would have a material effect on the fair market value of our money market funds. Since we believe we have the ability to liquidate substantially all of this portfolio, we do not expect our operating results or cash flows to be materially affected to any significant degree by a sudden change in market interest rates on our investment portfolio.

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

Our investments held in joint ventures and other non-public companies expose us to equity price risk. As of July 3, 2016 and January 3, 2016, investments of $186.2 million and $186.4 million, respectively, are accounted for using the equity method, and $48.5 million and $36.4 million, respectively, are accounted for using the cost method. These strategic investments in third parties are subject to risk of changes in market value, which if determined to be other-than-temporary, could result in realized impairment losses. We generally do not attempt to reduce or eliminate our market exposure in equity and cost method investments. We monitor these investments for impairment and record reductions in the carrying values when necessary. Circumstances that indicate an other-than-temporary decline include the valuation ascribed to the issuing company in subsequent financing rounds, decreases in quoted market prices and declines in operations of the issuer. There can be no assurance that our equity and cost method investments will not face risks of loss in the future.

Interest Rate Risk and Market Price Risk Involving Convertible Debt

The fair market value of our outstanding convertible debentures is subject to interest rate risk, market price risk and other factors due to the convertible feature of the debentures. The fair market value of the debentures will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair market value of the debentures will generally increase as the market price of our common stock increases and decrease as the market price of our common stock falls. The interest and market value changes affect the fair market value of the debentures, but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations, except to the extent increases in the value of our common stock may provide the holders of our 4.00% debentures due 2023, 0.875% debentures due 2021, or 0.75% debentures due 2018 the right to convert such debentures into cash in certain instances. The aggregate estimated fair value of our outstanding convertible debentures was $981.8 million as of July 3, 2016. The aggregate estimated fair value of our outstanding convertible debentures was $1,253.2 million as of January 3, 2016. Estimated fair values are based on quoted market prices as reported by an independent pricing source. A 10% increase in quoted market prices would increase the estimated fair value of our then-outstanding debentures to $1,080.0 million and $1,378.5 million as of July 3, 2016 and January 3, 2016, respectively, and a 10% decrease in the quoted market prices would decrease the estimated fair value of our then-outstanding debentures to $883.6 million and $1,127.9 million as of July 3, 2016 and January 3, 2016, respectively.

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ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management is required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure control and procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of July 3, 2016 at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
ITEM 1. LEGAL PROCEEDINGS
The disclosure under "Note 8. Commitments and Contingencies—Legal Matters" in "Notes to Consolidated Financial Statements" contained in this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016, except for the risk factors described and included below.

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

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

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

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

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- 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 sale prices;

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

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

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

- our agreements with these customers may be canceled if we fail to meet certain product specifications or materially breach the agreement;

- in the event of a customer bankruptcy, our customers may seek to 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" in our 2015 Annual Report on Form 10-K. See also "Risks Related to Our Sales Channels–Revenues from a limited number of customers and large projects are expected to continue to comprise a significant portion of our total revenues and any decrease in revenues from those customers or projects, payment of liquidated damages, or an increase in related expenses, could have a material adverse effect on our business, results of operations and financial condition" in our 2015 Annual Report on Form 10-K.
Sales to our residential and light commercial customers are similarly susceptible to fluctuations in volumes and revenue, as well as fluctuations in demand based on the availability of regulatory incentives and other factors. In addition, demand from our commercial and residential customers may fluctuate based on the perceived cost-effectiveness of the electricity generated by our solar power systems as compared to conventional energy sources, such as natural gas and coal (which fuel sources are subject to significant price swings from time to time), and other non-solar renewable energy sources, such as wind. Declining average selling prices immediately affect our residential and light commercial sales volumes, and therefore lead to large fluctuations in revenue.
Further, our revenue mix of materials sales versus project sales can fluctuate dramatically from quarter to quarter, which may adversely affect our margins and financial results in any given period.
Any of the foregoing may cause us to miss our financial guidance for a given period, which could adversely impact the market price for our common stock and our liquidity.
We base our planned operating expenses in part on our expectations of future revenue and a significant portion of our expenses is fixed in the short term. If revenue for a particular quarter is lower than we expect, we likely will be unable to proportionately reduce our operating expenses for that quarter, which would materially adversely affect our

operating results for that quarter. See also “–Risks Related to Our Sales Channels-Our business could be adversely affected by seasonal trends and construction cycles” in our 2015 Annual Report on Form 10-K.

See also "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

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to the purchase and use of solar power products, which may significantly reduce demand for our products and services" in our 2015 Annual Report on Form 10-K.

As owners and operators of solar power systems that deliver electricity to the grid, certain of our affiliated entities may be considered public utilities for purposes of the Federal Power Act, as amended (the “FPA”), and are subject to regulation by the Federal Energy Regulatory Commission (“FERC”), as well as various local and state regulatory bodies.

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

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

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ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs
April 4, 2016 through May 1, 2016	10,007	$ 20.96	—	—
May 2, 2016 through May 29, 2016	25,488	$ 16.61	—	—
May 30, 2016 through July 3, 2016	10,418	$ 15.66	—	—
	45,913	$ 17.34	—	—

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

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ITEM 6: EXHIBITS

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

SUNPOWER CORPORATION

Dated: August 9, 2016 By: /s/ CHARLES D. BOYNTON

Charles D. Boynton
Executive Vice President and
Chief Financial Officer

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Index to Exhibits

Exhibit Number	Description
10.61*	Credit Agreement, dated May 4, 2016, by and among SunPower Revolver HoldCo I, LLC, Mizuho Bank, Ltd., Mizuho Bank (USA), Mizuho Bank, Ltd., Goldman Sachs Bank USA, and the Lenders party thereto.
10.62*	Amended and Restated Credit Support Agreement, dated June 29, 2016, between SunPower Corporation and Total S.A
10.63*	Continuing Agreement for Standby Letters of Credit and Demand Guarantees, dated June 29, 2016 by and among the Company, Deutsche Bank AG New York Branch, and Deutsche Bank Trust Company Americas.
10.64*	Letter of Credit Facility Agreement, dated June 29, 2016, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., the Subsidiary Applicants party thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd.
10.65*	Letter of Credit Facility Agreement, dated June 29, 2016, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., the Subsidiary Applicants party thereto, and Credit Agricole Corporate and Investment Bank.
10.66*	Letter of Credit Facility Agreement, dated June 29, 2016, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., the Subsidiary Applicants party thereto, and HSBC Bank USA, National Association.
10.67*	Transfer Agreement, dated June 29, 2016, by and among SunPower Corporation, SunPower Corporation, Systems, Total S.A., Deutsche Bank AG New York Branch as administrative agent, and the Banks party thereto.
10.68*	First Amendment to Credit Agreement, dated June 30, 2016, by and among SunPower Revolver HoldCo I, LLC, Mizuho Bank, Ltd., Mizuho Bank (USA), Mizuho Bank, Ltd., Goldman Sachs Bank USA, and the Lenders party thereto.
31.1*	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2*	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1**	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*+	XBRL Instance Document.
101.SCH*+	XBRL Taxonomy Schema Document.
101.CAL*+	XBRL Taxonomy Calculation Linkbase Document.
101.LAB*+	XBRL Taxonomy Label Linkbase Document.
101.PRE*+	XBRL Taxonomy Presentation Linkbase Document.
101.DEF*+	XBRL Taxonomy Definition Linkbase Document.

Exhibits marked with an asterisk (*) are filed herewith.

Exhibits marked with two asterisks (**) are furnished and not filed herewith.

Exhibits marked with a cross (+) are XBRL (Extensible Business Reporting Language) information furnished and not filed herewith, are not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise are not subject to liability under these sections.