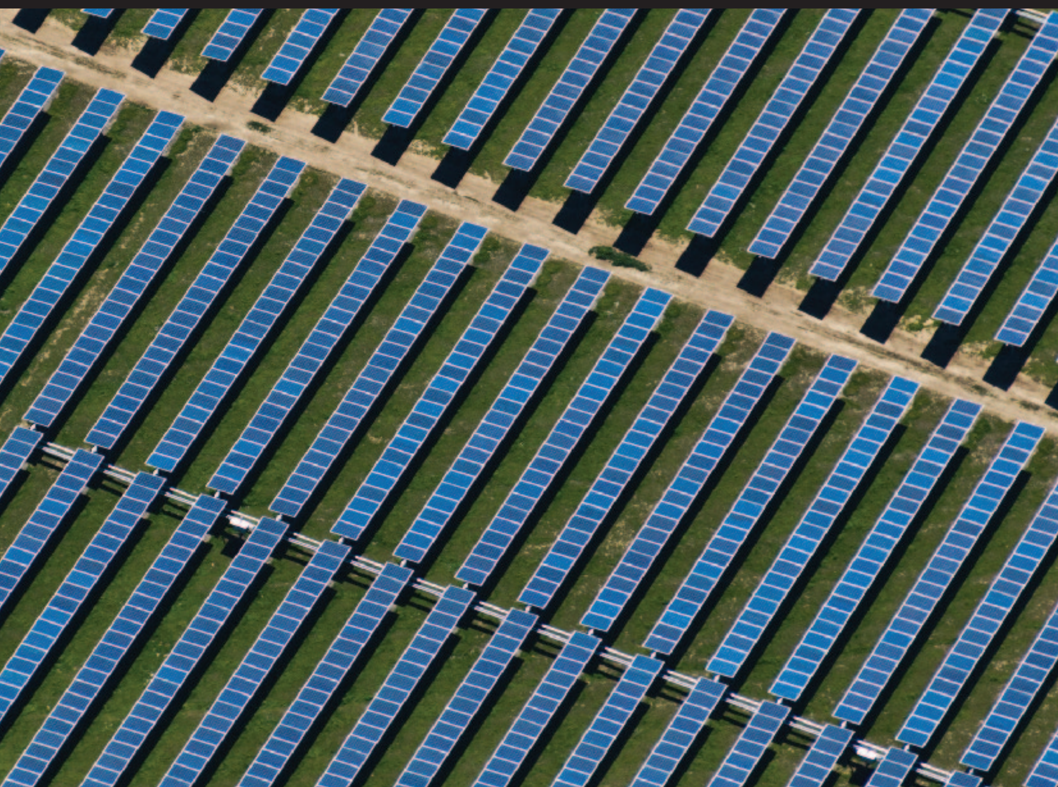
SUNPOWER®



ANNUAL REPORT 2012

SunPower is a global solar energy solutions company and technology leader, unmatched in long-term reliability, efficiency and guaranteed performance.

Through design, manufacturing, installation and ongoing maintenance and monitoring, SunPower provides its proprietary, world-record efficient solar technology to residential, commercial and utility customers worldwide. Its Maxeon® solar cells perform better, are tested harder and improved continuously to deliver maximum return on investment. Founded more than a quarter century ago and headquartered in San Jose, Calif., the company operates in North America, Africa, Asia, Australia and Europe. SunPower is backed by Total, the fifth largest publicly-traded energy company in the world.

Photos depicted are of power plant, commercial and residential installations.

Dear Shareholders:

SunPower had a strong 2012. The company's industry-leading technology continued to reach new levels of efficiency, our solar power plants delivered significant revenue and impressive margins, we added new customers who experienced solar for the first time thanks to our incredibly popular lease program, we continued to develop new emerging markets for our products, and we leveraged our transformational partnership with Total. It also was a year in which we executed well and stayed true to our long-term strategy despite very challenging industry conditions. An important outcome of this environment has been the rapid reduction in the cost of solar power to a point where it is now very competitive with traditional energy sources in many markets. Solar is now in a fundamental transition and we're seeing the entire electricity sector take notice.

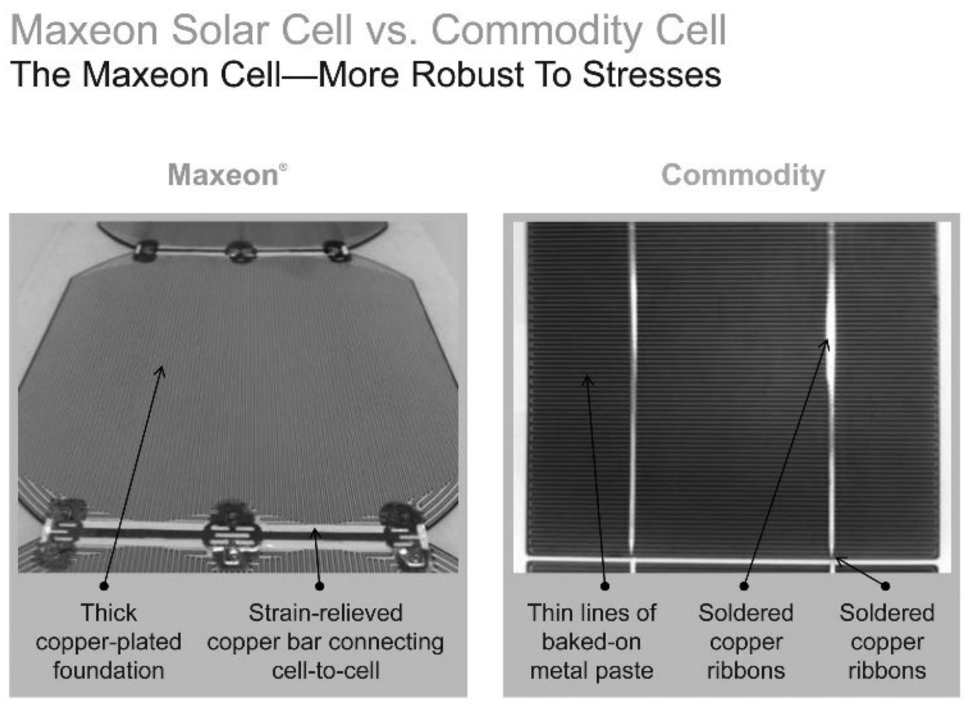
SunPower sees this as a real opportunity, especially when you consider that annual global electricity sales currently exceed $2.2 trillion. As we've done in the past, we're strategically looking at how to take advantage of this, further driving the adoption of solar in both power plants and distributed generation rooftop markets. We're already guaranteeing energy output whether it's through a lease, a performance guarantee or a power purchase agreement (PPA). Quite simply, SunPower is an energy solutions company that is leading the industry transformation from selling solar systems to selling energy.

We are extremely well positioned thanks to our vertically integrated business model which we have implemented over the past decade. Key strategic decisions taken years ago are paying off and place the company as an industry leader. The independent dealer network we established in 2005 set the course for our go-to-market residential effort. Acquiring Powerlight in 2007, with its commercial scale systems experience and its industry first power plant in Bavaria, helped us to blaze a trail on large-scale solar projects. We have been cultivating our partnerships in Japan since 2005, long before it was broadly recognized as a real opportunity. This investment has resulted in a strong channel-to-market opportunity in a country that highly values top product efficiency and performance. The transformational investment by Total in 2011 has opened doors to new markets, boosted our research and development efforts and helped to strengthen our balance sheet.

Industry Leading Technology

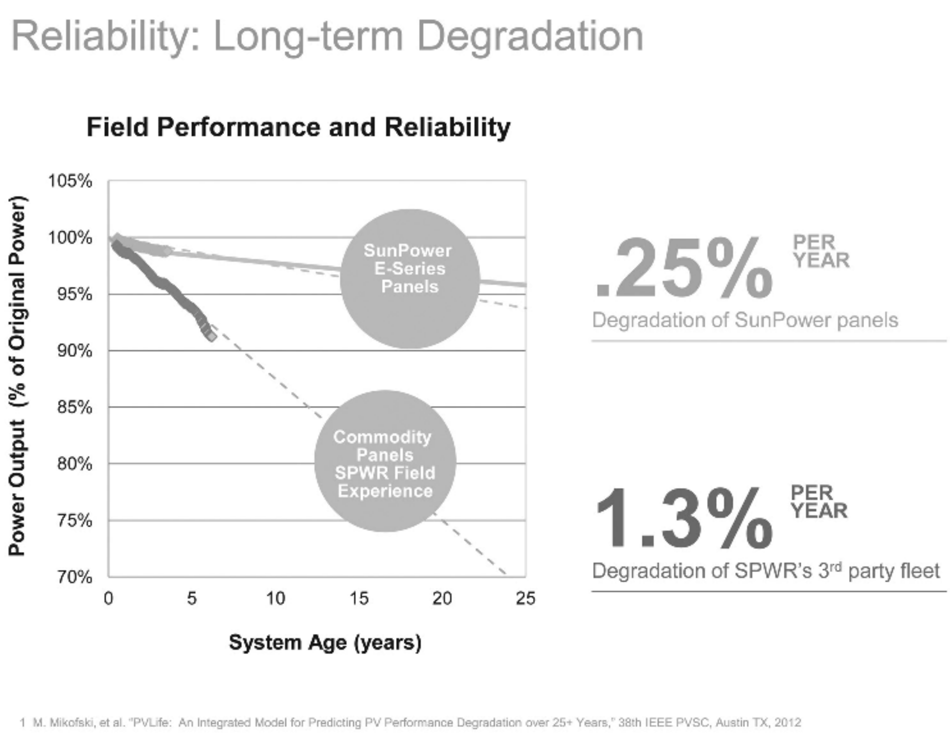
Since 2003, when SunPower introduced our first-generation, 20 percent efficiency solar cell technology utilizing our proprietary back-contact design, we have consistently offered the industry's highest performance solar products and systems. We remain committed to maintaining our technology lead as it is increasingly clear to customers that our high efficiency products yield a lower lifecycle cost of ownership and compelling levelized cost of energy.

Last year we raised the bar again, above our previous cell efficiency records, with the commercialization of our third-generation Maxeon® solar cell technology that yields efficiencies of more than 24 percent. The solid copper foundation on the back of our cells enhances electrical conductivity and dramatically improves resistance to cracking and corrosion. We also shipped the industry's first 21.5 percent efficiency solar panel, validated by the U.S. Department of Energy's National Renewable Energy Laboratory.



Commodity Cell is defined as a silicon cell that has many thin metal lines in the front and two or three interconnect ribbons soldered along the front and back.

Our confidence in the long-term durability of our products led to our announcement of the industry's first 25-year combined power and product warranty and shifted to a linear power warranty that guarantees more energy production throughout the life of the solar system. SunPower panels retain more of their initial out-of-the-box power than any other, by a wide margin.



SunPower has an ongoing aggressive commitment to continued innovation through research and development. This is the case in our own facilities, through our collaboration with Total, and in laboratories and educational institutions around the globe, such as the King Abdullah University of Science and Technology (Kaust) in Saudi Arabia, and the Laboratory of Physics of Interfaces and Thin Films in France.

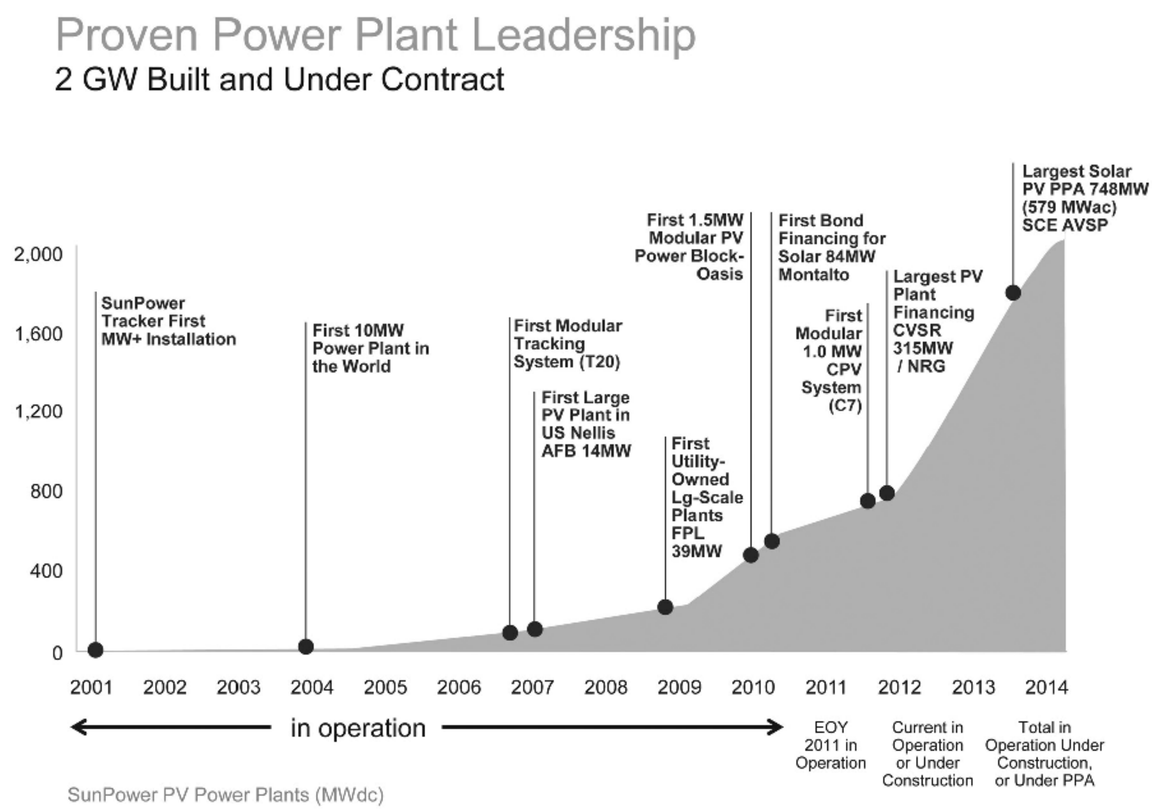
Major Power Plants Driving Company Performance

Our power plant business played a significant role in the financial performance of our company last year with two very large and notable solar power plants. More than 350 construction workers are building the 250-megawatt ac (MW) California Valley Solar Ranch (CVSR) in San Luis Obispo. The project, with expected completion this year, is injecting $315 million into the local economy. Owned by NRG Energy, Inc., the plant is already providing 131-MWac of power to PG&E.

Throughout construction, our team has taken great care to protect the environment with our "light on land" approach. The project arrays were laid out to minimize disruption to endangered species, and innovative solutions were used to protect species from construction activities. Going forward, 12,000 acres of land in and around the Carrizo Plain will be protected and conserved.

We finished last year closing a historic transaction, selling the world's largest solar power plant development, the Antelope Valley Solar Projects (AVSP), to MidAmerican Solar, part of the Berkshire Hathaway conglomerate. The 579-MWac projects will provide power to Southern California Edison. More than $500 million is expected to be injected into the local economy while creating 650 jobs. This transaction is a further validation of SunPower's industry-leading position in large-scale solar power plants.

Also among our projects is the 25-MWac McHenry solar plant, which we sold to independent power producer K Road. Power from McHenry is sold to the Modesto Irrigation District under a 25-year PPA. At McHenry we installed our first 1.5-MW, third-generation SunPower® Oasis® power block, utilizing our latest cell technology. This is a great product, offering a very competitive levelized cost of energy. It is completely standardized, very bankable, designed for global market deployment and already demonstrating tremendous field results.



Superior Technology Helps Open Door to New Markets

In 2012, we brought our SunPower C7 Tracker product to the commercial market. This product significantly increases the company's effective manufacturing capacity and leverages decades of experience in tracking systems and concentrating photovoltaics. The C7 Tracker delivers the lowest cost utility-scale solar power in regions with high sunlight resource. We announced or began construction on projects in Arizona: a 1-MWac facility for the Salt River Project and Arizona State University, and a 6-MWac project for Tucson Electric Power.

The C7 Tracker combines single-axis tracking technology with rows of parabolic mirrors, reflecting light onto our solar cells. Using mirrors reduces the number of solar cells required to generate electricity. For example, a 400-MWdc C7 Tracker power plant requires less than 70-MWdc of SunPower solar cells. This approach also reduces the levelized cost of energy by up to 20 percent compared to competing technologies.

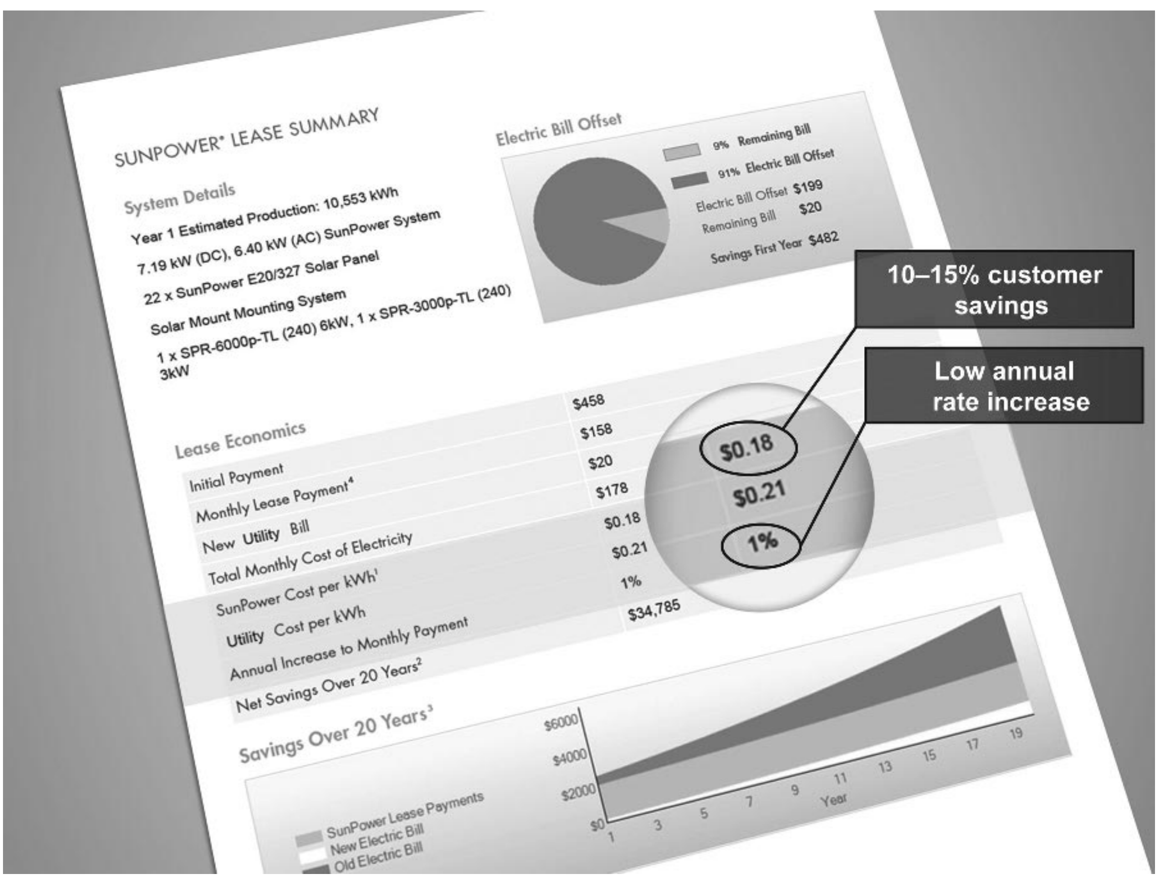
The C7 Tracker is ideal for regions with high solar irradiance. As such, it has the potential to be a game changer for SunPower in the Middle East and China, where we already have major C7 Tracker efforts underway.

In China, we are working together with a team of local partners who bring different strengths. SunPower signed a definitive agreement to form a joint venture with Tianjin Zhonghuan Semiconductor, Inner Mongolia Power Group and Hohhot Jinqiao City Development Company for the manufacturing and deployment of the C7 Tracker in the Chinese market. Under the terms of the definitive agreement, SunPower will have a 25 percent ownership stake in the $60 million project.

Another key market for SunPower last year was South Africa, a new market we gained thanks to our acquisition of Tenesol, which we closed at the beginning of 2012. A global leader in the commercial and off-grid market segments, it was their strong presence that helped us secure a 33-MWac project in South Africa.

We also saw significant success in France, winning 12 projects totaling 33-MWac in a tender process.

Leases Lead the Way for Distributed Generation Business



A significant driver in the North American residential market was our lease program, offering homeowners a compelling value proposition. They can purchase the best solar technology in the industry and be cash flow positive from the moment the system is energized. Both customers and systems financiers appreciate dealing with a financially strong supplier of high reliability products. The popularity was overwhelming and by year end we were oversubscribed with 11,415 customers and 90 MWp booked.

In 2012, SunPower had the leading share in the solar power industry in the U.S. residential and commercial market, as measured by GTM Research. We delivered solar power systems to schools, water and government segments, and major brands.

We signed the first federal government project utilizing a 20-year PPA for the 13.78-MWdc U.S. Navy China Lake project. Campbell Soup joined our list of corporate partners following the completion of a 10-MWac system and we delivered a 1.8-MWac system for Bloomberg.

For the K-12 school segment alone, SunPower solar systems now operate at 92 California public schools. This is generating $5.6 million in annual electricity savings, a particularly significant savings considering that utility bills can be a high budget item for a public school district.

SunPower continued to benefit from our well-established channel-to-market strategy in Japan via our partnership with Toshiba. We expanded our channel in this market by adding Sharp as a partner last year.

We further expanded our footprint in the growing Australian market when we acquired a 42 percent stake in Diamond Energy Pty Ltd, a privately-owned renewable electricity provider. This acquisition will allow SunPower to test a number of innovative customer offers in a fast-growing solar market.

Lowering Costs, Seeing Manufacturing Efficiencies

While we're proud of our technology achievements and project accomplishments, we also want to acknowledge the aggressive efforts made to reduce manufacturing related costs. By reducing the complexity of our high efficiency solar panel manufacturing process, we can combine unique process cost reduction with broader industry supply chain methods to lower our costs. For example, we reduced the number of steps in the manufacturing process by 15 percent by the end of last year. This allowed us to achieve more than 25 percent blended cost reductions. We're driving similar efforts on balance of system costs through our SunPower Oasis product.

Also last year, SunPower opened two new manufacturing facilities in France and Mexico. These plants allow us to control our product quality and be closer to expanding markets, ultimately saving on delivery costs. The Mexicali plant ramped faster than any of our previous facilities and ahead of forecast.

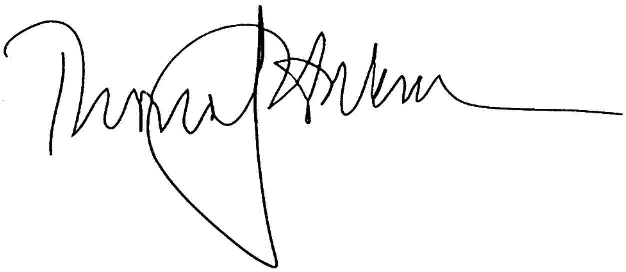
Tribute to the "Father of Modern Solar"

As many SunPower followers know, the company was started more than 28 years ago by a quiet and brilliant man, Dr. Richard Swanson. Sometimes called the "father of modern solar," Dick began his quest to develop cost effective, high efficiency solar cells during the oil crisis of the 1970s. Almost 40 years later, he has left a lasting mark on the industry and on SunPower. While Dick retired this past year, we're still fortunate to have him continue with SunPower as a member of our Technical Advisory Board. Dick not only personally understands solar cell technology at a unique level of insight and depth, but has the equally rare gift of teaching this knowledge to the next generation of SunPower scientists. His accomplishments are legendary and I feel personally fortunate to have had the chance to work with such a visionary innovator.

Dick set an important tone in those early days that still prevails today with our incredible team across five continents; an innovative, can-do attitude where we work to control our own destiny and each day raise our own bar on SunPower's highest efficiency, highest reliability, highest performance technology and products.

We had a strong 2012 in spite of an industry environment characterized by significant challenges. As we review our progress for the last year, we realize that we are at the beginning of a revolution in the way people get electricity. We've already gained incredible momentum in 2013 and we believe that SunPower is at the stage to garner a meaningful share of mainstream energy markets as an energy solutions provider.

Sincerely,



Thomas H. Werner
President and Chief Executive Officer
SunPower Corporation

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 30, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ______________

Commission file number 001-34166

SunPower Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

None
(Title of Class)

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

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if a smaller	Smaller reporting company ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on July 1, 2012 was $191.5 million. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Nasdaq Global Select Market on June 29, 2012. For purposes of determining this amount only, the registrant has defined affiliates as including Total Gas & Power USA, SAS and the executive officers and directors of registrant on June 29, 2012.

The total number of outstanding shares of the registrant's common stock as of February 15, 2013 was 119,269,194.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for the registrant's 2013 annual meeting of stockholders are incorporated by reference in Items 10, 11, 12, 13, and 14 of Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

Trademarks

The following terms, among others, are our trademarks and may be used in this report: SunPower®, Maxeon®, Oasis®, PowerLight®, and Tenesol®. Other trademarks appearing in this report are the property of their respective owners.

Unit of Power

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

Levelized Cost of Energy ("LCOE")

The LCOE equation 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 when different scales of operation, investment or operating time periods exist. It captures capital costs and ongoing system-related costs, along with the amount of electricity produced, and converts them into a common metric. Key drivers for LCOE reduction for photovoltaic products include panel efficiency, capacity factors, reliable system performance, and the life of the system.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that do not represent historical facts and the assumptions underlying such statements. We use words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "potential," "will," "would," "should," and similar expressions to identify forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K include, but are not limited to, our plans and expectations regarding future financial results, expected operating results, business strategies, projected costs and cost reduction, products, 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, the availability of credit and liquidity support from Total S.A., the 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, industry trends, impact of changes in government incentives, expected restructuring charges, and the likelihood of any impairment of project assets and long-lived assets. These forward-looking statements are based on information available to us as of the date of this Annual Report on Form 10-K and current expectations, forecasts and assumptions and involve a number of risks and uncertainties that could cause actual results to differ materially from those anticipated by these forward-looking statements. Such risks and uncertainties include a variety of factors, some of which are beyond our control. Please see "Part I. Item 1A: Risk Factors" herein and our other filings with the Securities and Exchange Commission ("SEC") for additional information on risks and uncertainties that could cause actual results to differ. These forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we are under no obligation to, and expressly disclaim any responsibility to, update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

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

PART I

ITEM 1: *BUSINESS*

Corporate History

We were originally incorporated in California in 1985 and subsequently reincorporated in Delaware during 2005 in connection with our initial public offering. In November 2011, our stockholders approved the reclassification of all outstanding former class A common stock and class B common stock into a single class of common stock listed on the Nasdaq Global Select Market under the symbol "SPWR". In June 2011, we became a subsidiary of Total Gas & Power USA, SAS (“Total”), a subsidiary of Total S.A. ("Total S.A."). Total acquired 60% of our former class A and class B common stock as of June 13, 2011. In January 2012, we entered into an additional agreement with Total to sell shares of our common stock, thereby increasing Total's ownership to approximately 66% of our outstanding common stock.

Company Overview

We are a vertically integrated solar products and solutions company that designs, manufactures and delivers high-performance solar systems worldwide, serving as a one-stop shop for residential, commercial, and utility-scale power plant customers. Of all the solar cells available for 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. These high efficiency cells are then utilized in our array of high reliability SunPower products.

We believe that there are several factors that set us apart when compared with various competitors:

- Go-to-market platform that is broad and deep with our more than eight years in rooftop and ground mount channels, including turn-key systems:
    - High performance delivered by enhancing energy delivery and financial return through systems technology design;
    - Cutting edge systems designed to meet customer needs and reduce cost, including non-penetrating, fast roof installation technologies; and
    - Expanded reach has been enhanced by Total S.A.'s long-established presence in many countries where significant solar goals are being established;
- Technology advantage which includes being the only solar company manufacturing back-contact, back-junction technology. Our modules produce more electricity, last longer and degrade much less:
    - Superior performance, including the ability to generate up to 50% more power per unit area than conventional solar cells;
    - Superior aesthetics, with our uniformly black surface design that eliminates highly visible reflective grid lines and metal interconnect ribbons;
    - Superior reliability, as confirmed by multiple independent reports and internal reliability data;
    - Superior energy production per rated watt of power as confirmed by multiple independent reports;
    - More KW per pound can be transported using less packaging, resulting in lower distribution costs; and
    - More efficient use of silicon, a key raw material used in the manufacture of solar cells;
- Costs that are decreasing faster and more steadily with an aggressive but we believe achievable cost reduction plan and value that benefits all customers:
    - We offer a significantly lower area-related cost structure for our customers because our solar panels require a substantially smaller roof or land area than conventional solar technology and half or less of the roof or land area of many commercial solar thin film technologies;

    - Through our leasing program, customers can get high efficiency solar products for no money down at competitive energy rates; and
    - Solar power systems designed to generate electricity over a system life typically exceeding 25 years
- Strong balance sheet backed by Total S.A. that gives us an advantage in today's challenging environment.

Segments Overview

In December 2011, we announced a reorganization to align our business and cost structure to a regional focus in order to support the needs of our customers and improve the speed of decision-making processes. As a result, in the first quarter of fiscal 2012, we changed our segment reporting from our Utility and Power Plant ("UPP") Segment and Residential and Commercial ("R&C") Segment to three regional segments: (i) the Americas Segment, (ii) the EMEA Segment, and (iii) the APAC Segment. The Americas Segment includes both North and South America. The EMEA Segment includes European countries, as well as the Middle East and Africa. The APAC segment includes all Asia-Pacific countries. Historical results have been recast under the new segmentation. For more information about the financial condition and results of operations of each segment, please see *Part II - "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations"* and *"Item 8: Financial Statements and Supplementary Data."*

Our Products and Services

Products

Solar Cells

Solar cells are semiconductor devices that directly convert sunlight into direct current electricity. Our A-300 solar cell is a silicon solar cell with a specified power value of 3.1 watts and a conversion efficiency averaging between 20.0% and 21.5%. Our A-330 solar cell delivers 3.3 watts with a conversion efficiency of up to 22.7%. During 2012, we commenced commercial production of our next generation solar cells with demonstrated efficiencies exceeding 24%. Our solar cells are designed without highly reflective metal contact grids or current collection ribbons on the front of the solar cells. This feature enables our solar cells to be assembled into solar panels that exhibit a more uniform appearance than conventional solar panels.

Solar Panels

Solar panels are solar cells electrically connected together and encapsulated in a weatherproof panel. We believe solar panels made with our solar cells are the highest efficiency solar panels available for the mass market. Because our solar cells are more efficient relative to conventional solar cells, when our solar cells are assembled into panels, the assembly cost per watt is less because more power can be incorporated into a given size panel. Higher solar panel efficiency allows installers to mount a solar power system with more power within a given roof or site area and can reduce per watt installation costs. During 2012, we commenced production of our next generation solar panels with average module efficiency of greater than 21%. The following SunPower® solar panel series are incorporated into our solar power systems and are available to provide customers with the right solution to fit their needs:

- *SunPower® E18 Series Solar Panel ("E18")*

  Available in a 72-cell configuration, the E18 series panel uses our A-300 all back-contact solar cells and delivers a total panel conversion efficiency of 18.1% to 18.5%. E18 panels feature high transmission tempered front glass and a sturdy anodized frame allowing panels to operate reliably in multiple mounting configurations. The E18 panel's reduced voltage-temperature coefficient and low-light performance attributes provide outstanding energy delivery per peak power watt.

- *SunPower® E19 Series Solar Panel ("E19")*

  Available in a 72, 96, and 128-cell configuration, the E19 series panel uses our A-300 all back-contact solar cells and delivers total panel conversion efficiency of 19.3% to 19.7%. The E19 panel features high transmission tempered glass with anti-reflective coating which allows for more diffuse off-angle light to be captured.

- *SunPower® E20 Series Solar Panel ("E20")*

  Available in a 96-cell configuration, the E20 series panel uses our A-330 all back-contact solar cells and delivers total panel conversion efficiency of up to 20.1%. With comprehensive inverter compatibility, E20 panels can be used with both inverters that require transformers as well as the highest performing transformer-less inverters to maximize output. E20 panels are additionally equipped with a positive power tolerance rating which ensures that the power generated by each panel meets or exceeds that panel's rating.

  The development of the E20 solar panel series is a direct result of the investment in SunPower by the United States Department of Energy through its Solar America Initiative program. The E20 panel conversion efficiency rating was further confirmed by the Department of Energy's National Renewable Energy Lab.

Inverters

Every solar power system needs an inverter to transform the direct current electricity collected from the solar panels into utility-grade alternating current power that is ready for household use. We sell a line of SunPower branded inverters manufactured by third parties.

Solar Power Systems

We offer several types of rooftop and ground-mounted solar products. The following tiles and systems are included within our suite of products:

<u>*Roof Mounted Products*</u>

- *SunPower® T-5 Solar Roof Tile System ("T-5")*

  Tilted at a 5-degree angle, the T-5 roof tile was the industry's first all-in-one non-penetrating photovoltaic rooftop product that combines solar panel, frame, and mounting system into one pre-engineered unit. The all-in-one mounting system and frame is made from an engineered glass-filled polymer that is non-reactive, eliminating the need for electrical grounding of the array. The patented design is adaptable to virtually any flat or low-slope rooftop while providing the roof membrane protection from corrosion. The tiles further interlock for wind resistance and secure installation. Since the T-5 solar roof tile typically weighs less than three pounds per square foot and is stacked for shipping, more KW per pound can be transported using less packaging, resulting in lower distribution costs. These benefits make the T-5 solar roof tile easier and faster to install than other rooftop systems as well as an effective solution for area or weight constrained flat rooftops.

  The development of the T-5 solar roof tile is a direct result of the investment in SunPower by the United States Department of Energy through its Solar America Initiative program.

- *SunPower® T-10 Commercial Solar Roof Tiles ("T-10")*

  Tilted at a 10-degree angle, the T-10 commercial solar roof tiles can allow for generation of up to 10% more annual energy output than traditional flat roof-mounted systems, depending on geographical location and local climate conditions. These non-penetrating panels interlock for secure, rapid installation without compromising the structural integrity of the roof. Further, the lightweight tile weighs less than four pounds per square foot. Sloped side and rear wind deflectors improve wind performance, allowing T-10 solar arrays to withstand winds up to 120 miles per hour. Performance is optimized for larger roofs with less space constraints as well as underutilized tracks of land, such as ground reservoirs.

<u>*Ground Mounted Products*</u>

- *SunPower® T-0 Tracker ("T-0")*

  The T-0 tracker is a single-axis tracking systems that automatically pivots solar panels to track the sun's movement throughout the day. This tracking feature increases the amount of sunlight that is captured and converted into energy by up to 30% over flat or fixed-tilt systems, depending on geographic location and local climate conditions. A single motor and drive mechanism can control 10 to 20 rows, or more than 200 KW of solar panels. This multi-row feature represents a cost advantage for our customers over dual axis tracking systems, as such systems require more motors, drives, land, and power to operate per KW of capacity. The SunPower Tracker system can be assembled onsite, and is easily scalable. The T-0 tracker features our TMAC Advanced Tracker Controller ("TMAC") software, which includes real-time tracker status updates, remote (wireless) monitoring and control, proprietary energy production optimization algorithms, and improved reliability. The T-0 tracker has been installed in a wide range of geographical markets principally in the United States, Germany, Italy, Portugal, South Korea, and Spain.

- *SunPower® Oasis® Power Plant ("Oasis")*

  The Oasis is the industry's first modular solar power block that scales from 1.5 MW distributed installations to large central station power plants. Oasis provides a fully integrated, cost-effective way to rapidly deploy utility-scale solar power systems, streaming the development and construction process while optimizing the use of available land. Each power block integrates the SunPower Oasis tracker, a 425-watt utility solar panel, pre-manufactured cabling, and our TMAC software. The power block kits are shipped pre-assembled to the job site for rapid field installation, and offer a high capacity factor and reliable long-term performance. The Oasis operating system is designed to support future grid interconnection requirements for large-scale solar power plants, such as voltage ride through and power factor control. It features a utility-standard supervisory control and data acquisition operation and analytical tools, which include intelligent sensor and control networks for optimized power plant operation. The Oasis streamlines the entire power plant development process, from permitting through construction and financing.

- *SunPower® C-7 Tracker ("C-7")*

  Named for its ability to concentrate the Sun's energy by seven times, we expect C-7 to deliver the lowest levelized cost of electricity for utility scale deployment when fully ramped. The C-7 combines a horizontal single-axis tracker with rows of parabolic mirrors, reflecting light onto linear arrays of our high efficiency solar cells. The SunPower cell is uniquely suited for this application due to its extremely high efficiency under low levels of concentration. This tracker's components come factory preassembled enabling rapid installation using standard tools and requiring no specialized field expertise.

- *Fixed Tilt SunPower® Parking Structures*

  SunPower has developed and patented designs for solar power systems for parking structures in multiple configurations. These dual-use systems typically incorporate solar panels into the roof of a carport or similar structure to deliver onsite solar power while providing shade and protection. Aesthetically-pleasing, standardized and scalable, they are well suited for parking lots adjacent to facilities. SunPower Tracker technology can be incorporated for elevated parking structures to provide a differentiated product to our customers.

Other System Offerings

We have other products that leverage our core systems. For example, our metal roof system is designed for sloped-metal roof buildings, which are used in some winery and warehouse applications. This solar power system is designed for rapid installation.

Balance of System Components

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

Services

We provide our solar power plant customers end-to-end management of the project lifecycle, from early stage site assessment, financing support, and project development, including full-scale environmental and construction permitting, through engineering, procurement, construction, and commissioning. Our projects are built incorporating industry-leading standards for safety, quality, performance, and reliability. Once a site is operational, our plant O&M organization provides customers with field-based preventative maintenance services, "utility-quality" data collection, performance monitoring, diagnostic and performance reporting services, as well as lifecycle asset planning and management with industry leading software applications.

Operations and Maintenance

Our solar power systems are designed to generate electricity over a system life typically exceeding 25 years. We provide commissioning, warranty, administration, operations, maintenance, and performance monitoring services with the objective of optimizing our customers' electrical energy production. Commissioning services include testing to verify that equipment and system performance meet design requirements and specifications. We also pass through to customers long-term warranties from the original equipment manufacturers ("OEMs") of certain system components. We provide warranties of 25 years for our solar panels, which is standard in the solar industry, while our inverters typically carry warranty periods ranging from 5 to 10 years. In addition, we generally warrant our workmanship on installed systems for periods ranging up to 10 years. Systems under warranty and systems under a performance monitoring contract employ our proprietary software and hardware systems to collect and remotely analyze equipment operating and system performance data from all of our sites in our offices located in the United States, Europe, and the Philippines. We offer our commercial customers a comprehensive suite of solar power system maintenance services ranging from system monitoring, to preventive and corrective maintenance, to rapid-response outage restoration and inverter repair. Our Performance Monitoring Service Agreement for commercial and utility systems includes continuous remote monitoring, inverter outage notification, system performance website access, and a 24/7 technical support line. Our Performance Basic Service Agreement adds preventive maintenance to the Standard Monitoring Services Agreement, and our Performance Plus Service Agreement includes all of the Performance Basic Service Agreement features plus on-site troubleshooting and corrective maintenance using regionally-located field service technicians. Residential lease solar system customers are also remotely monitored by SunPower O&M for performance and availability using SunPower's proprietary monitoring software.

Monitoring

Our O&M personnel have access to a powerful set of tools developed on industry leading information technology platforms that facilitate the management of our global fleet of residential, commercial, and utility scale photovoltaic power plants. Real time flow of data from our customers' sites is aggregated centrally where an engine applies advanced solar specific algorithms to detect and report potential performance issues. Our work management system routes any anomalies to the appropriate responders to ensure timely resolution. The enterprise asset management system stores the operational history of thousands of systems and over 1 GW sold and delivered through our regional segments. We have implemented highly automated workflow processes that minimize the time from detection to analysis to dispatch and repair. Our O&M photovoltaic fleet management systems are built on more than a decade of solar services experience, allowing us to provide premier O&M services to our customers worldwide.

We have developed a proprietary set of advanced monitoring applications built upon the leading electric utility real-time monitoring platform (the "SunPower Monitoring System"). The SunPower Monitoring System continuously scans the operational status and performance of the solar power system and automatically identifies system outages and performance deficiencies to our 24/7 monitoring technicians. Customers can access historical or daily system performance data through our customer website (www.sunpowermonitor.com). Some customers choose to install "digital signs" or kiosks to display system performance information from the lobby of their facility. We believe these displays enhance our brand and educate the public and prospective customers about solar power.

In 2008, we released the SunPower Monitoring System, and in 2009, we released the industry's first monitoring application for the Apple iPhone®, iPod touch® and iPad® mobile devices. In 2011, we expanded our monitoring application to Android™ devices as well. With the addition of these applications to the SunPower Monitoring System, residential and commercial customers now have four easy ways to access information about the energy generated by their SunPower solar power systems. Along with the iPhone, iPod touch, iPad and Android applications, the SunPower Monitoring System offers homeowners the ability to monitor SunPower solar power systems with a wireless, in-home wall-mounted liquid crystal display that provides power production and cumulative energy information. The monitoring system also provides the convenience of Internet access to a solar power system's performance from virtually anywhere. Customers can view a system's energy performance and environmental savings on an hourly, monthly, and annual basis.

Solar Park Project Development

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

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

For more information about the costs associated with solar park project development see "*Item 1A: Risk Factors*" including "*We may make significant investments in building solar power plants without first obtaining project financing, and the delayed sale of our projects would adversely affect our business, liquidity, and results of operations*" and "*Due to the general economic environment, the continued market pressure driving down the average selling prices of our solar power products, and other factors, 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.*"

Residential Leasing Program

Our residential lease program with dealers in the United States, in partnership with third-party financial institutions, allows customers to obtain SunPower systems under lease agreements up to 20 years, subject to financing availability. The program includes system maintenance and warranty coverage as well as an early buy-out option after six years or at any time when the lessees sell their home. Leases are classified as either operating or sales-type leases in accordance with the relevant accounting guidelines.

The program does not yet represent a material portion of our revenue. However, we may face additional material risks as the program expands, including our ability to obtain additional financing partners as well as our ability to collect finance and rent receivables in view of the general challenging credit markets worldwide. We believe that our concentration of credit risk is limited because of our large number of customers, credit quality of the customer base, small account balances for most of these customers, and customer geographic diversification. We have applied and will apply for the §48(c) solar commercial investment tax credit ("ITC") and Treasury Grant payments under Section 1603 of the American Recovery and Reinvestment Act (the "Cash Grant"), which is administered by the U.S. Internal Revenue Services ("IRS") and Treasury Department, for residential leases. We have structured the tax incentive applications, both in timing and amount, to be in accordance with the guidance provided by Treasury and IRS. If the amount or timing of the ITC or Cash Grant payments received in connection with the residential lease program varies from what we have projected, this may impact our revenues and margins and we may have to recognize losses, which may adversely impact our results of operations and cash flows. We make certain assumptions in accounting for the residential lease program, including, among others, the residual value of the leased systems. As the residential lease program grows, if the residual value of leased systems does not materialize as assumed, our results of operations would be adversely affected.

For more information about Cash Grant payments received in connection with the residential lease program see "*Item 1A: Risk Factors*" including "*A change in our anticipated 1603 Treasury cash grant proceeds or solar investment tax credits could adversely impact our business, revenues, margins, results of operations and cash flows.*"

Research and Development

We engage in extensive research and development efforts to improve solar cell efficiency through enhancement of our existing products, development of new techniques such as concentrating photovoltaic power, and reducing manufacturing cost and complexity. Our research and development group works closely with our manufacturing facilities, our equipment suppliers and our customers to improve our solar cell design and to lower solar cell, solar panel and system product manufacturing and assembly costs. In addition, we have dedicated employees who work closely with our current and potential suppliers of crystalline silicon, a key raw material used in the manufacture of our solar cells, to develop specifications that meet our standards and ensure the high quality we require, while at the same time controlling costs. Under our Research & Collaboration Agreement with Total, our majority stockholder, we have established a joint committee to engage in long-term research and development projects with continued focus on maintaining and expanding our technology position in the crystalline silicon domain and ensuring our industrial competitiveness. See Note 2 of Notes to Consolidated Financial Statements in *Part II - "Item 8: Financial Statements and Supplemental Data.*"

For more information about these contracts, including the government's rights to use technology developed as a result of such contracts, please see *"Item 1A: Risk Factors"* including *"Our past reliance on government programs to partially fund our research and development programs could impair our ability to commercialize our solar power products and services."*

Supplier Relationships, Manufacturing, and Module Assembly

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

SunPower Sdn. Bhd. ("AUOSP"), which is a supplier of our cells. This material supply contract has a remaining term of 5 years and does not contain prepayment obligations. Please see the Contractual Obligations disclosure in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding the amount of our purchase obligations in 2013 and beyond. Under other supply agreements, we are required to make prepayments to vendors over the terms of the arrangements. As of December 30, 2012, advances to suppliers totaled $351.4 million. We may be unable to recover such prepayments if the credit conditions of these suppliers materially deteriorate. For further information regarding our future prepayment obligations, please see "*Item 8. Financial Statements and Supplementary Data - Note 10 - Commitment and Contingencies - Advance to Suppliers.*" We currently believe our supplier relationships and various short- and long-term contracts will afford us the volume of material and services required to meet our planned output. For more information about risks related to our supply chain, please see *"Item 1A: Risk Factors - Risks Related to Our Supply Chain."*

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

Polysilicon is melted and grown into crystalline ingots and sawed into wafers by business partners specializing in those processes. The wafers are processed into solar cells in our manufacturing facility located in the Philippines and by our joint venture, AUOSP, located in Malaysia. SPML Land, Inc., owns a 344,000 square foot facility in the Philippines which serves as a solar cell manufacturing facility ("FAB2") and which currently operates twelve lines with a total rated annual solar cell manufacturing capacity of over 700 MW. AUOSP currently operates twelve solar cell manufacturing lines with a total rated annual solar cell manufacturing capacity of over 800 MW.

Using our solar cells, we manufacture our solar panels at our solar panel assembly facilities located in the Philippines and Mexico. In our Philippines facility, we currently operate fourteen solar panel assembly lines with a total rated annual solar panel manufacturing capacity of approximately 600 MW. In our Mexicali, Mexico facility we currently operate ten additional solar panel assembly lines. When fully online, our Mexico facility will house twelve solar panel assembly lines with an expected total rated annual solar panel manufacturing capacity of approximately 500 MW. As a result of our January 2012 acquisition of Tenesol S.A., a global solar provider headquartered in La Tour de Salvagny, France, which operated under the common control of Total, we acquired solar panel assembly facilities in France and South Africa with a combined total rated annual solar cell manufacturing of approximately 170 MW. Our solar panels are also assembled for us by third-party contract manufacturers in California and China.

We source the solar panels and balance of system components based on quality, performance, and cost considerations both internally and from third-party suppliers. We generally assemble proprietary components, such as cementitious coatings and certain adhesive applications, while we purchase generally available components from third-party suppliers. The balance of system components can make up as much as two-thirds of the cost of a solar power system. Therefore, we are focused on standardizing our products with the goal of driving down installation costs, such as with our SunPower Oasis operating system.

Sales and Marketing

Customers

We sell our products through our regional segments including North America, Europe, the Middle East, Asia, and Australia. Our customers typically include investors, financial institutions, project developers, electric utilities, and independent power producers, commercial and governmental entities, production home builders, and residential owners and small commercial building owners who are served by our third-party global dealer network.

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

We have offices in markets such as Australia, England, France, Germany, India, Israel, Italy, Japan, South Africa, Spain, and the United States. We anticipate developing additional customer relationships in other markets and geographic regions as we expand our business. We generally do not have long-term agreements with our customers; see *"Item 1A: Risk Factors"* including *"We often do not have long-term agreements with our customers and accordingly could lose customers without warning, which could cause our operating results to decline."*

The table below represents our significant customers which accounted for greater than 10 percent of total revenue during fiscal 2012, 2011, and 2010.

		Year ended		
Revenue		**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Significant Customers:	**Business Segment**			
NRG Solar, Inc.	Americas	35%	*	*
Customer B	EMEA	*	*	12%

* denotes less than 10% during the period

Seasonal Trends

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

Marketing and Sales

We market and sell solar electric power technologies worldwide through a direct sales force and through our third-party global dealer network. We sell products and services to residential, commercial, utility and power plant customers through direct sales personnel and dealer representatives. Our direct sales personnel and dealer representatives are located in Australia, France, Germany, Korea, Italy, Japan, Spain, Switzerland, and the United States. Our dealer network in the United States serves over 40 states. We have three dealership tiers in the program: Elite, Premier, and Authorized. Approximately 10% to 15% of the dealers in the United States have earned Elite status and approximately 25% to 35% have earned Premier status. We provide warranty coverage on systems we sell through our direct sales personnel and dealers. To the extent we sell through dealers, we may provide system design and support services while the dealers are responsible for installation, maintenance, and service.

Our overall marketing programs are in place to build awareness for the SunPower brand, to communicate the key messages that differentiate our offerings and to create loyalty with our customers. We participate in conferences, seminars, trade shows as well as communicating via our corporate website, social media , public relations, and advertising. Our marketing group is also responsible for driving demand generation activities that create qualified leads to support our sales teams' efforts. We assist our global dealer network through a marketing resource center and customer support organization. We have marketing personnel in San Jose and Richmond, California, and Austin, Texas, United States, as well as in Paris, France, Frankfurt, Germany, Madrid, Spain and Geneva, Switzerland.

Backlog

Our solar power system project backlog represents the uncompleted portion of contracted and financed projects. Contingent customer orders that are not yet financed are excluded from backlog. Our solar power system projects are often cancelable by our customers under certain conditions. In addition, revenue and related costs are often subject to delays or scope modifications based on change orders agreed to with our customers, or changes in the estimated construction costs to be incurred in completing the project.

Our residential and light commercial business and the components business include large volume sales of solar panels, mounting systems, and other solar equipment to third parties, which are typically ordered by our third-party global dealer network and customers under standard purchase orders with relatively short delivery lead-times, generally within one to three months. We have entered into multi-year supply agreements with certain customers of our components business that contain minimum firm purchase commitments. However, specific products that are to be delivered and the related delivery schedules under these long-term contracts are often subject to modifications based on change orders and amendments agreed to with our customers. Our backlog represents the uncompleted portion of firm purchase commitments and open purchase orders by our third-party global dealer network.

Management believes that backlog at any particular date is not necessarily a meaningful indicator of future revenue for any particular period of time because our backlog excludes contracts signed and completed in the same quarter and contracts still conditioned upon obtaining financing. Backlog totaled approximately $1,664.5 million and $1,688.0 million as of December 30, 2012 and January 1, 2012, respectively. Of the backlog as of December 30, 2012, $876.6 million is expected to be recognized in fiscal 2013.

Competition

The market for solar electric power technologies is competitive and continually evolving. We expect to face increased competition, which may result in price reductions, reduced margins, or loss of market share. Our solar power products and systems compete with a large number of competitors in the solar power market, including, but not limited to:

- *Residential and Commercial:* Canadian Solar Inc., Hanwha Corporation, JA Solar Holdings Co., Kyocera Corporation, Mitsubishi Corporation, Sanyo Corporation (a subsidiary of Panasonic Corporation), Sharp Corporation, SolarCity Corporation, SolarWorld AG, Sungevity, Inc., SunRun, Inc., Suntech Power Holdings Co. Ltd., Trina Solar Ltd., and Yingli Green Energy Holding Co. Ltd.

- *Utility and Power Plant:* Abengoa Solar S.A., Acconia Energia S.A., AES Solar Energy Ltd., Chevron Energy Solutions (a subsidiary of Chevron Corporation), EDF Energy plc, First Solar Inc., NextEra Energy, Inc., NRG Energy, Inc., OPDE Group, Recurrent Energy (a subsidiary of Sharp Corporation), Sempra Energy, Skyline Solar, Inc., Solargen Energy, Inc., Solaria Corporation, SolFocus, Inc., SunEdison (a subsidiary of MEMC Electronic Materials Inc.), and Tenaska, Inc.

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

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

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

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

- total system price;
- LCOE evaluation;
- power efficiency and performance;
- aesthetic appearance of solar panels;
- strength of distribution relationships;
- availability of third-party financing and investments;
- timeliness of new product introductions; and
- warranty protection, quality, and customer service.

The principal elements of competition in the solar power systems market include technical expertise, price, experience, delivery capabilities, diversity of product offerings, financing structures, marketing and sales, product performance, quality, efficiency and reliability, and technical service and support. We believe that we can compete favorably with respect to each of these factors, although we may be at a disadvantage in comparison to larger companies with broader product lines, greater technical service and support capabilities, and financial resources. For more information about risks related to our competition, please see *"Item 1A: Risk Factors"* including *"The increase in the global supply of solar cells and panels, and increasing competition, may cause substantial downward pressure on the prices of our products and cause us to lose sales or market share, resulting in lower revenues, earnings, and cash flow,"* and *"If we fail to successfully execute our cost reduction roadmap, and develop and introduce new and enhanced products and services, we may not be able to compete effectively, and our ability to generate revenues will suffer."*

Intellectual Property

We rely on a combination of patent, copyright, trade secret, trademark, and contractual protections to establish and protect our proprietary rights. "SunPower" and the "SunPower" logo are our registered trademarks in countries throughout the world for use with solar cells, solar panels and mounting systems. We also hold registered trademarks for "Connectis", "Fournisseur d'accès au soleil", "Maxeon", "Oasis", "PowerLight", "PowerGuard", "Serengeti", "Smarter Solar", "Solbox", "SunTile", "SuPo Solar", "SunPower Electric", "Tenesol", "Tenesolbox", "Tenesol, sun access provider", "The Planet's Most Powerful Solar", "The World's Standard for Solar", and "Use More Sun" in certain countries. We are seeking and will continue to seek registration of the "SunPower" trademark and other trademarks in additional countries as we believe is appropriate. As of December 30, 2012, we held registrations for 16 trademarks in the United States, and had 2 trademark registration applications pending. We also held 100 trademark registrations and had over 22 trademark applications pending in foreign jurisdictions. We require our business partners to enter into confidentiality and nondisclosure agreements before we disclose any sensitive aspects of our solar cells, technology, or business plans. We typically enter into proprietary information agreements with employees, consultants, vendors, customers, and joint venture partners.

We own multiple patents and patent applications which cover aspects of the technology in the solar cells, mounting products, and electrical and electronic systems that we currently manufacture and market. We continue to file for and receive new patent rights on a regular basis. The lifetime of a utility patent typically extends for 20 years from the date of filing with the relevant government authority. We assess appropriate opportunities for patent protection of those aspects of our technology, designs, methodologies, and processes that we believe provide significant competitive advantages to us, and for licensing opportunities of new technologies relevant to our business. As of December 30, 2012, we held 112 patents in the United States, which will expire at various times between 2013 and 2031, and had 173 patent applications pending. We also held 111 patents and had 384 patent applications pending in foreign jurisdictions. While patents are an important element of our intellectual property strategy, our business as a whole is not dependent on any one patent or any single pending patent application. We additionally rely on trade secret rights to protect our proprietary information and know-how. We employ proprietary processes and customized equipment in our manufacturing facilities. We therefore require employees and consultants to enter into confidentiality agreements to protect them.

We are currently in litigation in Germany against Knubix GmbH related to alleged violations of our patent rights.

For more information about risks related to our intellectual property, please see *"Item 1A: Risk Factors"* including *"We are dependent on our intellectual property, and we may face intellectual property infringement claims that could be time-consuming and costly to defend and could result in the loss of significant rights,"* and *"We rely substantially upon trade secret laws and contractual restrictions to protect our proprietary rights, and, if these rights are not sufficiently protected, our ability to compete and generate revenue could suffer,"* and *"We may not obtain sufficient patent protection on the technology embodied in the solar products we currently manufacture and market, which could harm our competitive position and increase our expenses."*

Government Regulations

Public Policy Considerations

Different policy mechanisms have been used by governments to accelerate the adoption of solar power. Examples of customer-focused financial mechanisms include capital cost rebates, performance-based incentives, feed-in tariffs, tax credits, and net metering. Some of these government mandates and economic incentives are scheduled to be reduced or to expire, or could be eliminated altogether, including the feed-in tariffs in Germany and Italy. Capital cost rebates provide funds to customers based on the cost and size of a customer's solar power system. Performance-based incentives provide funding to a customer based on the energy produced by their solar power system. Feed-in tariffs pay customers for solar power system generation based on energy produced, at a rate generally guaranteed for a period of time. Tax credits reduce a customer's taxes at the time the taxes are due. In the United States and other countries, net metering has often been used as a supplemental program in conjunction with other policy mechanisms. Under net metering, a customer can generate more energy than used, during which periods the electricity meter will run backwards. During these periods, the customer "lends" electricity to the grid, retrieving an equal amount of power at a later time.

In addition to the mechanisms described above, new market development mechanisms to encourage the use of renewable energy sources continue to emerge. For example, many states in the United States have adopted renewable portfolio standards which mandate that a certain portion of electricity delivered to customers come from eligible renewable energy resources. In certain developing countries, governments are establishing initiatives to expand access to electricity, including initiatives to support off-grid rural electrification using solar power. For more information about risks related to public policies, please see *"Item 1A: Risk Factors"* including *"The reduction, modification or elimination of government and economic incentives could cause our revenue to decline and harm our financial results,"* and *"Existing regulations and policies and changes to these regulations and policies may present technical, regulatory, and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products and services."*

Environmental Regulations

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

We believe that we have all environmental permits necessary to conduct our business and expect to obtain all necessary environmental permits for future activities. We believe that we have properly handled our hazardous materials and wastes and have appropriately remediated any contamination at any of our premises. We are not aware of any pending or threatened environmental investigation, proceeding or action by foreign, federal, state or local agencies, or third parties involving our current facilities. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to substantial financial liabilities, operational interruptions, and adverse publicity, any of which could materially and adversely affect our business, results of operations, and financial condition.

Iran

The Iran Threat Reduction and Syria Human Rights Act of 2012, signed into law by President Obama on August 10, 2012 (“ITRSHRA”), added a new Section 13(r) to the Securities Exchange Act of 1934, as amended, which requires us to disclose whether Total S.A. (“Total”) or any of its affiliates (collectively, the “Total Group”) has engaged during the 2012 calendar year in certain Iran-related activities. While the Total Group has not engaged in any activity that would be required to be disclosed pursuant to subparagraphs (A), (B), (C), (D)(i) or (D)(ii) of Section 13(r)(1), affiliates of Total may be deemed to have engaged in a transaction or dealing with the government of Iran pursuant to Section 13(r)(1)(D)(iii), as discussed below. The below information concerning fiscal year 2012 was provided to us by Total and is current as of February 19, 2013. The percentages below indicate ownership interest in the entities named. SunPower and its subsidiaries did not engage in any activities required to be disclosed pursuant to Section 13(r)(1).

The Total Group has no exploration and production activities in Iran. Some payments are yet to be reimbursed to the Total Group with respect to past expenditures and remuneration under buyback contracts entered into between 1997 and 1999 with the National Iranian Oil Company (“NIOC”) for the development of the South Pars 2&3 and Dorood fields. With respect to these contracts, development operations have been completed and the Total Group, which is no longer involved in the operation of these fields, has no information on the production from these fields. The Total Group maintains a local office in Iran solely for non-operational functions. In 2012, Total E&P Iran (100%), Elf Petroleum Iran (99.7%) and Total South Pars 2&3 (99.7%) collectively made payments of approximately €1 million to the Iranian administration with respect to certain taxes and social security in relation to payments made in 2012 to the Total Group under the Dorood and South Pars 2&3 buyback contracts and the maintenance of the local office mentioned above and its personnel. Total did not recognize any revenues or profits from the aforementioned in 2012. Payments for taxes and social security are expected to be made in 2013.

In 2012, as part of its ongoing global strategy for the protection of its intellectual property, Total filed two patent applications in Iran that it had filed in many other countries. The filing of an application to obtain a patent in Iran is an activity that the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") licenses, and, although Total is not a U.S. person, it believes its activity is consistent with this license.

Total E&P UK Limited (“TEP UK”), a wholly-owned affiliate of Total, had limited contacts in 2012 with the Iranian Oil Company UK Ltd (“IOC”), a subsidiary of NIOC. These contacts related to agreements governing certain transportation, processing and operation services formerly provided to a joint venture at the Rhum field in the UK, co-owned by BP (50%, operator) and IOC (50%), by a joint venture at the Bruce field between BP (37%, operator), TEP UK (43.25%), BHP Billiton Petroleum Great Britain Ltd (16%) and Marubeni Oil & Gas (North Sea) Limited (3.75%) and by TEP UK's Frigg UK

Association pipeline (100%). To the Total Group's knowledge, no services have been provided under the aforementioned agreements since November 2010, when the Rhum field stopped production following the adoption of Eropean Union sanctions, other than critical safety-related services (*i.e.*, monitoring and marine inspection of the Rhum facilities). These agreements led to the signature in 2005 of an agreement by TEP UK and Naftiran Intertrade Co. (“NICO”) (IOC's parent company and a subsidiary of NIOC) for the purchase by TEP UK of Rhum field natural gas liquids from NICO. There have been no purchases under this agreement since November 2010. TEP UK's contacts with IOC and NICO in 2012 in regard to the aforementioned agreements were limited to exchanging letters and notifications regarding contract administration and declarations of force majeure. TEP UK may have similar limited contacts with IOC and NICO in 2013. Total did not recognize any revenues or profits from the aforementioned in 2012.

The Total Group does not own or operate any refineries or chemicals plants in Iran. Until December 2012, at which time Total sold its entire interest, it held a 50% interest in the company Beh Total along with Behran Oil (50%), a company controlled by entities with ties to the government of Iran. Beh Total produced and marketed in 2012 small quantities of lubricants (16,885 metric tons) for sale to domestic consumers in Iran. In 2012, revenue generated from Beh Total's activities in Iran was approximately €50 million, net income was approximately €3 million and Beh Total paid approximately €1 million in taxes and approximately €4 million of dividends for fiscal year 2010 (share of Total: approximately €2 million).

In addition, Total holds a 50% interest in, but does not operate, Samsung Total Petrochemicals Co. Ltd (“STC”), a South Korean incorporated joint venture with Samsung General Chemicals Co., Ltd. (50%). During the first six months of 2012 and prior to Executive Order 13622, STC purchased 292,000 metric tons of condensates directly or indirectly from companies affiliated with the Iranian government for approximately €253 million. As such condensates are used by STC as inputs for its manufacturing processes, it is not possible to estimate the revenues from sales or net income attributable to such purchases. In reliance on the exemption provided in Section 1245(d)(4)(D) of the National Defense Authorization Act (NDAA) announced on December 7, 2012, STC contracted to recommence such purchases. However, STC's management has recently stated that STC would no longer take deliveries under such contract arrangement as from March 31, 2013. In addition, STC sold 1,450 metric tons of polymers for approximately €156 million to two Korean traders, Skyplast and Tera Korea, which may have subsequently exported some or all of this product to Iran. Taking into account the uses for such polymers (*e.g.*, food packaging, pipes, car interiors), the end-customers likely were private companies. STC may make similar sales in the future.

Prior to January 23, 2012, the Total Group's Trading & Shipping ceased its purchase of Iranian hydrocarbons. Before this date, Total International Limited, a wholly-owned subsidiary of Total, purchased in Iran during 2012 pursuant to a mix of spot and term contracts approximately 2 million barrels of hydrocarbons from state-controlled entities for approximately €189 million, which it subsequently resold for approximately €176 million. As Total hedges the risk associated with a fluctuation in hydrocarbon prices during its trading activities, the overall net income before tax attributable to such activity was €3 million. Trading & Shipping owed to state controlled entities in Iran approximately €235 million as of December 31, 2011 and €83 million as of December 31, 2012, which represented the value of the hydrocarbons purchased prior to the cessation of such activity.

Employees

As of December 30, 2012, we had approximately 5,020 employees worldwide, excluding employees of our joint ventures. As of December 30, 2012, approximately 700 employees were located in the United States, 2,880 employees were located in the Philippines and 1,440 employees were located in other countries. Of these employees, approximately 3,440 were engaged in manufacturing, 280 in construction projects, 230 in research and development, 650 in sales and marketing, and 420 in general and administrative services. Although we have works councils and statutory employee representation obligations in certain countries, our employees are not represented by a labor union. We have never experienced a work stoppage, and we believe relations with our employees are good.

Geographic Information

Sales outside the United States represented approximately 30%, 47% and 72% of total revenue for fiscal years 2012, 2011, and 2010, respectively. Information regarding the physical location of our property, plant and equipment and our foreign and domestic operations is contained in Note 7 and Note 18, respectively, of Notes to Consolidated Financial Statements in *Part II - "Item 8: Financial Statements and Supplemental Data,"* which information is incorporated herein by reference. See also *"Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations,"* for other information about our operations and activities in various geographic regions.

Available Information

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 free of charge on our website at www.sunpowercorp.com, as soon as reasonably practicable after they are electronically filed or furnished to the SEC. Additionally, copies of materials filed by us with the SEC may be accessed at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. or at the SEC's website at http://www.sec.gov. For information about the SEC's Public Reference Room, the public may contact 1-800-SEC-0330. Copies of material filed by us with the SEC may also be obtained by writing to us at our corporate headquarters, SunPower Corporation, Attention: Investor Relations, 77 Rio Robles, San Jose, California 95134, or by calling (408) 240-5500. The contents of our website are not incorporated into, or otherwise to be regarded as a part of, this Annual Report on Form 10-K.

ITEM 1A: *RISK FACTORS*

Our operations and financial results are subject to various risks and uncertainties, including risks related to our sales channels, liquidity, supply chain, operations, intellectual property, and our debt and equity securities. Although we believe that we have identified and discussed below certain key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may also adversely affect our business, financial condition, results of operations, cash flows, and trading price of our common stock as well as our 4.50% senior convertible debentures, 4.75% senior convertible debentures, and 0.75% senior convertible debentures.

Risks Related to Our Sales Channels

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

Global solar cell and panel production capacity has been materially increasing since 2009, and solar cell and solar panel manufacturers continue to have significant excess capacity, particularly in China. Excess capacity and industry competition have resulted, and will continue to result, in substantial downward pressure on the price of solar cells and panels, including SunPower products. Increasing competition could also result in us losing sales or market share. Such price reductions or loss of sales or market share could continue to have a negative impact on our revenue and earnings, and could materially adversely affect our business and financial condition and cash flows. In addition, our internal forecasts of pricing may not be accurate in the current market environment, which could cause our financial results to be different than forecasted. See also "*If we fail to successfully execute our cost reduction roadmap, and develop and introduce new and enhanced products and services, we may not be able to compete effectively, and our ability to generate revenues will suffer.*"

Our operating results will be subject to fluctuations and are inherently unpredictable.

We do not know if our revenue will grow, or if it will grow sufficiently to outpace our expenses. We may not be profitable on a quarterly basis. For example, we experienced net losses in each quarter of 2012. Our quarterly revenue and operating results will be difficult to predict and have in the past fluctuated from quarter to quarter. Revenue from our large commercial and, utilities and power plant customers (for example, our California Valley Solar Ranch ("CVSR") project and our Antelope Valley Solar Projects ("AVSP")) is susceptible to large fluctuations. The amount, timing and mix of sales to our large commercial and 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 as, 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. A delayed disposition of a project could require us to recognize a gain on the sale of assets instead of recognizing 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 decrease in revenue from our large commercial, utilities and 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. 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. In addition, 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. Sales to our residential and light commercial customers are similarly susceptible to fluctuations in volumes and revenues. Declining average selling prices immediately impact our residential and light commercial sales volumes, and therefore lead to large fluctuations in revenues. Any of the foregoing may cause us to miss any current and future revenue or earnings guidance and negatively impact 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 harm our operating results for that quarter. This may cause us to miss any earnings guidance announced by us.

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

The general economy, the current European debt crisis, and limited availability of credit and liquidity could materially and adversely affect our business and results of operations. We often require project financing for development and construction of our solar power plant projects, which require significant investments before the equity is later sold to investors.

Many purchasers of our systems projects have entered into third-party arrangements to finance their systems over an extended period of time, while many end-customers have chosen to purchase solar electricity under a power purchase agreement ("PPA") with an investor or financing company that purchases the system from us or our authorized dealers. In addition, under our power purchase business model, we often execute PPAs directly with the end-user customer purchasing solar electricity, with the expectation that we will later assign the PPA to a financier. Under such arrangements, the financier separately contracts with us to build and acquire the solar power system, and then sells the electricity to the end-user customer under the assigned PPA. When executing PPAs with the end-user customers, we seek to mitigate the risk that a financier will not be available for the project by allowing termination of the PPA in such event without penalty. However, we may not always be successful in negotiating for penalty-free termination rights for failure to obtain financing, and certain end-user customers have required substantial financial penalties in exchange for such rights. These structured finance arrangements are complex and may not be feasible in many situations.

Due to the general challenging credit markets worldwide, we may be unable to obtain project financing for our projects, customers may be unable or unwilling to finance the cost of our products, we may have difficulties in reaching agreements with financiers to finance the construction of our solar power systems, or the parties that have historically provided this financing may cease to do so, or only do so on terms that are substantially less favorable for us or our customers, any of which could materially and adversely affect our revenue and growth in all segments of our business. We are actively arranging additional third-party financing for our residential lease program; however, due to the general challenging credit markets worldwide, we may be unable to arrange additional financing partners for our residential lease program in future periods, which could have a negative impact on our sales. In the event we enter into a material number of additional leases without obtaining corresponding third-party financing, our cash, working capital and financial results could be negatively impacted. In addition, in the United States, with the expiration of the Treasury Grant under Section 1603 of the American Recovery and Reinvestment Act program, we will need to identify, in the near term, interested financiers with sufficient taxable income to monetize the tax incentives created by our solar systems. In the long term, as we look towards incentive-less markets, we will continue to need to identify financiers willing to finance residential solar systems. Our plans to continue to grow our residential lease program may be delayed if credit conditions prevent us from obtaining or maintaining arrangement(s) to finance the program. The lack of project financing could delay the development and construction of our solar power plant projects, thus reducing our revenues from the sale of such projects. Many customers, especially in the United States, choose to purchase solar electricity under a PPA with a financing company that buys the system from us and the lack of availability of such financing could lead to reduced revenues. If economic recovery is slow in the United States or elsewhere, or if the European debt crisis remains unresolved or worsens, we may experience decreases in the demand for our solar power products, which may harm our operating results. We may in some cases seek to pursue partnership arrangements with financing entities to assist residential and other customers to obtain financing for the purchase or lease of our systems, which would expose us to credit or other risks. In addition, a rise in interest rates would likely increase our customers' cost of financing or leasing our products and could reduce their profits and expected returns on investment in our products. The general reduction in available credit to would-be borrowers or lessees, the poor state of economies worldwide, and the condition of housing markets worldwide could delay or reduce our sales of products to new homebuilders and authorized resellers.

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

The market for on-grid applications, where solar power is used to supplement a customer's electricity purchased from the utility network or sold to a utility under tariff, depends in large part on the availability and size of government mandates and economic incentives because, at present, the cost of solar power generally exceeds retail electric rates in many locations and wholesale peak power rates in some locations. In addition, on-grid applications depend on access to the grid, which is also regulated by government entities. Incentives and mandates vary by geographic market. Various government bodies in most of the countries where we do business have provided incentives in the form of feed-in tariffs, rebates, and tax credits and other incentives and mandates, such as renewable portfolio standards, to end-users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependency on other forms of energy. In 2011, some of these government mandates and economic incentives were reduced or fundamentally restructured, including the feed-in tariffs in Germany and incentives offered by other European countries, which has had a materially negative effect on the market size and price of solar systems in Europe and caused our earnings in 2011 and 2012 to decline in Europe and adversely affected our financial results. Governmental decisions regarding the provision of economic incentives often depend on political and economic factors that are largely beyond our control. Because our sales are into the on-grid market, the reduction, modification or elimination of grid access, government mandates and economic incentives in one or more of our customer markets would materially and adversely affect the growth of such markets or result in increased price competition, either of which could cause our revenue to decline and harm our financial results.

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

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

We may incur unexpected warranty and product liability claims that could materially and adversely affect our financial condition and results of operations.

Our current standard product warranty for our solar panels includes a 25-year warranty period for defects in materials and workmanship and a 25-year warranty period for declines in power performance. We believe our warranty offering exceeds industry practice. We perform accelerated lifecycle testing that expose our solar panels to extreme stress and climate conditions in both environmental simulation chambers and in actual field deployments in order to highlight potential failures that would occur over the 25-year warranty period. Due to the long warranty period, we bear the risk of extensive warranty claims long after we have shipped product and recognized revenue. Although we conduct accelerated testing of our solar panels and have several years of experience with our all-back-contact solar cell architecture, our solar panels have not and cannot be tested in an environment that exactly simulates the 25-year warranty period and it is difficult to test for all conditions that may occur in the field. We have sold solar panels since the early 2000's and have therefore not experienced the full warranty cycle.

In our project installations, our current standard warranty for our solar power systems differs by geography and end-customer application and usually includes a limited warranty of 10 years for defects in work and workmanship, after which the customer may typically extend the period covered by its warranty for an additional fee. Due to the long warranty period, we bear the risk of extensive warranty claims long after we have completed a project and recognized revenues. Warranty and product liability claims may also result from defects or quality issues in certain third party technology and components that our business incorporates into its solar power systems, particularly solar cells and panels, over which we have little or no control. While we generally pass through to our customers manufacturer warranties we receive from our suppliers, in some circumstances, we may be responsible for repairing or replacing defective parts during our warranty period, often including those covered by manufacturers' warranties, or incur other non-warranty costs. If the manufacturer disputes or otherwise fails to honor its warranty obligations, we may be required to incur substantial costs before we are compensated, if at all, by the manufacturer. Furthermore, our warranties may exceed the period of any warranties from our suppliers covering components, such as third party solar cells, third party panels and third party inverters, included in our systems. In addition, manufacturer warranties may not fully compensate us for losses associated with third-party claims caused by defects or quality issues in their products. For example, most manufacturer warranties exclude many losses that may result from a system component's failure or defect, such as the cost of de-installation, re-installation, shipping, lost electricity, lost renewable energy credits or other solar incentives, personal injury, property damage, and other losses. In certain cases our direct warranty coverage provided by SunPower to our customers, and therefore our financial exposure, may exceed our recourse available against cell, panel or other manufacturers for defects in their products. In addition, in the event we seek recourse through warranties, we will also be dependent on the creditworthiness and continued existence of the suppliers to our business. Some of our suppliers have entered bankruptcy and our likelihood of a successful warranty claim against them is minimal.

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

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

If we fail to successfully execute our cost reduction roadmap, and develop and introduce new and enhanced products and services, we may not be able to compete effectively, and our ability to generate revenues will suffer.

Our solar panels are currently competitive in the market compared with lower cost conventional solar cells, such as thin-film, due to their higher efficiency. If our competitors are able to drive down their manufacturing costs faster than us, our products may become less competitive even when adjusted for efficiency. While raw materials costs and other third party component costs have been decreasing, if such costs were to increase, we may not be able to meet our cost reduction targets. If we cannot effectively execute our cost reduction roadmap, our competitive position would suffer, and we could lose market share and our margins would be adversely impacted as we face downward pricing pressure.

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

Our failure to further refine our technology, reduce cost in our manufacturing process, and develop and introduce new solar power products could cause our products or our manufacturing facilities to become uncompetitive or obsolete, which could reduce our market share, cause our sales to decline, and cause the impairment of our assets. This will require us to continuously develop new solar power products and enhancements for existing solar power products to keep pace with evolving industry standards, competitive pricing and changing customer requirements. If we cannot continually improve the efficiency of our solar panels as compared to those of our competitors, our pricing will become less competitive, we could lose market share and our margins would be adversely impacted. We have new products such as our C7 Tracker technology, which has not been mass deployed in the market. We need to prove its reliability in the field as well as drive down its cost in order to gain market acceptance. We also compete with traditional utilities that supply energy to our potential customers. Such utilities have greater financial, technical, operational and other resources than we do. If electricity rates decrease and our products become less competitive by comparison, our operating results and financial condition will be adversely affected. As we introduce new or enhanced products or integrate new technology into our products, we will face risks relating to such transitions including, among other things, technical challenges, acceptance of products by our customers, disruption in customers' ordering patterns, insufficient supplies of new products to meet customers' demand, possible product and technology defects arising from the integration of new technology and a potentially different sales and support environment relating to any new technology. Our failure to manage the transition to newer products or the integration of newer technology into our products could adversely affect our business's operating results and financial condition.

A limited number of customers and large projects are expected to continue to comprise a significant portion of our revenues and any decrease in revenue from those customers or projects, payment of liquidated damages, or an increase in related expenses, could have a significant adverse effect on us.

Even though we expect our customer base and number of large projects to expand and our revenue streams to diversify, a substantial portion of our revenues could continue to depend on sales to a limited number of customers as well as construction of a limited number of large projects (for example, the AVSP and CVSR projects), and the loss of sales to, or construction of, or inability to collect from those customers or for those projects, or an increase in expenses (such as financing costs) related to any such large projects, would have a significant negative impact on our business. For example, if the notice to proceed for AVSP phase 1 project (309 MW) is delayed or not obtained, it would have a significant adverse impact on our financial results. These larger projects create concentrated operating and financial risks. The effect of recognizing revenue or other financial measures on the sale of a larger project, or the failure to recognize revenue or other financial measures as anticipated in a given reporting period because a project is not yet completed under applicable accounting rules by period end, may materially impact our financial results. In addition, if construction, warranty or operational issues arise on a larger project, or if the timing of such projects unexpectedly shifts for other reasons, such issues could have a material impact on our financial results. Our agreements for such projects may be cancelled or we may incur large liquidated damages if we fail to execute the projects as planned, obtain certain approvals or consents by a specified time, meet certain product and project specifications, materially breach the governing agreements, or in the event of a customer's or project entity's bankruptcy, and our customers may seek to cancel or renegotiate the terms of current agreements or renewals. In addition, the failure by any significant customer to pay for orders and the construction process, whether due to liquidity issues, failure of anticipated government support or otherwise, could materially and negatively affect our results of operations.

We often do not have long-term agreements with our customers and accordingly could lose customers without warning, which could cause our operating results to decline.

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

Almost all of our engineering, procurement and construction ("EPC") contracts are fixed price contracts which may be insufficient to cover unanticipated or dramatic changes in costs over the life of the project.

Almost all of our EPC contracts are fixed price contracts. All essential costs are estimated at the time of entering into the EPC contract for a particular project, and these are reflected in the overall price that we charge our customers for the project. These cost estimates are preliminary and may or may not be covered by contracts between us or the subcontractors, suppliers, and any other parties that may become necessary to complete the project. Thus, if the cost of materials were to rise dramatically as a result of sudden increased demand, or if financing costs were to increase due to use of the Liquidity Support Facility (as defined below) or otherwise, these costs may have to be borne by us.

In addition, we require qualified, licensed subcontractors to install most of our systems. Shortages of such skilled labor could significantly delay a project or otherwise increase our costs. In several instances in the past, we have obtained change orders that reimburse us for additional unexpected costs due to various reasons. Should miscalculations in planning a project or delays in execution occur, there can be no guarantee that we would be successful in obtaining reimbursement and we may not achieve our expected margins or we may be required to record a loss in the relevant fiscal period.

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

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

The competitive environment in which we operate often requires us to undertake customer obligations that could materially and adversely affect our financial condition and results of operations if our customer obligations are more costly than expected.

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

- System output performance guarantees;
- System maintenance;
- Penalty payments or customer termination rights if the system we are constructing is not commissioned within specified timeframes or other construction milestones are not achieved;
- Guarantees of certain minimum residual value of the system at specified future dates; and
- System put-rights whereby we could be required to buy-back a customer's system at fair value on specified future dates if certain minimum performance thresholds are not met.

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

Risks Related to Our Liquidity

Due to the general economic environment, the continued market pressure driving down the average selling prices of our solar power products, and other factors, 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.

We expect total capital expenditures related to purchases of property, plant and equipment in the range of $70 million to $90 million in fiscal 2013. To develop new products, support future growth, achieve operating efficiencies, and maintain product quality, we must make significant capital investments in manufacturing technology, facilities and capital equipment, research and development, and product and process technology. We also anticipate increased costs as we make advance payments for raw materials or pay to procure such materials, especially polysilicon, increase our sales and marketing efforts, invest in joint ventures and acquisitions, invest in our residential lease business, and continue our research and development efforts with respect to our products and manufacturing technologies. Our manufacturing and assembly activities have required and will continue to require significant investment of capital and substantial engineering expenditures. In addition, we expect to invest a significant amount of capital to develop solar power systems and plants for sale to customers. The development and construction of solar power plants can require long periods of time and substantial initial investments. The delayed disposition of such projects could have a negative impact on our liquidity. See "*Risk Related to Our Operations-We may make significant investments in building solar power plants without first obtaining project financing, and the delayed sale of our projects would adversely affect our business, liquidity and results of operations.*" A significant portion of our revenue is generated from a limited number of customers and large projects, and our inability to execute those projects, or to collect from those customers or for those projects, would have a significant negative impact on our business. See *"Risk 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 revenue from those customers or projects, payment of liquidated damages, or an increase in related expenses, could have a significant adverse effect on us."*

Our capital expenditures and use of working capital may be greater than we currently expect if we decide to make additional investments in the development and construction of solar power plants, or if 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 require 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 will in the future make additional investments in certain of our joint ventures or could guarantee certain financial obligations of our joint ventures, which could reduce our cash flows, increase our indebtedness and expose us to the credit risk of our joint ventures. In addition, if our financial results or operating plans change from our current assumptions, or if the holders of our outstanding 4.50% convertible debentures due 2015 become entitled, and elect, to convert the debentures into cash, we may not have sufficient resources to support our business plan or pay cash in connection with the redemption of outstanding 4.50% debentures. See "*Our substantial indebtedness and other contractual commitments could adversely affect our business, financial condition and results of operations, as well as our ability to meet any of our payment obligations under the 4.50% and 4.75% debentures and our other debt.*"

Certain of our customers also require performance bonds issued by a bonding agency, or bank guarantees or letters of credit issued by financial institutions, which are returned to SunPower 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 position. As of December 30, 2012 letters of credit issued under the Deutsche Bank Trust facility amounted to $17.5 million and were fully collateralized with restricted cash. Our uncollateralized letter of credit facility with Deutsche Bank, which as of December 30, 2012 had an outstanding amount of $725.3 million, is guaranteed by Total S.A. pursuant to the Credit Support Agreement between us and Total S.A. Any draws under this uncollateralized facility would require SunPower to immediately reimburse the bank for the drawn amount. A default under the Credit Support Agreement or the guaranteed letter of credit facility, or if our other indebtedness greater than $25 million becomes accelerated, could cause Total S.A., subject to its obligations under the Liquidity Support Facility (described below), to declare all amounts due and payable to Total S.A. and direct the bank to cease issuing additional letters of credit on behalf of SunPower, which could have a material adverse effect on our operations.

We believe that our current cash and cash equivalents, cash generated from operations, and funds available under our revolving credit facility with Credit Agricole will be sufficient to meet our working capital requirements and fund our committed capital expenditures over the next 12 months, including the development and construction of solar power plants over the next 12 months. As of December 30, 2012, $275.0 million was outstanding under our revolving credit facility with Credit Agricole.

We are also party to a Liquidity Support Agreement with Total S.A. and the DOE, and a series of related agreements with Total S.A. or its affiliates, under which Total S.A. has agreed to provide us with a liquidity facility to a maximum amount of $600 million (the “Liquidity Support Facility”). Total S.A. is required, through its affiliates, to provide liquidity support to us under this facility, and we are required to accept such liquidity support from Total, S.A., if either our actual or projected unrestricted cash, cash equivalents and unused borrowing capacity are reduced below $100 million, or we fail to satisfy any financial covenant under our indebtedness, including the Credit Agricole facility. In either such event, subject to an $600 million aggregate limit, Total S.A. is required to provide us with sufficient liquidity support to increase the amount of our unrestricted cash, cash equivalents and unused borrowing capacity to above $100 million, and to restore our compliance with our financial covenants. In general, our cost of financing under the Liquidity Support Agreement would increase as the aggregate amount of liquidity support we require over time increases. On December 24, 2012, Total S.A. agreed to guarantee our revolving credit facility with Credit Agricole, which reduced the capacity available under the Liquidity Support Facility by $275 million.

The lenders under our credit facilities and holders of our debentures may also require us to repay our indebtedness to them in the event that our obligations under other indebtedness or contracts in excess of the applicable threshold amount, such as $25 million, are accelerated and we fail to discharge such obligations. If our capital resources are insufficient to satisfy our liquidity requirements, for example, due to cross acceleration of indebtedness, we may seek to sell additional equity securities or debt securities or obtain other debt financings, including under the Liquidity Support Facility; although the current economic environment could also limit our ability to raise capital by issuing new equity or debt securities on acceptable terms, and lenders may be unwilling to lend funds on acceptable terms. The sale of additional equity securities or convertible debt securities, including under the Liquidity Support Facility, may result in additional dilution to our stockholders and may not be available on favorable terms or at all. Additional debt would result in increased expenses and could impose new restrictive covenants which may be similar or different than those restrictions contained in the covenants under certain of our current debt agreements and debentures. Financing arrangements, including project financing for our solar power plants and letters of credit facilities, may not be available to us, or may not be available in amounts or on terms acceptable to us. If additional financing is not available, we may also seek to sell assets, or reduce or delay capital investments, which could negatively impact our financial results.

Under certain circumstances under the Liquidity Support Facility, we are required to issue to Total S.A. or its affiliates, in exchange for the provision of liquidity support, warrants to purchase our common stock. The number of shares of our common stock covered by these warrants will be equal to an agreed percentage of the amount of support provided at a particular time, divided by the volume-weighted average of our stock price over the 30-day trading period ending on the trading day immediately preceding the date when the support is provided. The exercise price of these warrants is also set by reference to this volume-weighted average price, and therefore may be set at a discount to our stock price currently or at the time the warrants are issued. Any convertible debt we issue to Total S.A. or its affiliates under the Liquidity Support Facility will be convertible into our common stock at its market price at the time of conversion, which may be lower than our current stock price. Finally, any common stock we issue to Total S.A. under the Liquidity Support Facility will be priced at a 17% discount to the volume-weighted average stock price for the 30-day trading period ending on the trading day preceding the date of issuance. For all these reasons, use of the Liquidity Support Facility could be dilutive to the equity interests of our other stockholders, and the degree of dilution will increase if our stock price decreases. Any other equity financing we may seek would also likely be dilutive to our stockholders' equity interests.

In the first half of 2013, $275 million of Credit Agricole revolver and $230 million of 4.75% debentures will have a maturity of less than 12 months and be reclassified to short term debt on our consolidated balance sheet. We are evaluating options to repay or refinance such indebtedness during 2013 or 2014, but there are no assurances that we will have sufficient available cash to repay such indebtedness or we will be able to refinance such indebtedness on similar terms to the expiring indebtedness. If we cannot generate sufficient cash flows, find other sources of capital to fund our operations and solar power plant projects, make adequate capital investments to remain technologically and price competitive, or provide bonding or letters of credit required by our projects, we will need to sell additional equity securities or debt securities, or obtain other debt financings. If adequate funds and other resources are not available on acceptable terms, our ability to fund our operations, develop and construct solar power plants, develop and expand our manufacturing operations and distribution network, maintain our research and development efforts, provide collateral for our projects, meet our debt service obligations, or otherwise respond to competitive pressures would be significantly impaired. Our inability to do any of the foregoing could have a material adverse effect on our business and results of operations.

Our substantial indebtedness and other contractual commitments could adversely affect our business, financial condition and results of operations, as well as our ability to meet any of our payment obligations under the 4.50% and 4.75% debentures and our other debt.

We currently have a significant amount of debt and debt service requirements that could have material consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the 4.50% and 4.75% debentures and our other outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements (with certain covenants becoming more restrictive over time), which event of default could result in all of our debt becoming immediately due and payable if not cured pursuant to the Liquidity Support Facility;
- reducing the availability of our cash flow to fund working capital, capital expenditures, project development, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates;
- subjecting us to the risk of currency fluctuations and government-fixed foreign exchange rates and the effects of currency hedging activity or inability to hedge currency fluctuation;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Our indebtedness may increase if we require liquidity support from Total S.A. under the Liquidity Support Facility, and in general the economic cost of such indebtedness will increase, both in absolute dollars and in our cost per dollar borrowed, if the aggregate amount of liquidity support we require increases. In the event our joint ventures are consolidated with our financial statements, such consolidation could significantly increase our indebtedness.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the 4.50% and 4.75% debentures and our other debt. In addition, we also have significant contractual commitments for the purchase of polysilicon, some of which involve prepayments, and we may enter into additional, similar long-term supply agreements in the future. Further, if the holders of our outstanding 4.50% debentures have been entitled to, and do convert their debentures, the principal amount must be settled in cash. Future conversions could materially and adversely affect our liquidity and our ability to meet our payment obligations under our debt.

Our current tax holidays in the Philippines and Switzerland will expire within the next several years.

We currently benefit from income tax holiday incentives in the Philippines in accordance with our subsidiary's registration with the Philippine Economic Zone Authority ("PEZA"), which provide that we pay no income tax in the Philippines for those operations subject to the ruling. Our current income tax holidays were granted as manufacturing lines were placed in service and thereafter expire within this fiscal year, and we are in the process of or have applied for extensions and renewals upon expiration. We currently expect such approvals to be granted. We believe that if our Philippine tax holidays expire, (a) gross income attributable to activities covered by our PEZA registrations will be taxed at a 5% preferential rate, and (b) our Philippine net income attributable to all other activities will be taxed at the statutory Philippine corporate income tax rate, currently 30%. An increase in our tax liability could materially and negatively affect our financial condition and results of operations.

We have an auxiliary company ruling in Switzerland where we sell our solar power products. The auxiliary company ruling results in a reduced effective Swiss tax rate of approximately 11.5%. The current ruling expires in 2015. If the ruling is not renewed in 2015, Swiss income would be taxable at the full Swiss tax rate of approximately 24.2%.

Our joint venture AUOSP benefits from a tax holiday granted by the Malaysian government subject to certain hiring, capital spending, and manufacturing requirements. The joint venture partners of AUOSP have decided to postpone the construction of an additional manufacturing facility ("Fab 3B") due to current solar market conditions, which fails to meet certain conditions required to continue to benefit from the tax ruling. Our joint venture is currently in discussions with the Malaysian government to extend the period by which buildout has to be completed. Should AUOSP be unable to renegotiate the tax ruling, they would be subject to statutory tax rates which could negatively impact our share of equity earnings reported in our Consolidated Statements of Operations.

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

A number of factors may adversely impact our future effective tax rates, such as the jurisdictions in which our profits are determined to be earned and taxed; changes in the valuation of our deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; adjustments to our interpretation of transfer pricing standards, changes in available tax credits, grants and other incentives; changes in stock-based compensation expense; changes in tax laws or the interpretation of such tax laws (for example, proposals for fundamental U.S. international tax reform); changes in U.S. generally accepted accounting principles; expiration or the inability to renew tax rulings or tax holiday incentives; and the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes. A change in our effective tax rate due to any of these factors may adversely impact our future results from operations.

Significant judgment is required to determine the recognition and measurement attribute prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes. In addition, we are subject to examination of our income tax returns by various tax authorities. We regularly assess the likelihood of adverse outcomes resulting from any examination to determine the adequacy of our provision for income taxes. An adverse determination of an examination could have an adverse effect on our operating results and financial condition. See Note 14 of Notes to Consolidated Financial Statements in *Part II - "Item 8: Financial Statements and Supplemental Data."*

We have significant balances of refundable value added tax outside the U.S., which we believe are fully recoverable, but if the amounts are determined by tax authorities to be nonrefundable, it could have an adverse impact on our financial condition.

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

Our certificate of incorporation, by-laws and indemnification agreements require us to indemnify our officers and directors for certain liabilities that may arise in the course of their service to us. Although we currently maintain directors and officers liability insurance for certain potential third-party claims for which we are legally or financially unable to indemnify them, such insurance may be inadequate for specific claims. In addition, in previous years, we have primarily self-insured with respect to potential third-party claims. If we were required to pay a significant amount on account of these liabilities for which we self-insured, our business, financial condition and results of operations could be materially harmed. See also *"Risks Related to Our Operations -- We and certain of our current and former officers and directors have been named as parties to various lawsuits relating to our past Audit Committee accounting investigation, and may be named in further litigation, including with* *respect to the restatement of our consolidated financial statements, all of which could require significant management time and attention, result in significant legal expenses or damages, and cause our business, financial condition, results of operations and cash flows to suffer."*

Our credit agreements contain covenant restrictions that may limit our ability to operate our business.

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

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

Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. In addition, our failure to comply with these covenants could result in a default under the 4.50% and 4.75% debentures and our other debt, which could permit the holders to accelerate such debt if the default is not cured pursuant to the Liquidity Support Facility. If any of our debt is accelerated, we may not have sufficient funds available to repay such debt, which could materially and negatively affect our financial condition and results of operation.

Risks Related to Our Supply Chain

Limited competition among suppliers has required us in some instances to enter into long-term, firm commitment supply agreements that 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.

Due to the industry-wide shortage of polysilicon experienced prior to 2011, we purchased polysilicon that we resold to third-party ingot and wafer manufacturers who deliver wafers to us that we then use in the manufacturing of our solar cells. Without sufficient polysilicon, some of those ingot and wafer manufacturers would not have been able to produce the wafers on which we rely. To match our estimated customer demand forecasts and growth strategy for the next several years, we have historically entered into multiple long-term supply agreements. Some agreements have long terms and provide for fixed or inflation-adjusted pricing, substantial prepayment obligations, and firm purchase commitments that require us to pay for the supply whether or not we accept delivery. If any long term and fixed commitment agreements require us to purchase more supplies than required to meet our actual customer demand over time, the resulting excess inventory could materially and negatively impact our results of operations. Prices for raw materials and components have been rapidly declining. If we are unable to access spot market pricing of commodities and decrease our dependency on long term or fixed commitment supply agreements, we would be paying more at unfavorable payment terms for such supplies than the current market prices and payment terms available to our competitors. We would then be placed at a competitive disadvantage against competitors who were able to leverage better pricing, we would be unable to meet our cost reduction roadmap, and our profitability could decline.

Certain of our long-term supply agreements may also contain other provisions, such as termination rights, that enable us to respond to changes in our requirements for, and market conditions in respect of polysilicon, ingots or wafers. However, our exercise of such rights may give rise to disputes. For example, we are currently engaged in arbitration with First Philec Solar Corporation, one of our suppliers, which is also a joint venture in which we have a minority interest. First Philec Solar is claiming damages for our purported failure to fulfill our purchase commitment under a 2007 wafer supply contract that we believe we validly terminated in August 2012. Additionally, First Solar Electric Corporation, our co-venturer in First Philec Solar, has claimed that our failure to fulfill our purchase agreement also obligates us to purchase its interests in the joint venture at a premium. Although we believe we have meritorious defenses to these claims, and that we have made meritorious counterclaims against First Philec Solar and First Solar Electric, the outcome of the arbitration is not certain and an adverse award may adversely affect our financial position, liquidity or results of operations.

If our agreements provide insufficient inventory to meet customer demand, or if our suppliers are unable or unwilling to provide us with the contracted quantities, we could purchase additional supply at available market prices which could be greater than expected and could materially and negatively impact our results of operations. Such market prices could also be greater than prices paid by our competitors, placing us at a competitive disadvantage and leading to a decline in our profitability. Further, we face significant specific counterparty risk under long-term supply agreements when dealing with suppliers without a long, stable production and financial history. In the event any such supplier experiences financial difficulties or goes into bankruptcy, it could be difficult or impossible, or may require substantial time and expense, for us to recover any or all of our prepayments. In the event any such supplier experiences financial difficulties or goes into bankruptcy, we would also be unlikely to collect for warranty claims against such suppliers. Any of the foregoing could materially harm our financial condition and results of operations.

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

We rely on a limited number of third-party suppliers, including our joint ventures, for certain raw materials and components for our solar cells, panels and power systems such as polysilicon, inverters and module material. If we fail to maintain our relationships with our suppliers, or if suppliers are unable to meet demand through industry consolidation, we may be unable to manufacture our products or our products may be available only at a higher cost or after a long delay. Such delays could prevent us from delivering our products to our customers within required timeframes and cause order cancellations and loss of market share. To the extent the processes that our suppliers use to manufacture components are proprietary, we may be unable to obtain comparable components from alternative suppliers. In addition, the financial markets could limit our suppliers' ability to raise capital if required to expand their production or satisfy their operating capital requirements. As a result, they could be unable to supply necessary raw materials, inventory and capital equipment to us which we would require to support our planned sales operations which would in turn negatively impact our sales volumes profitability and cash flows. The failure of a supplier to supply raw materials or components in a timely manner, or to supply raw materials or components that meet our quality, quantity and cost requirements, could impair our ability to manufacture our products or increase the cost of production. If we cannot obtain substitute materials or components on a timely basis or on acceptable terms, we could be prevented from delivering our products to our customers within required timeframes, which could result in sales and installation delays, cancellations, penalty payments or loss of market share, any of which could have a material adverse effect on our business, results of operations, and cash flows.

If third-party manufacturers become unable or unwilling to sell their solar cells or panels to us, our business and results of operations may be materially negatively affected.

In January 2012, we completed the acquisition of Tenesol S.A. ("Tenesol"), a European-based manufacturer and developer of solar projects with module manufacturing operations in France and South Africa which formerly operated under the common control of Total S.A. Through Tenesol, we purchase a portion of our total product mix from third-party manufacturers of solar cells. Such products increase our inventory available for sale to customers in some markets. However, such manufacturers may not be willing to sell solar cells and panels to us at the quantities and on the terms and conditions we require. Such manufacturers may be our direct competitors. If they are unable or unwilling to sell to us, we may not have sufficient products available to sell to customers and satisfy our sales commitments, thereby materially and negatively affecting our business and results of operations. In addition, warranty and product liability claims may result from defects or quality issues in connection with third party solar cells that we incorporate into our solar power products. See also "*Risks Related to Our Sales Channels -- We may incur unexpected warranty and product liability claims that could materially and adversely affect our financial condition and results of operations.*"

Risks Related to Our Operations

We may make significant investments in building solar power plants without first obtaining project financing, and the delayed sale of our projects would adversely affect our business, liquidity, and results of operations.

The development and construction of solar power plants require long periods of time and substantial initial investments, which we may make without first obtaining project financing or getting final regulatory clearance. Such costs may never be recovered if the necessary permits and government support and approvals are not obtained, project financing is not obtained, or if a potential project sale cannot be completed on commercially reasonable terms or at all. 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 will often choose to bear the costs of such efforts prior to obtaining project financing, prior to getting final regulatory clearance, and prior to our final sale to a customer, if any. This 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, the sale of equity in the project and the receipt of any cash or revenue, much of which may not be recognized for several additional months or years following contract signing. Our ability to monetize solar power plant projects is dependent on successfully executing and selling large scale projects and often a single project can account for a material portion of our total revenue in a given quarter. We have deferred revenue recognition on certain construction projects until the projects have been financed, constructed, and sold to independent third parties. Alternatively, we may choose to build, own and operate certain solar power plants for a period of time, after which the project assets may be sold to third parties. In such cases, the delayed disposition of projects could require us to recognize a gain on the sale of assets instead of recognizing revenue. Our potential inability to obtain regulatory clearance, required government support, project financing, or enter into sales contracts with customers could adversely affect our business, liquidity and results of operations. Our inability to monetize our projects as planned, or any delay in obtaining the required 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 cause large fluctuations in our revenue and other financial results. In the event the project is subsequently canceled, abandoned, or is deemed likely 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. Our liquidity could also be adversely impacted if we cannot obtain timely project financing or if project sales are delayed.

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

A substantial portion of our sales are made to customers outside of the United States, and a substantial portion of our supply agreements are with supply and equipment vendors located outside of the United States. Currently our solar cell and module production lines are located at our manufacturing facilities in the Philippines, Mexico, France and South Africa, and our joint venture's manufacturing facility in Malaysia. In addition, in January 2012, we completed the acquisition of Tenesol, a European-based manufacturer and developer of solar projects with significant international operations.

Risks we face in conducting business internationally include:

- multiple, conflicting and changing laws and regulations, export and import restrictions, employment laws, environmental protection, regulatory requirements and other government approvals, permits and licenses;
- difficulties and costs in staffing and managing foreign operations as well as cultural differences;
- potentially adverse tax consequences associated with our permanent establishment of operations in more countries;
- relatively uncertain legal systems, including potentially limited protection for intellectual property rights, and laws, changes in the governmental incentives we rely on, regulations and policies which impose additional restrictions on the ability of foreign companies to conduct business in certain countries or otherwise place them at a competitive disadvantage in relation to domestic companies;
- repatriation of non-U.S. earnings taxed at rates lower than the U.S. statutory effective tax rate;
- inadequate local infrastructure and developing telecommunications infrastructures;
- financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable;
- currency fluctuations and government-fixed foreign exchange rates and the effects of currency hedging activity or inability to hedge currency fluctuations;
- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions;
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive in some countries; and
- liabilities associated with compliance with laws (for example, the Foreign Corrupt Practices Act and similar laws outside of the United States).

In addition, we need to manage our international operations with an efficient and scalable organization. If we are unable to effectively manage our international inventory and warehouses, for example, our shipping movements may not map with product demand and flow. If we are unable to successfully manage any such risks, any one or more could materially and negatively affect our business, financial condition and results of operations.

If we experience interruptions in the operation of our solar cell production lines, or we are not successful in operating our joint venture AUOSP, our revenue and results of operations may be materially and adversely affected.

If our current or future solar cell or module production lines were to experience any problems or downtime, we would be unable to meet our production targets and our business would suffer. Our manufacturing activities have required and will continue to require significant management attention, a significant investment of capital and substantial engineering expenditures.

Under a joint venture agreement, we and AU Optronics Corporation ("AUO") jointly own and manage a joint venture, AUO SunPower Sdn. Bhd. (“AUOSP”), that has constructed a manufacturing facility in Malaysia. The success of our joint venture is subject to significant risks including:

- cost overruns, delays, supply shortages, equipment problems and other operating difficulties;
- custom-built equipment may take longer and cost more to engineer than planned and may never operate as designed;
- incorporating first-time equipment designs and technology improvements, which we expect to lower unit capital and operating costs, but this new technology may not be successful;
- problems managing the joint venture with AUO, whom we do not control and whose business objectives may be different from ours and may be inconsistent with our best interests;
- the joint venture's ability to obtain or maintain third party financing to fund its capital requirements;
- difficulties in maintaining or improving our historical yields and manufacturing efficiencies;
- difficulties in protecting our intellectual property and obtaining rights to intellectual property developed by the joint venture;
- difficulties in hiring key technical, management, and other personnel;
- difficulties in integration, implementing IT infrastructure and an effective control environment; and
- potential inability to obtain, or obtain in a timely manner, financing, or approvals from governmental authorities for operations.

If we experience any of these or similar difficulties, our supply from the joint venture may be delayed or be more costly than expected, substantially constraining our supply of solar cells. The joint venture partners of AUOSP have decided to postpone the construction of an additional manufacturing facility ("Fab 3B") due to current solar market conditions, and therefore assessed that additional equity need not be provided to AUOSP at this time. As a result, as of December 31, 2012, AUOSP is in technical breach of a covenant in its $300 million secured loan facility which required the joint venture partners to make equity injections in 2012. AUOSP is currently working with its lenders and will be providing its lenders with 2012 audited financial statements in the second quarter of 2013 to request that the lenders grant a waiver for the technical covenant breach. This default does not create a cross default under SunPower's debt agreements so long as AUOSP remains unconsolidated, is not a "significant subsidiary" as defined by Reg S-X of Securities and Exchange Act of 1934, and SunPower's ownership in AUOSP remains no higher than 50%. However, if the lenders were to accelerate payment on the loan or enforce their security interest, the supply of solar cells to SunPower could be interrupted. If we are unable to utilize our manufacturing capacity at the joint venture as planned, or we experience interruptions in the operation of our existing production lines, our per-unit manufacturing costs would increase, we would be unable to increase sales or gross margins as planned, we may need to increase our supply of third party cells, and our results of operations would likely be materially and adversely affected.

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

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

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

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

We have incorporated into our financial planning and agreements with our customers certain assumptions regarding the future level of U.S. tax incentives, including the §48(c) solar commercial investment tax credit (“ITC”) and the Treasury grant under Section 1603 of the American Recovery and Reinvestment Act (the "Cash Grant") program, which is administered by the U.S. Treasury Department ("Treasury") and provides Cash Grant payments in lieu of the ITC. The ITC and Cash Grant allow qualified applicants to claim an amount equal to 30% of the eligible cost basis for qualifying solar energy property. We hold projects and have sold projects to certain customers based on certain underlying assumptions regarding the ITC and Cash Grant, including for CVSR and AVSP. We have also accounted for certain projects and programs in our business using the same assumptions.

Owners of our qualifying projects and our residential lease program have applied or will apply for the ITC, and have applied or will apply for the Cash Grant. We have structured the tax incentive applications, both in timing and amount, to be in accordance with the guidance provided by Treasury and Internal Revenue Service ("IRS"). Any changes to the Treasury or IRS guidance which we relied upon in structuring our projects, failure to comply with the requirements, including the safe harbor protocols, lower levels of incentives granted, or changes in assumptions including the estimated residual values and the estimated fair market value of financed and installed systems for the purposes of Cash Grant and ITC applications, could materially and adversely impact our business and results of operations. While we have received notification that certain of our applications will be fully paid by Treasury in 2013, if the IRS or Treasury disagrees, as a result of any future review or audit, with the fair market value of, or other assumptions concerning, our solar projects or systems that we have constructed or that we construct in the future, including any systems for which tax incentives have already been paid, it could have a material adverse effect on our business and financial condition. We also have obligations to indemnify certain of our customers for the loss of tax incentives to such customers. We may have to recognize impairments or lower margins than initially anticipated for certain of our projects, including AVSP, CVSR and our residential lease program. Additionally, if the amount or timing of the Cash Grant or ITC payments received varies from what we have projected, this will impact our revenues, margins and cash flows and we may have to recognize losses, which will adversely impact our results of operations and cash flows.

Pursuant to the Budget Control Act of 2011, Cash Grants could be subject to sequestration beginning in 2013. The U.S. federal government's Office of Management and Budget, in a report issued in September 2012, outlined the anticipated sequestration, which would result in approximately a 9% reduction in spending for the Cash Grant, with a resulting decrease in Cash Grant received by us. In addition, applicable authorities may adjust or decrease incentives from time to time or include provisions for minimum domestic content requirements or other requirements to qualify for these incentives. Any such reduction or additional requirements could adversely impact our results of operations.

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

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

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

Project development or construction activities may not be successful, which could increase our costs and impair our ability to recover our investments.

The development and construction of solar power electric generation facilities and other energy infrastructure projects involve numerous risks. We may be required to spend significant sums for preliminary engineering, permitting, legal, and other expenses before we can determine whether a project is feasible, economically attractive or capable of being built. Successful completion of a particular project may be adversely affected by numerous factors, including:

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

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

We may be unable to obtain financing for our residential lease program and we may be unable to extend our third party ownership model to other jurisdictions, which could all have an adverse effect on our growth and financial results.

We offer a residential lease program in partnership with third-party financial institutions, which allows residential customers to obtain our systems under lease agreements for terms of up to 20 years. We are actively arranging additional third-party financing for our residential lease program; however, due to the general challenging credit markets worldwide, we may be unable to arrange additional financing partners for our residential lease program in future periods, which could limit our sales and our plans to grow the residential lease program. If financing costs were to increase, our lease product will be less attractive to our customers. In the event we enter into a material number of additional leases without obtaining corresponding third-party financing, our cash, working capital and financial results could be negatively impacted. Our residential lease program has been and will be eligible for the ITC and Cash Grant. We have relied on, and will continue to rely on, financing structures that monetize a substantial portion of those benefits. If, for any reason, we were unable to continue to monetize the tax benefits in our financing structures, we may be unable to provide financing or pricing that is attractive for our customers. Under current law, the ITC will be reduced from approximately 30% of the cost of the solar systems to approximately 10% for solar systems placed in service after December 31, 2016. In addition, Cash Grants are no longer available for new solar systems. Changes in existing law and interpretations by the IRS, Treasury and the courts could reduce the willingness of fund investors to invest in funds associated with our residential lease program. Additionally, if the amount or timing Cash Grant payments or ITC received in connection with the residential lease program varies from what we have projected, this will impact our revenues, cash flows and margins and we may have to recognize losses, which will adversely impact our results of operations and cash flows. See also "*A change in our anticipated 1603 Treasury cash grant proceeds or solar investment tax credit could adversely impact our business, revenues, margins, results of operations and cash flows*."

We have to quickly build infrastructure to support the residential lease program, and any failure or delay in implementing the necessary processes and infrastructure could adversely impact our financial results. We establish credit approval limits based on the credit quality of the customers. We may not be able to collect from rent payments from our residential lease customers in the event they enter into bankruptcy or otherwise fail to make payments when due after the period in which the third-party financial institution has agreed to assume this risk ends. We make certain assumptions in accounting for the solar lease program, including, among others, the residual value of the leased systems. As the residential lease program grows, if the residual value of leased systems does not materialize as assumed, it will adversely impact our results of operations. At the end of the term of the lease, our customers have the option to purchase at fair market value, extend the lease or return the leased systems to us. Should there be a large number of returns, we may incur de-installation costs in excess of amounts reserved.

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

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

We act as the general contractor for many of our customers in connection with the installation of our solar power systems. Some customers require performance bonds issued by a bonding agency or letters of credit issued by financial institutions, or may require other forms of liquidity support. Due to the general performance risk inherent in construction activities, it has become increasingly difficult recently to attain suitable bonding agencies willing to provide performance bonding. Obtaining letters of credit may require collateral. In the event we are unable to obtain bonding or sufficient letters of credit or other liquidity support, we will be unable to bid on, or enter into, sales contracts requiring such bonding. See also "*Risks Related to Our Sales Channels--Almost all of our engineering, procurement and construction ("EPC") contracts are fixed price contracts which may be insufficient to cover unanticipated or dramatic changes in costs over the life of the project.*"

In addition, the contracts with some of our larger customers require that we would be obligated to pay substantial penalty payments for each day or other period a solar installation for any such customer is not completed beyond an agreed target date, up to and including the return of the entire project sale price. This is particularly true in Europe, where long-term, fixed feed-in tariffs available to investors are typically set during a prescribed period of project completion, but the fixed amount declines over time for projects completed in subsequent periods. We face material financial penalties in the event we fail to meet the completion deadlines, including but not limited a full refund of the contract price paid by the customers. In certain cases we do not control all of the events which could give rise to these penalties, such as reliance on the local utility to timely complete electrical substation construction.

Furthermore, investors often require that the solar power system generate specified levels of electricity in order to maintain their investment returns, allocating substantial risk and financial penalties to us if those levels are not achieved, up to and including the return of the entire project sale price. Also, our customers often require protections in the form of conditional payments, payment retentions or holdbacks, and similar arrangements that condition its future payments on performance. Delays in solar panel or other supply shipments, other construction delays, unexpected performance problems in electricity generation or other events could cause us to fail to meet these performance criteria, resulting in unanticipated and severe revenue and earnings losses and financial penalties. Construction delays are often caused by inclement weather, failure to timely receive necessary approvals and permits, or delays in obtaining necessary solar panels, inverters or other materials. Additionally, we sometimes purchase land in connection with project development and assume the risk of project completion. All such risks could have a material adverse effect on our business and results of operations.

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

To increase our business and maintain our competitive position, we have and may continue to acquire other companies or engage in joint ventures in the future. For example, in March 2010, we completed our acquisition of SunRay, in July 2010, we formed AUOSP as a joint venture with AUO, and in January 2012, we acquired Tenesol. In December 2012, we entered into a joint venture agreement with partners in China to manufacture our C-7 Tracker systems for the Chinese market.

Acquisitions and joint ventures involve a number of risks that could harm our business and result in the acquired business or joint venture not performing as expected, including:

- insufficient experience with technologies and markets in which the acquired business or joint venture is involved, which may be necessary to successfully operate and/or integrate the business or the joint venture;

- problems integrating the acquired operations, personnel, IT infrastructure, technologies or products with the existing business and products;

- diversion of management time and attention from the core business to the acquired business or joint venture;

- potential failure to retain or hire key technical, management, sales and other personnel of the acquired business or joint venture;

- difficulties in retaining or building relationships with suppliers and customers of the acquired business or joint venture, particularly where such customers or suppliers compete with us;

- potential failure of the due diligence processes to identify significant issues with product quality and development or legal and financial liabilities, among other things;

- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities or work councils, which could delay or prevent acquisitions, delay our ability to achieve synergies, or our successful operation of acquired companies or joint ventures;

- potential necessity to re-apply for permits of acquired projects;

- problems managing joint ventures with our partners, meeting capital requirements for expansion, and reliance upon joint ventures which we do not control; for example, our ability to effectively manage our joint venture with AUO;

- subsequent impairment of the acquired assets, including intangible assets; and

- assumption of liabilities including, but not limited to, lawsuits, tax examinations, warranty issues, and liabilities associated with compliance with laws (for example, the Foreign Corrupt Practices Act).

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

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

Moreover, our joint venture arrangements may lead to disputes with our co-venturers. For example, we are currently engaged in arbitration with First Solar Electric Corporation, our co-venturer in First Philec Solar Corporation, a Philippines wafer manufacturing joint venture in which we hold a minority interest. See also "*Risks Related to Our Supply Chain-Limited competition among suppliers has required us in some instances to enter into long-term, firm commitment supply agreements that 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.*"

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

We may not be able to continue to expand our business or manage future growth. We plan to continue to improve our manufacturing processes and build additional cell manufacturing production capacity in 2016, which will require successful execution of:

- expanding our existing manufacturing facilities and developing new manufacturing facilities, which would increase our fixed costs and, if such facilities are underutilized, would negatively impact our results of operations;
- ensuring delivery of adequate polysilicon and ingots;
- enhancing our customer resource management and manufacturing management systems;
- implementing and improving additional and existing administrative, financial and operations systems, procedures and controls, including the need to centralize, update and integrate our global financial internal control;
- hiring additional employees;
- expanding and upgrading our technological capabilities;
- managing multiple relationships with our customers, suppliers and other third parties;
- maintaining adequate liquidity and financial resources; and
- continuing to increase our revenues from operations.

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

As a result of fluctuations in the demand for our products, our project assets and other long-lived assets may be impaired, or we may write off equipment or inventory, and each of these events would adversely affect our future financial results.

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

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

Fluctuations in Solar Renewable Energy Credit prices may adversely impact our results of operations.

We acquire Solar Renewable Energy Credits ("SRECs") in the ordinary course of business in New Jersey by agreeing in certain cases to purchase SRECs generated by a solar system we install for a specified period at specified pricing. We then sell the SRECs to utilities to help them meet their state renewable energy portfolio requirements, or to other third parties. SREC prices have decreased significantly in recent years as the supply of SRECs has increased. If SREC prices continue to fluctuate or remain lower than our purchase commitment prices, we may have to recognize losses, which will adversely impact our results of operations.

A change in our anticipated foreign exchange transactions could affect the accounting of our foreign currency hedging program and adversely impact our revenues, margins, and results of operations.

Our hedging program is designed to reduce our exposure to movements in foreign currency exchange rates. As a part of this program, we designate certain derivative transactions as effective cash flow hedges of anticipated foreign currency revenues and record the effective portion of changes in the fair value of such transactions in "Accumulated other comprehensive income (loss)" in our Consolidated Balance Sheets until the anticipated revenues have occurred, at which point the associated income or loss would be recognized in revenue. If we conclude that we have a pattern of determining that hedged forecasted transactions will not occur, we may no longer be able to continue to use hedge accounting in the future to reduce our exposure to movements in foreign exchange rates. Such a conclusion and change in our foreign currency hedge program could adversely impact our revenue, margins and results of operations.

Fluctuations in foreign currency exchange rates and interest rates could adversely impact our business and results of operations.

We have significant sales globally, and we are exposed to movements in foreign exchange rates, primarily related to sales to European customers that are denominated in Euros. A depreciation of the Euro would adversely impact our margins on sales to European customers. When foreign currencies appreciate against the U.S. dollar, inventories and expenses denominated in foreign currencies become more expensive. An increase in the value of the U.S. dollar relative to foreign currencies could make our solar power products more expensive for international customers, thus potentially leading to a reduction in demand, our sales and profitability. As a result, substantial unfavorable changes in foreign currency exchange rates could have a substantial adverse effect on our financial condition and results of operations. Although we seek to reduce our currency exposure by engaging in hedging transactions where we deem it appropriate, we do not know whether our efforts will be successful. Because we hedge some of our expected future foreign exchange exposure, if associated revenues do not materialize, we could experience losses. In the past, we have experienced an adverse impact on our revenue, gross margin, cash position and profitability as a result of foreign currency fluctuations. In addition, any break-up of the Eurozone would disrupt our sales and supply chain, expose us to financial counterparty risk, and materially and adversely affect our results of operations and financial condition.

We are exposed to interest rate risk because many of our customers depend on debt financing to purchase our solar power systems. An increase in interest rates could make it difficult for our customers to obtain the financing necessary to purchase our solar power systems on favorable terms, or at all, and thus lower demand for our solar power products, reduce revenue and adversely 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, which could reduce our revenue and gross margin and adversely impact our operating results. Our interest expense would increase to the extent interest rates rise in connection with our variable interest rate borrowings. In addition, lower interest rates have an adverse impact on our interest income. See also Item 7A "*Quantitative and Qualitative Disclosures About Market Risk*" and "*Risks Related to Our Sales Channels-The execution of our growth strategy is dependent upon the continued availability of third-party financing arrangements for our solar power plants, our residential lease program and our customers, and is affected by general economic conditions*."

We are exposed to the credit risk of our financial counterparties, customers and suppliers.

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, and purchased options. We are exposed to losses in the event of nonperformance by the counterparties to our financial and derivative instruments.

We enter into agreements with suppliers 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 significant prepayments to the vendors over the terms of the arrangements. We may be unable to recover such prepayments if the credit conditions of these suppliers materially deteriorate. In addition, we may not be able to collect from our customers in the event of the deterioration of their credit or if they enter into bankruptcy. Any of the preceding could materially and adversely impact our financial conditions, results of operations and liquidity. See also Item 7A "*Quantitative and Qualitative Disclosures About Market Risk*."

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

We outsource a portion of module manufacturing to contract manufacturers in the United States and China. As a result of outsourcing this final step in our production, we face several significant risks, including limited control over assembly and testing capacity, delivery schedules, quality assurance, manufacturing yields and production costs. If the operations of our third-party contract manufacturers were disrupted or its financial stability impaired, or if they were unable or unwilling to devote capacity to our solar panels in a timely manner, our business could suffer as we might be unable to produce finished solar panels on a timely basis. We also risk customer delays resulting from an inability to move module production to an alternate provider or to complete production internationally, and it may not be possible to obtain sufficient capacity or comparable production costs at another facility in a timely manner. In addition, migrating our design methodology to third-party contract manufacturers or to a captive panel assembly facility could involve increased costs, resources and development time, and utilizing additional third-party contract manufacturers could expose us to further risk of losing control over our intellectual property and the quality of our solar panels. Any reduction in the supply of solar panels could impair our revenue by significantly delaying our ability to ship products and potentially damage our relationships with new and existing customers, any of which could have a material and adverse effect on our financial condition and results of operation.

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

Our management is responsible for maintaining internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. GAAP. While the Company had material weaknesses in fiscal 2009, management remediated these material weaknesses, and concluded that as of January 1, 2012 and December 30, 2012, our internal control over financial reporting and our disclosure controls and procedures were effective.

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

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

We and certain of our current and former officers and directors have been named as parties to various lawsuits relating to our past Audit Committee accounting investigation, and may be named in further litigation, including with respect to the restatement of our consolidated financial statements, all of which could require significant management time and attention, result in significant legal expenses or damages, and cause our business, financial condition, results of operations and cash flows to suffer.

Three securities class action lawsuits were filed against our Company and certain of our current and former officers in the United States District Court for the Northern District of California on behalf of a class consisting of those who acquired our securities from April 17, 2008, through November 16, 2009. The actions arise from our announcement on November 16, 2009, that our Audit Committee commenced an internal investigation regarding certain unsubstantiated accounting entries. The complaints allege that the defendants made material misstatements and omissions concerning our financial results for 2008 and 2009, seek an unspecified amount of damages, and allege violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and sections 11 and 15 of the Securities Act of 1933. These cases were consolidated as In re SunPower Securities Litigation, Case No. CV-09-5473-RS (N.D. Cal.), and an amended complaint was filed on April 18, 2011. The amended complaint added two former employees as defendants. Defendants moved to dismiss the amended complaint, and on December 19, 2011, the court dismissed the claims brought pursuant to sections 11 and 15 of the Securities Act of 1933 and the claims brought against the two newly added former employees. In addition, derivative actions purporting to be brought on our behalf have also been filed in state and federal courts against several of our current and former officers and directors based on the same events alleged in the securities class action lawsuits described above. The California state derivative complaints assert state-law claims for breach of fiduciary duty, abuse of control, unjust enrichment, gross mismanagement, and waste of corporate assets. The federal derivative complaints assert state-law claims for breach of fiduciary duty, waste of corporate assets, and unjust enrichment. The Delaware state derivative complaint asserts state-law claims for breach of fiduciary duty and contribution and indemnification. The complaints seek an unspecified amount of damages.

On December 14, 2012, we announced that an agreement in principle was reached to settle the consolidated securities class action lawsuit for $19.7 million. On February 1, 2013, the parties filed a stipulation of settlement and a motion for preliminary approval of the settlement. The motion is noticed to be heard on March 14, 2013. The settlement is subject to certain conditions, including final approval by the court after members of the proposed settlement class receive notice and an opportunity to be heard. Until the conditions to the settlement have been satisfied, there can be no assurance that the settlement will become final. Other risks and uncertainties include the extent to which individual claimants opt out of the settlement class and pursue individual claims; our ability to overcome any objections or appeals regarding the settlement; and our ability to absorb the cost of the settlement and the timing of the impact on financial statements.

We cannot predict the outcome of these lawsuits. The matters which led to our Audit Committee's investigation and the restatement of our consolidated financial statements have exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement actions. We and our current and former officers and directors may, in the future, be subject to additional private and governmental actions relating to such matters. Subject to certain limitations, we are obligated to indemnify our current and former officers and directors in connection with such lawsuits and governmental investigations and any related litigation or settlements amounts. Regardless of the outcome, these lawsuits, and any other litigation that may be brought against us or our current or former officers and directors, could be time-consuming, result in significant expense and divert the attention and resources of our management and other key employees. An unfavorable outcome in any of these matters could exceed coverage provided under potentially applicable insurance policies, which is limited. Any such unfavorable outcome could have a material adverse effect on our business, financial condition, results of operations and cash flows. Further, we could be required to pay damages or additional penalties or have other remedies imposed against us, or our current or former directors or officers, which could harm our reputation, business, financial condition, results of operations or cash flows. In addition, our Company is largely self insured for these claims so that expenses, settlements or damages in excess of $5 million in these actions will not be recoverable under the primary coverage insurance policies. Moreover, such policies are subject to several terms, conditions and exclusions. See also *"Risks Related to Our Liquidity - Because we self-insure for certain indemnities we have made to our officers and directors, potential claims could materially and negatively impact our financial condition and results of operations."*

We may not fully realize the anticipated benefits of our relationship with Total.

We and Total S.A., parent of Total Gas & Power USA SAS ("Total"), have entered into a Credit Support Agreement under which Total S.A. has agreed to enter into one or more guarantee agreements with banks providing letter of credit facilities to us in support of certain of our businesses and other permitted purposes. Total S.A. will guarantee the payment to the applicable issuing bank of our obligation to reimburse a draw on a letter of credit and pay interest thereon in accordance with the letter of credit facility between such bank and us. In consideration for the commitments of Total S.A., we are required to pay Total S.A. a guarantee fee for each letter of credit that is the subject of a guaranty, starting at 1% and increasing to 2.35% in the fifth year following the completion of the tender offer. We entered into a letter of credit facility agreement with Deutsche Bank AG New York Branch in August 2011 supported by a Total S.A. guarantee. We have also entered into the Liquidity Support Facility, under which Total S.A. has agreed to provide up to $600 million of liquidity support in the event that our then-current or projected unrestricted cash, cash equivalents and unused borrowing capacity is reduced below $100 million or we are not in compliance with any financial covenant contained in our indebtedness.

We and Total have also entered into a Research & Collaboration Agreement that establishes a framework under which we engage in long-term research and development collaboration with Total. The Research & Collaboration Agreement is expected to encompass a number of different projects, with a focus on advancing technologies in the area of photovoltaics.

We may not realize the expected benefits of these agreements in a timely manner, or at all. The Credit Support Agreement can provide guarantees to our letter of credit facility, but not our other indebtedness. As the guarantee fee goes up over time, it may not be price competitive for us to continue to utilize the guarantee under the Credit Support Agreement and we may choose not to do so, which may cause our lenders to seek cash collateral. If the credit quality of Total S.A. were to deteriorate, then the guarantees would not be as beneficial to our lenders, which could reduce their willingness to lend to us and raise our costs of borrowing. We could incur additional expenses related to the Credit Support Agreement, especially relating to the guarantee fee. The Liquidity Support Facility may cause potential dilution to our other stockholders through the issuance of equity, warrants, and convertible debt securities to Total S.A. and its affiliates. The amount of support Total S.A. must provide under the Liquidity Support Facility is limited to $600 million. On December 24, 2012, Total S.A. agreed to guarantee our revolving credit facility with Credit Agricole, which reduced the capacity available under the Liquidity Support Facility by $275 million. Finally, the Liquidity Support Facility will no longer be available, and all outstanding debt under the Liquidity Support Facility (excluding the guarantee provided by Total S.A. under the revolving credit facility with Credit Agricole) will become due, upon the completion of CVSR, which we expect to occur before the end of fiscal 2013.

We may have difficulties in fully leveraging the research and development efforts of Total while protecting our intellectual property rights and our long term strategic interests. Further, the collaboration envisioned by the parties from the Research & Collaboration Agreement could be subject to governmental controls that could limit the full set of benefits.

In addition, we are a U.S.-based, high growth, technology and alternative energy company, while Total S.A. is a more mature and much larger French diversified energy company. The resulting differences in our organizational cultures may prevent us from fully realizing the anticipated benefits from our relationship. If we have a potential conflict with Total, the resolution may be less favorable to us than if we were dealing with an unaffiliated party. Such disagreements may relate to any determination with respect to mergers and other business combinations, our acquisition or disposition of assets, our financing activities, allocation of business opportunities, employee retention or recruiting.

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

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

On June 6, 2006, we ceased to be a member of Cypress's consolidated group for federal income tax purposes and certain state income tax purposes. On September 29, 2008, we ceased to be a member of Cypress's combined group for all state income tax purposes. To the extent that we become entitled to utilize our separate portion of any tax credit or loss carryforwards existing as of such date, we will distribute to Cypress the tax effect, estimated to be 40% for federal and state income tax purposes, of the amount of such tax loss carryforwards so utilized, and the amount of any credit carryforwards so utilized. We will distribute these amounts to Cypress in cash or in our shares, at Cypress's option. As of December 30, 2012, we have a potential future liability of approximately $2.2 million that may be due under this arrangement. In both fiscal 2012 and 2011, we did not make any cash payments to Cypress related to this arrangement.

We were jointly and severally liable for any tax liability during all periods in which we were deemed to be a member of the Cypress consolidated or combined group. Accordingly, although the tax sharing agreement allocates tax liabilities between Cypress and all its consolidated subsidiaries, for any period in which we were included in Cypress's consolidated or combined group, we could be liable in the event that any federal or state tax liability was incurred, but not discharged, by any other member of the group.

We will continue to be jointly and severally liable to Cypress until the statute of limitations runs or all appeal options are exercised for all years in which we joined in the filing of tax returns with Cypress. If Cypress experiences adjustments to their tax liability pursuant to tax examinations, we may incur an incremental liability.

We would also be liable to Cypress for taxes that might arise from the distribution by Cypress of our former class B common stock to Cypress's stockholders on September 29, 2008, or "spin-off". In connection with Cypress's spin-off of our former class B common stock, we and Cypress, on August 12, 2008, entered into an amendment to our tax sharing agreement ("Amended Tax Sharing Agreement") to address certain transactions that may affect the tax treatment of the spin-off and certain other matters.

Subject to certain caveats, Cypress obtained a ruling from the IRS to the effect that the distribution by Cypress of our former class B common stock to Cypress's stockholders qualified as a tax-free distribution under Section 355 of the Internal Revenue Code ("Code"). Despite such ruling, the distribution may nonetheless be taxable to Cypress under Section 355(e) of the Code if 50% or more of the voting power or value of our stock was or is later acquired as part of a plan or series of related transactions that included the distribution of our stock. The Amended Tax Sharing Agreement requires us to indemnify Cypress for any liability incurred as a result of issuances or dispositions of our stock after the distribution, other than liability attributable to certain dispositions of our stock by Cypress, that cause Cypress's distribution of shares of our stock to its stockholders to be taxable to Cypress under Section 355(e) of the Code.

Under the Amended Tax Sharing Agreement, we also agreed that, until October 29, 2010, we would not effect a conversion of any or all of our former class B common stock to former class A common stock or any similar recapitalization transaction or series of related transactions (a "Recapitalization"). On November 16, 2011, we reclassified our former class A common stock and class B common stock into a single class of common stock. In the event this reclassification does result in the spin-off being treated as taxable, we could face substantial liabilities as a result of our obligations under the Amended Tax Sharing Agreement.

Any future agreements with Total S.A. regarding tax indemnification and certain tax liabilities may adversely impact our financial position.

We currently believe that we will not join in tax filings on a consolidated, combined or unitary basis with Total S.A. Accordingly, no tax sharing arrangement is currently in place. If we and Total join in a tax filing in the future, a tax sharing agreement will be required, which would allocate the tax liabilities among the parties and may adversely impact our financial position.

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

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

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

We could be adversely affected by any violations of the U.S. Foreign Corrupt Practices Act ("FCPA") and foreign anti-bribery laws.

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

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

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

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

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

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

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

In addition, new U.S. legislation includes disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such “conflict” minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of solar products. As a result, there may only be a limited pool of suppliers who provide conflict free minerals, and we cannot be certain that we will be able to obtain products in sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins for all minerals used in our products.

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

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

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

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

Risks Related to Our Intellectual Property

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

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

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

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

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

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

- people may not be deterred from misappropriating our technologies despite the existence of laws or contracts prohibiting it;

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

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

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

Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without compensating us for doing so. We also have formed the joint venture to manufacture our solar cells at AUOSP, and signed a joint venture agreement with partners in China with respect to our C-7 Tracker technology. Our joint venture partners may not be deterred from misappropriating our proprietary technologies despite contractual and other legal restrictions. Legal protection in countries where our joint ventures are located may not be robust and enforcement by us of our intellectual property rights may be difficult. As a result, our joint venture partners could directly compete with our business. Any such activities or any other inabilities to adequately protect our proprietary rights could harm our ability to compete, to generate revenue and to grow our business.

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

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

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

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

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

"SunPower" and the "SunPower" logo are our registered trademark in certain countries, including the United States, for uses that include solar cells and solar panels. We are seeking registration of the "SunPower" trademark in other countries but we may not be successful in some of these jurisdictions. We hold registered trademarks for SunPower®, SunPower Electric®, Maxeon®, Oasis®, PowerGuard®, PowerLight®, Serengeti®, and SunTile®, in certain countries, including the United States. We have not registered, and may not be able to register, these trademarks in other key countries. In the foreign jurisdictions where we are unable to obtain or have not tried to obtain registrations, others may be able to sell their products using trademarks compromising or incorporating "SunPower," or a variation thereof, or our other chosen brands, which could lead to customer confusion. In addition, if there are jurisdictions where another proprietor has already established trademark rights in marks containing "SunPower," or our other chosen brands, we may face trademark disputes and may have to market our products with other trademarks or without our trademarks, which may undermine our marketing efforts. We may encounter trademark disputes with companies using marks which are confusingly similar to the SunPower mark, or our other marks, which if not resolved favorably, could cause our branding efforts to suffer. In addition, we may have difficulty in establishing strong brand recognition with consumers if others use similar marks for similar products.

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

Government funding of some of our research and development efforts imposed certain restrictions on our ability to commercialize results and could grant commercialization rights to the government. In some funding awards, the government is entitled to intellectual property rights arising from the related research. Such rights include a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced each subject invention developed under an award throughout the world by or on behalf of the government. Other rights include the right to require us to grant a license to the developed technology or products to a third party or, in some cases, if we refuse, the government may grant the license itself, if the government determines that action is necessary because we fail to achieve practical application of the technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations, or to give the United States industry preference. Accepting government funding can also require that manufacturing of products developed with federal funding be conducted in the United States.

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

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

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

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

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

We devote resources to network security, data encryption, and other security measures to protect our systems and data, but these security measures cannot provide absolute security. We may experience a breach of our systems and may be unable to protect sensitive data. We could also be exposed to a risk of loss or litigation and possible liability, which could result in a detrimental effect on our business, results of operations and financial condition.

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

We are subject to federal, state and international laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between one company and its subsidiaries, and among the subsidiaries and other parties with which we have commercial relations. Several jurisdictions have passed new laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur costs or require us to change our business practices. Noncompliance could result in penalties or legal liability.

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

Risks Related to Our Debt and Equity Securities

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

As of December 30, 2012, Total owned approximately 66% of our outstanding common stock. Pursuant to the Affiliation Agreement between us and Total, the Board of Directors of SunPower includes five designees from Total, giving Total majority control of our Board. As a result, subject to the restrictions in the Affiliation Agreement, Total possesses significant influence and control over our affairs. Our non-Total stockholders have reduced ownership and voting interest in our company and, as a result, have less influence over the management and policies of our company than they exercised prior to Total's tender offer. As long as Total controls us, the ability of our other stockholders to influence matters requiring stockholder approval is limited. Total's stock ownership and relationships with members of our Board of Directors could have the effect of preventing minority stockholders from exercising significant control over our affairs, delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, limiting our financing options. These factors in turn could adversely affect the market price of our common stock or prevent our stockholders from realizing a premium over the market price of our common stock. The Affiliation Agreement limits Total and any member of the Total affiliated companies ("Total Group") from effecting, seeking, or entering into discussions with any third party regarding any transaction that would result in the Total Group beneficially owning our shares in excess of certain thresholds during a standstill period. The Affiliation Agreement also imposes certain limitations on the Total Group's ability to seek to affect a tender offer or merger to acquire 100% of our outstanding voting power. Such provisions may not be successful in preventing the Total Group from engaging in transactions which further increase their ownership and negatively impact the price of our common stock. In connection with our acquisition of Tenesol and our entry into the Liquidity Support Facility, we agreed to exempt the shares issued in connection with those transactions from the ownership limitations imposed by the Affiliation Agreement, so that Total may own up to the stated limits plus any such shares. In return for providing certain guarantees or other support, as was the case with the Liquidity Support Agreement, Total may request additional equity to be issued to it or its affiliates, or it may convert previously issued convertible debt into equity or exercise previously granted warrants, potentially at a discount or at a smaller premium than our other stockholders would prefer, which may lead to additional dilution to our stockholders. Due to the pricing of the equity compensation elements of the Liquidity Support Facility, the degree of dilution to our other stockholders will tend to increase to the extent that we require more support and to the extent that our stock price decreases. See also "*Risks Related to Our Liquidity--Due to the general economic environment, the continued market pressure driving down the average selling prices of our solar power products, and other factors, 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."* Finally, the market for our common stock has become less liquid and more thinly traded as a result of the Total tender offer. The lower number of shares available to be traded could result in greater volatility in the price of our common stock and affect our ability to raise capital on favorable terms in the capital markets.

Conversion of our outstanding 4.75% debentures, our warrants related to our outstanding 4.50% and 4.75% 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.

To the extent we issue common stock upon conversion of our outstanding 4.75% debentures, the conversion of some or all of such debentures will dilute the ownership interests of existing stockholders, including holders who had previously converted their debentures. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. Sales of our common stock in the public market or sales of any of our other securities could dilute ownership and earnings per share, and even the perception that such sales could occur could cause the market prices of our common stock to decline. In addition, the existence of our outstanding debentures may encourage short selling of our common stock by market participants who expect that the conversion of the debentures could depress the prices of our common stock.

We issued warrants to affiliates of the underwriters of our 4.50% and 4.75% debentures, which are exercisable for a total of approximately 11.1 million shares and 8.7 million shares of our common stock, respectively. The warrants, together with certain convertible hedge transactions, are meant to reduce our exposure upon potential conversion of our 4.50% and 4.75% debentures. If the market price of our common stock exceeds the respective exercise prices of the warrants, such warrants will have a dilutive effect on our earnings per share, and could dilute the ownership interests for existing stockholders if exercised.

The price of our common stock, and therefore of our outstanding 0.75%, 4.50%, and 4.75% debentures, may fluctuate significantly.

Our common stock has experienced extreme price and volume fluctuations. The trading price of our common stock could be subject to further wide fluctuations due to many factors, including the factors discussed in this risk factors section. In addition, the stock market in general, and the Nasdaq Global Select Market and the securities of technology companies and solar companies in particular, have experienced severe price and volume fluctuations. These trading prices and valuations, including our own market valuation and those of companies in our industry generally, may not be sustainable. These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. Because the 0.75%, 4.50%, and 4.75% debentures are convertible into our common stock (and/or cash equivalent to the value of our common stock), volatility or depressed prices of our common stock could have a similar effect on the trading price of these debentures.

Delaware law and our certificate of incorporation and by-laws contain anti-takeover provisions, our outstanding 0.75%, 4.50%, and 4.75% debentures provide for a right to convert upon certain events, and our Board of Directors entered into a rights agreement and declared a rights dividend, any of which could delay or discourage takeover attempts that stockholders may consider favorable.

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

- the right of the Board of Directors to elect a director to fill a vacancy created by the expansion of the Board of Directors;
- the prohibition of cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the requirement for advance notice for nominations for election to the Board of Directors or for proposing matters that can be acted upon at a stockholders' meeting;
- the ability of the Board of Directors to issue, without stockholder approval, up to 10.0 million shares of preferred stock with terms set by the Board of Directors, which rights could be senior to those of common stock;
- our Board of Directors is divided into three classes of directors, with the classes to be as nearly equal in number as possible;
- stockholders may not call special meetings of the stockholders, except by Total under limited circumstances;
- our Board of Directors is able to alter our by-laws without obtaining stockholder approval.

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

ITEM 1B: *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2: *PROPERTIES*

Our corporate headquarters is located in San Jose, California where we occupy approximately 129,000 square feet under a lease that expires in April 2021. In Richmond, California, we occupy approximately 186,000 square feet for office, light industrial and research and development use under a lease that expires in December 2018. In addition to these facilities, we also have our European headquarters located in Geneva, Switzerland where we occupy approximately 4,000 square feet under a lease that expires in September 2017, as well as global sales and support offices including locations in Austin, Texas and La Tour de Salvagny, France.

SPML Land, Inc., owns an approximately 215,000 square foot building in the Philippines, which served as one of our solar cell manufacturing facilities ("FAB1") until the second half of fiscal 2012. The lease for the underlying land expires in May 2048 and is renewable for an additional 25 years. SPML Land, Inc. additionally owns a 344,000 square foot building in the Philippines, which serves as a solar cell manufacturing facility ("FAB2") with twelve solar cell manufacturing lines in operation. Our FAB 2 solar cell manufacturing facility has a total rated annual solar cell manufacturing capacity of over 700 MW.

SPML Land, Inc. owns an approximately 175,000 square foot building in the Philippines which serves as a solar panel assembly facility that currently operates fourteen solar panel assembly lines. We lease an approximately 320,000 square foot building in Mexicali, Mexico which serves as a solar panel assembly facility and support offices, under a lease that expires in August 2021. Our Mexicali facility currently houses ten solar panel assembly lines and will house twelve once fully online in fiscal 2013. We additionally lease facilities in Toulouse, France and Capetown, South Africa which serve as solar panel assembly facilities. Our solar panel assembly facilities have a combined total annual manufacturing capacity of more than 1 GW.

We may require additional space in the future, which may not be available on commercially reasonable terms or in the location we desire. We do not identify or allocate assets by business segment. For more information on property, plant and equipment by country, see Note 7 of Notes to Consolidated Financial Statements in *Part II - "Item 8: Financial Statements and Supplemental Data."*

ITEM 3. *LEGAL PROCEEDINGS*

Three securities class action lawsuits were filed against the Company and certain of its current and former officers and directors in the United States District Court for the Northern District of California on behalf of a class consisting of those who acquired the Company's securities from April 17, 2008 through November 16, 2009. The cases were consolidated as In re SunPower Securities Litigation, Case No. CV-09-5473-RS (N.D. Cal.), and lead plaintiffs and lead counsel were appointed on March 5, 2010. Lead plaintiffs filed a consolidated complaint on May 28, 2010. The actions arise from the Audit Committee's investigation announcement on November 16, 2009 regarding certain unsubstantiated accounting entries. The consolidated complaint alleges that the defendants made material misstatements and omissions concerning the Company's financial results for 2008 and 2009, seeks an unspecified amount of damages, and alleges violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and sections 11 and 15 of the Securities Act of 1933. The court held a hearing on the defendants' motions to dismiss the consolidated complaint on November 4, 2010. The court dismissed the consolidated complaint with leave to amend on March 1, 2011. An amended complaint was filed on April 18, 2011. The amended complaint added two former employees as defendants. Defendants filed motions to dismiss the amended complaint on May 23, 2011. The motions to dismiss the amended complaint were heard by the court on August 11, 2011. On December 19, 2011, the court granted in part and denied in part the motions to dismiss, dismissing the claims brought pursuant to sections 11 and 15 of the Securities Act of 1933 and the claims brought against the two newly added former employees. On December 14, 2012, the Company announced that it reached an agreement in principle to settle the consolidated securities class action lawsuit for $19.7 million. The Company recorded a charge in its fiscal fourth quarter of 2012 in the same amount which is further classified within "Accrued liabilities" on the Company's Consolidated Balance Sheets as of December 30, 2012. On February 1, 2013, the parties filed a stipulation of settlement and a motion for preliminary approval of the settlement. The motion is noticed to be heard on March 14, 2013. The settlement is subject to certain conditions, including final approval by the court after members of the proposed settlement class receive notice and an opportunity to be heard. Until the conditions to the settlement have been satisfied, there can be no assurance that the settlement will become final. If the settlement does not become final, the Company believes it has meritorious defenses to these allegations and will vigorously defend itself in these matters.

Derivative actions purporting to be brought on the Company's behalf have also been filed in state and federal courts against several of the Company's current and former officers and directors based on the same events alleged in the securities class action lawsuits described above. The California state derivative cases were consolidated as In re SunPower Corp. S'holder Derivative Litig., Lead Case No. 1-09-CV-158522 (Santa Clara Sup. Ct.), and co-lead counsel for plaintiffs have been appointed. The complaints assert state-law claims for breach of fiduciary duty, abuse of control, unjust enrichment, gross mismanagement, and waste of corporate assets. Plaintiffs are scheduled to file a consolidated complaint on March 5, 2012. The federal derivative complaints were consolidated as In re SunPower Corp. S'holder Derivative Litig., Master File No. CV-09-05731-RS (N.D. Cal.), and lead plaintiffs and co-lead counsel were appointed on January 4, 2010. The federal complaints assert state-law claims for breach of fiduciary duty, waste of corporate assets, and unjust enrichment, and seek an unspecified amount of damages. Plaintiffs filed a consolidated complaint on May 13, 2011, in the Delaware Court of Chancery. A Delaware state derivative case, Brenner v. Albrecht, et al., C.A. No. 6514-VCP (Del Ch.), was filed on May 23, 2011. The complaint asserts state-law claims for breach of fiduciary duty and contribution and indemnification, and seeks an unspecified amount of damages. The Company intends to oppose all the derivative plaintiffs' efforts to pursue this litigation on the Company's behalf. Defendants moved to stay or dismiss the Delaware derivative action on July 5, 2011. The motion to stay was heard by the court on October 27, 2011, and on January 27, 2012 the court granted the Company's motion and stayed the case indefinitely subject to plaintiff seeking to lift the stay under specified conditions. The Company is currently unable to determine if the resolution of these matters will have an adverse effect on the Company's financial position, liquidity or results of operations.

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

ITEM 4: ***MINE SAFETY DISCLOSURES***

Not applicable.

PART II

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

Market Information

Prior to November 17, 2011, our former class A and class B common stock was listed on the Nasdaq Global Select Market under the trading symbols "SPWRA" and "SPWRB," respectively. On November 15, 2011, our Stockholders approved reclassification of all outstanding shares of our former class A and class B common stock into a single class of common stock. Therefore, effective November 17, 2011, our common stock is listed on the Nasdaq Global Select Market under the trading symbol "SPWR".

The high and low trading prices of our common stock during fiscal 2012 and 2011 were as follows:

	SPWR		SPWRA		SPWRB	
	High	Low	High	Low	High	Low
Fiscal Year 2012						
Fourth quarter	$ 6.00	$ 3.90	*	*	*	*
Third quarter	$ 5.35	$ 3.71	*	*	*	*
Second quarter	$ 6.68	$ 4.51	*	*	*	*
First quarter	$ 9.54	$ 6.28	*	*	*	*
Fiscal Year 2011						
Fourth quarter: November 17, 2011 through January 1, 2012	$ 8.60	$ 4.94	*	*	*	*
Fourth quarter: October 3, 2011 through November 16, 2011	*	*	$ 10.88	$ 6.61	$ 10.12	$ 5.99
Third quarter	*	*	$ 23.35	$ 8.06	$ 17.72	$ 7.35
Second quarter	*	*	$ 22.60	$ 14.87	$ 22.10	$ 14.65
First quarter	*	*	$ 19.88	$ 12.90	$ 19.45	$ 12.47

* Not applicable due to class of SunPower stock outstanding and trading during that period.

As of February 15, 2013, there were approximately 1,882 record holders. A substantially greater number of holders are in "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

Dividends

We have never declared or paid any cash dividend on our common stock, and we do not currently intend to pay any cash dividend on our common stock in the foreseeable future. We intend to retain future earnings, if any, to finance the operation and expansion of our business.

Recent Sales of Unregistered Securities

None.

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 Securities Exchange Act of 1934, of shares of our common stock during each of the indicated periods.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs
October 1, 2012 through October 28, 2012	232	$ 4.54	—	—
October 29, 2012 through November 25, 2012	64,032	$ 4.06	—	—
November 26, 2012 through December 30, 2012	328	$ 4.69	—	—
	64,592	$ 4.06	—	—

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

Equity Compensation Plan Information

The following table provides certain information as of December 30, 2012 with respect to our equity compensation plans under which shares of our common stock are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) (in thousands)
Equity compensation plans approved by security holders	326		$ 28.27	3,566
Equity compensation shares not approved by security holders	—		$ —	—
	326	(1)		3,566

(1) Shares associated with our warrants outstanding in connection with our 4.50% debentures and the Liquidity Support Agreement are excluded from the above table as the exercise price exceeded our closing stock as of December 30, 2012. This table additionally excludes options to purchase an aggregate of approximately 68,000 shares of common stock, at a weighted average exercise price of $21.74 per share, that we assumed in connection with the acquisition of PowerLight Corporation, now known as SunPower Corporation, Systems, in January 2007. Under the terms of our three equity incentive plans, we may issue incentive or non-statutory stock options, restricted stock awards, restricted stock units, or stock purchase rights to directors, employees and consultants to purchase common stock. Our Third Amended and Restated SunPower Corporation 2005 Stock Incentive Plan includes an automatic share reserve increase feature effective for 2009 through 2015. This share reserve increase feature will cause an annual and automatic increase in the number of shares of our common stock reserved for issuance under the Stock Incentive Plan in an amount each year equal to the least of: 3% of the outstanding shares of all classes of our common stock measured on the last day of the immediately preceding fiscal year; 6,000,000 shares; and such other number of shares as determined by our Board.

ITEM 6: *SELECTED CONSOLIDATED FINANCIAL DATA*

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

	Year Ended				
(In thousands, except per share data)	**December 30, 2012**	**January 1, 2012 (1)**	**January 2, 2011**	**January 3, 2010**	**December 28, 2008**
Consolidated Statements of Operations Data					
Revenue	$ 2,417,501	$ 2,374,376	$ 2,219,230	$ 1,524,283	$ 1,437,594
Cost of revenue	2,171,103	2,148,158	1,709,337	1,240,563	1,087,973
Gross margin	246,398	226,218	509,893	283,720	349,621
Operating income (loss)	(287,708)	(534,098)	138,867	61,834	154,407
Income (loss) from continuing operations before income taxes and equity in earnings (loss) of unconsolidated investees	(329,663)	(602,532)	183,413	43,620	(97,904)
Income (loss) from continuing operations	$ (352,020)	$ (613,737)	$ 166,883	$ 32,521	$ (124,445)
Income (loss) from continuing operations per share of common stock:					
Basic	$ (3.01)	$ (6.28)	$ 1.74	$ 0.36	$ (1.55)
Diluted	$ (3.01)	$ (6.28)	$ 1.64	$ 0.35	$ (1.55)
Weighted-average shares:					
Basic	117,093	97,724	95,660	91,050	80,522
Diluted	117,093	97,724	105,698	92,746	80,522

(1) As adjusted to reflect the balances of Tenesol S.A. ("Tenesol") beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3 of Notes to Consolidated Financial Statements).

(In thousands)	**December 30, 2012**	**January 1, 2012 (1) (2)**	**January 2, 2011**	**January 3, 2010**	**December 28, 2008**
Consolidated Balance Sheet Data					
Cash and cash equivalents, restricted cash and cash equivalents, current portion and short-term investments	$ 473,055	$ 777,897	$ 761,602	$ 677,919	$ 232,750
Working capital	976,627	1,163,245	1,005,492	747,335	420,067
Total assets	3,340,948	3,519,130	3,379,331	2,696,895	2,084,257
Long-term debt	375,661	364,273	50,000	237,703	54,598
Convertible debt, net of current portion	438,629	423,268	591,923	398,606	357,173
Long-term deferred tax liabilities	—	—	—	6,777	6,493
Customer advances, net of current portion	236,082	181,946	160,485	72,288	91,359
Other long-term liabilities	335,619	166,126	131,132	70,045	44,222
Total stockholders' equity	$ 993,352	$ 1,274,725	$ 1,657,434	$ 1,376,380	$ 1,100,198

(1) As adjusted to reflect the balances of Tenesol S.A. ("Tenesol") beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3 of Notes to Consolidated Financial Statements).

(2) As adjusted to conform to the current period presentation for solar power systems leased and to be leased (see Note 1 of Notes to Consolidated Financial Statements).

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

General Overview

We are a vertically integrated solar products and solutions company that designs, manufactures, and delivers high-performance solar systems worldwide, servicing as a one-stop shop for residential, commercial and utility-scale power plant customers. Of all the solar cells available for 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. These high efficiency cells are then utilized in our array of high reliability SunPower products.

We were originally incorporated in California in 1985 and subsequently reincorporated in Delaware during 2005 in connection with our initial public offering. In November 2011, our stockholders approved the reclassification of all outstanding former class A common stock and class B common stock into a single class of common stock listed on the Nasdaq Global Select Market under the symbol "SPWR". In June 2011, we became a subsidiary of Total Gas & Power USA, SAS ("Total"), a subsidiary of Total S.A. ("Total S.A."). Total acquired 60% of our former class A and class B common stock as of June 13, 2011. In January 2012, we entered into an additional agreement with Total to sell shares of our common stock, thereby increasing Total's ownership to approximately 66% of our outstanding common stock.

Segments Overview

In December 2011, we announced a reorganization to align our business and cost structure to a regional focus in order to support the needs of our customers and improve the speed of decision-making processes. As a result, in the first quarter of fiscal 2012, we changed our segment reporting from our Utility and Power Plant ("UPP") Segment and Residential and Commercial ("R&C") Segment to three regional segments: (i) the Americas Segment, (ii) the EMEA Segment, and (iii) the APAC Segment. The Americas Segment includes both North and South America. The EMEA Segment includes European countries, as well as the Middle East and Africa. The APAC segment includes all Asia-Pacific countries. Historical results have been recast under the new segmentation.

Seasonal Trends

Our business is subject to industry-specific seasonal fluctuations. Sales have historically reflected these seasonal trends with the largest percentage of total revenues realized during the last two calendar quarters of a fiscal year. Lower seasonal demand normally results in reduced shipments and revenues in the first two calendar quarters of a fiscal year. There are various reasons for this seasonality, mostly related to economic incentives and weather patterns. For example, in European countries with feed-in tariffs, the construction of solar power systems may be concentrated during the second half of the calendar year, largely due to the fact that the coldest winter months in the Northern Hemisphere are January through March. In the United States, customers will sometimes make purchasing decisions towards the end of the year in order to take advantage of tax credits or for other budgetary reasons. In addition, sales in the new home development market are often tied to construction market demands which tend to follow national trends in construction, including declining sales during cold weather months.

Unit of Power

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

Levelized Cost of Energy ("LCOE")

The LCOE equation 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 when different scales of operation, investment, or operating time periods exist. It captures capital costs and ongoing system-related costs, along with the amount of electricity produced, and converts them into a common metric. Key drivers for LCOE reduction for photovoltaic products include panel efficiency, capacity factors, reliable system performance, and the life of the system.

Fiscal Years

We have a 52-to-53-week fiscal year that ends on the Sunday closest to December 31. Accordingly, every fifth or sixth year will be a 53-week fiscal year. Fiscal years 2012, 2011 and 2010 were 52-week fiscal years. Fiscal year 2012 ended on December 30, 2012, fiscal year 2011 ended on January 1, 2012, and fiscal year 2010 ended on January 2, 2011.

Outlook

During fiscal 2012 we saw a decline in overall demand for solar systems primarily in Europe as a result of the decline in European government incentives. The resulting over-supply environment drove down average selling prices across all product and service lines. Such pricing pressures have continued and are expected to generally continue throughout fiscal 2013.

We continue to be focused on reducing the cost of our solar panels and systems. We continue to emphasize improvement of our solar cell efficiency and LCOE 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 further 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 plan to continue to expand our business in growing and sustainable markets. We announced the first commercial deployment of our SunPower® C-7 Tracker technology under a power purchase agreement ("PPA") and commenced commercial production of our next generation solar cell with demonstrated efficiencies of up to 24%. Our acquisition of Tenesol S.A. ("Tenesol") in the first quarter of fiscal 2012 has further expanded our European and global customer channels as well as added manufacturing capabilities based in both Europe and South Africa.

Residential Leasing Program

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. In fiscal 2012, we entered into arrangements with two financial institutions that will provide financing to support additional residential solar lease projects. In the first quarter of fiscal 2013, we entered into an arrangement with an additional financial institution. The program includes system maintenance and warranty coverage as well as an early buy-out option after six years or at any time when the lessees sell their home. Leases are classified as either operating or sales-type leases in accordance with the relevant accounting guidelines.

The program does not yet represent a material portion of our revenue. However, we may face additional material risks as the program expands, including our ability to obtain additional financing partners as well as our ability to collect finance and rent receivables in view of the general challenging credit markets worldwide. We believe that our concentration of credit risk is limited because of our large number of customers, credit quality of the customer base, small account balances for most of these customers, and customer geographic diversification. We have applied and will apply for the §48(c) solar commercial investment tax credit ("ITC") and Treasury Grant payments under Section 1603 of the American Recovery and Reinvestment Act (the "Cash Grant"), which is administered by the U.S. Internal Revenue Services ("IRS") and Treasury Department, for residential leases. We have structured the tax incentive applications, both in timing and amount, to be in accordance with the guidance provided by Treasury and IRS. If the amount or timing of the ITC or Cash Grant payments received in connection with the residential lease program varies from what we have projected, this may impact our revenues and margins and we may have to recognize losses, which may adversely impact our results of operations and cash flows. We make certain assumptions in accounting for the residential lease program, including, among others, the residual value of the leased systems. As the residential lease program grows, if the residual value of leased systems does not materialize as assumed, our results of operations would be adversely affected.

Financial Operations Overview

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

Revenue

We recognize revenue on the following types of transactions within our regional segments:

- Power plant project development and projects, turn-key engineering, procurement, and construction ("EPC") services for power plant construction, and power plant operations and maintenance ("O&M") services;

- Components, including large volume sales of solar panels and mounting systems to third parties, sometimes on a multi-year, firm commitment basis;

- Solar equipment for the residential and small commercial market, sold through our third-party global dealer network; and

- Direct sales and EPC and O&M services for rooftop and ground-mounted solar power systems for new homes, commercial, and public sectors.

In the United States, where customers often utilize rebate and tax credit programs in connection with projects rated one MW or less of capacity, we typically sell solar power systems rated up to one MW of capacity to provide a supplemental, distributed source of electricity for a customer's facility as well as ground mount systems reaching up to hundreds of MWs for regulated utilities. In the United States, many customers choose to purchase solar electricity under a power purchase agreement ("PPA") with an investor or financing company which buys the system from us. In Europe and the United States, our systems are often purchased by third-party investors as central-station solar power plants, typically rated from one to 25 MW, which generate electricity for sale under tariff to regional and public utilities. We additionally have large utility power plants currently under construction which when completed will have total rated capacities greater than 250MW. We also sell our solar panels and balance of systems components under materials-only sales contracts in the United States, Europe and Asia. Our revenue recognition policies are described in more detail under "Critical Accounting Estimates."

Cost of Revenue

Our cost of revenue will fluctuate from period to period due to the mix of projects completed and recognized as revenue, in particular between large utility projects and large commercial installation projects. The cost of solar panels is the single largest cost element in our cost of revenue. Our cost of solar panels consists primarily of: (i) polysilicon, silicon ingots and wafers used in the production of solar cells, along with other materials such as chemicals and gas that are needed to transform silicon wafers into solar cells; (ii) raw materials such as glass, frame, backing and other materials; (iii) solar cells from our AUO SunPower Sdn. Bhd. ("AUOSP") joint venture; as well as (iv) direct labor costs and assembly costs we pay to our third-party contract manufacturers in California and China. Other cost of revenue associated with the construction of solar power systems includes real estate, mounting systems, inverters, third-party contract manufacturer costs, construction subcontract and dealer costs. In addition, other factors contributing to cost of revenue include amortization of other intangible assets, stock-based compensation, depreciation, provisions for estimated warranty claims, salaries, personnel-related costs, freight, royalties, facilities expenses, and manufacturing supplies associated with contracting revenue and solar cell fabrication as well as factory pre-operating costs associated with our manufacturing facilities. Such pre-operating costs included compensation and training costs for factory workers as well as utilities and consumable materials associated with preproduction activities.

We are targeting to improve cost of revenue over time as we implement cost reduction programs, improve our manufacturing processes, and grow our business to attain economies of scale on fixed costs. An expected reduction in cost of revenue based on manufacturing efficiencies, however, could be partially or completely offset by increased raw material costs.

Gross Margin

Our gross margin each quarter is affected by a number of factors, including average selling prices for our solar power products, the types of projects in progress, the gross margins estimated for those projects in progress, our product mix, our actual manufacturing costs, the utilization rate of our solar cell manufacturing facilities, and actual overhead costs. Historically, revenue from materials-only sales contracts generate a higher gross margin percentage than revenue generated from turn-key solar power system contracts. Turn-key contracts generate higher revenue per watt as a result of the included EPC services, O&M services and power plant project development.

From time to time, we enter into agreements whereby the selling price for certain of our solar power products is fixed over a defined period. In addition, almost all of our construction contracts are fixed price contracts. However, we have in several instances obtained change orders that reimburse us for additional unexpected costs due to various reasons. We also have long-term agreements for polysilicon, ingots, wafers, and solar cells with suppliers, some with take-or-pay arrangements. An increase in our manufacturing costs and other project costs over such a defined period could have a negative impact on our overall gross margin. Our gross margin may also be impacted by fluctuations in manufacturing yield rates and certain adjustments for inventory reserves. Our inventory policy is described in more detail under "Critical Accounting Estimates."

Operating Expenses

Our operating expenses include research and development ("R&D") expenses and sales, general and administrative ("SG&A") expenses, goodwill and other intangible asset impairment, and restructuring charges.

R&D expenses consist primarily of salaries and related personnel costs, depreciation of equipment and the cost of solar cells, solar panel materials, various prototyping materials, and services used for the development and testing of products. We expect our R&D expense to continually increase in absolute dollars as we continue to develop new processes to further improve the conversion efficiency of our solar cells and reduce their manufacturing cost, and as we develop new products to diversify our product offerings. R&D expense is reported net of any funding received under contracts with governmental agencies because such contracts are considered collaborative arrangements. These awards are typically structured such that only direct costs, R&D overhead, procurement overhead, and general and administrative expenses that satisfy government accounting regulations are reimbursed. In addition, our government awards from state agencies will usually require us to pay to the granting governmental agency certain royalties based on sales of products developed with government funding or economic benefit derived from incremental improvements funded. Royalties paid to governmental agencies are charged to cost of goods sold.

SG&A expense for our business consists primarily of salaries and related personnel costs, professional fees, insurance, and other selling and marketing expenses.

Goodwill and other intangible asset impairment primarily consists of impairment of goodwill as a result of our annual impairment test, performed in the third quarter of both fiscal 2012 and 2011, as we determined the carrying value of certain reporting units exceeded their fair value. Additionally, during the third quarter of both fiscal 2012 and 2011 we determined the carrying value of certain intangible assets in Europe were no longer recoverable. For additional details see Note 6 of Notes to Consolidated Financial Statements.

Restructuring expense consists of four restructuring plans effected in both fiscal 2012 and 2011 in response to reductions in European government incentives, which had a significant impact on the global solar market, and to accelerate operating cost reduction and improve overall operating efficiency. Charges in connection with these plans relate to employee severance and benefits, lease termination costs, and legal and other related charges. For additional details, see Note 9 of Notes to Consolidated Financial Statements.

Other Income (Expense), Net

Interest income represents interest income earned on our cash, cash equivalents, restricted cash, restricted cash equivalents, held-to-maturity securities and available-for-sale debt securities. Interest expense primarily relates to: (i) amortization expense recorded for warrants issued to Total in connection with the Liquidity Support Agreement executed in the first quarter of fiscal 2012; (ii) debt under our senior convertible debentures; (iii) fees for our outstanding letters of credit; (iv) outstanding term loans; (v) our revolving credit facilities; (vi) our mortgage loan; and (vii) customer advance payments. For additional details see Notes 8, 10, and 12 of Notes to Consolidated Financial Statements.

Gain on deconsolidation of consolidated subsidiary is the result of the deconsolidation of AUOSP in the third quarter of fiscal 2010. Net gain on change in equity interest in unconsolidated investee refers to the value of our equity interests in Woongjin Energy Co., Ltd. ("Woongjin Energy") and First Philec Solar Corporation ("First Philec Solar") being adjusted upon dilutive events. Gain on sale of equity interest in unconsolidated investee represents net gains from the sale of our Woongjin Energy shares in the open market during second half of fiscal 2011. For additional details see Note 11 of Notes to Consolidated Financial Statements.

Gain on mark-to-market derivatives during fiscal 2012, 2011 and 2010 relates to derivative instruments associated with our 4.50% senior cash convertible debentures ("4.50% debentures"): (i) the embedded cash conversion option; (ii) the over-allotment option; (iii) the bond hedge transaction; and (iv) the warrant transactions. The changes in fair value of these derivatives are reported in our Consolidated Statement of Operations until such transactions settle or expire. The bond hedge and warrant transactions are meant to reduce our exposure to potential cash payments associated with the embedded cash conversion option. For additional details, see Note 12 of Notes to Consolidated Financial Statements.

Gain on share lending arrangement relates to recovery of claims related to unreturned shares under our former share lending arrangement with Lehman Brothers International (Europe) Limited ("LBIE") following their bankruptcy.

Other, net consists primarily of gains or losses on foreign exchange and derivatives as well as gain on sale and impairment charges for certain available-for-sale securities and other investments.

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets when management cannot conclude that it is more likely than not that some portion or all deferred tax assets will be realized. For additional details see Notes 1 and 14 of Notes to Consolidated Financial Statements.

We currently benefit from income tax holiday incentives in the Philippines in accordance with our subsidiary's registration with the Philippine Economic Zone Authority ("PEZA"), which provide that we pay no income tax in the Philippines for those operations subject to the ruling. Our current income tax holidays were granted as manufacturing lines were placed in service and thereafter expire within the current fiscal year, and we are in the process of or have applied for extensions and renewals upon expiration. We expect such approvals to be granted. We believe that if our Philippine tax holidays expire, (a) gross income attributable to activities covered by our PEZA registrations will be taxed at a 5% preferential rate, and (b) our Philippine net income attributable to all other activities will be taxed at the statutory Philippine corporate income tax rate, currently 30%. An increase in our tax liability could materially and negatively affect our financial condition and results of operations.

We have an auxiliary company ruling in Switzerland where we sell our solar power products. The auxiliary company ruling results in a reduced effective Swiss tax rate of approximately 11.5%. The current ruling expires at the end of 2015. If the ruling is not renewed in 2015, Swiss income would be taxable at the full Swiss tax rate of approximately 24.2%.

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

Equity in Earnings of Unconsolidated Investees

In fiscal 2006, we entered into an agreement to form Woongjin Energy, a jointly owned entity located in South Korea, to manufacture monocrystalline silicon ingots. In fiscal 2007, we entered into an agreement to form First Philec Solar, a jointly owned entity located in the Philippines, to provide wafer slicing services of silicon ingots. In fiscal 2010, we entered into a joint venture agreement with AU Optronics Singapore Pte. Ltd. ("AUO"), and AU Optronics Corporation, the ultimate parent company of AUO ("AUO Taiwan") to form AUOSP, a joint venture to construct a solar cell manufacturing facility ("FAB3") in Malaysia which manufactures and sells solar cells on a "cost-plus" basis to us and AUO. FAB3 became operational in the fourth quarter of fiscal 2010. We account for these investments using the equity method, in which the equity investments are classified as "Other long-term assets" in the Consolidated Balance Sheets and our share of the investees' earnings (loss) is included in "Equity in earnings (loss) of unconsolidated investees" in the Consolidated Statements of Operations. During fiscal 2011, we sold 15.5 million shares of Woongjin Energy on the open market subsequently reducing our percentage equity ownership in Woongjin Energy from 31% to 6%. During the first quarter of fiscal 2012, we sold our remaining shares of Woongjin Energy on the open market and as a result our percentage equity ownership and investment carrying balance was reduced to zero. For additional details see Note 11 of Notes to Consolidated Financial Statements.

Income from Discontinued Operations, Net of Taxes

In connection with our strategic acquisition of SunRay Malta Holdings Limited ("SunRay") in March 2010, we acquired a project company, Cassiopea PV S.r.l ("Cassiopea"), operating a previously completed 20 MW solar power plant in Montalto di Castro, Italy. In the period in which our asset is classified as held-for-sale, we are required to segregate for all periods presented the related assets, liabilities, and results of operations associated with that asset as discontinued operations. In August 2010, we sold Cassiopea, including all related assets and liabilities. Cassiopea's results of operations for fiscal 2010 are classified as "Income from discontinued operations, net of taxes" in our Consolidated Statement of Operations.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses. 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 or conditions. In addition to our most critical estimates and judgments as discussed below, we also have other key accounting policies that are less subjective and, therefore, judgments in their application would not have a material impact on our reported results of operations (See Note 1 of Notes to the Consolidated Financial Statements).

Revenue Recognition

Solar Power Products

We sell our solar panels and balance of system components primarily to dealers, system integrators and distributors, and recognize revenue, net of accruals for estimated sales returns, when persuasive evidence of an arrangement exists, delivery of the product has occurred, title and risk of loss has passed to the customer, the sales price is fixed or determinable, collectability of the resulting receivable is reasonably assured and the risks and rewards of ownership have passed to the customer. Other than standard warranty obligations, there are no rights of return and there are no significant post-shipment obligations, including installation, training or customer acceptance clauses with any of our customers that could have an impact on revenue recognition. Our revenue recognition policy is consistent across all geographic areas.

Construction Contracts

Revenue is also comprised of EPC projects which are governed by customer contracts that require us to deliver functioning solar power systems and are generally completed within three to twelve months from commencement of construction. Construction on large projects may be completed within eighteen to thirty six months, depending on the size. We recognize revenue from fixed price construction contracts, that do not include land or land rights, using the percentage-of-completion method of accounting. Under this method, revenue arising from fixed price construction contracts is recognized as work is performed based on the percentage of incurred costs to estimated total forecasted costs.

Incurred costs used in our percentage-of-completion calculation include all direct material, labor, subcontract costs, and those indirect costs related to contract performance, such as indirect labor, supplies, and tools. Project material costs are included in incurred costs when the project materials have been installed by being permanently attached or fitted to the solar power system as required by the project's engineering design.

In addition to an EPC deliverable, a limited number of arrangements also include multiple deliverables such as post-installation systems monitoring and maintenance. For contracts with separately priced monitoring and maintenance, we recognize revenue related to such separately priced elements over the contract period. For contracts including monitoring and maintenance not separately priced, we determined that post-installation systems monitoring and maintenance qualify as separate units of accounting. Such post-installation monitoring and maintenance are deferred at the time the contract is executed based on the best estimate of selling price on a standalone basis and are recognized to revenue over the contractual term. The remaining EPC revenue is recognized on a percentage-of-completion basis.

In addition, when arrangements include contingent revenue clauses such as customer termination or put rights for non-performance, we defer the contingent revenue until such time as the contingencies expire. In certain limited cases, we could be required to buy-back a customer's system at fair value on specified future dates if certain minimum performance thresholds are not met for periods of up to two years. To date, no such repurchase obligations have been triggered.

Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable. Contracts may include profit incentives such as milestone bonuses. These profit incentives are included in the contract value when their realization is reasonably assured.

Development Projects

We develop and sell solar power plants which generally include the sale or lease of related real estate. Revenue recognition for these solar power plants require adherence to specific guidance for real estate sales, which provides that if we execute a sale of land in conjunction with an EPC contract requiring the future development of the property, we recognize revenue and the corresponding costs under the full accrual method when all of the following requirements are met: the sale is consummated, the buyer's initial and any continuing investments are adequate, the resulting receivables are not subject to subordination, the future costs to develop the property can be reasonably estimated and we have transferred the customary risk and rewards of ownership to the buyer. In general, a sale is consummated upon the execution of an agreement documenting the terms of the sale and a minimum initial payment by the buyer to substantiate the transfer of risk to the buyer. Depending on the value of the initial continuing investment of the buyer, and provided the recovery of the costs of the solar power plant are assured if the buyer defaults, we may defer revenue and profit during construction by aligning our revenue recognition and release of deferred project costs to cost of sales with the receipt of payment from the buyer. At the time we have unconditionally received payment from the buyer, revenue would be recognized and deferred project costs would be release to cost of sales at the same rate of profit estimated throughout the construction of the project. Our revenue recognition methods for solar power plants not involving real estate are accounted for using the percentage-of-completion method.

Allowance for Doubtful Accounts and Sales Returns

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

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

Warranty Reserves

We generally warrant or guarantee the performance of our solar panels that we manufacture at certain levels of power output for 25 years. In addition, we pass through to customers long-term warranties from the original equipment manufacturers ("OEMs") of certain system components, such as inverters. Warranties of 25 years from solar panel suppliers are standard in the solar industry, while inverters typically carry warranty periods ranging from 5 to 10 years. In addition, we generally warrant our workmanship on installed systems for periods ranging up to 10 years. We maintain reserves to cover the expected costs that could result from these warranties. Our expected costs are generally in the form of product replacement or repair. Warranty reserves are based on our best estimate of such costs and are recognized as a cost of revenue. We continuously monitor product returns for warranty failures and maintain a reserve for the related warranty expenses based on various factors including historical warranty claims, results of accelerated lab testing, field monitoring, vendor reliability estimates, and data on industry averages for similar products. Historically, warranty costs have been within management's expectations. For additional details see Note 10 of Notes to Consolidated Financial Statements.

Valuation of Inventories

Inventories are valued at the lower of cost or market value. We evaluate the recoverability of our inventories 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, 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 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 of market value adjustments, forfeiture of advanced deposits and liquidated damages.

Other market conditions that could impact 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, product merchantability, and other factors. If we determine that the cost of inventories exceeds its estimated market value based on assumptions about expected demand and market conditions, we record a write-down equal to the difference between the cost of inventories and the estimated market value. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required that could negatively impact 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. For additional details see Note 7 of Notes to Consolidated Financial Statements.

Stock-Based Compensation

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

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

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

Investments in Equity Interests

Investments in entities in which we can exercise significant influence, but do not own a majority equity interest or otherwise control, are accounted for under the equity method. Such investments are classified as "Other long-term assets" in our Consolidated Balance Sheets and our share of the investees' earnings (loss) is included as "Equity in earnings of unconsolidated investees" on the Consolidated Statements of Operations. We record our share of the results of Woongjin Energy and First Philec Solar in the same quarter and the results of AUOSP with a one quarter lag. To calculate our share of the investees' income or loss, we adjust the net income (loss) of each investee to conform to U.S. GAAP and multiply that by our equity investment ownership percentage.

Variable Interest Entities ("VIE")

We regularly evaluate our relationships and involvement with unconsolidated VIEs, including our equity method investments and joint venture with AUOSP, to determine if we have a controlling financial interest or become the primary beneficiary requiring us to consolidate their financial results into our financial statements. We do not consolidate the financial results of our investees as we have concluded that we are not the primary beneficiary. Although we are obligated to absorb losses or have the right to receive benefits from the investees that are significant to the entities, such variable interests held by us do not empower us to direct the activities that most significantly impact their economic performance. For additional details see Note 11 of the Notes to Consolidated Financial Statements for discussions of equity method investments.

In connection with the sale of the equity interests in the entities that hold solar power plants, we also consider if we retain a variable interest in the entity sold, either through retaining a financial interest or by contractual means. If we determine that the entity sold is a VIE and that we hold a variable interest, we then evaluate whether we are the primary beneficiary. The entity that is the primary beneficiary consolidates the VIE. The determination of whether we are the primary beneficiary is based upon whether we have the power to direct the activities that most directly impact the economic performance of the VIE and whether we absorb any losses or benefits that would be potentially significant to the VIE. To date, there have been no sales of entities holding solar power plants in which we have concluded that we are the primary beneficiary after the sale.

Accounting for Business Combinations

We record all acquired assets and liabilities, including goodwill, other intangible assets and in-process research and development, at fair value. The initial recording of goodwill, other intangible assets and in-process research and development requires certain estimates and assumptions concerning the determination of the fair values and useful lives. The judgments made in the context of the purchase price allocation can materially impact our future results of operations. Accordingly, for significant acquisitions, we obtain assistance from third-party valuation specialists. The valuations calculated from estimates are based on information available at the acquisition date. Goodwill is not amortized, but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. For additional details see Notes 4 and 6 of Notes to Consolidated Financial Statements.

Valuation of Long-Lived Assets

Our long-lived assets include property, plant and equipment, project assets 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.

Goodwill Impairment Testing

Goodwill is tested for impairment at least annually, or more frequently if certain indicators are present. A two-step process is used to test for goodwill impairment. The first step is to determine if there is an indication of impairment by comparing the estimated fair value of each reporting unit to its carrying value, including existing goodwill. Goodwill is considered impaired if the carrying value of a reporting unit exceeds the estimated fair value. Upon an indication of impairment, a second step is performed to determine the amount of the impairment by comparing the implied fair value of the reporting unit's goodwill with its carrying value.

We conduct our annual impairment test of goodwill as of the Sunday closest to the end of the third fiscal quarter of each year. Impairment of goodwill is tested at our reporting unit level. Management determined that the Americas Segment, the EMEA Segment, and the APAC Segment are also the reporting units. In estimating the fair value of the reporting units, we make estimates and judgments about our future cash flows using an income approach defined as Level 3 inputs under fair value measurement standards. The income approach, specifically a discounted cash flow analysis, included assumptions for, among others, forecasted revenue, gross margin, operating income, working capital cash flow, perpetual growth rates and long-term discount rates, all of which require significant judgment by management. The sum of the fair values of our reporting units are also compared to our external market capitalization to determine the appropriateness of its assumptions and adjusted, if appropriate. These assumptions take into account the current industry environment and its impact on our business. In the event that management determines that the value of goodwill has become impaired, we will incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made. For additional details see Note 6 of Notes to Consolidated Financial Statements.

Fair Value of Financial Instruments

Certain of our financial assets and financial liabilities, specifically our cash, cash equivalents, restricted cash, restricted cash equivalents, available-for-sale securities, foreign currency derivatives, interest rate swaps derivatives and convertible debenture derivatives are carried at fair value in our Consolidated Financial Statements. Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We enter into over-the-counter ("OTC") foreign currency derivatives and use standard valuation techniques to derive the value of option and forward currency contracts. In determining fair value, we use the market and income approaches. Current accounting guidance provides a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about market participants assumptions used in pricing the asset or liability, developed based on the best information available in the circumstances. As such, fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity specific measure. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Financial assets utilizing Level 1 inputs include money market funds.

- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Financial assets utilizing Level 2 inputs include bank notes, debt securities, foreign currency option contracts, forward exchange contracts, interest rate swaps derivatives and convertible debenture derivatives. The selection of a particular technique to value a derivative depends upon the contractual term of, and specific risks inherent with, the instrument as well as the availability of pricing information in the market. We generally use similar techniques to value similar instruments. Valuation techniques utilize a variety of inputs, including contractual terms, market prices, yield curves, credit curves and measures of volatility. For derivatives that trade in liquid markets, such as generic forward, option and swap contracts, inputs can generally be verified and selections do not involve significant management judgment.

- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. We did not have any assets and liabilities measured at fair value on a recurring basis requiring Level 3 inputs.

Availability of observable inputs can vary from instrument to instrument and to the extent that valuation is based on inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by our management in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Unrealized gains and losses of our available-for-sale securities and the effective portion of foreign currency derivatives are excluded from earnings and reported as a component of accumulated other comprehensive income (loss) on the Consolidated Balance Sheets. To the extent our foreign currency derivatives are not effective hedges, unrealized gains or losses are included in earnings. Similarly, the change in fair value of our interest rate swaps derivatives and convertible debenture derivatives are included in earnings. Additionally, we assess whether an other-than-temporary impairment loss on our available-for-sale securities has occurred due to declines in fair value or other market conditions. Declines in fair value that are considered other-than temporary are recorded in "Other, net" in the Consolidated Statements of Operations.

In general, investments with original maturities of greater than ninety days and remaining maturities of one year or less are classified as short-term investments. Investments with maturities beyond one year may also be classified as short-term based on their highly liquid nature and because such investments represent the investment of cash that is available for current operations. For additional details see Note 8 of Notes to Consolidated Financial Statements.

Valuation of Certain Convertible Debt

Convertible debt instruments that may be settled in cash upon conversion require recognition of both the liability and equity components in the Consolidated Financial Statements. The debt component is required to be recognized at the fair value of a similar debt instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the convertible debt and the fair value of the liability, after adjusting for the deferred tax impact. The accounting guidance also requires an accretion of the resulting debt discount over the expected life of the convertible debt.

Accounting for Income Taxes

Our global operations involve manufacturing, R&D, selling and project development activities. Profit from non-U.S. activities is subject to local country taxation, but not subject to United States tax until repatriated to the United States. It is our intention to indefinitely reinvest these earnings outside the United States. We record a valuation allowance to reduce our U.S. 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 December 30, 2012, we believe there is insufficient evidence to realize additional deferred tax assets, although it is possible that a reversal of the valuation allowance, which could be material, could occur in fiscal 2013.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period in which we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate tax assessment, a further charge to expense would result. We accrue interest and penalties on tax contingencies which are classified as "Provision for income taxes" in the Consolidated Statements of Operations and are not considered material. For additional details see Note 14 of Notes to Consolidated Financial Statements.

Pursuant to the Tax Sharing Agreement with Cypress, we are obligated to indemnify Cypress upon current utilization of carryforward tax attributes generated while we were part of the Cypress consolidated or combined group. Further, to the extent Cypress experiences any tax examination assessments attributable to our operations while part of the Cypress consolidated or combined group, Cypress will require an indemnification from us for those aspects of the assessment that relate to our operations. See also *"Item 1A: Risk Factors"* including *"Our agreements with Cypress require us to indemnify Cypress for certain tax liabilities. These indemnification obligations and related contractual restrictions may limit our ability to pursue certain business initiatives."*

In addition, foreign exchange gains (losses) may result from estimated tax liabilities which are expected to be realized in currencies other than the U.S. dollar.

Results of Operations

Revenue

(In thousands)	Year ended December 30, 2012	% of total revenue	January 1, 2012	% of total revenue	January 2, 2011	% of total revenue
Americas	$ 1,696,348	70%	$ 1,266,347	53%	$ 632,053	28%
EMEA	489,484	20%	924,337	39%	1,526,480	69%
APAC	231,669	10%	183,692	8%	60,697	3%
Total revenue	$ 2,417,501	100%	$ 2,374,376	100%	$ 2,219,230	100%

Total Revenue: During fiscal 2012, 2011, and 2010 our total revenue was $2,417.5 million, $2,374.4 million, and $2,219.2 million, respectively. The increase in total revenue of 2% in fiscal 2012 as compared to fiscal 2011 was primarily driven by revenue recognized on large scale utility projects in North America during fiscal 2012 partially offset by a decline in utility-scale solar projects and related revenue within the EMEA region as well as a 10% decrease in overall revenue per watt. In fiscal 2012 we recognized revenue on 862.7 MW as compared to 765.8 MW in fiscal 2011.

The increase in total revenue of 7% in fiscal 2011 as compared to fiscal 2010 was primarily attributable to revenue from the development of several large scale projects in North America and Europe, as well as the continuous growth of our third-party global dealer network in the geographical regions in which we do business. In fiscal 2011 we recognized revenue on 765.8 MW as compared to 558.5 MW in fiscal 2010. The increase in our total revenue was partially offset by a 22% decrease in overall revenue per watt.

Concentrations: Sales outside the Americas Segment represented approximately 30%, 47% and 72% of total revenue for fiscal 2012, 2011, and 2010, respectively. The decrease in the percentage of sales outside of the Americas Segment over all periods was primarily due to slowdown in project development and component shipments in Europe due to reductions in government incentives and decline in overall European economy, coupled with increasing demand in the United States for our solar power products due to additional federal and state initiatives supporting attractive solar incentives within the residential, commercial, and utility sectors.

The table below represents our significant customers which accounted for greater than 10 percent of total revenue during fiscal 2012, 2011, and 2010.

Revenue		Year ended December 30, 2012	January 1, 2012	January 2, 2011
Significant Customers:	**Business Segment**			
NRG Solar, Inc.	Americas	35%	*	*
Customer B	EMEA	*	*	12%

* denotes less than 10% during the period

Americas Revenue: Americas revenue in fiscal 2012 increased 34% as compared to fiscal 2011 primarily as a result of an increase in the number and size of the various utility-scale solar power systems under construction, which includes the ramp up in construction of the 250 MW California Valley Solar Ranch ("CVSR") project in San Luis Obispo County, California; revenue recognized on the 579 MW Antelope Valley Solar Projects ("AVSP") in California; a 25 MW project in Modesto, California; and 20 MW project in North Carolina during fiscal 2012. The increase in Americas revenue in fiscal 2012 as compared to fiscal 2011 was partially offset by projects which were substantially completed during the interim period as well as a 52% decrease in component sales year over year. In fiscal 2012, we recognized 31.8 MW of component sales as compared to 66.9 MW in fiscal 2011.

Americas revenue in fiscal 2011 increased 100% as compared to fiscal 2010 primarily as a result of an increase in the number of utility-scale solar power systems under construction as well as an increase in component shipments. In fiscal 2011, we recognized revenue on 66.9 MW of components sales as compared to 7.6 MW in fiscal 2010. In fiscal 2011, we additionally recognized revenue under the percentage-of-completion method for several power plants, including three under construction in the United States, totaling 60 MW and the completion of a 20 MW solar plant in Ontario, Canada. Revenue recognition on project under construction in the Americas Segment during fiscal 2010 included a 20 MW solar power plant in Toronto, and a 17 MW solar power plant in Colorado.

EMEA Revenue: EMEA revenue in fiscal 2012 decreased 47% as compared to fiscal 2011 primarily due to the decline in utility-scale solar projects and related revenue as well as a decrease in components sales and average selling prices. In fiscal 2012, we recognized revenue on 24.1 MW of component sales as compared to 112.5 MW in fiscal 2011, which represents a 79% decrease in volume, period over period. The overall decline in our EMEA revenue was partially offset by $103.9 million in revenue due to Tenesol's results of operations being incorporated into our financial results for year ended December 30, 2012.

EMEA revenue in fiscal 2011 decreased 39% as compared to fiscal 2010 primarily due to the decline in utility-scale solar power projects and related revenue driven by changes in European government incentives which had a materially negative effect on the market within the region. In the second half of fiscal 2010, we completed the sale of 44 MW and 8 MW solar power plants in Montalto di Castro, Italy as well as a 13 MW solar power plant in Anguillara, Italy and further recognized revenue under the percentage-of-completion method for several power plants totaling 28 MW in the Sicily region and Piedmont region of Italy.

APAC Revenue: APAC revenue in fiscal 2012 increased 26% as compared to fiscal 2011, primarily due to an increase in component sales partially offset by a reduction in systems revenue. In fiscal 2012, we recognized revenue on 120.4 MW of component sales as compared to 50 MW in fiscal 2011, which represents a 141% increase in volume year over year. This increase was partially offset by a decrease in systems revenue due to a shift in demand for our solar products in the residential and commercial markets coupled with an overall decrease in revenue per watt in the region.

APAC revenue in fiscal 2011 increased 203% as compared to fiscal 2010 primarily due to an increase in component sales. In fiscal 2011, we recognized revenue on 50.0 MW of component sales as compared to 23.6 MW in fiscal 2010, which represents a 112% increase in volume year over year.

Cost of Revenue

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Americas	$ 1,415,417	$ 1,131,771	$ 502,780
EMEA	559,993	868,330	1,159,115
APAC	195,693	148,057	47,442
Total cost of revenue	$ 2,171,103	$ 2,148,158	$ 1,709,337
Total cost of revenue as a percentage of revenue	90%	90%	77%
Total gross margin percentage	10%	10%	23%

Total Cost of Revenue: During fiscal 2012, 2011, and 2010 total cost of revenue was $2,171.1 million, $2,148.2 million, and $1,709.3 million, respectively. The 1% increase in fiscal 2012 as compared to fiscal 2011 was due to (i) a 13% increase in total MW of solar power products sold; (ii) $13.9 million of accelerated depreciation of certain previously owned manufacturing equipment implemented as part of a manufacturing step reduction program; and (iii) $11.9 million of idle equipment impairment resulting from deployment of our next generation of solar cell technology. These increases were partially offset by an overall decrease in material costs as well as $55.7 million of charges incurred in fiscal 2011 associated with the change in European government incentives, as described below.

The 26% increase in total cost of revenue in fiscal 2011 as compared to fiscal 2010 is primarily due to a 37% increase in total MW of solar power products sold. Additionally contributing to the increase in total cost of revenue is $55.7 million in charges incurred in fiscal 2011 associated with the change in European government incentives, including (i) a $16.0 million write-down of project asset costs based on changes in fair value and our ability to develop, commercialize and sell active projects within Europe, and (ii) $39.7 million related to the write-down of third-party inventory and costs associated with the termination of third-party solar cell supply contracts resulting from lower demand and average selling price in certain areas of Europe. The increase in total cost of revenue is partially offset by lower material costs, higher yields as well as better factory utilization as a result of higher output generated at our manufacturing facilities and our AUOSP joint venture.

Gross Margin

(In thousands)	Year ended December 30, 2012	January 1, 2012	January 2, 2011
Americas	17%	11%	20%
EMEA	(14)%	6%	24%
APAC	16%	19%	22%

Americas Gross Margin: Gross margin for our Americas Segment increased to 17% in fiscal 2012 from 11% in fiscal 2011. The increase in gross margin over the respective period is primarily driven by increased revenue from large utility-scale solar power systems under construction combined with lower material costs, partially offset by industry declines in average selling prices. Gross margin for our Americas Segment decreased to 11% in fiscal 2011 from 20% in fiscal 2010. The decrease in gross margin over the respective period is primarily due to declines in average selling prices as well as $20.8 million of charges recorded during fiscal 2011 related to the write-down of third-party inventory and costs associated with the termination of above-market third party solar cell supply contracts, partially offset by an increase in component sales, which historically had higher margin percentages than our utility projects.

EMEA Gross Margin: Gross margin for our EMEA Segment decreased over both periods as a result of declines in government incentives resulting in changes in market demand. The changes in demand, general financing constraints experienced in the European economy, and the over-supply environment continued to significantly drive down average selling prices throughout the region in fiscal 2012. In fiscal 2011, the EMEA Segment additionally recorded $32.3 million of charges related to write-down of project asset costs to estimated fair value based on changes in our ability to develop, commercialize, and sell active projects, as well as the write-down of third-party inventory and costs associated with the termination of above-market third party solar cell supply contracts.

APAC Gross Margin: Gross margin for our APAC Segment decreased over both periods primarily as a result of declining average selling prices, partially offset by lower material costs and additional volumes of higher margin component sales.

Research and Development ("R&D")

(In thousands)	Year ended December 30, 2012	January 1, 2012	January 2, 2011
R&D Expense	$ 63,456	$ 57,775	$ 49,090
As a percentage of revenue	3%	2%	2%

The overall increase in our investment in R&D over all periods primarily resulted from costs related to the improvement of our current generation solar cell manufacturing technology, development of our next generation of solar cells, solar panels, trackers and rooftop systems, and development of systems performance monitoring products as well as operating expenses related to Tenesol which were incorporated into our financial results for the fiscal period 2012.

R&D expense increased $5.7 million or 10% in fiscal 2012 as compared to fiscal 2011 primarily due to (i) a $3.3 million increase in labor costs due to increased headcount and salary related expenses during the year; (ii) a $2.2 million increase due to an impairment of equipment recorded as a result of changes in the deployment plan for our next generation of solar cell technology in one of our Fabs; (iii) a $0.8 million decrease in R&D cost reimbursements received from government entities due to phase out of related programs beginning in 2010; and (iv) a $0.5 million increase in other net expenses. This was partially offset by a $1.1 million decrease in stock-based compensation due to lower valuation of stock grants as a result of the decline in our share price.

R&D expense increased $8.7 million or 18% in fiscal 2011 over fiscal 2010 primarily due to (i) a $5.9 million increase primarily due to additional costs related to the improvement of our current generation solar cell manufacturing technology, development of our next generation of solar cells, solar panels, trackers and rooftop systems, and development of systems performance monitoring products; and (ii) a $4.1 million decrease in R&D cost reimbursements received from government entities due to phase out of related programs in 2010. This was partially offset by a $1.4 million decrease in stock-based compensation due to lower valuation of stock grants as a result of the decline in our share price.

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

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Total SG&A	$ 310,246	$ 331,380	$ 321,936
As a percentage of revenue	13%	14%	15%

During fiscal 2012, 2011 and 2010, SG&A expense was $310.2 million, $331.4 million, and $321.9 million, respectively. SG&A, as a percentage of revenue, decreased over all periods primarily as a result of our cost-control strategy implemented in response to the changes in the European market and resulting restructuring, including the overall reduction of consulting charges in Europe and the United States.

SG&A expense decreased $21.1 million or 6% in fiscal 2012 as compared to fiscal 2011 primarily due to (i) a $15.5 million decrease in amortization of intangible assets due to $40.3 million of impairment of certain assets related to strategic acquisitions of EPC and O&M project pipelines in Europe recorded at the end of the third quarter of fiscal 2011; (ii) an $8.4 million decrease in acquisition and integration related costs which were primarily incurred in the second quarter of fiscal 2011 as a result of the Total tender offer; (iii) a $10.0 million decrease in personnel costs as a result of the implementation of approved restructuring plans; (iv) a $16.6 million reduction in bad debt expense as a result of collection efforts for accounts receivable related to select European customers that were previously reserved based upon the then market condition in European economy; (v) a $5.7 million decrease in consulting and outside services due to cost reduction initiatives; and (vi) a $0.6 million increase in other expenses. The overall decrease was partially offset by (i) a charge of $19.7 million for the securities class action settlement in the fourth quarter of fiscal 2012 and (ii) a $16.0 million increase for Tenesol's operating expenses which were incorporated into our financial results for the period.

SG&A expense increased $9.4 million or 3% in fiscal 2011 as compared to fiscal 2010 and was primarily due to (i) $11.7 million in operating expenses related to Tenesol which were incorporated into our financial results during fiscal 2011; (ii) transaction expenses of $13.9 million incurred in connection with the April 2011 Tender Offer Agreement with Total as well as related integration costs; (iii) $11.0 million in additional personnel related expenses as a result of net increase in headcount; (iv) additional bad debt expense of $9.8 million related to several customers impacted by the recent changing market conditions in Europe; and (v) a $9.3 million increase in other expenses. This increase was partially offset by (i) a $11.9 million reduction in consulting charges in Europe and the United States as a result of our cost-control strategy implemented in response to the changes in the European market and the resulting restructuring; (ii) a $13.2 million reduction in legal and other professional services as significant acquisition and integration related costs which were incurred as part of our acquisition of SunRay in March 2010 as well as with our Audit Committee's independent investigation of certain accounting entries in our Philippines operations; (iii) a $8.9 million decrease due to amortization of our promissory notes reported in 2010; (iv) a $6.9 million decrease due to amortization of other intangible assets reported in 2010; and (v) a decrease in stock based compensation due to lower valuation of stock grants as a result of the decline in our share price.

Goodwill and Other Intangible Asset Impairment

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Goodwill impairment	$ 46,734	$ 309,457	$ —
Other intangible assets impairment	12,847	40,301	—
	$ 59,581	$ 349,758	$ —
As a percentage of revenue	2%	15%	—

Based on the impairment test performed in the third quarter of fiscal 2012, we determined that the carrying value of the Americas and EMEA reporting units exceeded their fair value. We calculated that the implied fair value of goodwill for the two reporting units was zero and therefore recorded a goodwill impairment loss of $46.7 million, representing all of the goodwill associated with these reporting units. Based on the impairment test performed in the third quarter of 2011, we recorded a goodwill impairment loss of $309.5 million related to the EMEA segment (see Note 6 of Notes to Consolidated Financial Statements).

During the third quarter of fiscal 2012, we determined that the carrying value of certain intangible assets in Europe were no longer recoverable and therefore recognized an impairment loss of $12.8 million. During the first quarter of fiscal 2011, we determined the carrying value of certain intangible assets related to strategic acquisitions of EPC and O&M project pipelines in

Europe were no longer recoverable and therefore recognized an impairment loss of $40.3 million in the year ended January 1, 2012 (see Note 6 of Notes to Consolidated Financial Statements).

Restructuring Charges

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
October 2012 Plan	$ 30,227	$ —	$ —
April 2012 Plan	61,379	—	—
December 2011 Plan	7,946	7,477	—
June 2011 Plan	1,271	13,926	—
Restructuring charges	$ 100,823	$ 21,403	$ —
As a percentage of revenue	4%	1%	—

October 2012 Plan: On October 12, 2012, our Board of Directors approved a reorganization (the "October 2012 Plan") to accelerate operating cost reduction and improve overall operating efficiency. In connection with the October 2012 Plan, which is expected to be completed within the twelve months following approval, we expect to eliminate approximately 900 positions primarily in the Philippines, representing approximately 15% of our global workforce. As a result, we expect to record restructuring charges totaling $33.0 million to $40.0 million, related to all segments. Such charges are composed of severance benefits, lease and related termination costs, and other associated costs, $30.2 million of which were recorded in the fourth quarter of fiscal 2012. We expect greater than 90% of these charges to be cash.

April 2012 Plan: As a result of our continued cost reduction progress at its Fab 2 and our joint venture Fab 3 manufacturing facilities, on April 13, 2012, our Board of Directors approved a restructuring plan (the "April 2012 Plan") to consolidate our Philippine manufacturing operations into Fab 2 and begin repurposing Fab 1 in the second quarter of 2012. We expect to recognize restructuring charges up to $63.0 million, related to all segments, in the twelve months following the approval and implementation of the April 2012 Plan. We expect greater than 80% of these charges to be non-cash.

December 2011 Plan: To accelerate operating cost reduction and improve overall operating efficiency, in December 2011, we implemented a company-wide restructuring program (the "December 2011 Plan"). The December 2011 Plan eliminated approximately 2% of SunPower's global workforce. Restructuring activities associated with the December 2011 Plan were substantially completed as of December 30, 2012.

June 2011 Plan: In response to reductions in European government incentives, which had a significant impact on the global solar market, on June 13, 2011, our Board of Directors approved a restructuring plan (the "June 2011 Plan") to realign our resources. The June 2011 Plan eliminated approximately 2% of SunPower's global workforce, in addition to the consolidation or closure of certain facilities in Europe. Restructuring activities associated with the June 2011 Plan were substantially completed as of December 30, 2012.

See Note 9 of our Notes to Consolidated Financial Statements for further information regarding our restructuring plans.

Other Income (Expense), Net

(In thousands)	Year ended December 30, 2012	Year ended January 1, 2012	Year ended January 2, 2011
Interest income	$ 1,091	$ 2,337	1,541
Interest expense	(84,120)	(67,253)	(55,276)
Gain on sale of equity interest in unconsolidated investee	—	5,937	—
Gain on change in equity interest in unconsolidated investee	—	322	28,078
Gain on share lending arrangement	50,645	—	24,000
Gain on deconsolidation of consolidated subsidiary	—	—	36,849
Gain on mark-to-market derivative	4	343	35,764
Other, net	(9,575)	(10,120)	(26,410)
Other income (expense), net	$ (41,955)	$ (68,434)	44,546
As a percentage of revenue	(2)%	(3)%	2%

Other expense, net decreased $26.5 million, or 39%, in fiscal 2012 as compared to fiscal 2011. The overall decrease was primarily driven by a $50.6 million gain related to the recovery of claims related to unreturned shares under our former share lending arrangement with LBIE following their bankruptcy. This was partially offset by, (i) a $16.9 million increase in interest expense primarily due to the non-cash interest expenses as a result of amortization expense recorded for warrants issued to Total in connection with the Liquidity Support Agreement executed in the first quarter of fiscal 2012; (ii) a $5.9 million cash gain from the sale of 15.5 million shares of Woongjin Energy Co. Ltd., which was recorded in 2011; and (iii) an increase in other net expenses totaling $1.3 million.

Other expense, net increased $113.0 million, or 254%, in fiscal 2011 as compared to fiscal 2010. The overall increase was primarily driven by (i) a non-cash gain of $36.8 million as a result of the deconsolidation of AUOSP recorded in 2010; (ii) a $35.8 million gain on mark-to-market derivatives during fiscal 2010 related to the change in fair value of the embedded cash conversion option, the over-allotment option, the bond hedge transaction, and the warrant transaction associated with the 4.50% debentures recorded in 2010; (iii) a $28.1 million non-cash gain due to the dilution of our equity interest of our equity interest in Woongjin Energy as a result of Woongjin Energy's issuance of additional equity to other investor recorded in 2010; (iv) a $24.0 million gain related to the recovery of claims related to unreturned shares under our former share lending arrangement with LBIE following their bankruptcy recorded in 2010; (v) a $12.0 million increase in interest expense due to additional indebtedness related to our 4.50% senior cash convertible debentures, and various borrowings made in 2010 and 2011. This was partially offset by (i) a $5.9 million cash gain from the sale of 15.5 million shares of Woongjin Energy; (ii) a $30.2 million favorable change in gain (loss) on derivatives and foreign exchange period over period primarily resulting from expensing the time value of option contracts and forward points on forward exchange contracts of effective cash flow hedges; and (iii) other net favorable changes totaling $12.8 million including changes in fair value of our investment in unconsolidated investees given the overall economy and solar market conditions.

Income Taxes

(In thousands)	Year ended December 30, 2012	Year ended January 1, 2012	Year ended January 2, 2011
Provision for income taxes	$ (21,842)	$ (17,208)	$ (23,375)
As a percentage of revenue	(1)%	(1)%	(1)%

In fiscal 2012, our income tax provision of $21.8 million, on a loss before income taxes and equity in earnings (losses) of unconsolidated investees of $329.7 million was due to foreign income in certain jurisdictions where our operations were profitable, adjustments to unrecognized tax benefits, prior year return to provision adjustments and a valuation allowance recorded against a foreign deferred tax asset. In fiscal 2011, our income tax provision of $17.2 million, on a loss from continuing operations of $602.5 million, was primarily due to foreign income in certain jurisdictions where our operations were profitable. In fiscal 2010, our income tax provision of $23.4 million on income from continuing operations before income taxes and equity in earnings of unconsolidated investees of $183.4 million was primarily due to the mix of income earned in domestic and foreign jurisdictions, nondeductible amortization of purchased other intangible assets, non deductible equity compensation, amortization of debt discount from convertible debentures, gain on change in equity interest in Woongjin

Energy, mark-to-market fair value adjustments, changes in the valuation allowance on deferred tax assets, and discrete stock option deductions.

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. United States income taxes and foreign withholding taxes have not been provided on the undistributed earnings of our non-United States subsidiaries as such earnings are intended to be indefinitely reinvested in operations outside the United States to 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 United States 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 December 30, 2012, we believe there is insufficient evidence to realize additional deferred tax assets in fiscal 2012.

Equity in Earnings (Loss) of Unconsolidated Investees

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Equity in earnings (loss) of unconsolidated investees	$ (515)	$ 6,003	6,845
As a percentage of revenue	—	0.3%	0.3%

In fiscal 2012, 2011, and 2010, our equity in earnings of unconsolidated investees was a net loss of $0.5 million, net gains of $6.0 million, and net gains of $6.8 million, respectively. The increase in net loss for fiscal 2012 over fiscal 2011 is primarily attributable to the sale of our equity ownership in Woongjin Energy during fiscal 2011 and the first quarter of fiscal 2012. The decrease in net earnings for fiscal 2011 over fiscal 2010 is primarily attributable a decrease in our equity share of Woongjin Energy's earnings, partially offset by a decrease in our share of losses from our AUOSP investment.

Income from Discontinued Operations, Net of Taxes

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Income from discontinued operations, net of taxes	$ —	$ —	$ 11,841
As a percentage of revenue	—	—	1%

In connection with our acquisition of SunRay on March 26, 2010, we acquired a European project company, Cassiopea PV S.r.l ("Cassiopea"), operating a previously completed 20 MW solar power plant in Montalto di Castro, Italy. In the period in which our asset is classified as held-for-sale, we are required to segregate for all periods presented the related assets, liabilities and results of operations associated with that asset as discontinued operations. On August 5, 2010, we sold the assets and liabilities of Cassiopea. Therefore, results of operations were classified as "Income from discontinued operations, net of taxes" in the Consolidated Statement of Operations in the year ended January 2, 2011.

Net Income (Loss)

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Net income (loss)	$ (352,020)	$ (613,737)	$ 178,724

Our net loss decreased $261.7 million, or 42.64%, in fiscal 2012 over fiscal 2011. The decrease in net loss in fiscal 2012 versus 2011 is primarily driven by: (i) a $290.2 million decrease in goodwill and other intangible asset impairment; (ii) a $50.6 million gain related to the recovery of claims related to unreturned shares under our former share lending arrangement with LBIE following their bankruptcy; and (iii) a $15.5 million decrease in other operating expenses attributable to our cost-control strategy implemented in response to the changes in the European market and resulting restructuring. This was partially offset by $79.4 million of additional charges associated with the implementation of approved restructuring programs and a $16.9 million increase in interest expense primarily as a result of amortization of warrants, which were issued to Total in connection with the Liquidity Support Agreement executed in the first quarter of fiscal 2012. Information about other significant variances in our results of operations is described above.

Our net loss increased by $792.5 million, or 443.40%, in fiscal 2011 over fiscal 2010. The increase in net loss in fiscal 2011 is primarily driven by: (i) $283.7 million decrease in gross profit due to margin erosion associated with the decline in European government incentives and resulting oversupply in the market, (ii) $349.8 million of goodwill and other intangible asset impairment; (iii) restructuring charges totaling $21.4 million; and (iv) $124.7 million of non-cash gains recorded in fiscal 2010.

Liquidity and Capital Resources

Cash Flows

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

	Year ended		
(In thousands)	December 30, 2012	January 1, 2012	January 2, 2011
Net cash provided by (used in) operating activities of continuing operations	$ 28,903	$ (94,304)	$ 168,402
Net cash provided by (used in) investing activities of continuing operations	(220,067)	64,040	(461,360)
Net cash provided by (used in) financing activities of continuing operations	(75,708)	157,108	244,045

Operating Activities

Net cash provided in operating activities of continuing operations in fiscal 2012 was $28.9 million and was primarily the result of: (i) a non-cash loss of $77.8 million on retirement of property, plant and equipment as primarily the result of our restructuring plan regarding Fab 1 consolidation and changes in the deployment plan for our next generation of solar cell technology; (ii) a $65.7 million increase in customer advance due to additional prepayments received from AUOSP; (iii) non-cash impairment charges totaling $59.6 million associated with goodwill and other intangible asset impairment in the third quarter of fiscal 2012; (iv) a $54.7 million increase in billings in excess of costs and estimated earnings related to contractual timing of system project billings; (v) other net changes in operating assets and liabilities of $126.5 million; and (v) $207.3 million of other, net non-cash charges primarily attributable to depreciation and amortization, and stock based compensation. This was partially offset by (i) a net loss of $352.0 million; (ii) increases in prepaid expense and other assets of $136.1 million primarily related to deferred costs associated with several large utility-scale solar projects under construction in North America and deferred costs associated with solar power systems to be leased; (iii) a $50.6 million gain in connection with our former share lending arrangement with LBIE which was classified as cash from financing activities (see below); and (iv) an increase in project assets of $23.4 million for construction of future and current projects primarily in North America.

Net cash used in operating activities of continuing operations in fiscal 2011 was $94.3 million and was primarily the result of: (i) a net loss of $613.7 million; (ii) increases in prepaid expense and other current assets of $182.7 million primarily associated with outstanding receivables due and receivable from our joint ventures; (iii) increases in inventories and project assets of $131.0 million for construction of future and current projects in North America and Europe; and (iv) an increase in advances to suppliers of $40.5 million associated with prepayments for polysilicon in accordance with our long-term supply contracts. This was partially offset by: (i) non-cash impairment charges totaling $349.8 million associated with goodwill and other intangible asset impairment in the third quarter of fiscal 2011, as well as inventories and project asset write-downs in fiscal 2011 associated with the change in European government incentives; (ii) other non-cash charges of $205.8 million primarily related to depreciation and amortization, stock based compensation, and non-cash interest charges; and (iii) a decrease of $296.8 million in other operating liabilities, net of changes to operating assets.

Net cash provided by operating activities of continuing operations of $168.4 million in fiscal 2010 was primarily the result of: (i) income from continuing operations of $166.9 million; (ii) increases in accounts payable and other accrued liabilities of $158.0 million; and (iii) non-cash charges totaling $255.1 million for depreciation, amortization, stock-based compensation, debt issuance costs, and non-cash interest expense. This was partially offset by: (i) increases to inventories of $114.5 million as we continue to grow our business; (ii) increases in accounts receivable of $132.2 million related to the increase in revenue; (iii) an increase in advance to suppliers of $96.1 million associated with prepayments for polysilicon in accordance with long-term supply contracts; (iv) an $0.8 million net gain on investments; (v) a $24.0 million recovery on a previously recorded loss on a share lending arrangement to LBIE; (vi) net gains of $35.8 million on mark-to-market derivatives related to the change in fair value of the derivative instruments associated with the 4.50% debentures; (vii) other non-cash income of $72.0 million primarily related to our equity share in earnings of joint ventures, gain on deconsolidation of AUOSP, net gain on change in our equity interest in joint ventures; and (viii) other changes in operating assets and liabilities of $27.4 million.

Investing Activities

Net cash used in investing activities of continuing operations in fiscal 2012 was $220.1 million, which included (i) $255.2 million related to capital expenditures primarily associated with improvements to our current generation solar cell manufacturing technology, leasehold improvements associated with our San Jose, California office, the build-out of our new solar panel assembly facility in Mexicali, Mexico, and costs associated with solar power systems leased and to be leased; (ii) a $13.8 million strategic equity investment in unconsolidated investees; and (iii) $1.4 million in purchases of marketable securities. This was partially offset by (i) $32.6 million of restricted cash released back to us due to expirations of fully cash-collateralized letter of credits under the September 2011 Letter of Credit Facility with Deutsche Bank Trust and transition of outstanding letter of credits into the August 2011 Deutsche Bank facility under which payment of obligations is guaranteed by Total S.A.; and (ii) $17.4 million in proceeds from the sale of our equity interest in our Woongjin Energy joint venture on the open market.

Net cash provided by investing activities of continuing operations in fiscal 2011 was $64.0 million, which included: (i) $176.7 million of restricted cash released back to us due to transition of outstanding letter of credits in the August 2011 Deutsche Bank facility under which payment of obligations is guaranteed by Total S.A. and the release of deposited funds under our reimbursement agreement with Barclays Capital Inc. upon conversion of the CEDA bonds to a fixed rate instrument; (ii) $75.3 million in proceeds from the sale of a portion of our equity interest in our Woongjin Energy joint venture on the open market; and (iii) $43.8 million in proceeds received related to the sale of debt securities. This was partially offset by: (i) $131.5 million related to capital expenditures primarily associated with improvements to our current generation solar cell manufacturing technology, leasehold improvements associated with new offices leased in San Jose, California, the build-out of new solar panel assembly facility in Mexicali, Mexico, and other projects; (ii) $80.0 million related to additional cash investments in our AUOSP joint venture; and (iii) $9.2 million in purchases of marketable securities.

Net cash used in investing activities of continuing operations in fiscal 2010 was $461.4 million, made up of: (i) $119.2 million for capital expenditures primarily associated with the continued construction of FAB3 in Malaysia prior to deconsolidation on July 5, 2010; (ii) $272.7 million in cash paid for a strategic acquisition completed in March 2010, net of cash acquired; (iii) $40.1 million for the purchase of debt securities; (iv) $5.6 million of increases in restricted cash and cash equivalents; (v) $17.8 million in cash paid for investments in AUOSP and non-public companies; and (vi) $12.9 million related to cash of AUOSP that was deconsolidated on July 5, 2010. This was partially offset by (i) $5.3 million in proceeds received from the sale of equipment to a third-party contract manufacturer; and (ii) $1.6 million on proceeds from sale or maturity of money market funds.

Financing Activities

Net cash used in financing activities of continuing operations in fiscal 2012 was $75.7 million, made up of: (i) $169.6 million of cash distributions in connection with the transfer of entities under common control; (ii) $198.6 million paid to fully repurchase the outstanding 1.25% convertible debentures; (iii) repayment of $154.1 million of our outstanding borrowings primarily under the Credit Agricole revolving credit facility; and (iv) $5.7 million in purchases of stock for tax withholding obligations on vested restricted stock. This was partially offset by (i) $163.6 million in proceeds from the sale of 18.6 million shares of our common stock to Total; (ii) drawdowns of $150.0 million under the Credit Agricole revolving credit facility; (iii) $50.6 million of proceeds from the recovery of a claim in connection with our former share lending arrangement with LBIE; (iv) $27.6 million from project loans; and (v) $60.4 million of financing proceeds associated with our residential lease program.

Net cash provided by financing activities of continuing operations in fiscal 2011 of $157.1 million reflects cash received of: (i) $489.2 million in cash proceeds from gross drawdowns under the Union Bank, Société Générale, and Credit Agricole revolving credit facilities, and our IFC mortgage loan agreement; (ii) $50.4 million in connection with the transfer of entities under common control; (iii) $4.1 million from stock option exercises; and (iv) $2.3 million in cash proceeds in conjunction with warrant holders' exercise of their rights to reduce warrant exercise prices (see Note 12 of Notes to Consolidated Financial Statements). This was partially offset by: (i) $377.1 million repayment on outstanding balances under the Union Bank and Société Générale revolving credit facilities; and (ii) $11.7 million in purchases of stock for tax withholding obligations on vested restricted stock.

Net cash provided by financing activities of continuing operations in fiscal 2010 of $244.0 million reflects cash received of: (i) $230.5 million in net proceeds from the issuance of $250.0 million in principal amount of our 4.50% debentures, after reflecting the payment of the net cost of the call spread overlay; (ii) $214.7 million and $318.6 million in net proceeds from various bank and project loans, respectively; (iii) $24.0 million received under the LBIE claim assignment agreement with Deutsche Bank; and (iv) $0.9 million from stock option exercises. This was partially offset by: (i) $333.5 million principal amount of project loans assumed by customers with the sale of 44 MW and 8 MW solar power plants in Montalto di Castro, Italy to a consortium of international investors; (ii) cash paid of $30.0 million to Union Bank to terminate our $30.0 million term loan; (iii) repayment of $33.6 million to Piraeus Bank to terminate our current account overdraft agreement in Greece; (iv) repurchase of $143.8 million in principal amount of our 0.75% debentures; and (v) $3.7 million for treasury stock purchases that were used to pay withholding taxes on vested restricted stock units.

Debt and Credit Sources

Convertible Debentures

As of both December 30, 2012 and January 1, 2012, an aggregate principal amount of $250.0 million of the 4.50% debentures remain issued and outstanding. Interest on the 4.50% debentures is payable on March 15 and September 15 of each year. The 4.50% debentures mature on March 15, 2015. The 4.50% debentures are convertible only into cash, and not into shares of our common stock (or any other securities). Prior to December 15, 2014, the 4.50% debentures are convertible only upon specified events and, thereafter, they will be convertible at any time, based on an initial conversion price of $22.53 per share of our common stock. The conversion price will be subject to adjustment in certain events, such as distributions of dividends or stock splits. Upon conversion, we will deliver an amount of cash calculated by reference to the price of our common stock over the applicable observation period. We may not redeem the 4.50% debentures prior to maturity. Holders may also require us to repurchase all or a portion of their 4.50% debentures upon a fundamental change, as defined in the debenture agreement, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. In the event of certain events of default, such as our failure to make certain payments or perform or observe certain obligations thereunder, Wells Fargo, the trustee, or holders of a specified amount of then-outstanding 4.50% debentures will have the right to declare all amounts then outstanding due and payable. Concurrent with the issuance of the 4.50% debentures, we entered into privately negotiated convertible debenture hedge transactions and warrant transactions which represent a call spread overlay with respect to the 4.50% debentures (the "CSO2015"), assuming full performance of the counterparties and 4.50% Warrants strike prices in excess of the conversion price of the 4.50% debentures. According to the counterparties to the warrants, the consummation of the Total tender offer triggered their rights to make a downward adjustment to the strike price of the warrants. In the third quarter of fiscal 2011, we and the counterparties to the 4.50% Warrants agreed to reduce the exercise price of the 4.50% Warrants from $27.03 to $24.00. Please see *"Conversion of our outstanding 4.75% debentures, our warrants related to our outstanding 4.50% and 4.75% 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 "Part I. Item 1A: Risk Factors".

As of both December 30, 2012 and January 1, 2012, an aggregate principal amount of $230.0 million of the 4.75% senior convertible debentures ("4.75% debentures") remain issued and outstanding. Interest on the 4.75% debentures is payable on April 15 and October 15 of each year. Holders of the 4.75% debentures are able to exercise their right to convert the debentures at any time into shares of our common stock at a conversion price equal to $26.40 per share. The applicable conversion rate may adjust in certain circumstances, including upon a fundamental change, as defined in the indenture governing the 4.75% debentures. If not earlier converted, the 4.75% debentures mature on April 15, 2014. Holders may also require us to repurchase all or a portion of their 4.75% debentures upon a fundamental change at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. In the event of certain events of default, such as our failure to make certain payments or perform or observe certain obligations thereunder, Wells Fargo, the trustee, or holders of a specified amount of then-outstanding 4.75% debentures will have the right to declare all amounts then outstanding due and payable. Concurrent with the issuance of the 4.75% debentures, we entered into certain convertible debenture hedge transactions (the "4.75% Bond Hedge") and warrant transactions (the "4.75% Warrants") with affiliates of certain of the underwriters of the 4.75% debentures. According to the counterparties to the warrants, the consummation of the Total tender offer triggered their rights to make a downward adjustment to the strike price of the warrants. In the third quarter of fiscal 2011, we and the counterparties to the 4.75% Warrants agreed to reduce the exercise price of the 4.75% Warrants from $38.50 to $26.40, which is no longer above the conversion price of the 4.75% debentures. Please see *"Conversion of our outstanding and 4.75% debentures, our warrants related to our outstanding 4.50% and 4.75% 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 "Part I. Item 1A: Risk Factors".

As of January 1, 2012, an aggregate principal amount of $198.6 million of the 1.25% senior convertible debentures ("1.25% debentures") remained issued and outstanding. As of January 1, 2012, the 1.25% debentures were classified as short-term liabilities within "Convertible debt, current portion" in the Consolidated Balance Sheet as the holders may require us to repurchase all of their 1.25% debentures on February 15, 2012. On February 16, 2012, we repurchased $198.6 million in principal amount of the 1.25% debentures at a cash price of $199.8 million, representing 100% of the principal amount plus accrued and unpaid interest. None of the 1.25% debentures remained issued and outstanding after the repurchase.

Mortgage Loan Agreement with IFC

On May 6, 2010, we entered into a mortgage loan agreement with IFC. Under the loan agreement, we may borrow up to $75.0 million during the first two years, and 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. On October 3, 2012, IFC granted a temporary waiver of a financial covenant for the fourth quarter of fiscal 2012 through the fourth quarter of fiscal 2013. Subsequent to the waiver, we are required to pay interest of LIBOR plus 3% per annum on outstanding borrowings through January 5, 2013; interest of LIBOR plus 4.25% per annum on outstanding borrowings from January 6, 2013 through September 30, 2013; interest of LIBOR plus 5% per annum on outstanding borrowings from October 1, 2013 through January 5, 2014; 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. If we utilize the waiver for the fourth quarter of 2013, the 2013 rates would continue to apply in 2014. If we do not need to utilize the waiver, 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 both December 30, 2012 and January 1, 2012, we had $75.0 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 December 30, 2012 and January 1, 2012, we had restricted cash and cash equivalents of $6.4 million and $1.3 million, respectively, 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 initially bore interest at a variable interest rate (determined weekly), but in June 2011, at our option were converted into fixed-rate bonds at 8.50% per annum (which include covenants of, and other restrictions on, us). Additionally, in accordance with the terms of the loan agreement, we are required to keep all loan proceeds on deposit with Wells Fargo, the trustee, until funds are withdrawn by us for use in relation to the design and leasehold improvements of our new corporate headquarters in San Jose, California. As of December 30, 2012 and January 1, 2012, we had restricted cash and cash equivalents of $3.0 million and $10.0 million, respectively, for design and leasehold improvements and debt service reserves under the CEDA loan agreement.

As of both December 30, 2012 and January 1, 2012, the $30.0 million aggregate principal amount of the Bonds was classified as "Long-term debt" in our Consolidated Balance Sheets.

September 2011 Revolving Credit Facility with Credit Agricole

On September 27, 2011, we entered into a revolving credit agreement with Credit Agricole, as administrative agent, and certain financial institutions, under which we may borrow up to $275.0 million until September 27, 2013. On December 24, 2012, we amended the facility to reflect Total S.A.'s guarantee of our obligations under the facility. The facility amendment extended the maturity date to January 31, 2014, reduced interest rates payable and removed certain financial and restrictive covenants. Subsequent to the amendment, we are required to pay interest on outstanding borrowings of (a) with respect to any LIBOR loan, 0.6% plus the LIBOR 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 (b) with respect to any alternative base loan, 0.25% plus the greater of (1) the prime rate, (2) the Federal Funds rate plus 0.5%, and (3) the one month LIBOR plus 1%, and a commitment fee equal to 0.06% per annum on funds available for borrowing and not borrowed.

As of December 30, 2012, we had $275.0 million outstanding under the revolving credit facility with Credit Agricole which was classified as "Long-term debt" on our Consolidated Balance Sheet.

August 2011 Letter of Credit Facility with Deutsche Bank

On August 9, 2011, we entered into a letter of credit facility agreement with Deutsche Bank, as issuing bank and as administrative agent, and certain financial institutions, and further amended on December 20, 2011. Payment of obligations under the letter of credit facility is guaranteed by Total S.A. pursuant to the Credit Support Agreement between us and Total S.A. The letter of credit facility provides for the issuance, upon our request, of letters of credit by the issuing banks thereunder in order to support certain of our obligations, in an aggregate amount not to exceed (a) $725.0 million until December 31, 2012; and (b) $771.0 million for the period from January 1, 2013 through December 31, 2013. Aggregate letter of credit amounts may be increased upon the agreement of the parties, but otherwise may not exceed (i) $878.0 million for the period from January 1, 2014 through December 31, 2014; (ii) $936.0 million for the period from January 1, 2015 through December 31, 2015; and (iii) $1.0 billion for the period from January 1, 2016 through June 28, 2016. Each letter of credit issued under the letter of credit facility must have an expiration date no later than the second anniversary of the issuance of that letter of credit, provided that up to 15% of the outstanding value of the letters of credit may have an expiration date of between two and three years from the date of issuance.

As of December 30, 2012, letters of credit issued under the August 2011 letter of credit facility with Deutsche Bank totaled $725.3 million.

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

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

As of December 30, 2012 letters of credit issued under the Deutsche Bank Trust facility amounted to $17.5 million which were fully collateralized with restricted cash on the Consolidated Balance Sheets.

Liquidity

As of December 30, 2012, we had unrestricted cash and cash equivalents of $457.5 million as compared to $725.6 million as of January 1, 2012. Our cash balances are held in numerous locations throughout the world and as of December 30, 2012, we had approximately $124.3 million held outside of the United States. This offshore cash is used to fund operations of our EMEA and APAC business units as well as non-U.S. manufacturing operations, which requires local payment for product materials and other expenses. The amounts held outside of the United States represents the earnings of our foreign subsidiaries 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. tax and which have been indefinitely reinvested outside the U.S. could result in additional United States federal income tax payments in future years.

On July 5, 2010, we formed our AUOSP joint venture. Under the terms of the joint venture agreement, our subsidiary SunPower Technology, Ltd. ("SPTL") and AU Optronics Singapore Pte. Ltd. ("AUO") each own 50% of AUOSP. Both SPTL and AUO are 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 through 2014 amounting to $241.0 million, or such lesser amount as the parties may mutually agree (see the Contractual Obligations table below). In addition, if AUOSP, SPTL, or AUO requests additional equity financing to AUOSP, then SPTL and AUO will each be required to make additional cash contributions of up to $50.0 million in the aggregate. Further, we could in the future guarantee certain financial obligations of AUOSP.

On January 31, 2012, we completed our acquisition from Total of 100% of the equity of Tenesol, a global solar provider headquartered in La Tour de Salvagny, France, and a wholly-owned subsidiary of Total, for $165.4 million in cash pursuant to a stock purchase agreement entered into on December 23, 2011. Concurrently with the closing of the acquisition, Total purchased $18.6 million shares of our common stock in a private placement at $8.80 per share for total proceeds of $163.7 million. Tenesol has module manufacturing operations in Toulouse, France and Capetown, South Africa and is in the process of developing a third site near Carling, France. Our manufacturing and assembly activities have required and will continue to require significant investment of capital and substantial engineering expenditures.

Our 4.50% debentures are convertible into cash. Under the terms of the 4.50% Warrants, we sold to affiliates of certain of the initial purchasers of the 4.50% cash convertible debentures warrants to acquire, subject to anti-dilution adjustments, up to 11.1 million shares of our common stock. The bond hedge and warrants described in Note 12 of Notes to the Consolidated

Financial Statements represent a call spread overlay with respect to the 4.50% debentures. Assuming full performance by the counterparties (and 4.50% Warrants strike prices in excess of the conversion price of the 4.50% debentures), the transactions effectively reduce our potential payout over the principal amount on the 4.50% debentures upon conversion of the 4.50% debentures. In the third quarter of fiscal 2011, we and the counterparties to the 4.50% Warrants agreed to reduce the exercise price of the 4.50% Warrants from $27.03 to $24.00.

We expect total capital expenditures related to purchases of property, plant and equipment in the range of $70 million to $90 million in fiscal 2013 in order to 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 position. Obtaining letters of credit may require adequate collateral. All letters of credit issued under our August 2011 Deutsche Bank facility are guaranteed by Total S.A. pursuant to the Credit Support Agreement. Our letter of credit facility with Deutsche Bank Trust is fully collateralized by restricted cash, which reduces the amount of cash available for operations. As of December 30, 2012 letters of credit issued under the Deutsche Bank Trust facility amounted to $17.5 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. In fiscal 2012, we entered into arrangements with two financial institutions that will provide financing to support additional residential solar lease projects. In the first quarter of fiscal 2013, we entered into an arrangement with an additional financial institution. 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 institution 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 are actively arranging additional third-party financing for our residential lease program; however, due to the general challenging credit markets worldwide, 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 have entered into a material number of additional leases without promptly obtaining corresponding third-party financing, our cash and working capital could be negatively impacted.

We believe that our current cash, cash equivalents and cash expected to be generated from operations 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 over the next 12 months. In addition, we have the Liquidity Support Facility (described below) with up to $325 million available from Total S.A. to us under certain specified circumstances. However, there can be no assurance that our liquidity will be adequate over time. 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 require 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 ventur*es.* See also *"A limited number of customers and large projects are expected to continue to comprise a significant portion of our revenues and any decrease in revenue from these customers or projects, payments of liquidated damages, or an increase in related expenses, could have a significant adverse effect on us,"* and "*Due to the general economic environment, the continued market pressure driving down the average selling prices of our solar power products and other factors, 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"* in Part I, Item 1A "Risk Factors".

We are party to an agreement with a customer to construct the California Valley Solar Ranch, a solar park. Part of the debt financing necessary for the customer to pay for the construction of this solar park is being provided by the Federal Financing Bank in reliance on a guarantee of repayment provided by the Department of Energy (the "DOE") under a loan guarantee program. On February 28, 2012, we entered into a Liquidity Support Agreement with Total S.A. and the DOE, and a series of related agreements with Total S.A. and Total, under which Total S.A. has agreed to provide us, or cause to be provided, additional liquidity under certain circumstances to a maximum amount of $600 million (the "Liquidity Support Facility"). Total S.A. is required to provide liquidity support to us under the facility, and we are required to accept such liquidity support from Total S.A., if either our actual or projected unrestricted cash, cash equivalents, and unused borrowing capacity are reduced below $100 million, or we fail to satisfy any financial covenant under our indebtedness. In either such event, subject to a $600 million aggregate limit, Total S.A. is required to provide us with sufficient liquidity support to increase the amount of our unrestricted cash, cash equivalents and unused borrowing capacity to above $100 million, and to restore compliance with our financial covenants. On December 24, 2012, Total S.A. agreed to guarantee our revolving credit facility with Credit Agricole, which reduced the capacity available under the Liquidity Support Facility by $275 million. The Liquidity Support Facility is available until the completion of the solar park, expected to be completed before the end of 2013, and, under certain conditions, up to December 31, 2016, at which time all outstanding guarantees will expire and all outstanding debt under the facility will become due (except for the Total S.A. guarantee of our Credit Agricole facility). In return for Total S.A.'s agreement to provide the Liquidity Support Facility, on February 28, 2012, we issued to Total a seven-year warrant to purchase 9,531,677 shares of our common stock at an exercise price of $7.8685 per share. During the term of the facility, we must pay Total S.A. a quarterly fee equal to 0.25% of the unused portion of the facility. Liquidity support may be provided by Total S.A. or through its affiliates in the form of revolving non-convertible debt, convertible debt, equity, guarantees of our indebtedness or other forms of liquidity support agreed to by us, depending on the amount outstanding under the facility immediately prior to provision of the applicable support among other factors. We are required to compensate Total S.A. for any liquidity support actually provided, and the form and amount of such compensation depends on the form and amount of support provided, with the amount of compensation generally increasing with the amount of support provided over time. Such compensation is to be provided in a variety of forms including guarantee fees, warrants to purchase common stock, interest on amounts borrowed, and discounts on equity issued. The use of the Liquidity Support Facility is not limited to direct obligations related to the solar park, and is available for general corporate purposes, but we have agreed to conduct our operations, and use any proceeds from such facility in ways that minimize the likelihood of Total S.A. being required to provide further support.

In the first half of 2013, $275 million of Credit Agricole revolver and $230 million of 4.75% debentures will have a maturity of less than 12 months and become reclassified to short term debt on our consolidated balance sheet. We are evaluating options to repay or refinance such indebtedness during 2013 or 2014, but there are no assurances that we will have sufficient available cash to repay such indebtedness or 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, including under the Liquidity Support Facility. 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 that would be required to supplement cash flows to support operations. The sale of additional equity securities or convertible debt securities, including under the Liquidity Support Agreement, would result in additional dilution to our stockholders (and potential for further dilution upon the exercise of warrants or the conversion of convertible debt issued under the Liquidity Support Facility) 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.

Contractual Obligations

The following summarizes our contractual obligations as of December 30, 2012:

		Payments Due by Period			
(In thousands)	**Total**	**2013**	**2014-2015**	**2016-2017**	**Beyond 2017**
Convertible debt, including interest (1)	$ 518,943	$ 22,176	$ 496,767	$ —	$ —
IFC mortgage loan, including interest (2)	82,718	15,866	33,284	31,064	2,504
CEDA loan, including interest (3)	76,538	2,550	5,100	5,100	63,788
Credit Agricole revolving credit facility, including interest (4)	277,515	2,324	275,191	—	—
Future financing commitments (5)	246,978	150,208	96,770	—	—
Operating lease commitments (6)	177,099	24,737	35,032	29,769	87,561
Capital lease commitments (7)	8,993	2,064	2,642	1,896	2,391
Non-cancellable purchase orders (8)	214,194	214,194	—	—	—
Purchase commitments under agreements (9)	2,181,970	407,110	731,342	526,423	517,095
Total	$ 3,784,948	$ 841,229	$ 1,676,128	$ 594,252	$ 673,339

(1) Convertible debt, including interest, relates to the aggregate of $480.1 million in outstanding principal amount of our senior convertible debentures on December 30, 2012. For the purpose of the table above, we assume that all holders of the 4.50% debentures and 4.75% debentures will hold the debentures through the date of maturity in fiscal 2015 and 2014, respectively, and all holders of the 0.75% debentures will require us to repurchase the debentures on August 1, 2015, 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 $75.0 million borrowed as of December 30, 2012. 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. If we utilize a waiver signed with IFC, we are required to pay interest of LIBOR plus 3% per annum on outstanding borrowings through January 5, 2013, LIBOR plus 4.25% per annum on outstanding borrowings from January 6, 2013 through September 30, 2013, LIBOR plus 5% per annum on outstanding borrowings from October 1, 2013 through January 5, 2014, and LIBOR plus 3% per annum on outstanding borrowings from January 6, 2014 through maturity. If we do not need to utilize the waiver, 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. On June 1, 2011 the Bonds were converted to bear interest at a fixed rate of 8.50% through maturity.

(4) Credit Agricole revolving credit facility, with interest, relates to the $275.0 million borrowed as of December 30, 2012 and maturing on January 31, 2014. We are required to pay interest on outstanding borrowings of (a) with respect to any LIBOR loan, 0.6% plus the LIBOR 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; (b) with respect to any alternative base loan, 0.25% plus the greater of (1) the prime rate, (2) the Federal Funds rate plus 0.5%, and (3) the one month LIBOR plus 1%.

(5) We and AUO agreed in the joint venture agreement to contribute additional amounts to AUOSP in fiscal 2012 through 2014 amounting to $241.0 million by each shareholder, or such lesser amount as the parties may mutually agree. Further, in connection with a purchase agreement with a non-public company we will be required to provide additional financing to such party of up to $4.9 million, subject to certain conditions. Under our long-term convertible note agreement with Diamond Energy Pty. Ltd., we are additionally required to provide additional funds amounting to AUD 1.0 million during fiscal 2013.

(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 lease agreements for our headquarters in San Jose, California, sales and support offices throughout the United States and Europe and a solar module facility in Mexicali, Mexico.

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

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

(9) Purchase commitments under agreements relate to arrangements entered into with several suppliers, including joint ventures, for polysilicon, ingots, wafers, solar cells and solar panels as well as agreements to purchase solar renewable energy certificates from solar installation owners in New Jersey. These agreements specify future quantities and pricing of products to be supplied by the vendors for periods up to 10 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.

Liabilities Associated with Uncertain Tax Positions

Due to the complexity and uncertainty associated with our tax positions, we cannot make a reasonably reliable estimate of the period in which cash settlement will be made for our liabilities associated with uncertain tax positions in other long-term liabilities. Therefore, they have been excluded from the table above. As of December 30, 2012, total liabilities associated with uncertain tax positions were $35.0 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 December 30, 2012, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Recent Accounting Pronouncements

See Note 1 "Recent Accounting Pronouncements," to our consolidated financial statements included in this Annual Report on Form 10-K for a summary of recent accounting pronouncements.

ITEM 7A: *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 20%, 39% and 69% of our total revenue in fiscal 2012, 2011, and 2010, respectively. A 10% change in the Euro exchange rate would have impacted our revenue by approximately $48.9 million, $92.4 million and $152.6 million in fiscal 2012, 2011, and 2010, 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 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 to address our exposure to changes in the foreign exchange rate between the U.S. dollar and other currencies. As of December 30, 2012, we had outstanding hedge option currency contracts and forward currency contracts with aggregate notional values of $71.0 million and $148.2 million, respectively. As of January 1, 2012, we held option and forward contracts totaling $130.4 million and $200.8 million, respectively, in notional value. 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. During fiscal 2011, in connection with the decline in forecasted revenue surrounding the overall change in the solar sector, we concluded that certain previously anticipated transactions were probable not to occur and thus we reclassified the amount held in "Accumulated other comprehensive income (loss)" in our Consolidated Balance Sheets for these transactions, which totaled a loss of $1.6 million, to "Other, net" in our Consolidated Statement of Operations. If we conclude that we have a pattern of determining that hedged forecasted transactions probably will not occur, we may no longer be able to continue to use hedge accounting in the future to reduce our exposure to movements in foreign exchange rates. Such a conclusion and change in our foreign currency hedge program 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, note receivable, advances to suppliers, foreign currency option contracts, foreign currency forward contracts, bond hedge and warrant transactions and a share lending arrangement for our common stock. We are exposed to credit losses in the event of nonperformance by the counterparties to our financial and derivative instruments. Our investment policy requires cash and cash equivalents, restricted cash and cash equivalents, and investments to be placed with high-quality financial institutions and limits the amount of credit risk from any one issuer. We additionally perform ongoing credit evaluations of our customers' financial condition whenever deemed necessary and generally do not require collateral.

We enter into agreements with vendors that specify future quantities and pricing of polysilicon to be supplied for periods up to 10 years. Under certain agreements, we are required to make prepayments to the vendors over the terms of the arrangements. As of December 30, 2012 and January 1, 2012, advances to suppliers totaled $351.4 million and $327.5 million, respectively. Two suppliers accounted for 76% and 23% of total advances to suppliers as of December 30, 2012, and 74% and 20% of total advances to suppliers as of January 1, 2012. We may be unable to recover such prepayments if the credit conditions of these suppliers materially deteriorate.

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 less than one year. We regularly evaluate the credit standing of our counterparty financial institutions.

Interest Rate Risk

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

Our interest expense would increase to the extent interest rates rise in connection with our variable interest rate borrowings. As of December 30, 2012, the outstanding principal balance of our variable interest borrowings was $350.0 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 have an adverse impact on our interest income. Our investment portfolio primarily consists of $117.3 million in money market funds as of December 30, 2012, and 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 December 30, 2012 and January 1, 2012, investments of $111.5 million and $129.9 million, respectively, are accounted for using the equity method, and $14.9 million and $4.9 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 4.75%, 4.50%, and 0.75% 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 4.50% debentures, and/or 0.75% debentures the right to convert such debentures into cash in certain instances. The aggregate estimated fair value of the 4.75% debentures, 4.50% debentures, and 0.75% debentures was $447.8 million as of December 30, 2012. The aggregate estimated fair value of the 4.75% debentures, 4.50% debentures, 1.25% debentures and 0.75% debentures was $604.6 million as of January 1, 2012. 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 $492.6 million and $665.0 million as of December 30, 2012 and January 1, 2012, respectively, and a 10% decrease in the quoted market prices would decrease the estimated fair value of our then-outstanding debentures to $403.0 million and $544.1 million as of December 30, 2012 and January 1, 2012, respectively.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

SUNPOWER CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of SunPower Corporation

We have audited the accompanying consolidated balance sheet of SunPower Corporation as of December 30, 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SunPower Corporation at December 30, 2012, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), SunPower Corporation's internal control over financial reporting as of December 30, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 22, 2013

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of SunPower Corporation

We have audited SunPower Corporation's internal control over financial reporting as of December 30, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). SunPower Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, SunPower Corporation maintained, in all material respects, effective internal control over financial reporting as of December 30, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2012 consolidated financial statements of SunPower Corporation and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 22, 2013

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of SunPower Corporation

In our opinion, the accompanying consolidated balance sheet as of January 1, 2012 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of two years in the period ended January 1, 2012 present fairly, in all material respects, the financial position of SunPower Corporation and its subsidiaries at January 1, 2012, and the results of their operations and their cash flows for each of the two years in the period ended January 1, 2012, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 29, 2012, except for the effects of the change in reporting entity due to the transfer of an entity under common control discussed in Note 3 and the change in composition of reportable segments discussed in Note 18 to the consolidated financial statements, as to which the date is February 22, 2013

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

	December 30, 2012	January 1, 2012 (1) (2)
Assets		
Current assets:		
Cash and cash equivalents	$ 457,487	$ 725,618
Restricted cash and cash equivalents, current portion	15,568	52,279
Accounts receivable, net	398,150	438,633
Costs and estimated earnings in excess of billings	36,395	54,854
Inventories	291,386	445,501
Advances to suppliers, current portion	50,282	43,143
Project assets - plants and land, current portion	75,911	24,243
Prepaid expenses and other current assets (3)	613,053	487,766
Total current assets	1,938,232	2,272,037
Restricted cash and cash equivalents, net of current portion	31,396	27,276
Restricted long-term marketable securities	10,885	9,145
Property, plant and equipment, net	774,909	643,882
Project assets - plants and land, net of current portion	7,596	34,614
Goodwill	—	47,077
Other intangible assets, net	744	23,900
Advances to suppliers, net of current portion	301,123	284,378
Other long-term assets (3)	276,063	176,821
Total assets	$ 3,340,948	$ 3,519,130
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable (3)	$ 414,335	$ 441,655
Accrued liabilities	247,372	249,404
Billings in excess of costs and estimated earnings	225,550	170,828
Short-term debt	14,700	2,122
Convertible debt, current portion	—	196,710
Customer advances, current portion (3)	59,648	48,073
Total current liabilities	961,605	1,108,792
Long-term debt	375,661	364,273
Convertible debt, net of current portion	438,629	423,268
Customer advances, net of current portion (3)	236,082	181,946
Other long-term liabilities	335,619	166,126
Total liabilities	2,347,596	2,244,405
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of both December 30, 2012 and January 1, 2012	—	—
Common stock, $0.001 par value, 367,500,000 shares authorized; 123,315,990 shares issued, and 119,234,280 outstanding as of December 30, 2012; 101,851,290 shares issued, and 100,475,533 shares outstanding as of January 1, 2012	119	100
Additional paid-in capital	1,931,947	1,845,965
Accumulated deficit	(902,085)	(550,065)
Accumulated other comprehensive income (loss)	(2,521)	7,142
Treasury stock, at cost; 4,081,710 shares of common stock as of December 30, 2012; 1,375,757 shares of common stock as of January 1, 2012	(34,108)	(28,417)
Total stockholders' equity	993,352	1,274,725
Total liabilities and stockholders' equity	$ 3,340,948	$ 3,519,130

(1) As adjusted to reflect the balances of Tenesol S.A. ("Tenesol") beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

(2) As adjusted to conform to the current period presentation for solar power systems leased and to be leased (see Note 1).

(3) The Company has related party balances in connection with transactions made with unconsolidated entities in which the Company has a direct equity investment. These related party balances are recorded within the "Prepaid expenses and other current assets," "Other long-term assets," "Accounts payable," "Customer advances, current portion," and "Customer advances, net of current portion" financial statement line items in the Consolidated Balance Sheets (see Note 7, Note 10, and Note 11).

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

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

	Year ended December 30, 2012	Year ended January 1, 2012 (1)	Year ended January 2, 2011
Revenue	$ 2,417,501	$ 2,374,376	$ 2,219,230
Cost of revenue	2,171,103	2,148,158	1,709,337
Gross margin	246,398	226,218	509,893
Operating expenses:			
Research and development	63,456	57,775	49,090
Sales, general and administrative	310,246	331,380	321,936
Goodwill impairment	46,734	309,457	—
Other intangible asset impairment	12,847	40,301	—
Restructuring charges	100,823	21,403	—
Total operating expenses	534,106	760,316	371,026
Operating income (loss)	(287,708)	(534,098)	138,867
Other income (expense), net:			
Interest income	1,091	2,337	1,541
Interest expense	(84,120)	(67,253)	(55,276)
Gain on sale of equity interest in unconsolidated investee	—	5,937	—
Gain on change in equity interest in unconsolidated investee	—	322	28,078
Gain on deconsolidation of consolidated subsidiary	—	—	36,849
Gain on share lending arrangement	50,645	—	24,000
Gain on mark-to-market derivatives	4	343	35,764
Other, net	(9,575)	(10,120)	(26,410)
Other income (expense), net	(41,955)	(68,434)	44,546
Income (loss) before income taxes and equity in earnings (loss) of unconsolidated investees	(329,663)	(602,532)	183,413
Provision for income taxes	(21,842)	(17,208)	(23,375)
Equity in earnings (loss) of unconsolidated investees	(515)	6,003	6,845
Income (loss) from continuing operations	(352,020)	(613,737)	166,883
Income from discontinued operations, net of taxes	—	—	11,841
Net income (loss)	$ (352,020)	$ (613,737)	$ 178,724
Net income (loss) per share of common stock:			
Net income (loss) per share - basic			
Continuing operations	$ (3.01)	$ (6.28)	$ 1.74
Discontinued operations	—	—	0.13
Net income (loss) per share - basic	$ (3.01)	$ (6.28)	$ 1.87
Net income (loss) per share - diluted			
Continuing operations	$ (3.01)	$ (6.28)	$ 1.64
Discontinued operations	—	—	0.11
Net income (loss) per share - diluted	$ (3.01)	$ (6.28)	$ 1.75
Weighted-average shares:			
Basic	117,093	97,724	95,660
Diluted	117,093	97,724	105,698

(1) As adjusted to reflect the balances of Tenesol S.A. ("Tenesol") beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

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

SunPower Corporation
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012 (1)**	**January 2, 2011**
Net income (loss)	$ (352,020)	$ (613,737)	$ 178,724
Components of comprehensive income (loss):			
Translation adjustment	(959)	1,401	1,103
Net unrealized gain (loss) on derivatives (Note 13)	(10,716)	(175)	23,124
Income taxes	2,012	2,276	(3,230)
Net change in accumulated other comprehensive income (loss)	(9,663)	3,502	20,997
Total comprehensive income (loss)	$ (361,683)	$ (610,235)	$ 199,721

(1) As adjusted to reflect the balances of Tenesol S.A. ("Tenesol") beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

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

SunPower Corporation
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock						
	Shares	**Value**	**Additional Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings (Accumulated Deficit)**	**Total Stockholders' Equity**
Balances at January 3, 2010	**97,072**	**$ 97**	**$ 1,520,933**	**$ (12,984)**	**$ (17,357)**	**$ (114,309)**	**$ 1,376,380**
Net income	—	—	—	—	—	178,724	178,724
Other comprehensive income	—	—	—	—	20,997	—	20,997
Issuance of common stock upon exercise of options	303	—	867	—	—	—	867
Issuance of restricted stock to employees, net of cancellations	967	1	—	—	—	—	1
Fair value of warrant transactions	—	—	30,218	—	—	—	30,218
Excess tax benefits from stock-based award activity	—	—	237	—	—	—	237
Stock-based compensation expense	—	—	54,442	—	—	—	54,442
Distribution to Cypress under tax sharing agreement	—	—	—	—	—	(743)	(743)
Purchases of treasury stock	(236)	—	—	(3,689)	—	—	(3,689)
Balances at January 2, 2011	**98,106**	**98**	**1,606,697**	**(16,673)**	**3,640**	**63,672**	**1,657,434**
Net loss	—	—	—	—	—	(613,737)	(613,737)
Other comprehensive income	—	—	—	—	3,502	—	3,502
Issuance of common stock upon exercise of options	993	1	4,051	—	—	—	4,052
Issuance of restricted stock to employees, net of cancellations	2,161	2	—	—	—	—	2
Proceeds from warrant transactions	—	—	2,261	—	—	—	2,261
Excess tax benefits from stock-based award activity	—	—	(2,415)	—	—	—	(2,415)
Stock-based compensation expense	—	—	46,880	—	—	—	46,880
Purchases of treasury stock	(784)	(1)	—	(11,744)	—	—	(11,745)
Transfer of entity under common control (Note 3)	—	—	188,491	—	—	—	188,491
Balances at January 1, 2012 (1)	**100,476**	**100**	**1,845,965**	**(28,417)**	**7,142**	**(550,065)**	**1,274,725**
Net loss	—	—	—	—	—	(352,020)	(352,020)
Other comprehensive loss	—	—	—	—	(9,663)	—	(9,663)
Issuance of common stock upon exercise of options	20	—	52	—	—	—	52
Issuance of restricted stock to employees, net of cancellations	2,844	2	(2)	—	—	—	—
Private offering of common stock, net of issuance costs (Note 2)	18,600	19	163,596	—	—	—	163,615
Cash distributions to Parent in connection with the transfer of entities under common control (Note 3)	—	—	(169,637)	—	—	—	(169,637)
Fair value of warrant issued	—	—	50,327	—	—	—	50,327
Returned shares from share lending agreement (Note 12)	(1,800)	(2)	—	2	—	—	—
Stock-based compensation expense	—	—	41,646	—	—	—	41,646
Purchases of treasury stock	(906)	—	—	(5,693)	—	—	(5,693)
Balances at December 30, 2012	**119,234**	**$ 119**	**$ 1,931,947**	**$ (34,108)**	**$ (2,521)**	**$ (902,085)**	**$ 993,352**

(1) As adjusted to reflect the balances of Tenesol S.A. ("Tenesol") beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

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

SunPower Corporation
Consolidated Statements of Cash Flows
(In thousands)

	Year ended December 30, 2012	Year ended January 1, 2012 (1) (2)	Year ended January 2, 2011
Cash flows from operating activities:			
Net income (loss)	$ (352,020)	$ (613,737)	$ 178,724
Less: Income from discontinued operations, net of taxes	—	—	11,841
Income (loss) from continuing operations, net of taxes	(352,020)	(613,737)	166,883
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Stock-based compensation	42,439	46,736	54,372
Depreciation	108,656	107,100	102,192
Loss on retirement of property, plant and equipment	77,807	—	—
Amortization of other intangible assets	9,114	23,372	38,477
Goodwill impairment	46,734	309,457	—
Other intangible asset impairment	12,847	40,301	—
Loss (gain) on sale of investments	—	191	(770)
Gain on mark-to-market derivatives	(4)	(343)	(35,764)
Non-cash interest expense	38,177	28,627	30,616
Amortization of debt issuance costs	3,845	5,126	18,426
Amortization of promissory notes	—	3,486	11,054
Gain on change in equity interest in unconsolidated investee	—	(322)	(28,078)
Gain on sale of equity interest in unconsolidated investee	—	(5,937)	—
Equity in (earnings) loss of unconsolidated investees	515	(6,003)	(6,845)
Third-party inventories write-down	8,869	23,651	—
Gain on deconsolidation of consolidated subsidiary	—	—	(36,849)
Project assets write-down related to change in European government incentives	—	16,053	—
Gain on share lending arrangement	(50,645)	—	(24,000)
Deferred income taxes and other tax liabilities	(4,332)	(14,385)	15,889
Changes in operating assets and liabilities, net of effect of acquisition:			
Accounts receivable	11,522	23,383	(132,184)
Costs and estimated earnings in excess of billings	18,458	41,165	(63,444)
Inventories	28,324	(81,994)	(114,534)
Project assets	(23,397)	(34,113)	(10,687)
Prepaid expenses and other assets	(136,121)	(182,687)	(2,519)
Advances to suppliers	(23,883)	(40,492)	(96,060)
Accounts payable and other accrued liabilities	91,564	46,256	157,993
Billings in excess of costs and estimated earnings	54,723	121,488	33,591
Customer advances	65,711	49,317	90,643
Net cash provided by (used in) operating activities of continuing operations	28,903	(94,304)	168,402
Net cash used in operating activities of discontinued operations	—	—	(1,593)
Net cash provided by (used in) operating activities	28,903	(94,304)	166,809
Cash flows from investing activities:			
Decrease (increase) in restricted cash and cash equivalents	32,591	176,744	(5,555)
Purchase of property, plant and equipment	(104,786)	(131,512)	(119,152)
Cash paid for solar power systems, leased and to be leased	(150,446)	(11,631)	—
Proceeds from sale of equipment to third-party	424	514	5,284
Purchase of marketable securities	(1,436)	(9,180)	(40,132)
Proceeds from sales or maturities of available-for-sale securities	—	43,759	1,572
Cash decrease due to deconsolidation of consolidated subsidiary	—	—	(12,879)
Cash paid for acquisition, net of cash acquired	—	—	(272,699)
Cash received for sale of investment in unconsolidated investees	17,403	75,346	—
Cash paid for investments in unconsolidated investees	(13,817)	(80,000)	(17,799)
Net cash provided by (used in) investing activities of continuing operations	(220,067)	64,040	(461,360)
Net cash provided by investing activities of discontinued operations	—	—	33,950
Net cash provided by (used in) investing activities	(220,067)	64,040	(427,410)

Cash flows from financing activities:			
Proceeds from issuance of bank loans, net of issuance costs	150,000	489,221	214,655
Proceeds from issuance of project loans, net of issuance costs	27,617	—	318,638
Repayment of bank loans, project loans and other debt	(154,078)	(377,124)	(63,646)
Proceeds from residential lease financing	60,377	—	—
Assumption of project loans by customers	—	—	(333,467)
Proceeds from recovery of claim in connection with share lending arrangement	50,645	—	24,000
Proceeds from issuance of convertible debt, net of issuance costs	—	—	244,241
Cash paid for repurchase of convertible debt	(198,608)	—	(143,804)
Cash paid for bond hedge	—	—	(75,200)
Proceeds from private offering of common stock, net of issuance costs	163,616	—	—
Cash increase in connection with the consolidation of an entity under common control	—	50,443	—
Cash distributions to Parent in connection with the transfer of entities under common control	(169,637)	—	—
Proceeds from warrant transactions	—	2,261	61,450
Proceeds from exercise of stock options	51	4,051	867
Purchases of stock for tax withholding obligations on vested restricted stock	(5,691)	(11,744)	(3,689)
Net cash provided by (used in) financing activities of continuing operations	(75,708)	157,108	244,045
Net cash provided by financing activities of discontinued operations	—	—	17,059
Net cash provided by (used in) financing activities	(75,708)	157,108	261,104
Effect of exchange rate changes on cash and cash equivalents	(1,259)	(6,646)	(10,962)
Net increase (decrease) in cash and cash equivalents	(268,131)	120,198	(10,459)
Cash and cash equivalents at beginning of period	725,618	605,420	615,879
Cash and cash equivalents, end of period	$ 457,487	$ 725,618	$ 605,420
Non-cash transactions:			
Assignment of residential lease receivables to a third party financial institution	$ 23,813	$ —	$ —
Property, plant and equipment acquisitions funded by liabilities	$ 6,408	$ 10,888	$ 5,937
Costs of solar power systems, leased and to be leased, sourced from existing inventory	$ 117,692	$ 10,158	$ —
Costs of solar power systems, leased and to be leased, funded by liabilities	$ 6,544	$ 1,767	$ —
Non-cash interest expense capitalized and added to the cost of qualified assets	$ 1,773	$ 2,423	$ 5,957
Issuance of warrants in connection with the Liquidity Support Agreement	$ 50,327	$ —	$ —
Proceeds from issuance of bond, net of issuance costs	$ —	$ —	$ 29,538
Supplemental cash flow information:			
Cash paid for interest, net of amount capitalized	$ 40,621	$ 28,280	$ 16,592
Cash paid for income taxes	$ 8,073	$ 28,154	$ 10,582

(1) As adjusted to reflect the balances of Tenesol S.A. ("Tenesol") beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

(2) As adjusted to conform to the current period presentation for solar power systems leased and to be leased (see Note 1).

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

Note 1. *THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The Company

SunPower Corporation (together with its subsidiaries, the "Company" or "SunPower") is a vertically integrated solar products and solutions company that designs, manufactures and delivers high-performance solar systems worldwide, serving as a one-stop shop for residential, commercial, and utility-scale power plant customers. These high efficiency cells are then utilized in our array of high reliability SunPower products.

In December 2011, the Company announced a reorganization to align its business and cost structure with a regional focus in order to support the needs of its customers and improve the speed of decision-making processes. As a result, in the first quarter of fiscal 2012, the Company changed its segment reporting from its Utility and Power Plants ("UPP") Segment and Residential and Commercial ("R&C") Segment to three regional segments: (i) the Americas Segment, (ii) the EMEA Segment, and (iii) the APAC Segment. The Americas Segment includes both North and South America. The EMEA Segment includes European countries, as well as the Middle East and Africa. The APAC segment includes all Asia-Pacific countries. The Company's President and Chief Executive Officer, as the chief operating decision maker ("CODM"), has organized the Company, manages resource allocations and measures performance of the Company's activities among these three regional segments.

Historically, the UPP Segment referred to the Company's large-scale solar products and systems business, which included power plant project development and project sales, turn-key engineering, procurement and construction ("EPC") services for power plant construction, and power plant operations and maintenance ("O&M") services. The UPP Segment also sold components, including large volume sales of solar panels and mounting systems, to third parties, sometimes on a multi-year, firm commitment basis. The Company's former R&C Segment focused on solar equipment sales into the residential and small commercial market through its third-party global dealer network, as well as direct sales and EPC and O&M services in the United States and Europe for rooftop and ground-mounted solar power systems for the new homes, commercial, and public sectors.

On June 21, 2011, the Company became a majority owned subsidiary of Total Gas & Power USA, SAS ("Total"), a subsidiary of Total S.A. ("Total S.A."), through a tender offer and Total's purchase of 60% of the outstanding former class A common stock and former class B common stock of the Company as of June 13, 2011. On January 31, 2012, Total purchased an additional 18.6 million shares of the Company's common stock in a private placement, thereby increasing Total's ownership to approximately 66% of the Company's outstanding common stock as of that date (see Note 2).

Basis of Presentation and Preparation

Principles of Consolidation

The Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("United States" or "U.S.") and include the accounts of the Company, all of its subsidiaries and special purpose entities, as appropriate under consolidation accounting guidelines. Intercompany transactions and balances have been eliminated in consolidation. The assets of the special purpose entities that the Company sets up related to project financing for customers are not designed to be available to service the general liabilities and obligations of the Company in certain circumstances.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation in the Company's Consolidated Financial Statements and the accompanying notes. Such reclassifications had no effect on previously reported results of operations or retained earnings. In connection with the growth of its residential lease program, during the fourth quarter of fiscal 2012 the Company began to separately classify both the cost of the leased assets and related investing cash flows based upon the nature of the lease entered into. The Company reclassified prior period balances to conform to the current period presentation, which resulted in an increase in long-term assets and operating cash flows of $15.1 million and $11.6 million, respectively, as of and for the year ended January 1, 2012.

Fiscal Years

The Company has a 52-to-53-week fiscal year that ends on the Sunday closest to December 31. Accordingly, every fifth or sixth year will be a 53-week fiscal year. Fiscal years 2012, 2011 and 2010 were 52-week fiscal years. Fiscal year 2012 ended on December 30, 2012, fiscal year 2011 ended on January 1, 2012, and fiscal year 2010 ended on January 2, 2011.

Management Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates in these consolidated financial statements include percentage-of-completion for construction projects, allowances for doubtful accounts receivable and sales returns, inventory and project asset write-downs, stock-based compensation, estimates for future cash flows and economic useful lives of property, plant and equipment, goodwill, valuations for business combinations, other intangible assets and other long-term assets, asset impairments, fair value of financial instruments, certain accrued liabilities including accrued warranty, restructuring, and termination of supply contracts reserves, valuation of debt without the conversion feature, valuation of share lending arrangements, income taxes, and tax valuation allowances. Actual results could materially differ from those estimates.

Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate their respective fair values due to their short-term maturities. Investments in available-for-sale securities are carried at fair value based on quoted market prices or estimated based on market conditions and risks existing at each balance sheet date. Foreign currency derivatives are carried at fair value based on quoted market prices for financial instruments with similar characteristics. Unrealized gains and losses of the Company’s available-for-sale securities and the effective portion of foreign currency derivatives are excluded from earnings and reported as a component of "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets. Additionally, the Company assesses whether an other-than-temporary impairment loss on its available-for-sale securities has occurred due to declines in fair value or other market conditions. Declines in fair value that are considered other-than-temporary and the ineffective portion of foreign currency derivatives are included in "Other, net" in the Consolidated Statements of Operations.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from non-owner sources. The Company’s comprehensive income (loss) for each period presented is comprised of (i) the Company’s net income (loss); (ii) foreign currency translation adjustment of the Company’s foreign subsidiaries whose assets and liabilities are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchange rates prevailing during the applicable period; and (iii) changes in unrealized gains or losses, net of tax, for the effective portion of derivatives designated as cash flow hedges (see Note 13) and available-for-sale securities carried at their fair value.

Cash Equivalents

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

Cash in Restricted Accounts

The Company maintains cash and cash equivalents in restricted accounts pursuant to various letters of credit, surety bonds, loan agreements, long-term polysilicon supply agreements, and other agreements in the normal course of business.

Short-Term and Long-Term Investments

The Company invests in money market funds, bank notes, and debt securities. In general, investments with original maturities of greater than ninety days and remaining maturities of one year or less are classified as short-term investments, and investments with maturities of more than one year are classified as long-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such investments represent the investment of cash that is available for current operations. Despite the long-term maturities, the Company has the ability and intent, if necessary, to liquidate any of these investments in order to meet the Company’s working capital needs within its normal operating cycles. The Company has classified these investments as available-for-sale securities (see Note 8).

Inventories

Inventories are valued at the lower of cost or market value. The Company evaluates the recoverability of its inventories based on assumptions about expected demand and market conditions. The Company's assumption of expected demand is developed based on its analysis of bookings, sales backlog, sales pipeline, market forecast, and competitive intelligence. The Company's assumption of expected demand is compared to available inventory, production capacity, available third-party inventory, and growth plans. The Company's factory production plans, which drive materials requirement planning, are established based on its assumptions of expected demand. The Company responds 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.

Other market conditions that could impact the realizable value of the Company's inventories and are periodically evaluated by management include historical inventory turnover ratio, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer concentrations, product merchantability, and other factors. If the Company determines that the cost of inventories exceeds its estimated market value based on assumptions about expected demand and market conditions, the Company records a write-down equal to the difference between the cost of inventories and the estimated market value. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required that could negatively impact the Company's gross margin and operating results. If actual market conditions are more favorable, the Company may have higher gross margin when products that have been previously written down are sold in the normal course of business (see Note 7).

Solar Power Systems Leased and to be Leased

The Company leases solar power systems to residential customers under both operating and sales-type leases. Lease classification is determined at lease inception considering whether there is a transfer of ownership or bargain purchase option at the end of the lease, whether the lease term is greater than 75% of the systems' useful life, or whether the present value of minimum lease payments exceed 90% of the systems' fair value at lease inception. Solar power systems leased are stated at cost, less accumulated depreciation and are amortized to their estimated residual value over the life of the lease term.

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

Initial direct costs for operating leases are capitalized and amortized over the term of the related customer lease agreements. Initial direct costs for sales-type leases are recognized as cost of sales when the solar power systems are placed in service.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation, excluding solar power systems leased to residential customers as described above, is computed using the straight-line method over the estimated useful lives of the assets as presented below. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the remaining term of the lease. Repairs and maintenance costs are expensed as incurred.

In fiscal 2011, the Company revised its estimated useful lives for buildings, leasehold improvements, and manufacturing equipment. Such change in estimate did not have a material impact on the Company's Consolidated Statement of Operations in fiscal 2011.

	Useful Lives in Years
Buildings	20
Leasehold improvements	1 to 20
Manufacturing equipment	8 to 15
Computer equipment	2 to 7
Solar power systems	30
Furniture and fixtures	3 to 5

Interest Capitalization

The interest cost associated with major development and construction projects is capitalized and included in the cost of the property, plant and equipment or project assets. Interest capitalization ceases once a project is substantially complete or no longer undergoing construction activities to prepare it for its intended use. When no debt is specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company’s weighted average cost of borrowed money (see Note 7).

Long-Lived Assets

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

Other intangible assets with finite useful lives are amortized using the straight-line method over their useful lives ranging primarily from one to six years (see Note 6).

Project Assets - Plant and Land

Project assets consist primarily of capitalized costs relating to solar power system projects in various stages of development that the Company incurs 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 the Company enters into a definitive sales agreement, it reclassifies these costs to deferred project costs within "Prepaid expenses and other current assets" in its Consolidated Balance Sheet until the Company has met the criteria to recognize the sale of the project asset as revenue. The Company expenses these project assets 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), or if it determines that the project is commercially not viable.

The Company reviews project assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company considers the project commercially viable if it is anticipated to be sellable for a profit once it is either fully developed or fully constructed. The Company examines 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. Such changes 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 the Company's larger solar projects, it classifies 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, the Company determines if the sale of the project assets will occur within the next 12 months from a given balance sheet date and, if so, it then reclassifies the project assets as current.

Goodwill

Goodwill is tested for impairment at least annually, or more frequently if certain indicators are present. A two-step process is used to test for goodwill impairment. The first step is to determine if there is an indication of impairment by comparing the estimated fair value of each reporting unit to its carrying value, including existing goodwill. Goodwill is considered impaired if the carrying value of a reporting unit exceeds the estimated fair value. Upon an indication of impairment, a second step is performed to determine the amount of the impairment by comparing the implied fair value of the reporting unit’s goodwill with its carrying value.

The Company conducts its annual impairment test of goodwill as of the Sunday closest to the end of the third fiscal quarter of each year. Impairment of goodwill is tested at the Company’s reporting unit level. Management determined that the Company's reporting units are the regional reporting segments. In estimating the fair value of the reporting units, the Company makes estimates and judgments about its future cash flows using an income approach defined as Level 3 inputs under fair value measurement standards (see Note 8). The income approach, specifically a discounted cash flow analysis, included assumptions for, among others, forecasted free cash flow, perpetual growth rates, and long-term discount rates, all of which require significant judgment by management. The sum of the fair values of the Company's reporting units are also compared to its external market capitalization to determine the appropriateness of its assumptions (i.e. the discounted cash flow analysis) and to reduce the fair values of the Company's reporting units, if appropriate. These assumptions took into account the current economic environment and its impact on the Company's business. In the event that management determines that the value of goodwill has become impaired, the Company would incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made (see Note 6).

Product Warranties

The Company generally warrants or guarantees the performance of the solar panels that it manufactures at certain levels of power output for 25 years. In addition, the Company passes through to customers long-term warranties from the original equipment manufacturers ("OEMs") of certain system components, such as inverters. Warranties of 25 years from solar panel suppliers are standard in the solar industry, while inverters typically carry warranty periods ranging from 5 to 10 years. In addition, the Company generally warrants its workmanship on installed systems for periods ranging up to 10 years. The Company maintains reserves to cover the expected costs that could result from these warranties. The Company's expected costs are generally in the form of product replacement or repair. Warranty reserves are based on the Company's best estimate of such costs and are recognized as a cost of revenue. The Company continuously monitors product returns for warranty failures and maintains a reserve for the related warranty expenses based on various factors including historical warranty claims, results of accelerated lab testing, field monitoring, vendor reliability estimates, and data on industry averages for similar products. Historically, warranty costs have been within management's expectations (see Note 10).

Revenue Recognition

Solar Power Products

The Company sells its solar panels and balance of system components primarily to dealers, system integrators and distributors, and recognizes revenue, net of accruals for estimated sales returns, when persuasive evidence of an arrangement exists, delivery of the product has occurred, title and risk of loss has passed to the customer, the sales price is fixed or determinable, collectability of the resulting receivable is reasonably assured, and the risks and rewards of ownership have passed to the customer. Other than standard warranty obligations, there are no rights of return and there are no significant post-shipment obligations, including installation, training or customer acceptance clauses with any of the Company's customers that could have an impact on revenue recognition. The Company's revenue recognition policy is consistent across all geographic areas.

The provision for estimated sales returns on product sales is recorded in the same period the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data, and other known factors. Actual returns could differ from these estimates.

Construction Contracts

Revenue is also comprised of EPC projects which are governed by customer contracts that require the Company to deliver functioning solar power systems and are generally completed within three to twelve months from commencement of construction. Construction on large projects may be completed within eighteen to thirty-six months, depending on the size. The Company recognizes revenue from fixed price construction contracts, that do not include land or land rights, using the percentage-of-completion method of accounting. Under this method, revenue arising from fixed price construction contracts is recognized as work is performed based on the percentage of incurred costs to estimated total forecasted costs.

Incurred costs used in the Company's percentage-of-completion calculation include all direct material, labor, subcontract costs, and those indirect costs related to contract performance, such as indirect labor, supplies, and tools. Project material costs are included in incurred costs when the project materials have been installed by being permanently attached or fitted to the solar power system as required by the project's engineering design.

In addition to an EPC deliverable, a limited number of arrangements also include multiple deliverables such as post-installation systems monitoring and maintenance. For contracts with separately priced monitoring and maintenance, the Company recognizes revenue related to such separately priced elements over the contract period. For contracts including monitoring and maintenance not separately priced, the Company determined that post-installation systems monitoring and maintenance qualify as separate units of accounting. Such post-installation monitoring and maintenance are deferred at the time the contract is executed based on the best estimate of selling price on a standalone basis and are recognized to revenue over the contractual term. The remaining EPC revenue is recognized on a percentage-of-completion basis.

In addition, when arrangements include contingent revenue clauses such as customer termination or put rights for non-performance, the Company defers the contingent revenue until such time as the contingencies expire. In certain limited cases, the Company could be required to buy-back a customer’s system at fair value on specified future dates if certain minimum performance thresholds are not met for periods of up to two years. To date, no such repurchase obligations have been required.

Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable. Contracts may include profit incentives such as milestone bonuses. These profit incentives are included in the contract value when their realization is reasonably assured.

Development Projects

The Company develops and sells solar power plants which generally include the sale or lease of related real estate. Revenue recognition for these solar power plants require adherence to specific guidance for real estate sales, which provides that if the Company executes a sale of land in connection with an EPC contract requiring the future development of the property, it recognizes revenue and the corresponding costs under the full accrual method when all of the following requirements are met: the sale is consummated, the buyer's initial and any continuing investments are adequate, the resulting receivables are not subject to subordination, the future costs to develop the property can be reasonably estimated and the Company has transferred the customary risk and rewards of ownership to the buyer. In general, a sale is consummated upon the execution of an agreement documenting the terms of the sale and a minimum initial payment by the buyer to substantiate the transfer of risk to the buyer. Depending on the value of the initial and continuing investment of the buyer, and provided the recovery of the costs of the solar power plant are reasonably assured if the buyer defaults, the Company may defer revenue and profit during construction by aligning its revenue recognition and release of deferred project costs to cost of sales with the receipt of payment from the buyer. At the time it has unconditionally received payment from the buyer, revenue would be recognized and deferred project costs would be released to cost of sales at the same rate of profit estimated throughout the construction of the project. The Company's revenue recognition methods for solar power plants not involving real estate are accounted for using the percentage-of-completion method.

Shipping and Handling Costs

The Company records costs related to shipping and handling in cost of revenue.

Stock-Based Compensation

The Company measures and records compensation expense for all share-based payment awards based on estimated fair values. The Company provides share-based awards to its employees, executive officers, and directors through various equity compensation plans including its employee stock option and restricted stock plans. The fair value of stock option awards is measured at the date of grant using a Black-Scholes option pricing model, and the fair value of restricted stock awards and units is based on the market price of the Company's common stock on the date of grant. The Company has not granted stock options since fiscal 2008.

The Company estimates forfeitures at the date of grant. The Company's estimate of forfeitures is based on its historical activity, which it believes is indicative of expected forfeitures. In subsequent periods if the actual rate of forfeitures differs from the Company's estimate, the forfeiture rates may be revised, as necessary. Changes in the estimated forfeiture rates can have a significant effect on share-based compensation expense since the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled approximately $9.2 million, $3.9 million, and $3.3 million in fiscal 2012, 2011, and 2010, respectively.

Research and Development Expense

Research and development expense consists primarily of salaries and related personnel costs, depreciation and the cost of solar cell and solar panel materials and services used for the development of products, including experiments and testing. All research and development costs are expensed as incurred. Research and development expense is reported net of any funding received under contracts with governmental agencies because such contracts are considered collaborative arrangements. These awards are typically structured such that only direct costs, research and development overhead, procurement overhead and general and administrative expenses that satisfy government accounting regulations are reimbursed. In addition, the Company's government awards from state agencies will usually require it to pay to the granting governmental agency certain royalties based on sales of products developed with government funding or economic benefit derived from incremental improvements funded. Royalties paid to governmental agencies are charged to the cost of goods sold.

Translation of Foreign Currency

The Company and certain of its subsidiaries use their respective local currency as their functional currency. Accordingly, foreign currency assets and liabilities are translated using exchange rates in effect at the end of the period. Foreign subsidiaries that use the U.S. dollar as their functional currency translate monetary assets and liabilities using exchange rates in effect at the end of the period. Non-monetary assets and liabilities are translated at their historical values.

The Company includes gains or losses from foreign currency transactions in "Other, net" in the Consolidated Statements of Operations with the other hedging activities described in Note 13.

Concentration of Credit Risk

The Company is exposed to credit losses in the event of nonperformance by the counterparties to its financial and derivative instruments. Financial and derivative instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, restricted cash and cash equivalents, investments, accounts receivable, notes receivable, advances to suppliers, foreign currency option contracts, foreign currency forward contracts, bond hedge and warrant transactions, and purchased options. The Company's investment policy requires cash and cash equivalents, restricted cash and cash equivalents, and investments to be placed with high-quality financial institutions and to limit the amount of credit risk from any one issuer. Similarly, the Company enters into foreign currency derivative contracts and convertible debenture hedge transactions with high-quality financial institutions and limits the amount of credit exposure to any one counterparty. The foreign currency derivative contracts are limited to a time period of less than one year, while the purchased options will expire in 2014 and the bond hedge and warrant transactions expire in 2015. The Company regularly evaluates the credit standing of its counterparty financial institutions.

The Company performs ongoing credit evaluations of its customers' financial condition whenever deemed necessary and generally does not require collateral. The Company maintains an allowance for doubtful accounts based on the expected collectability of all accounts receivable, which takes into consideration an analysis of historical bad debts, specific customer creditworthiness and current economic trends. One customer accounted for 14% of accounts receivable as of December 30, 2012 and one customer accounted for 20% of accounts receivable as of January 1, 2012. In addition, one customer accounted for approximately 24% of the Company's "Costs and estimated earnings in excess of billings" balance as of December 30, 2012 on the Consolidated Balance Sheet as compared to one customer that accounted for approximately 21% of the balance as of January 1, 2012.

The Company has entered into agreements with vendors that specify future quantities and pricing of polysilicon to be supplied for periods up to 10 years. Under certain agreements, the Company is required to make prepayments to the vendors over the terms of the arrangements.

In fiscal 2007, the Company entered into share lending arrangements of its former class A common stock with financial institutions for which it received a nominal lending fee of $0.001 per share. The Company loaned 2.9 million shares and 1.8 million shares of its former class A common stock to Lehman Brothers International (Europe) Limited ("LBIE") and Credit Suisse International ("CSI"), respectively. Physical settlement of the shares is required when the arrangement is terminated. However, on September 15, 2008, Lehman Brothers Holding Inc. ("Lehman") filed a petition for protection under Chapter 11 of the U.S. bankruptcy code, and LBIE commenced administration proceedings (analogous to bankruptcy) in the United Kingdom. The Company filed a claim in the LBIE proceeding for $240.9 million and a corresponding claim in the Lehman Chapter 11 proceeding under Lehman's guaranty of LBIE's obligations. On December 16, 2010, the Company entered into an assignment agreement with Deutsche Bank under which the Company assigned to Deutsche Bank its claims against LBIE and Lehman in connection with the share lending arrangement. During the fiscal years ended December 30, 2012 and January 2, 2011, the Company received proceeds of $50.6 million and $24.0 million, respectively, as a result of the assignment agreement and subsequent claim settlement (see Note 12).

Income Taxes

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

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

Investments in Equity Interests

Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for under the equity method. The Company records its share of the results of these entities as "Equity in earnings of unconsolidated investees" on the Consolidated Statements of Operations. The Company monitors its investments for other-than-temporary impairment by considering factors such as current economic and market conditions and the operating performance of the entities and records reductions in carrying values when necessary. The fair value of privately held investments is estimated using the best available information as of the valuation date, including current earnings trends, undiscounted cash flows, quoted stock prices of comparable public companies, and other company specific information, including recent financing rounds (see Notes 8 and 11).

Business Combinations

The Company records all acquired assets and liabilities, including goodwill, other intangible assets, and in-process research and development, at fair value. The initial recording of goodwill, other intangible assets, and in-process research and development requires certain estimates and assumptions concerning the determination of the fair values and useful lives. The judgments made in the context of the purchase price allocation can materially impact the Company's future results of operations. Accordingly, for significant acquisitions, the Company obtains assistance from third-party valuation specialists. The valuations calculated from estimates are based on information available at the acquisition date (see Notes 4 and 6). The Company charges acquisition related costs that are not part of the consideration to general and administrative expense as they are incurred. These costs typically include transaction and integration costs, such as legal, accounting, and other professional fees.

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

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") amended its fair value principles and disclosure requirements. The amended fair value guidance states that the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets and prohibits the grouping of financial instruments for purposes of determining their fair values when the unit of account is specified in other guidance. The amendment became effective for the Company on January 2, 2012 and did not have a material impact on its financial statements.

In June 2011, the FASB amended its disclosure guidance related to the presentation of comprehensive income. This amendment eliminates the option to report other comprehensive income and its components in the statement of changes in equity and requires presentation of reclassification adjustments on the face of the income statement. In December, 2011, the FASB further amended its guidance to defer changes related to the presentation of reclassification adjustments indefinitely as a result of concerns raised by stakeholders that the new presentation requirements would be difficult for preparers and add unnecessary complexity to financial statements. The amendment (other than the portion regarding the presentation of reclassification adjustments which, as noted above, has been deferred indefinitely) became effective for the Company on January 2, 2012 and did not have any impact on its financial position. However, the Company now reports other comprehensive income and its components in a separate statement of comprehensive income for all presented periods.

In September 2011, the FASB amended its goodwill guidance by providing entities an option to use a qualitative approach to test goodwill for impairment. An entity will be able to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that the fair value is less than the carrying value, it is necessary to perform the currently prescribed two step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The amendment became effective for the Company on January 2, 2012 and did not have a material impact on its financial statements.

In December 2011, the FASB and International Accounting Standards Board ("IASB") issued common disclosure requirements that are intended to enhance comparability between financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with International Financial Reporting Standards ("IFRS"). This new guidance is applicable to companies that have financial instruments or derivatives that are either offset in the balance sheet (presented on a net basis) or subject to an enforceable master netting arrangement or similar arrangement. The requirement does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. However, once this disclosure requirement becomes effective, companies will also be required to disclose information about financial instruments and derivatives instruments that have been offset and related arrangements and to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. The disclosure requirement becomes effective retrospectively in the first quarter of the Company's fiscal year 2013. The Company does not expect that the requirement will have a material impact on its financial position, results of operations or cash flows as it is disclosure only in nature.

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

On April 28, 2011, the Company and Total entered into a Tender Offer Agreement (the "Tender Offer Agreement"), pursuant to which, on May 3, 2011, Total commenced a cash tender offer to acquire up to 60% of the Company's outstanding shares of former class A common stock and up to 60% of the Company's outstanding shares of former class B common stock (the "Tender Offer") at a price of $23.25 per share for each class. The offer expired on June 14, 2011 and Total accepted for payment on June 21, 2011 a total of 34,756,682 shares of the Company's former class A common stock and 25,220,000 shares of the Company's former class B common stock, representing 60% of each class of its outstanding common stock as of June 13, 2011, for a total cost of approximately $1.4 billion.

On December 23, 2011, the Company entered into a Stock Purchase Agreement with Total, under which it agreed to acquire 100% of the equity interest of Tenesol from Total for $165.4 million in cash. The Tenesol acquisition was consummated on January 31, 2012 (see Note 3). Contemporaneously with the execution of the Tenesol Stock Purchase Agreement, the Company entered into a Private Placement Agreement with Total, under which Total agreed to purchase, and the Company agreed to issue and sell, 18.6 million shares of the Company's common stock for a purchase price of $8.80 per share, thereby increasing Total's ownership to approximately 66% of the Company's outstanding common stock as of that date. The sale was completed contemporaneously with the closing of the Tenesol acquisition.

Credit Support Agreement

In connection with the Tender Offer, the Company and Total S.A. entered into a Credit Support Agreement (the "Credit Support Agreement") under which Total S.A. agreed to enter into one or more guarantee agreements (each a "Guaranty") with banks providing letter of credit facilities to the Company in support of certain Company businesses and other permitted purposes. Total S.A. will guarantee the payment to the applicable issuing bank of the Company's obligation to reimburse a draw on a letter of credit and pay interest thereon in accordance with the letter of credit facility between such bank and the Company. The Credit Support Agreement became effective on June 28, 2011 (the "CSA Effective Date"). Under the Credit Support Agreement, at any time from the CSA Effective Date until the fifth anniversary of the CSA Effective Date, the Company may request that Total S.A. provide a Guaranty in support of the Company's payment obligations with respect to a letter of credit facility. Total S.A. is required to issue and enter into the Guaranty requested by the Company, subject to certain terms and conditions that may be waived by Total S.A., and subject to certain other conditions.

In consideration for the commitments of Total S.A., under the Credit Support Agreement, the Company is required to pay Total S.A. a guarantee fee for each letter of credit that is the subject of a Guaranty and was outstanding for all or part of the preceding calendar quarter. The Company is also required to reimburse Total S.A. for payments made under any Guaranty and certain expenses of Total S.A., plus interest on both. In the years ended December 30, 2012 and January 1, 2012, the Company incurred guaranty fees of $6.9 million and $2.2 million, respectively, to Total S.A.

The Company has agreed to undertake certain actions, including, but not limited to, ensuring that the payment obligations of the Company to Total S.A. rank at least equal in right of payment with all of the Company's other present and future indebtedness, other than certain permitted secured indebtedness. The Company has also agreed to refrain from taking certain actions, including refraining from making any equity distributions so long as it has any outstanding repayment obligation to Total S.A. resulting from a draw on a guaranteed letter of credit.

The Credit Support Agreement will terminate following the fifth anniversary of the CSA Effective Date, after the later of the payment in full of all obligations thereunder and the termination or expiration of each Guaranty provided thereunder.

Affiliation Agreement

In connection with the Tender Offer, the Company and Total entered into an Affiliation Agreement that governs the relationship between Total and the Company following the close of the Tender Offer (the "Affiliation Agreement"). Until the expiration of a standstill period (the "Standstill Period"), Total, Total S.A., any of their respective affiliates and certain other related parties (the "Total Group") may not effect, seek, or enter into discussions with any third-party regarding any transaction that would result in the Total Group beneficially owning shares of the Company in excess of certain thresholds, or request the Company or the Company's independent directors, officers or employees, to amend or waive any of the standstill restrictions applicable to the Total Group. The standstill provisions of the Affiliation Agreement do not apply to securities issued in connection with the Liquidity Support Agreement described below.

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

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

In accordance with the terms of the Affiliation Agreement, on July 1, 2011, the Company's Board of Directors expanded the size of the Board of Directors to eleven members and elected six nominees from Total as directors, following which the Board of Directors was composed of the Chief Executive Officer of the Company (who also serves as the chairman of the Company's Board of Directors), four existing non-Total designated members of the Company's Board of Directors, and six directors designated by Total. Directors designated by Total also serve on certain committees of the Company's Board of Directors. On the first anniversary of the consummation of the Tender Offer on June 21, 2012, the size of the Company's Board of Directors was reduced to nine members and one non-Total designated director and one director designated by Total resigned from the Company's Board of Directors. If the Total Group's ownership percentage of Company common stock declines, the number of members of the Company's Board of Directors that Total is entitled to nominate to the Company's Board of Directors will be further reduced as set forth in the Affiliation Agreement.

The Affiliation Agreement also imposes certain restrictions with respect to the Company's and the Company's Board of Directors' ability to take certain actions, including specifying certain actions that require approval by the directors other than the directors appointed by Total and other actions that require stockholder approval by Total.

Affiliation Agreement Guaranty

Total S.A. has entered into a guaranty (the "Affiliation Agreement Guaranty") pursuant to which Total S.A. unconditionally guarantees the full and prompt payment of Total S.A.'s, Total's and each of Total S.A.'s direct and indirect subsidiaries' payment obligations under the Affiliation Agreement and the full and prompt performance of Total S.A.'s, Total's and each of Total S.A.'s direct and indirect subsidiaries' representations, warranties, covenants, duties, and agreements contained in the Affiliation Agreement.

Research & Collaboration Agreement

In connection with the Tender Offer, Total and the Company have entered into a Research & Collaboration Agreement (the "R&D Agreement") that establishes a framework under which the parties engage in long-term research and development collaboration ("R&D Collaboration"). The R&D Collaboration encompasses a number of different projects ("R&D Projects"), with a focus on advancing technology in the area of photovoltaics. The primary purpose of the R&D Collaboration is to: (i) maintain and expand the Company's technology position in the crystalline silicon domain; (ii) ensure the Company's industrial competitiveness; and (iii) guarantee a sustainable position for both the Company and Total to be best-in-class industry players.

The R&D Agreement enables a joint committee (the "R&D Strategic Committee") to identify, plan and manage the R&D Collaboration. Due to the impracticability of anticipating and establishing all of the legal and business terms that are and will be applicable to the R&D Collaboration or to each R&D Project, the R&D Agreement sets forth broad principles applicable to the parties' potential R&D Collaboration, and the R&D Collaboration Committee establishes the particular terms governing each particular R&D Project consistent with the terms set forth in the R&D Agreement.

Registration Rights Agreement

In connection with the Tender Offer, Total and the Company entered into a customary registration rights agreement (the "Registration Rights Agreement") related to Total's ownership of Company shares. The Registration Rights Agreement provides Total with shelf registration rights, subject to certain customary exceptions, and up to two demand registration rights in any 12-month period, also subject to certain customary exceptions. Total also has certain rights to participate in any registrations of securities initiated by the Company. The Company will generally pay all costs and expenses incurred by the Company and Total in connection with any shelf or demand registration (other than selling expenses incurred by Total). The Company and Total have also agreed to certain indemnification rights. The Registration Rights Agreement terminates on the first date on which: (i) the shares held by Total constitute less than 5% of the then-outstanding common stock; (ii) all securities held by Total may be immediately resold pursuant to Rule 144 promulgated under the Securities and Exchange Act of 1934 (the "Exchange Act") during any 90-day period without any volume limitation or other restriction; or (iii) the Company ceases to be subject to the reporting requirements of the Exchange Act.

Stockholder Rights Plan

On April 28, 2011, prior to the execution of the Tender Offer Agreement, the Company entered into an amendment (the "Rights Agreement Amendment") to the Rights Agreement, dated August 12, 2008, by and between the Company and Computershare Trust Company, N.A., as Rights Agent (the "Rights Agreement"), in order to, among other things, render the rights therein inapplicable to each of: (i) the approval, execution or delivery of the Tender Offer Agreement; (ii) the commencement or consummation of the Tender Offer; (iii) the consummation of the other transactions contemplated by the Tender Offer Agreement and the related agreements; and (iv) the public or other announcement of any of the foregoing.

On June 14, 2011, the Company entered into a second amendment to the Rights Agreement (the "Second Rights Agreement Amendment"), in order to, among other things, exempt Total, Total S.A. and certain of their affiliates and certain members of a group of which they may become members from the definition of "Acquiring Person" such that the rights issuable pursuant to the Rights Agreement will not become issuable in connection with the completion of the Tender Offer.

By-laws Amendment

On June 14, 2011, the Board of Directors approved the amendment of the Company's By-laws (the "By-laws"). The changes are required under the Affiliation Agreement. The amendments: (i) allow any member of the Total Group to call a meeting of stockholders for the sole purpose of considering and voting on a proposal to effect a Terra Merger (as defined in the Affiliation Agreement) or a Transferee Merger (as defined in the Affiliation Agreement); (ii) provide that the number of directors of the Board shall be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board at any regular or special meeting; (iii) require, prior to the termination of the Affiliation Agreement, a majority of independent directors' approval to amend the By-laws so long as Total, together with Total S.A.'s subsidiaries collectively own at least 30% of the voting securities of the Company as well as require, prior to the termination of the Affiliation Agreement, Total's written consent during the Terra Stockholder Approval Period (as defined in the Affiliation Agreement) to amend the By-laws; and (iv) make certain other conforming changes to the By-laws. In addition, in November 2011, the By-laws were amended to remove restrictions prohibiting stockholder consents in writing.

Liquidity Support Agreement with Total S.A.

The Company is party to an agreement with a customer to construct the California Valley Solar Ranch, a solar park. Part of the debt financing necessary for the customer to pay for the construction of this solar park is being provided by the Federal Financing Bank in reliance on a guarantee of repayment provided by the Department of Energy (the "DOE") under a loan guarantee program. On February 28, 2012, the Company entered into a Liquidity Support Agreement with Total S.A. and the DOE, and a series of related agreements with Total S.A. and Total, under which Total S.A. has agreed to provide the Company, or cause to be provided, additional liquidity under certain circumstances to a maximum amount of $600.0 million ("Liquidity Support Facility"). Total S.A. is required to provide liquidity support to the Company under the facility, and the Company is required to accept such liquidity support from Total S.A., if either the Company's actual or projected unrestricted cash, cash equivalents, and unused borrowing capacity are reduced below $100.0 million, or the Company fails to satisfy any financial covenant under its indebtedness. In either such event, subject to a $600.0 million aggregate limit, Total S.A. is required to provide the Company with sufficient liquidity support to increase the amount of its unrestricted cash, cash equivalents and unused borrowing capacity to above $100.0 million, and to restore compliance with its financial covenants. On December 24, 2012, Total S.A. agreed to guarantee the Company's revolving credit facility with Credit Agricole, which reduced the capacity available under the Liquidity Support Facility by $275.0 million. The Liquidity Support Facility is available until the completion of the solar park, expected to be completed before the end of fiscal 2013, and, under certain conditions, up to December 31, 2016, at which time all outstanding guarantees will expire and all outstanding debt under the facility will become due (except for the Total S.A. guarantee of the Credit Agricole facility). The use of the Liquidity Support Facility is not limited to direct obligations related to the solar park, and is available for general corporate purposes, but the Company has agreed to conduct its operations, and use any proceeds from such facility in ways that minimize the likelihood of Total S.A. being required to provide further support. In connection with the Liquidity Support Agreement, the Company also entered into a Compensation and Funding Agreement with Total S.A., and a Private Placement Agreement and a Revolving Credit and Convertible Loan Agreement with Total, which implement the terms of the Liquidity Support Agreement and Compensation Funding Agreement.

Compensation and Funding Agreement

In connection with the Liquidity Support Agreement, on February 28, 2012, the Company entered into a Compensation and Funding Agreement (the "Compensation and Funding Agreement") with Total S.A., pursuant to which, among other things, the Company and Total S.A. established the parameters for the terms of the Liquidity Support Facility and any liquidity injections that may be required to be provided by Total S.A. to the Company pursuant to the Liquidity Support Agreement. The Company has agreed in the Compensation and Funding Agreement to use commercially reasonable efforts to assist Total S.A. in the performance of its obligations under the Liquidity Support Agreement and to conduct, and to act in good faith in conducting, its affairs in a manner such that Total S.A.'s obligation under the Liquidity Support Agreement to provide liquidity injections will not be triggered or, if triggered, will be minimized. The Company has also agreed to use any cash provided under the facility in such a way as to minimize the need for further liquidity support. The Compensation and Funding Agreement required the Company to issue, in consideration for Total S.A.'s agreement to provide the Liquidity Support Facility, a warrant ("the Upfront Warrant") to Total that is exercisable to purchase a number of shares of the Company's common stock equal to $75.0 million, divided by the volume-weighted average price for the Company's common stock for the 30 trading-day period ending on the trading day immediately preceding the date of the calculation. The Upfront Warrant will be exercisable at any time for seven years after its issuance, provided that, so long as at least $25.0 million of the Company's convertible debt remains outstanding, such exercise will not cause "any person," including Total S.A., to, directly or indirectly, including through one or more wholly-owned subsidiaries, become the "beneficial owner" (as such terms are defined in Rule 13d-3 and Rule 13d-5 under the Securities and Exchange Act of 1934, as amended), of more than 74.99% of the voting power of the Company's common stock at such time, a circumstance which would trigger the repurchase or conversion of the Company's existing convertible debt. On February 28, 2012, the Company issued to Total the Upfront Warrant to purchase 9,531,677 shares of the Company's common stock with an exercise price of $7.8685, subject to adjustment for customary anti-dilution and other events.

Liquidity support may be provided by Total S.A. or through its affiliates in the form of revolving non-convertible debt, convertible debt, equity, guarantees of Company indebtedness or other forms of liquidity support agreed to by the Company, depending on the amount outstanding under the facility immediately prior to provision of the applicable support among other factors. The Company is required to compensate Total S.A. for any liquidity support actually provided, and the form and amount of such compensation depends on the form and amount of support provided, with the amount of compensation generally increasing with the amount of support provided over time. Such compensation is to be provided in a variety of forms including guarantee fees, warrants to purchase common stock, interest on amounts borrowed, and discounts on equity issued.

During the term of the Compensation and Funding Agreement, the Company will make certain cash payments to Total S.A. within 30 days after the end of each calendar quarter during for the term of the agreement as follows: (i) quarterly payment of a commitment fee in an amount equal to 0.25% of the unused portion of the $600.0 million Liquidity Support Facility as of the end of such quarter; and (ii) quarterly payment of a guarantee fee in an amount equal to 2.75% per annum of the average amount of the Company's indebtedness that is guaranteed by Total S.A. pursuant to any guaranty issued in accordance with the terms of the Compensation and Funding Agreement during such quarter. Any payment obligations of the Company to Total S.A. under the Compensation and Funding Agreement that are not paid when due shall accrue interest until paid in full at a rate equal to 6-month U.S. LIBOR as in effect from time to time plus 5.00% per annum.

On December 24, 2012 Total S.A. issued a guarantee for the Company's obligations under the September 2011 revolving credit facility with Credit Agricole. The issuance of the guaranty reduces the capacity available under the Liquidity Support Facility from $600.0 million to $325.0 million. The Company is required to pay Total S.A. an annual guarantee fee of 2.75% of the guaranteed amount under the Credit Agricole facility. The guarantee reduced interest rates payable under, and removed certain financial and restrictive covenants in the Credit Agricole facility (see Note 12).

In the year ended December 30, 2012, the Company incurred commitment fees of $4.9 million to Total S.A.

Master Agreement

On December 23, 2011, the Company also entered into a Master Agreement with Total, under which the Company and Total agreed to a framework of transactions related to the Tenesol Acquisition and Private Placement Agreement. Additionally, Total has agreed to pursue several negotiations on additional agreements related to directly investing in the Company's R&D program over a multi-year period, purchase of modules and develop a multi-megawatt project using the Company's products. The Company and Total amended the Master Agreement on February 20, 2013 to clarify that the development of the multi-megawatt project using the Company's products shall mean development of up to 10 C-7 Tracker demonstration projects at a total cost to Total of not more than $2.5 million provided agreements for such projects are entered into before December 31, 2013.

Note 3. ***TRANSFER OF ENTITIES UNDER COMMON CONTROL***

Tenesol

On January 31, 2012, the Company completed its acquisition of Tenesol, a global solar provider headquartered in La Tour de Salvagny, France, and formerly wholly-owned subsidiary of Total, for $165.4 million in cash in exchange for 100% of the equity of Tenesol from Total pursuant to a stock purchase agreement entered into on December 23, 2011. Tenesol is engaged in the business of devising, designing, manufacturing, installing, and managing solar power production and consumption systems for farms, industrial and service sector buildings, solar power plants and private homes.

As Tenesol and the Company were under the common control of Total as of the January 31, 2012 acquisition date, the acquisition is treated as a transfer of an entity under common control and represents a change in the reporting entity. As a result, the Company has retrospectively adjusted its historical financial statements to reflect the transfer beginning on October 10, 2011, the first date in which Total had common control of both the Company and Tenesol, and to include the results of operations in the Company's Consolidated Statement of Operations since October 10, 2011. The Company recorded the transfer of Tenesol's assets and liabilities at their historical carrying value in Total's financial statements in accordance with U.S. GAAP, and the net assets transferred were recorded as an equity contribution from Total to the Company as of October 10, 2011. The subsequent cash payment on January 31, 2012 as described above was treated as a cash distribution to Total. In addition, a transaction between Total and Tenesol on January 23, 2012 resulted in an additional equity contribution from Total to the Company in the fiscal quarter ending January 1, 2012, and an additional cash distribution to Total totaling $12.9 million in the fiscal quarter ending April 1, 2012. In the fourth quarter of fiscal 2012, Total returned to the Company $8.7 million of the purchase price in accordance with the purchase price adjustment mechanism in the purchase agreement, which was treated as an equity contribution from Total.

The Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statement of Comprehensive Loss of the Company as of and for the twelve months ended January 1, 2012 as reported previously and as adjusted in this report are as follows:

	As of January 1, 2012	
	As Adjusted for the Change in Reporting Entity	As Previously Reported in the 2011 Annual Report on Form 10-K
Assets		
Current assets:		
Cash and cash equivalents	$ 725,618	$ 657,934
Restricted cash and cash equivalents, current portion	52,279	52,279
Accounts receivable, net	438,633	390,262
Costs and estimated earnings in excess of billings	54,854	54,854
Inventories	445,501	397,262
Advances to suppliers, current portion	43,143	43,143
Project assets - plants and land, current portion	24,243	24,243
Prepaid expenses and other current assets	502,879	482,691
Total current assets	2,287,150	2,102,668
Restricted cash and cash equivalents, net of current portion	27,276	27,276
Restricted long-term marketable securities	9,145	9,145
Property, plant and equipment, net	628,769	607,456
Project assets - plants and land, net of current portion	34,614	34,614
Goodwill	47,077	35,990
Other intangible assets, net	23,900	4,848
Advances to suppliers, net of current portion	284,378	278,996
Other long-term assets	176,821	174,204
Total assets	$ 3,519,130	$ 3,275,197
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 441,655	$ 416,615
Accrued liabilities	249,404	234,688
Billings in excess of costs and estimated earnings	170,828	170,828
Short-term debt	2,122	—
Convertible debt, current portion	196,710	196,710
Customer advances, current portion	48,073	46,139
Total current liabilities	1,108,792	1,064,980
Long-term debt	364,273	355,000
Convertible debt, net of current portion	423,268	423,268
Customer advances, net of current portion	181,946	181,947
Other long-term liabilities	166,126	152,492
Total liabilities	2,244,405	2,177,687
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of January 1, 2012	—	—
Common stock, $0.001 par value, 367,500,000 shares authorized; 101,851,290 shares issued, and 100,475,533 shares outstanding as of January 1, 2012	100	100
Additional paid-in capital	1,845,965	1,657,474
Accumulated deficit	(550,065)	(540,187)
Accumulated other comprehensive income	7,142	8,540
Treasury stock, at cost; 1,375,757 shares of common stock as of January 1, 2012	(28,417)	(28,417)
Total stockholders' equity	1,274,725	1,097,510
Total liabilities and stockholders' equity	$ 3,519,130	$ 3,275,197

(In thousands)	Year Ended January 1, 2012 As Adjusted for the Change in Reporting Entity	Year Ended January 1, 2012 As Previously Reported in the 2011 Annual Report on Form 10-K
Revenue	$ 2,374,376	$ 2,312,494
Cost of revenue	2,148,158	2,084,290
Gross margin	226,218	228,204
Operating expenses:		
Research and development	57,775	57,775
Sales, general and administrative	331,380	319,719
Goodwill impairment	309,457	309,457
Other intangible asset impairment	40,301	40,301
Restructuring charges	21,403	21,403
Total operating expenses	760,316	748,655
Operating loss	(534,098)	(520,451)
Other expense, net:		
Interest income	2,337	2,054
Interest expense	(67,253)	(67,022)
Gain on change in equity interest in unconsolidated investee	322	322
Gain on sale of equity interest in unconsolidated investee	5,937	5,937
Gain on mark-to-market derivatives	343	343
Other, net	(10,120)	(8,946)
Other expense, net	(68,434)	(67,312)
Loss before income taxes and equity in earnings of unconsolidated investees	(602,532)	(587,763)
Provision for income taxes	(17,208)	(22,099)
Equity in losses of unconsolidated investees	6,003	6,003
Net loss	$ (613,737)	$ (603,859)
Net loss per share of common stock:		
Basic and diluted	$ (6.28)	$ (6.18)
Weighted-average shares:		
Basic and diluted	97,724	97,724

(In thousands)	Year Ended January 1, 2012 As Adjusted for the Change in Reporting Entity	Year Ended January 1, 2012 As Previously Reported in the 2011 Annual Report on Form 10-K
Total comprehensive loss	$ (610,235)	$ (598,959)

Note 4. ***BUSINESS COMBINATIONS***

SunRay Malta Holdings Limited ("SunRay")

In fiscal 2010, the Company completed its acquisition of SunRay, a European solar power plant developer company organized under the laws of Malta, under which the Company purchased all the issued share capital of SunRay for $296.1 million. As a result, SunRay became a subsidiary of the Company and the results of operations of SunRay have been included in the Consolidated Statement of Operations of the Company since March 26, 2010. As part of the acquisition, the Company acquired SunRay's project pipeline of solar photovoltaic projects in Europe and Israel, in various stages of development. SunRay's power plant development and project finance teams consisted of approximately 70 employees at the date of acquisition.

Note 5. ***SALE OF DISCONTINUED OPERATIONS***

In connection with the acquisition of SunRay in fiscal 2010, the Company acquired a European project company, Cassiopea PV S.r.l ("Cassiopea"), which operated a previously completed 20 MW solar power plant in Montalto di Castro, Italy. In the period in which an asset of the Company is classified as held-for-sale, it is required to present for all periods the related assets, liabilities and results of operations associated with that asset as discontinued operations. On August 5, 2010, the Company sold the assets and liabilities of Cassiopea. Therefore, Cassiopea's results of operations were classified as "Income from discontinued operations, net of taxes" in the Consolidated Statement of Operations for year ended January 2, 2011.

Results of operations related to Cassiopea for the year ended January 2, 2011 were as follows:

(In thousands)	Year ended January 2, 2011
Utility and power plants revenue	$ 11,081
Gross margin	11,081
Income from discontinued operations before sale of business unit	5,862
Gain on sale of business unit	11,399
Income before income taxes	17,261
Income from discontinued operations, net of taxes	11,841

Note 6. ***GOODWILL AND OTHER INTANGIBLE ASSETS***

Goodwill

The following table presents the changes in the carrying amount of goodwill under the Company's reportable business segments:

(In thousands)	Americas	EMEA (1)	APAC	Total
As of January 2, 2011	$ 185,266	$ 157,017	$ 2,987	$ 345,270
Goodwill arising from the transfer of entities under common control	—	11,087	—	11,087
Goodwill impairment (2)	(149,276)	(157,267)	(2,914)	(309,457)
Translation adjustment	—	250	(73)	177
As of January 1, 2012	35,990	11,087	—	47,077
Goodwill impairment (2)	(35,990)	(10,744)	—	(46,734)
Translation adjustment	—	(343)	—	(343)
As of December 30, 2012	$ —	$ —	$ —	$ —

(1) As adjusted to reflect the balances of Tenesol beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

(2) Impairment amounts in the above table reflect the Company's cumulative-to-date goodwill impairments.

Goodwill is tested for impairment at least annually, or more frequently if certain indicators are present. A two-step process is used to test for goodwill impairment. The first step is to determine if there is an indication of impairment by comparing the estimated fair value of each reporting unit to its carrying value, including existing goodwill. Goodwill is considered impaired if the carrying value of a reporting unit exceeds the estimated fair value. Upon an indication of impairment, a second step is performed to determine the amount of the impairment by comparing the implied fair value of the reporting unit's goodwill with its carrying value.

The Company conducts its annual impairment test of goodwill as of the Sunday closest to the end of the third fiscal quarter of each year. Impairment of goodwill is tested at the Company's reporting unit level. Management determined that the Americas Segment, the EMEA Segment, and the APAC Segment are the reporting units. In estimating the fair value of the reporting units, the Company makes estimates and judgments about its future cash flows using an income approach defined as Level 3 inputs under fair value measurement standards. The income approach, specifically a discounted cash flow analysis, included assumptions for, among others, forecasted revenue, gross margin, operating income, working capital cash flow, perpetual growth rates and long-term discount rates, all of which require significant judgment by management. The sum of the fair values of the Company's reporting units are also compared to its external market capitalization to determine the appropriateness of its assumptions and adjusted, if appropriate. These assumptions took into account the current industry environment and its impact on the Company's business.

Based on the impairment test as of September 30, 2012, the Company determined that the carrying value of the Americas and EMEA reporting units exceeded their fair value. As a result, the Company performed the second step of the impairment analysis for the two reporting units discussed above. The Company's calculation of the implied fair value of goodwill included significant assumptions for, among others, the fair values of recognized assets and liabilities and of unrecognized intangible assets, all of which require significant judgment by management. The Company calculated that the implied fair value of goodwill for the two reporting units was zero and therefore recorded a goodwill impairment loss of $46.7 million, representing all of the goodwill associated with these reporting units. Based on the impairment test performed as of October 2, 2011, the Company recorded a goodwill impairment loss of $309.5 million related to the EMEA reporting unit.

Intangible Assets

The following tables present details of the Company's acquired other intangible assets:

(In thousands)	Gross	Accumulated Amortization	Net
As of December 30, 2012			
Patents, trade names and purchased technology	$ 49,892	$ (49,892)	$ —
Purchased in-process research and development	1,000	(361)	639
Customer relationships and other	28,426	(28,321)	105
	$ 79,318	$ (78,574)	$ 744
As of January 1, 2012 (3)			
Patents, trade names and purchased technology	$ 52,992	$ (50,280)	$ 2,712
Purchased in-process research and development	1,000	(195)	805
Customer relationships and other	45,910	(25,527)	20,383
	$ 99,902	$ (76,002)	$ 23,900

(3) As adjusted to reflect the balances of Tenesol beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

All of the Company's acquired other intangible assets are subject to amortization. Aggregate amortization expense for other intangible assets totaled $9.1 million, $23.4 million, and $38.5 million in fiscal 2012, 2011, and 2010, respectively.

The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. During the third quarter of fiscal 2012, the Company determined that the carrying value of certain intangible assets in Europe were no longer recoverable based on a discrete evaluation of the nature of the intangible assets, incorporating the effect of declines in regional operating results. As a result, the Company recognized an impairment loss of $12.8 million on its Consolidated Statement of Operations for the year ended December 30, 2012.

During the third quarter of fiscal 2011, the Company determined the carrying value of certain intangible assets related to strategic acquisitions of EPC and O&M project pipelines in Europe were no longer recoverable and recognized an impairment loss of $40.3 million on its Consolidated Statement of Operations for the year ended January 1, 2012. The Company determined that the carrying value of the intangible assets was not recoverable as the carrying value of the asset group which contained the intangible assets exceeded the undiscounted cash flows of the asset group for a period of time commensurate with the remaining useful life of the primary asset of the group plus a salvage value of the asset group at the end of this period. The impairment loss was calculated by comparing the fair value of the intangible assets to their carrying value. In calculating the fair value of the intangible assets, the Company utilized discounted cash flow assumptions related to the acquired EPC and O&M project pipelines in Europe. The significant decline in fair value of the intangible assets was primarily attributable to the change in government incentives in Europe.

As of December 30, 2012, the estimated future amortization expense related to other intangible assets is as follows:

(In thousands)	Amount
Year	
2013	$ 272
2014	167
2015	166
2016	139
	$ 744

Note 7. ***BALANCE SHEET COMPONENTS***

(In thousands)	As of December 30, 2012	As of January 1, 2012
Accounts receivable, net:		
Accounts receivable, gross (1)	$ 429,977	$ 468,320
Less: allowance for doubtful accounts	(26,773)	(21,039)
Less: allowance for sales returns	(5,054)	(8,648)
	$ 398,150	$ 438,633

(1) Includes short-term finance receivables associated with solar power systems leased of $4.5 million and $0.3 million as of December 30, 2012 and January 1, 2012, respectively.

(In thousands)	Balance at Beginning of Period	Charges (Releases) to Expenses / Revenues	Deductions	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 30, 2012	$ 21,039	$ 8,898	$ (3,164)	$ 26,773
Year ended January 1, 2012	5,967	18,398	(3,326)	21,039
Year ended January 2, 2011	2,298	11,405	(7,736)	5,967
Allowance for sales returns:				
Year ended December 30, 2012	8,648	(3,594)	—	5,054
Year ended January 1, 2012	2,387	6,261	—	8,648
Year ended January 2, 2011	1,908	2,160	(1,681)	2,387
Valuation allowance for deferred tax assets (2):				
Year ended December 30, 2012	129,946	52,376	—	182,322
Year ended January 1, 2012	4,644	125,302	—	129,946
Year ended January 2, 2011	42,163	(37,519)	—	4,644

(2) The above table reflects adjustments to the valuation allowance for prior years, which did not have a material impact on the financial statements as there was a corresponding adjustment to the Company's gross deferred tax assets.

(In thousands)	As of December 30, 2012	As of January 1, 2012
Inventories:		
Raw materials	$ 89,331	$ 78,050
Work-in-process	50,627	79,397
Finished goods	151,428	288,054
	$ 291,386	$ 445,501

	December 30, 2012	January 1, 2012
Prepaid expenses and other current assets:		
VAT receivables, current portion	$ 97,041	$ 68,993
Foreign currency derivatives	1,275	34,422
Income tax receivable	1,615	19,541
Deferred project costs	305,980	163,366
Deferred costs for solar power systems to be leased	31,419	5,310
Other receivables (3)	103,025	146,135
Other prepaid expenses	25,230	29,993
Other current assets	47,468	20,006
	$ 613,053	$ 487,766

(3) Includes tolling agreements with suppliers in which the Company provides polysilicon required for silicon ingot manufacturing and procures the manufactured silicon ingots from the suppliers (see Notes 10 and 11).

	December 30, 2012	January 1, 2012
Project assets - plants and land:		
Project assets — plants	$ 61,862	$ 31,469
Project assets — land	21,645	27,388
	$ 83,507	$ 58,857
Project assets - plants and land, current portion	$ 75,911	$ 24,243
Project assets - plants and land, net of current portion	$ 7,596	$ 34,614

	December 30, 2012	January 1, 2012
Property, plant and equipment, net:		
Land and buildings	$ 20,109	$ 13,912
Leasehold improvements	221,378	244,913
Manufacturing equipment (4)	531,289	625,019
Computer equipment	75,438	69,694
Solar power systems	12,501	11,148
Solar power systems leased	163,003	7,483
Furniture and fixtures	8,178	7,172
Solar power systems to be leased	89,423	15,113
Construction-in-process	34,110	46,762
	1,155,429	1,041,216
Less: accumulated depreciation (5)	(380,520)	(397,334)
	$ 774,909	$ 643,882

(4) The Company's mortgage loan agreement with International Finance Corporation ("IFC") is collateralized by certain manufacturing equipment with a net book value of $152.9 million and $196.6 million as of December 30, 2012 and January 1, 2012, respectively. The Company also provided security for advance payments received from a third party in fiscal 2008 in the form of collateralized manufacturing equipment with a net book value of $16.5 million and $21.1 million as of December 30, 2012 and January 1, 2012, respectively.

(5) Total depreciation expense was $108.7 million, $107.1 million, and $102.2 million in fiscal 2012, 2011, and 2010, respectively.

(In thousands)	As of December 30, 2012	As of January 1, 2012
Property, plant and equipment, net by geography (6):		
Philippines	$ 367,708	$ 490,074
United States	343,710	108,549
Mexico	32,409	21,686
Europe	29,292	20,830
Other	1,790	2,743
	$ 774,909	$ 643,882

(6) Property, plant and equipment, net are based on the physical location of the assets.

The below table presents the cash and non-cash interest expense capitalized to property, plant and equipment and project assets during fiscal 2012, 2011 and 2010, respectively.

(In thousands)	Year ended December 30, 2012	Year ended January 1, 2012	Year ended January 2, 2011
Interest expense:			
Interest cost incurred	$ (88,738)	$ (72,505)	$ (65,324)
Cash interest cost capitalized - property, plant and equipment	1,142	1,503	565
Non-cash interest cost capitalized - property, plant and equipment	520	942	774
Cash interest cost capitalized - project assets - plant and land	1,703	1,326	3,526
Non-cash interest cost capitalized - project assets - plant and land	1,253	1,481	5,183
Interest expense	$ (84,120)	$ (67,253)	$ (55,276)

(In thousands)	As of December 30, 2012	As of January 1, 2012
Other long-term assets:		
Equity method investments	$ 111,516	$ 129,929
Bond hedge derivative	2,327	840
Cost method investments	14,918	4,918
VAT receivables, net of current portion	—	6,020
Long-term financing receivables	67,742	5,326
Long-term debt issuance costs	38,185	10,734
Other	41,375	19,054
	$ 276,063	$ 176,821

(In thousands)	As of December 30, 2012	As of January 1, 2012
Accrued liabilities:		
VAT payables	$ 2,049	$ 47,034
Foreign currency derivatives	4,891	14,935
Short-term warranty reserves	9,054	15,034
Interest payable	9,672	7,288
Deferred revenue	32,507	48,115
Employee compensation and employee benefits	40,750	35,375
Restructuring reserve	29,477	6,324
Short-term residential lease financing	25,153	—
Other	93,819	75,299
	$ 247,372	$ 249,404

(In thousands)	As of December 30, 2012	As of January 1, 2012
Other long-term liabilities:		
Embedded conversion option derivatives	$ 2,327	$ 844
Long-term warranty reserves	107,803	79,289
Deferred revenue	128,936	31,988
Unrecognized tax benefits	35,022	29,256
Long-term residential lease financing	11,411	—
Other	50,120	24,749
	$ 335,619	$ 166,126

(In thousands)	As of December 30, 2012	As of January 1, 2012
Accumulated other comprehensive income (loss):		
Cumulative translation adjustment	$ (2,319)	$ (1,360)
Net unrealized gain on derivatives	(243)	10,473
Deferred taxes	41	(1,971)
	$ (2,521)	$ 7,142

Solar Power Systems Leased and to be Leased

The Company leases solar systems to residential customers under both operating and sales-type leases. As of December 30, 2012 and January 2, 2012, solar power systems leased out under operating leases, presented in Property, plant and equipment in the Company's Consolidated Balance Sheets was $163.0 million and $7.5 million, respectively, and solar power systems to be leased under operating leases, presented in Property, plant and equipment in the Company's Consolidated Balance Sheets was $89.4 million and $15.1 million, respectively. As of December 30, 2012, financing receivables for sales-type leases, presented in Accounts receivable, net and Other long-term assets in the Company's Consolidated Balance Sheets was $4.5 million and $67.7 million, respectively. As of January 1, 2012, financing receivables for sales-type leases, presented in Accounts receivable, net and Other long-term assets in the Company's Consolidated Balance Sheets was $0.3 million and $5.3 million, respectively. Amounts recognized in the Company's Consolidated Statement of Operations are not significant in any year presented.

During the year, the Company has entered into two facilities under which solar systems are financed with third-party investors. Under the terms of the programs the parties make upfront payments to SunPower, which the Company recognizes as a non-recourse liability that will be reduced over the specified term of the program as customer receivables and government incentives are received by the third party investors. As the non-recourse liability is reduced over time, the Company makes a corresponding reduction in customer and government incentive receivables on its balance sheet. Under this approach, for both operating and sales-type leases the Company continues to account for the arrangements with its customers in the Consolidated Financial Statements.

As of December 30, 2012, the remaining liability to the third-party investors, presented in Accrued liabilities and Other long-term liabilities on the Company's Consolidated Balance Sheets, was $36.6 million. As of December 30, 2012, the Company has pledged solar assets with an aggregate book value of $280.8 million to the third-party investors as security for its obligations under the contractual arrangements.

Note 8. ***FAIR VALUE MEASUREMENTS***

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company measures certain assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during the years ended December 30, 2012 or January 1, 2012, respectively. The Company did not have any assets or liabilities measured at fair value on a recurring basis requiring Level 3 inputs as of December 30, 2012 or January 1, 2012.

The following table summarizes the Company's assets and liabilities measured and recorded at fair value on a recurring basis as of December 30, 2012 and January 1, 2012, respectively:

	December 30, 2012			January 1, 2012		
(In thousands)	**Total**	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Assets						
Cash and cash equivalents:						
Money market funds (1)	$ 117,254	$ 117,254	$ —	$ 187,538	$ 187,538	$ —
Prepaid expenses and other current assets:						
Foreign currency derivatives (Note 13)	1,275	—	1,275	34,422	—	34,422
Other long-term assets:						
Debt derivatives (Note 12)	2,327	—	2,327	840	—	840
Total assets	$ 120,856	$ 117,254	$ 3,602	$ 222,800	$ 187,538	$ 35,262
Liabilities						
Accrued liabilities:						
Foreign currency derivatives (Note 13)	$ 4,891	$ —	$ 4,891	$ 14,935	$ —	$ 14,935
Other long-term liabilities:						
Debt derivatives (Note 12)	2,327	—	2,327	844	—	844
Total liabilities	$ 7,218	$ —	$ 7,218	$ 15,779	$ —	$ 15,779

(1) The Company's cash equivalents consist of money market fund instruments which are classified as available-for-sale and within Level 1 of the fair value hierarchy because they are valued using quoted market prices for identical instruments in active markets.

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

Debt Derivatives

The 4.50% Bond Hedge (as defined in Note 12) and the embedded cash conversion option within the 4.50% debentures (as defined in Note 12) are classified as derivative instruments that require mark-to-market treatment with changes in fair value reported in the Company's Consolidated Statements of Operations. The fair values of these derivative instruments were determined utilizing the following Level 1 and Level 2 inputs:

	As of (1)	
	December 30, 2012	**January 1, 2012**
Stock price	$ 5.49	$ 6.23
Exercise price	$ 22.53	$ 22.53
Interest rate	0.40%	0.84%
Stock volatility	59.9%	44.0%
Credit risk adjustment	1.07%	1.93%
Maturity date	February 18, 2015	February 18, 2015

(1) The valuation model utilizes these inputs to value the right but not the obligation to purchase one share at $22.53. The Company utilized a Black-Scholes valuation model to value the 4.50% Bond Hedge and embedded cash conversion option. The underlying input assumptions were determined as follows:
   (i) Stock price. The closing price of the Company's common stock on the last trading day of the quarter.
   (ii) Exercise price. The exercise price of the 4.50% Bond Hedge and the embedded cash conversion option.
   (iii) Interest rate. The Treasury Strip rate associated with the life of the 4.50% Bond Hedge and the embedded cash conversion option.
   (iv) Stock volatility. The volatility of the Company's common stock over the life of the 4.50% Bond Hedge and the embedded cash conversion option.
   (v) Credit risk adjustment. Represents the weighted average of the credit default swap rate of the counterparties.

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

The Company measures certain investments and non-financial assets (including project assets, property, plant and equipment, and other intangible assets) at fair value on a non-recurring basis in periods after initial measurement in circumstances when the fair value of such asset is impaired below its recorded cost. Information regarding the Company's goodwill and other intangible asset balances are disclosed in Note 6.

Debt Securities

The Company's debt securities consist of Philippine government bonds, classified as held-to-maturity, which are maintained as collateral for present and future business transactions within the country. These bonds have maturity dates of up to 5 years with a carrying value of $10.9 million as of December 30, 2012 and $9.1 million as of January 1, 2012, which are classified as "Restricted long-term marketable securities" on the Company's Consolidated Balance Sheets. The Company records such held-to-maturity investments at amortized cost based on its ability and intent to hold the securities until maturity. The Company monitors for changes in circumstances and events that would impact its ability and intent to hold such securities until the recorded amortized costs are recovered. The Company incurred no other-than-temporary impairment loss in the year ended December 30, 2012. The debt securities were categorized in Level 2 of the fair value hierarchy.

Equity and Cost Method Investments

The Company's equity and cost method investments in non-consolidated entities are comprised of convertible promissory notes, common and preferred stock. The Company monitors these investments, which are included in "Other long-term assets" in its Consolidated Balance Sheets, for impairment and records reductions in the carrying values when necessary. Circumstances that indicate an other-than-temporary decline include Level 2 and Level 3 measurements such as the valuation ascribed to the issuing company in subsequent financing rounds, decreases in quoted market prices, and declines in operations of the issuer. As of December 30, 2012 and January 1, 2012, the Company had $111.5 million and $129.9 million, respectively, in investments accounted for under the equity method and $14.9 million and $4.9 million, respectively, in investments accounted for under the cost method (see Note 11).

Note 9. ***RESTRUCTURING***

October 2012 Restructuring Plan

On October 12, 2012, the Company's Board of Directors approved a reorganization (the "October 2012 Plan") to accelerate operating cost reduction and improve overall operating efficiency. In connection with the October 2012 Plan, which is expected to be completed within the twelve months following approval, the Company expects to eliminate approximately 900 positions primarily in the Philippines, representing approximately 15% of the Company's global workforce. As a result, the Company expects to record restructuring charges totaling $33.0 million to $40.0 million, related to all segments. Such charges are composed of severance benefits, lease and related termination costs, and other associated costs, $30.2 million of which was recorded in the fourth quarter of fiscal 2012. The Company expects greater than 90% of these charges to be cash.

April 2012 Restructuring Plan

As a result of the Company's continued cost reduction progress at its Fab 2 and its joint venture Fab 3 manufacturing facilities, on April 13, 2012, the Company's Board of Directors approved a restructuring plan (the "April 2012 Plan") to consolidate the Company's Philippine manufacturing operations into Fab 2 and begin repurposing Fab 1 in the second quarter of 2012. The Company expects to recognize restructuring charges up to $63.0 million, related to all segments, in the twelve months following the approval and implementation of the April 2012 Plan. The Company expects greater than 80% of these charges to be non-cash.

December 2011 Restructuring Plan

To accelerate operating cost reduction and improve overall operating efficiency, in December 2011, the Company implemented a company-wide restructuring program (the "December 2011 Plan"). The December 2011 Plan eliminated approximately 2% of the Company's global workforce. Restructuring activities associated with the December 2011 Plan were substantially completed as of December 30, 2012.

June 2011 Restructuring Plan

In response to reductions in European government incentives, which had a significant impact on the global solar market, on June 13, 2011, the Company's Board of Directors approved a restructuring plan (the "June 2011 Plan") to realign the Company's resources. The June 2011 Plan eliminated approximately 2% of the Company's global workforce, in addition to the consolidation or closure of certain facilities in Europe. Restructuring activities associated with the June 2011 Plan were substantially completed as of December 30, 2012.

The following table summarizes the restructuring charges recognized in the Company's Consolidated Statements of Operations:

	Year Ended			
	December 30, 2012	**January 1, 2012**	**January 2, 2011**	**Cumulative To Date**
October 2012 Plan:				
Severance and benefits	$ 29,053	$ —	$ —	$ 29,053
Lease and related termination costs	714	—	—	714
Other costs	460	—	—	460
	30,227	—	—	30,227
April 2012 Plan:				
Non-cash impairment charges	56,299	—	—	56,299
Other costs	5,080	—	—	5,080
	61,379	—	—	61,379
December 2011 Plan:				
Non-cash impairment charges	3,854	—	—	3,854
Severance and benefits	1,505	7,305	—	8,810
Lease and related termination costs	2,249	—	—	2,249
Other costs	338	172	—	510
	7,946	7,477	—	15,423
June 2011 Plan:				
Severance and benefits	(160)	11,186	—	11,026
Lease and related termination costs	1,269	688	—	1,957
Other costs	162	2,052	—	2,214
	1,271	13,926	—	15,197
Total restructuring charges	$ 100,823	$ 21,403	$ —	$ 122,226

The following table summarizes the restructuring reserve activity during the year ended December 30, 2012:

	Year ended			
(In thousands)	January 1, 2012	Charges (Benefits)	Payments	December 30, 2012
October 2012 Plan:				
Severance and benefits	$ —	$ 29,053	$ (4,614)	$ 24,439
Lease and related termination costs	—	714	—	714
Other costs (1) (2)	—	460	(102)	358
April 2012 Plan:				
Other costs (1) (2)	—	5,080	(3,749)	1,331
December 2011 Plan:				
Severance and benefits	3,344	1,505	(4,789)	60
Lease and related termination costs	—	2,249	(941)	1,308
Other costs (1) (2)	24	338	(362)	—
June 2011 Plan:				
Severance and benefits (3)	2,204	(160)	(2,044)	—
Lease and related termination costs	688	1,269	(829)	1,128
Other costs (1)	64	162	(87)	139
Total restructuring liabilities	$ 6,324	$ 40,670	$ (17,517)	$ 29,477

(1) Other costs primarily represent associated legal services and costs associated with the decommissioning of Fab 1 assets.

(2) The reserve balance excludes non-cash impairment charges incurred in connection with the April 2012 Plan and December 2011 Plan during the year ended December 30, 2012.

(3) The June 2011 Plan reserve balance as of January 1, 2012 excludes $1.4 million of charges associated with the accelerated vesting of promissory notes, in accordance with the terms of each agreement, previously issued as consideration for an acquisition completed in the first quarter of fiscal 2010. The $1.4 million charge is separately recorded in "Accrued liabilities" on the Company's Consolidated Balance Sheet as of January 1, 2012, and was fully paid during the first quarter of fiscal 2012.

Note 10. *COMMITMENTS AND CONTINGENCIES*

Lease Commitments

The Company leases its corporate headquarters in San Jose, California and its Richmond, California facility under non-cancellable operating leases from unaffiliated third parties. The Company also has various other lease arrangements, including its European headquarters located in Geneva, Switzerland as well as sales and support offices throughout the United States and Europe including locations in Austin, Texas and La Tour de Salvagny, France. In August 2011, the Company entered into a non-cancellable operating lease agreement for its solar module facility in Mexicali, Mexico from an unaffiliated third party.

The Company has additionally entered into sale-leaseback arrangements under which sixteen solar power systems have been sold to unaffiliated third parties and subsequently leased back under operating leases over minimum lease terms of up to 20 years. In concluding the sale-leaseback arrangements should be classified as operating leases, the Company determined the systems under the sale-leaseback arrangements were not integral equipment as defined under the accounting guidance for such transactions. Separately, the Company entered into power purchase agreements ("PPAs") with end customers, who host the leased solar power systems and buy the electricity directly from the Company under PPAs with a duration of up to 20 years. At the end of each lease term, the Company has the option to purchase the systems at fair value or may be required remove the systems and return them to the unaffiliated third parties. The deferred profit on the sale of the systems is recognized over the term of the lease.

The Company additionally leases certain buildings, machinery and equipment under capital leases for terms up to 12 years.

Future minimum obligations under all non-cancellable leases as of December 30, 2012 are as follows:

(In thousands)	Capital Lease Amount	Operating Lease Amount
Year		
2013	$ 2,064	$ 24,737
2014	1,423	18,216
2015	1,219	16,816
2016	971	16,226
2017	925	13,543
Thereafter	2,391	87,561
	$ 8,993	$ 177,099

Purchase Commitments

The Company purchases raw materials for inventory and manufacturing equipment from a variety of vendors. During the normal course of business, in order to manage manufacturing lead times and help assure adequate supply, the Company enters into agreements with contract manufacturers and suppliers that either allow them to procure goods and services based on specifications defined by the Company, or that establish parameters defining the Company's requirements. In certain instances, these agreements allow the Company the option to cancel, reschedule or adjust the Company's requirements based on its business needs prior to firm orders being placed. Consequently, only a portion of the Company's disclosed purchase commitments arising from these agreements are firm, non-cancellable, and unconditional commitments.

The Company also has agreements with several suppliers, including some of its non-consolidated investees, for the procurement of polysilicon, ingots, wafers, solar cells, solar panels, and Solar Renewable Energy Credits ("SRECs") which specify future quantities and pricing of products to be supplied by the vendors for periods up to 10 years and provide for certain consequences, such as forfeiture of advanced deposits and liquidated damages relating to previous purchases, in the event that the Company terminates the arrangements.

As of December 30, 2012, total obligations related to non-cancellable purchase orders totaled $0.3 billion and long-term supply agreements with suppliers totaled $2.1 billion. Of the total future purchase commitments of $2.4 billion as of December 30, 2012, $109.5 million are for commitments to related parties. Future purchase obligations under non-cancellable purchase orders and long-term supply agreements as of December 30, 2012 are as follows:

(In thousands)	Amount
Year	
2013	$ 621,304
2014	364,713
2015	366,629
2016	331,397
2017	195,026
Thereafter	517,095
	$ 2,396,164

The Company has tolling agreements with suppliers in which the Company provides polysilicon required for silicon ingot manufacturing and procures the manufactured silicon ingots from the supplier. Annual future purchase commitments in the table above are calculated using the gross future purchase obligations of the Company and are not reduced by tolling agreements and non-cancellable SREC sales arrangements. Total future purchase commitments as of December 30, 2012 would be reduced by $305.9 million had the Company's obligations under such agreements been disclosed using net cash outflows.

The Company expects that all obligations related to non-cancellable purchase orders for manufacturing equipment will be recovered through future cash flows of the solar cell manufacturing lines and solar panel assembly lines when such long-lived assets are placed in service. Factors considered important that could result in an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets, and significant negative industry or economic trends. Obligations related to non-cancellable purchase orders for inventories match current and forecasted sales orders that will consume these ordered materials and actual consumption of these ordered materials are compared to expected demand regularly. The Company anticipates total obligations related to long-term supply agreements for inventories will be recovered because quantities are less than management's expected demand for its solar power products. The terms of the long-term supply agreements are reviewed by management and the Company assesses the need for any accruals for estimated losses on adverse purchase commitments, such as lower of cost or market value adjustments that will not be recovered by future sales prices, forfeiture of advanced deposits and liquidated damages, as necessary.

Advances to Suppliers

As noted above, the Company has entered into agreements with various polysilicon, ingot, wafer, solar cell, and solar panel vendors that specify future quantities and pricing of products to be supplied by the vendors for periods up to 10 years. Certain agreements also provide for penalties or forfeiture of advanced deposits in the event the Company terminates the arrangements. Under certain agreements, the Company is required to make prepayments to the vendors over the terms of the arrangements. During the year ended December 30, 2012, the Company paid advances totaling $43.8 million, in accordance with the terms of existing long-term supply agreements. As of December 30, 2012 and January 1, 2012, advances to suppliers totaled $351.4 million and $327.5 million, respectively, the current portion of which is $50.3 million and $43.1 million, respectively. Two suppliers accounted for 76% and 23% of total advances to suppliers as of December 30, 2012, and 74% and 20% as of January 1, 2012.

The Company's future prepayment obligations related to these agreements as of December 30, 2012 are as follows:

(In thousands)		Amount
Year		
2013	$	81,627
2014		65,791
	$	147,418

Advances from Customers

In November 2010, the Company and AUOSP entered into an agreement under which the Company will resell to AUOSP polysilicon purchased from a third-party supplier and AUOSP will provide prepayments to the Company related to such polysilicon, which prepayments will then be made by the Company to the third-party supplier. Prepayments paid by AUOSP to the Company in fiscal 2012 and 2011 were $70.0 million and $30.0 million, respectively. Beginning in the first quarter of fiscal 2011 and continuing through 2020, these advance payments will be applied as a credit against AUOSP's polysilicon purchases from the Company. Such polysilicon is used by AUOSP to manufacture solar cells which are sold to the Company on a "cost-plus" basis. As of December 30, 2012 and January 1, 2012, the outstanding advance was $190.1 million and $126.5 million, respectively, of which $8.8 million and $5.4 million, respectively, has been classified in short-term customer advances and $181.3 million and $121.1 million, respectively, in long-term customer advances in the Consolidated Balance Sheet, based on projected product shipment dates.

In August 2007, the Company entered into an agreement with a third party to supply polysilicon. Under the polysilicon agreement, the Company received advances of $40.0 million in each of fiscal 2008 and 2007 from this third party. Beginning in the first quarter of fiscal 2010, these advance payments are applied as a credit against the third party's polysilicon purchases from the Company. Such polysilicon is used by the third party to manufacture ingots, and potentially wafers, which can be sold to the Company or other customers. As of December 30, 2012 and January 1, 2012, the outstanding advance was $56.1 million and $64.1 million, respectively, of which $8.1 million and $8.1 million, respectively, has been classified in short-term customer advances and $48.0 million and $56.0 million, respectively, in long-term customer advances in the Consolidated Balance Sheet, based on projected product shipment dates. The Company provided security for the advances in the form of collateralized manufacturing equipment with a net book value of $16.5 million and $21.1 million as of December 30, 2012 and January 1, 2012, respectively. As of December 30, 2012 and January 1, 2012, the Company also had $32.0 million and $36.0 million, respectively, of letters of credit issued by Deutsche Bank and zero and $7.5 million restricted cash held in escrow, respectively (see Notes 7 and 12).

The Company has also entered into other agreements with customers who have made advance payments for solar power products. These advances will be applied as shipments of product occur or upon completion of certain project milestones. As of December 30, 2012 and January 1, 2012, such customers had made advances of $49.5 million and $39.4 million, respectively, in the aggregate.

The estimated utilization of advances from customers as of December 30, 2012 is as follows:

(In thousands)		Amount
Year		
2013	$	59,648
2014		28,799
2015		26,387
2016		30,713
2017		35,039
Thereafter		115,144
	$	295,730

Product Warranties

The Company generally warrants or guarantees the performance of the solar panels that it manufactures at certain levels of power output for 25 years. In addition, the Company passes through to customers long-term warranties from OEMs of certain system components, such as inverters. Warranties of 25 years from solar panels suppliers are standard in the solar industry, while inverters typically carry warranty periods ranging from 5 to 10 years. In addition, the Company generally warrants its workmanship on installed systems for periods ranging up to 10 years. The Company maintains reserves to cover the expected costs that could result from these warranties. The Company's expected costs are generally in the form of product replacement or repair. Warranty reserves are based on the Company's best estimate of such costs and are recognized as a cost of revenue. The Company continuously monitors product returns for warranty failures and maintains a reserve for the related warranty expenses based on various factors including historical warranty claims, results of accelerated lab testing, field monitoring, vendor reliability estimates, and data on industry averages for similar products. Historically, warranty costs have been within management's expectations.

Provisions for warranty reserves charged to cost of revenue were $29.8 million, $37.9 million and $23.4 million in the year ended December 30, 2012, January 1, 2012, and January 2, 2011, respectively:

	Year ended					
(In thousands)		December 30, 2012		January 1, 2012		January 2, 2011
Balance at the beginning of the period (1)	$	94,323	$	63,562	$	46,475
Accruals for warranties issued during the period		29,833		37,927		23,362
Settlements made during the period		(6,984)		(7,166)		(6,275)
Balance at the end of the period	$	117,172	$	94,323	$	63,562

(1) As adjusted to reflect the balances of Tenesol beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

Contingent Obligations

Projects often require the Company to undertake obligations including: (i) system output performance guarantees; (ii) system maintenance; (iii) penalty payments or customer termination rights if the system the Company is constructing is not commissioned within specified timeframes or other milestones are not achieved; and (iv) system put-rights whereby the Company could be required to buy-back a customer's system at fair value on specified future dates if certain minimum performance thresholds are not met for periods of up to two years. Historically the systems have performed significantly above the performance guarantee thresholds, and there have been no cases in which the Company had to buy back a system.

Future Financing Commitments

The Company is required to provide certain funding under the joint venture agreement with AU Optronics Singapore Pte. Ltd. ("AUO") and another financing agreement with a third party, subject to certain conditions (see Note 11).

The Company's future financing obligations related to these agreements as of December 30, 2012 are as follows:

(In thousands)	Amount
Year	
2013	$ 150,208
2014	96,770
	$ 246,978

Liabilities Associated with Uncertain Tax Positions

Due to the complexity and uncertainty associated with its tax positions, the Company cannot make a reasonably reliable estimate of the period in which cash settlement, if any, would be made for its liabilities associated with uncertain tax positions in other long-term liabilities. Total liabilities associated with uncertain tax positions were $35.0 million and $29.3 million as of December 30, 2012 and January 1, 2012, respectively, and are included in "Other long-term liabilities" in the Company's Consolidated Balance Sheets as they are not expected to be paid within the next twelve months (see Note 14).

Indemnifications

The Company is a party to a variety of agreements under which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in connection with contracts and license agreements or the sale of assets, under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of warranties, representations and covenants related to such matters as title to assets sold, negligent acts, damage to property, validity of certain intellectual property rights, non-infringement of third-party rights, and certain tax related matters. In each of these circumstances, payment by the Company is typically subject to the other party making a claim to the Company under the procedures specified in the particular contract. These procedures usually allow the Company to challenge the other party's claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third party claims brought against the other party. Further, the Company's obligations under these agreements may be limited in terms of activity (typically to replace or correct the products or terminate the agreement with a refund to the other party), duration and/or amounts. In some instances, the Company may have recourse against third parties and/or insurance covering certain payments made by the Company.

Legal Matters

Three securities class action lawsuits were filed against the Company and certain of its current and former officers and directors in the United States District Court for the Northern District of California on behalf of a class consisting of those who acquired the Company's securities from April 17, 2008 through November 16, 2009. The cases were consolidated as In re SunPower Securities Litigation, Case No. CV-09-5473-RS (N.D. Cal.), and lead plaintiffs and lead counsel were appointed on March 5, 2010. Lead plaintiffs filed a consolidated complaint on May 28, 2010. The actions arise from the Audit Committee's investigation announcement on November 16, 2009 regarding certain unsubstantiated accounting entries. The consolidated complaint alleges that the defendants made material misstatements and omissions concerning the Company's financial results for 2008 and 2009, seeks an unspecified amount of damages, and alleges violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and sections 11 and 15 of the Securities Act of 1933. The court held a hearing on the defendants' motions to dismiss the consolidated complaint on November 4, 2010. The court dismissed the consolidated complaint with leave to amend on March 1, 2011. An amended complaint was filed on April 18, 2011. The amended complaint added two former employees of the Company as defendants. Defendants filed motions to dismiss the amended complaint on May 23, 2011. The motions to dismiss the amended complaint were heard by the court on August 11, 2011. On December 19, 2011, the court granted in part and denied in part the motions to dismiss, dismissing the claims brought pursuant to sections 11 and 15 of the Securities Act of 1933 and the claims brought against the two newly added former employees. On December 14, 2012, the Company announced that it reached an agreement in principle to settle the consolidated securities class action lawsuit for $19.7 million The Company recorded a charge in its fiscal fourth quarter of 2012 in the same amount which is further classified within "Accrued liabilities" on the Company's Consolidated Balance Sheets as of December 30, 2012. On February 1, 2013, the parties filed a stipulation of settlement and a motion for preliminary approval of the settlement. The motion is noticed to be heard on March 14, 2013. The settlement is subject to certain conditions, including final approval by the court after members of the proposed settlement class receive notice and an opportunity to be heard. Until the conditions to the settlement have been satisfied, there can be no assurance that the settlement will become final. If the settlement does not become final, the Company believes it has meritorious defenses to these allegations and will vigorously defend itself in these matters.

Derivative actions purporting to be brought on the Company's behalf have also been filed in state and federal courts against several of the Company's current and former officers and directors based on the same events alleged in the securities class action lawsuits described above. The California state derivative cases were consolidated as In re SunPower Corp. S'holder

Derivative Litig., Lead Case No. 1-09-CV-158522 (Santa Clara Sup. Ct.), and co-lead counsel for plaintiffs have been appointed. The complaints assert state-law claims for breach of fiduciary duty, abuse of control, unjust enrichment, gross mismanagement, and waste of corporate assets. Plaintiffs filed a consolidated amended complaint on March 5, 2012. The federal derivative complaints were consolidated as In re SunPower Corp. S'holder Derivative Litig., Master File No. CV-09-05731-RS (N.D. Cal.), and lead plaintiffs and co-lead counsel were appointed on January 4, 2010. The federal complaints assert state-law claims for breach of fiduciary duty, waste of corporate assets, and unjust enrichment, and seek an unspecified amount of damages. Plaintiffs filed a consolidated complaint on May 13, 2011. A Delaware state derivative case, Brenner v. Albrecht, et al., C.A. No. 6514-VCP (Del Ch.), was filed on May 23, 2011 in the Delaware Court of Chancery. The complaint asserts state-law claims for breach of fiduciary duty and contribution and indemnification, and seeks an unspecified amount of damages. The Company intends to oppose all the derivative plaintiffs' efforts to pursue this litigation on the Company's behalf. Defendants moved to stay or dismiss the Delaware derivative action on July 5, 2011. The motion to stay was heard by the court on October 27, 2011, and on January 27, 2012 the court granted the Company's motion and stayed the case indefinitely subject to the plaintiffs seeking to lift the stay under specified conditions. The Company is currently unable to determine if the resolution of these matters will have an adverse effect on the Company's financial position, liquidity or results of operations.

The Company is also a party to various other litigation matters and claims that arise from time to time in the ordinary course of its business. While the Company believes that the ultimate outcome of such matters will not have a material adverse effect on the Company, their outcomes are not determinable and negative outcomes may adversely affect the Company's financial position, liquidity or results of operations.

Note 11. *EQUITY METHOD INVESTMENTS*

The Company accounts for its equity interests in its unconsolidated investees as described below under the equity method of accounting as it has the ability to exercise significant influence, but does not own a majority equity interest in, or otherwise control, the investees. As of December 30, 2012 and January 1, 2012, the Company's carrying value of its equity method investments totaled $111.5 million and $129.9 million, respectively, and is classified as “Other long-term assets” in its Consolidated Balance Sheets. The Company's share of its earnings (loss) from equity method investments is reflected as "Equity in earnings (loss) of unconsolidated investees" in its Consolidated Statement of Operations.

The Company reviews its equity investments for events or other factors which may indicate an other-than-temporary decline in value. During the second quarter of fiscal 2012 the Company recorded a $6.9 million impairment charge to "Other, net" in the Consolidated Statement of Operations as it determined current market and operating conditions indicated an inability to recover the carrying amount of one of its investments.

Related Party Transactions with Equity Method Investees:

	As of	
(In thousands)	**December 30, 2012**	**January 1, 2012**
Accounts receivable	$ 17,847	$ 74,396
Accounts payable	63,469	109,700
Other long-term assets:		
Long-term note receivable	1,040	—

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Payments made to equity method investees for products/services	$ 519,132	$ 350,158	$ 87,153

Equity Investment in Huaxia CPV (Inner Mongolia) Power Co., Ltd. ("CCPV")

In December 2012, the Company entered into an agreement with Tianjin Zhonghuan Semiconductor Co. Ltd. ("TZS"), Inner Mongolia Power Group Co. Ltd. ("IMP") and Hohhot Jinqiao City Development Company Co., Ltd. ("HJCD") to form CCPV, a jointly owned entity to manufacture and deploy the Company's C-7 Tracker concentrator technology in Inner Mongolia and other regions in China. Huaxia CPV will be based in Hohhot, Inner Mongolia. Under the terms of the agreement, the Company will invest RMB 100,000,000 (or approximately $15.9 million based on the exchange rate as of December 30, 2012), for a 25% equity ownership in CCPV, with the investment to be made over a period of two years subsequent to the establishment of the entity. The establishment of the entity is subject to approval of the PRC government. No contributions have been made to date.

Equity Investment in Diamond Energy Pty Ltd. ("Diamond Energy")

In October 2012, the Company made a $3.0 million equity investment in Diamond Energy, an alternative energy project developer and clean electricity retailer headquartered in Melbourne, Australia, in exchange for a 25% equity ownership. The Company additionally provided Diamond Energy $1.0 million under a five year convertible note agreement. The Company will lend an additional $1.0 million under the convertible note agreement during fiscal 2013 and will receive interest of 1% per annum on the amounts lent to Diamond Energy, to be paid upon conversion or maturity.

The Company has concluded that it is not the primary beneficiary of Diamond Energy since, although the Company is obligated to absorb losses and has the right to receive benefits, the Company alone does not have the power to direct the activities of Diamond that most significantly impact its economic performance. The Company accounts for its investment in Diamond using the equity method since the Company is able to exercise significant influence over Diamond due to its board position.

Equity Investment and Joint Venture with AUOSP

In fiscal 2010, the Company, AUO and AU Optronics Corporation, the ultimate parent company of AUO ("AUO Taiwan") formed the joint venture AUOSP (formerly SunPower Malaysia Manufacturing Sdn. Bhd, a wholly owned subsidiary of the Company). The Company and AUO each own 50% of the joint venture, AUOSP. AUOSP owns a solar cell manufacturing facility ("FAB 3") in Malaysia and manufactures solar cells and sells them on a "cost-plus" basis to the Company and AUO.

In connection with the joint venture agreement, the Company and AUO also entered into licensing and joint development, supply, and other ancillary transaction agreements. Through the licensing agreement, the Company and AUO licensed to AUOSP, on a non-exclusive, royalty-free basis, certain background intellectual property related to solar cell manufacturing (in the case of the Company), and manufacturing processes (in the case of AUO). Under the seven-year supply agreement with AUOSP, renewable by the Company for one-year periods thereafter, the percentage of AUOSP's total annual output allocated on a monthly basis to the Company, which the Company is committed to purchase, ranged from 95% in the fourth quarter of fiscal 2010 to 80% in fiscal year 2013 and thereafter. The Company and AUO have the right to reallocate supplies from time to time under a written agreement. As required under the joint venture agreement, in fiscal 2010, the Company and AUOSP entered into an agreement under which the Company will resell to AUOSP polysilicon purchased from a third-party supplier and AUOSP will provide prepayments to the Company related to such polysilicon, which prepayment will then be made by the Company to the third-party supplier.

The Company and AUO are not permitted to transfer any of AUOSP's shares held by them, except to each other and to their direct or indirect wholly-owned subsidiaries. In the joint venture agreement, the Company and AUO agreed to each contribute additional amounts through 2014 amounting to $241.0 million, or such lesser amount as the parties may mutually agree. In addition, if AUOSP, the Company or AUO requests additional equity financing to AUOSP, then the Company and AUO will each be required to make additional cash contributions of up to $50.0 million in the aggregate (See Note 10).

The Company has concluded that it is not the primary beneficiary of AUOSP since, although the Company and AUO are both obligated to absorb losses or have the right to receive benefits, the Company alone does not have the power to direct the activities of AUOSP that most significantly impact its economic performance. In making this determination the Company considered the shared power arrangement, including equal board governance for significant decisions, elective appointment, and the fact that both parties contribute to the activities that most significantly impact the joint venture's economic performance. The Company accounts for its investment in AUOSP using the equity method as a result of the shared power arrangement. As of December 30, 2012, the Company's maximum exposure to loss as a result of its involvement with AUOSP is limited to the carrying value of its investment.

As a result of the shared power arrangement established upon the formation of the joint venture, the Company deconsolidated AUOSP in the third quarter of fiscal 2010 and subsequently accounts for its 50% retained investment under the equity method. In fiscal 2010, the Company recognized a non-cash gain of $36.8 million classified as "Gain on deconsolidation of consolidated subsidiary" in the Consolidated Statement of Operations as a result of deconsolidating the carrying value of AUOSP as of July 5, 2010 and recording the fair value of its retained investment in the entity.

Equity Investment in First Philec Solar Corporation ("First Philec Solar")

In fiscal 2007, the Company and First Philippine Electric Corporation ("First Philec") formed First Philec Solar, a jointly owned entity to provide wafer slicing services of silicon ingots to the Company in the Philippines. The Company supplied to First Philec Solar silicon ingots and technology required for slicing silicon. Once manufactured, the Company purchased the completed silicon wafers from First Philec Solar under a six-year wafering supply and sales agreement, which the Company terminated in the third quarter of fiscal 2012. There is no obligation or expectation for the Company to provide additional funding to First Philec Solar.

The Company has concluded that it is not the primary beneficiary of First Philec Solar since, although the Company and First Philec are both obligated to absorb losses or have the right to receive benefits from First Philec Solar, such variable interests held by the Company do not empower it to direct the activities that most significantly impact First Philec Solar's economic performance. In reaching this determination, the Company considered the significant control exercised by First Philec over the joint venture's Board of Directors, management and daily operations. The Company accounts for its investment in First Philec Solar using the equity method since the Company is able to exercise significant influence over First Philec Solar due to its board positions.

Equity Investment in Woongjin Energy Co., Ltd ("Woongjin Energy")

In fiscal 2006, the Company and Woongjin Holdings Co., Ltd. ("Woongjin") formed Woongjin Energy, a jointly owned entity to manufacture monocrystalline silicon ingots in Korea. The Company may supply polysilicon, services, and technical support required for silicon ingot manufacturing to Woongjin Energy. Once manufactured, the Company may purchase the silicon ingots from Woongjin Energy under a nine-year agreement through 2016. There is no obligation or expectation for the Company to provide additional funding to Woongjin Energy.

During fiscal 2010, Woongjin Energy completed its initial public offering ("IPO") and the sale of 15.9 million new shares of common stock. The Company did not participate in the common stock issuance and its percentage of ownership was subsequently diluted. As a result of the IPO, the Company concluded that Woongjin Energy was no longer a variable interest entity. In fiscal 2010, the Company recognized a non-cash gain of $28.3 million classified within "Gain on change in equity interest in unconsolidated investees" due to its equity interest in Woongjin Energy being diluted as a result of the issuance of additional equity to other investees.

During fiscal 2011, the Company sold 15.5 million shares of Woongjin Energy on the open market, reducing the Company's percentage equity ownership in Woongjin Energy from 31% to 6%. In fiscal 2011, the Company recognized a cash gain of $5.9 million classified as "Gain on sale of equity interest in unconsolidated investee" in the Company's Consolidated Statement of Operations as a result of the share sale. As of January 1, 2012, the Company held 3.9 million shares of Woongjin Energy. During the first quarter of fiscal 2012, the Company sold its remaining shares of Woongjin Energy on the open market for total proceeds which equaled the remaining investment carrying balance. As a result, the Company's percentage equity ownership and investment carrying balance was reduced to zero.

The Company accounted for its former investment in Woongjin Energy using the equity method as the Company was able to exercise significant influence over Woongjin Energy due to its board position and its consumption of a significant portion of their output.

Note 12. ***DEBT AND CREDIT SOURCES***

The following table summarizes the Company's outstanding debt as of December 30, 2012 and the related maturity dates:

		Payments Due by Period					
(In thousands)	**Face Value**	**2013**	**2014**	**2015**	**2016**	**2017**	**Beyond 2017**
Convertible debt:							
4.50% debentures	$ 250,000	$ —	$ —	$ 250,000	$ —	$ —	$ —
4.75% debentures	230,000	—	230,000	—	—	—	—
0.75% debentures	79	—	—	79	—	—	—
IFC mortgage loan	75,000	12,500	15,000	15,000	15,000	15,000	2,500
CEDA loan	30,000	—	—	—	—	—	30,000
Credit Agricole revolving credit facility	275,000	—	275,000	—	—	—	—
Other debt (1)	1,368	134	78	84	44	—	1,028
	$ 861,447	$ 12,634	$ 520,078	$ 265,163	$ 15,044	$ 15,000	$ 33,528

(1) The balance of Other debt excludes payments related to capital leases which are disclosed in Note 10. "Commitments and Contingencies" to these consolidated financial statements.

Convertible Debt

The following table summarizes the Company's outstanding convertible debt:

(In thousands)	December 30, 2012 Carrying Value	Face Value	Fair Value (1)	January 1, 2012 Carrying Value	Face Value	Fair Value (1)
Convertible debt:						
4.50% debentures	$ 208,550	$ 250,000	$ 228,750	$ 193,189	$ 250,000	$ 205,905
4.75% debentures	230,000	230,000	218,960	230,000	230,000	200,967
1.25% debentures	—	—	—	196,710	198,608	197,615
0.75% debentures	79	79	79	79	79	79
	$ 438,629	$ 480,079	$ 447,789	$ 619,978	$ 678,687	$ 604,566

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

4.50% Debentures

In fiscal 2010, the Company issued $250.0 million in principal amount of its 4.50% senior cash convertible debentures ("4.50% debentures"). Interest is payable semi-annually, on March 15 and September 15 of each year, at a rate of 4.50% per annum which commenced on September 15, 2010. The 4.50% debentures mature on March 15, 2015 unless repurchased or converted in accordance with their terms prior to such date.

The 4.50% debentures are convertible only into cash, and not into shares of the Company's common stock (or any other securities). Prior to December 15, 2014, if the weighted average price of the Company's common stock is more than 130% of the then current conversion price for at least 20 out of 30 consecutive trade days in the last month of the fiscal quarter, then holders of the 4.50% debentures have the right to convert the debentures any day in the following fiscal quarter and, thereafter, they will be convertible at any time, based on an initial conversion price of $22.53 per share of the Company's common stock. The conversion price will be subject to adjustment in certain events, such as distributions of dividends or stock splits. Upon conversion, the Company will deliver an amount of cash calculated by reference to the price of its common stock over the applicable observation period. The Company may not redeem the 4.50% debentures prior to maturity. Holders may also require the Company to repurchase all or a portion of their 4.50% debentures upon a fundamental change, as defined in the debenture agreement, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. In the event of certain events of default, such as the Company's failure to make certain payments or perform or observe certain obligations thereunder, Wells Fargo, the trustee, or holders of a specified amount of then-outstanding 4.50% debentures will have the right to declare all amounts then outstanding due and payable.

The embedded cash conversion option within the 4.50% debentures and the $30.0 million over-allotment option related to the 4.50% debentures are derivative instruments that are required to be separated from the 4.50% debentures and accounted for separately as derivative instruments (derivative liabilities) with changes in fair value reported in the Company's Consolidated Statements of Operations until such transactions settle or expire. The initial fair value liability of the embedded cash conversion option and over-allotment option were classified within "Other long-term liabilities" and simultaneously reduced the carrying value of "Convertible debt, net of current portion" in the Company's Consolidated Balance Sheet. On April 5, 2010, the initial purchasers of the 4.50% debentures exercised the $30.0 million over-allotment option in full.

During fiscal 2012 and 2011, the Company recognized a non-cash gain of $1.6 million and $34.0 million, respectively, recorded in "Gain on mark-to-market derivatives" in the Company's Consolidated Statement of Operations related to the change in fair value of the embedded cash conversion option. In fiscal 2010, the Company recognized a non-cash gain of $45.2 million in "Gain on mark-to-market derivatives" in the Company's Consolidated Statement of Operations related to the change in the fair value of the embedded cash conversion option and the over-allotment option.

In fiscal 2012, 2011 and 2010, the Company recognized $15.2 million, $13.4 million, and $7.4 million in non-cash interest expense, respectively, related to the amortization of the debt discount on the 4.50% debentures. As of December 30, 2012 the remaining periods over which the unamortized debt discount will be recognized is as follows:

(In thousands)	Debt Discount
2013	$ 17,340
2014	19,748
2015	4,362
	$ 41,450

Call Spread Overlay with Respect to 4.50% Debentures ("CSO2015")

Concurrent with the issuance of the 4.50% debentures, the Company entered into privately negotiated convertible debenture hedge transactions (collectively, the "4.50% Bond Hedge") and warrant transactions (collectively, the "4.50% Warrants" and together with the 4.50% Bond Hedge, the "CSO2015"), with certain of the initial purchasers of the 4.50% cash convertible debentures or their affiliates. The CSO2015 transactions represent a call spread overlay with respect to the 4.50% debentures, whereby the cost of the 4.50% Bond Hedge purchased by the Company to cover the cash outlay upon conversion of the debentures is reduced by the sales prices of the 4.50% Warrants. Assuming full performance by the counterparties (and 4.50% Warrants strike prices in excess of the conversion price of the 4.50% debentures), the transactions effectively reduce the Company's potential payout over the principal amount on the 4.50% debentures upon conversion of the 4.50% debentures.

Under the terms of the 4.50% Bond Hedge, the Company bought from affiliates of certain of the initial purchasers options to acquire, at an exercise price of $22.53 per share, subject to customary adjustments for anti-dilution and other events, cash in an amount equal to the market value of up to 11.1 million shares of the Company's common stock. Under the terms of the original 4.50% Warrants the Company sold to affiliates of certain of the initial purchasers of the 4.50% cash convertible debentures warrants to acquire, at an exercise price of $27.03 per share, subject to customary adjustments for anti-dilution and other events, cash in an amount equal to the market value of up to 11.1 million shares of the Company's common stock. On December 23, 2010, the Company amended and restated the original 4.50% Warrants so that the holders would, upon exercise, no longer receive cash but instead would acquire up to 11.1 million shares of the Company's common stock. Each 4.50% Bond Hedge and 4.50% Warrant transaction is a separate transaction, entered into by the Company with each counterparty, and is not part of the terms of the 4.50% debentures. According to the counterparties to the warrants, the consummation of the Total Tender Offer triggered their rights to make a downward adjustment to the strike price of the warrants. In the third quarter of fiscal 2011, the Company and the counter parties to the 4.50% Warrants agreed to reduce the exercise price of the 4.50% Warrants from $27.03 to $24.00.

The 4.50% Bond Hedge, which is indexed to the Company's common stock, is a derivative instrument that requires mark-to-market accounting treatment due to the cash settlement features until such transactions settle or expire. The original 4.50% Warrants was a derivative instrument that required mark-to-market accounting until their amendment on December 23, 2010. The initial fair value of the 4.50% Bond Hedge and the original 4.50% Warrants was classified as "Other long-term assets" in the Company's Consolidated Balance Sheets.

During the years ended December 30, 2012 and January 1, 2012, the Company recognized a non-cash loss of $1.6 million and $34.0 million, respectively, in ""Gain on mark-to-market derivatives" in the Company's Consolidated Statement of Operations" in the Company's Consolidated Statement of Operations related to the change in fair value of the 4.50% Bond Hedge. In fiscal 2010, the Company recognized a non-cash loss of $9.4 million in "Gain on mark-to-market derivatives" in the Company's Consolidated Statement of Operations related to the net change in the fair value of the 4.50% Bond Hedge and the original 4.50% Warrants.

4.75% Debentures

In May 2009, the Company issued $230.0 million in principal amount of its 4.75% senior convertible debentures ("4.75% debentures"). Interest on the 4.75% debentures is payable on April 15 and October 15 of each year. Holders of the 4.75% debentures are able to exercise their right to convert the debentures at any time into shares of the Company's common stock at a conversion price equal to $26.40 per share. The applicable conversion rate may adjust in certain circumstances, including upon a fundamental change, as described in the indenture governing the 4.75% debentures. If not earlier converted, the 4.75% debentures mature on April 15, 2014. Holders may also require the Company to repurchase all or a portion of their 4.75% debentures upon a fundamental change at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. In the event of certain events of default, such as the Company's failure to make certain payments or perform or observe certain obligations thereunder, Wells Fargo, the trustee, or holders of a specified amount of then-outstanding 4.75% debentures will have the right to declare all amounts then outstanding due and payable.

Call Spread Overlay with Respect to the 4.75% Debentures ("CSO2014")

Concurrent with the issuance of the 4.75% debentures, the Company entered into certain convertible debenture hedge transactions (the "4.75% Bond Hedge") and warrant transactions (the "4.75% Warrants") with affiliates of certain of the underwriters of the 4.75% debentures (the "CSO2014"), whereby the cost of the 4.75% Bond Hedges purchased by the Company to cover the potential share outlays upon conversion of the debentures is reduced by the sales prices of the 4.75% Warrants. The CSO2014 are not subject to mark-to-market accounting treatment since they may only be settled by issuance of the Company's common stock.

The 4.75% Bond Hedge allows the Company to purchase up to 8.7 million shares of the Company's common stock. The 4.75% Bond Hedge will be settled on a net share basis. Each 4.75% Bond Hedge and 4.75% Warrant is a separate transaction, entered into by the Company with each counterparty, and is not part of the terms of the 4.75% debentures. Holders of the 4.75% debentures do not have any rights with respect to the 4.75% Bond Hedges and 4.75% Warrants. The exercise prices of the 4.75% Bond Hedge are $26.40 per share of the Company's common stock, subject to customary adjustment for anti-dilution and other events.

Under the 4.75% Warrants, the Company sold warrants to acquire up to 8.7 million shares of the Company's common stock at an exercise price of $38.50 per share of the Company's common stock, subject to adjustment for certain anti-dilution and other events. The 4.75% Warrants expire in 2014. According to the counterparties to the warrants, the consummation of the Total Tender Offer triggered their rights to make a downward adjustment to the strike price of the warrants. In the third quarter of fiscal 2011, the Company and the counterparties to the 4.75% Warrants agreed to reduce the exercise price of the 4.75% Warrants from $38.50 to $26.40, which is no longer above the conversion price of the 4.75% debentures.

1.25% Debentures

In fiscal 2007, the Company issued $200.0 million in principal amount of its 1.25% senior convertible debentures and received net proceeds of $194.0 million. During the fourth quarter of fiscal 2008, the Company received notices for the conversion of $1.4 million in principal amount of the 1.25% debentures which it settled for $1.2 million in cash and 1,000 shares of common stock. As of January 1, 2012, an aggregate principal amount of $198.6 million of the 1.25% debentures remained issued and outstanding. The 1.25% debentures had a maturity date of February 15, 2027 unless repurchased or converted in accordance with their terms prior to such date. Holders had the option to require the Company to repurchase all or a portion of their 1.25% debentures on each of February 15, 2012, February 15, 2017 and February 15, 2022, or if the Company experiences certain types of corporate transactions constituting a fundamental change, as defined in the indenture governing the 1.25% debentures. In addition, the Company could redeem some or all of the 1.25% debentures on or after February 15, 2012. Accordingly, the Company classified the 1.25% debentures as short-term liabilities in the Consolidated Balance Sheets as of January 1, 2012. On February 16, 2012, based upon the exercise of the holders' put rights, the Company repurchased $198.6 million in principal amount of the 1.25% debentures at a cash price of $199.8 million, representing 100% of the principal amount of the 1.25% debentures plus accrued and unpaid interest. None of the 1.25% debentures remained issued and outstanding after the repurchase.

July 2007 Share Lending Arrangement

Concurrent with the offering of the 0.75% debentures, the Company lent 1.8 million shares of its former class A common stock to CSI, an affiliate of Credit Suisse Securities (USA) LLC ("Credit Suisse"), one of the underwriters of the 0.75% debentures. The loaned shares were to be used to facilitate the establishment by investors in the 1.25% debentures and 0.75% debentures of hedged positions in the Company's common stock. The Company did not receive any proceeds from these offerings of former class A common stock, but received a nominal lending fee of $0.001 per share for each share of common stock that is loaned under the share lending agreements described below.

Share loans under the share lending agreement terminate and the borrowed shares must be returned to the Company under the following circumstances: (i) CSI may terminate all or any portion of a loan at any time; (ii) the Company may terminate any or all of the outstanding loans upon a default by CSI under the share lending agreement, including a breach by CSI of any of its representations and warranties, covenants or agreements under the share lending agreement, or the bankruptcy or administrative proceeding of CSI; or (iii) if the Company enters into a merger or similar business combination transaction with an unaffiliated third party (as defined in the agreement). In addition, CSI has agreed to return to the Company any borrowed shares in its possession on the date anticipated to be five business days before the closing of certain merger or similar business combinations described in the share lending agreement. Except in limited circumstances, any such shares returned to the Company cannot be re-borrowed. Any shares loaned to CSI are considered issued and outstanding for corporate law purposes and, accordingly, the holders of the borrowed shares have all of the rights of a holder of the Company's outstanding shares, including the right to vote the shares on all matters submitted to a vote of the Company's stockholders and the right to receive any dividends or other distributions that the Company may pay or make on its outstanding shares of common stock.

However, CSI agreed that it will not participate in shareholder voting matters and further agreed to pay to the Company an amount equal to any dividends or other distributions that the Company pays on the borrowed shares.

While the share lending agreement does not require cash payment upon return of the shares, physical settlement is required (i.e., the loaned shares must be returned at the end of the arrangement). In view of this share return provision and other contractual undertakings of CSI in the share lending agreement, which have the effect of substantially eliminating the economic dilution that otherwise would result from the issuance of the borrowed shares, historically the loaned shares were not considered issued and outstanding for the purpose of computing and reporting the Company's basic and diluted weighted average shares or earnings per share.

As of January 1, 2012, the fair value of the 1.8 million outstanding loaned shares of common stock was $11.2 million. In connection with the Company's repurchase of 100% of the principal amount of the 1.25% debentures, on February 23, 2012, the 1.8 million shares of the Company's common stock lent to CSI were returned and the share lending agreement was thereby terminated.

Other Debt and Credit Sources

Mortgage Loan Agreement with IFC

On May 6, 2010, the Company entered into a mortgage loan agreement with IFC. Under the loan agreement, the Company may borrow up to $75.0 million during the first two years, and shall repay the amount borrowed, starting 2 years after the date of borrowing, in 10 equal semiannual installments over the following 5 years. On October 3, 2012, IFC granted a temporary waiver of a financial covenant for the fourth quarter of fiscal 2012 through the fourth quarter of fiscal 2013. Subsequent to the waiver, the Company is required to pay interest of LIBOR plus 3% per annum on outstanding borrowings through January 5, 2013; interest of LIBOR plus 4.25% per annum on outstanding borrowings from January 6, 2013 through September 30, 2013; interest of LIBOR plus 5% per annum on outstanding borrowings from October 1, 2013 through January 5, 2014; 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. If we utilize the waiver for the fourth quarter of 2013, the 2013 rates would continue to apply in 2014. If the Company does not need to utilize the waiver, it is 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. The Company may prepay all or a part of the outstanding principal, subject to a 1% prepayment premium. The Company has pledged certain assets as collateral supporting its repayment obligations. Additionally, in accordance with the terms of the agreement, the Company is 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 December 30, 2012 and January 1, 2012, the Company had restricted cash and cash equivalents of $6.4 million and $1.3 million, respectively, related to the IFC debt service reserve.

The Company's outstanding borrowings under the mortgage loan agreement with IFC on its Consolidated Balance Sheets are as follows:

	As of	
(In thousands)	**December 30, 2012**	**January 1, 2012**
Short-term debt	$ 12,500	$ —
Long-term debt	62,500	75,000
	$ 75,000	$ 75,000

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

On December 29, 2010, the Company borrowed the proceeds of the $30.0 million aggregate principal amount of CEDA's tax-exempt Recovery Zone Facility Revenue Bonds (SunPower Corporation - Headquarters Project) Series 2010 (the "Bonds") maturing April 1, 2031 under a loan agreement with CEDA. The Company's obligations under the loan agreement are contained in a promissory note dated December 29, 2010 issued by the Company 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 initially bore interest at a variable interest rate (determined weekly), but in June 2011, at the Company's option, were converted into fixed-rate bonds at 8.50% per annum (which include covenants of, and other restrictions on the Company). Additionally, in accordance with the terms of the loan agreement, the Company is required to keep all loan proceeds on deposit with Wells Fargo, the trustee, until funds are withdrawn by it for use in relation to the design and leasehold improvements of its new corporate headquarters in San Jose, California. As of December 30, 2012 and

January 1, 2012, the Company had restricted cash and cash equivalents of $3.0 million and $10.0 million, respectively, for design and leasehold improvements and debt service reserves under the CEDA loan agreement.

Concurrently with the execution of the loan agreement and the issuance of the Bonds by CEDA, the Company entered into a reimbursement agreement with Barclays Capital Inc. ("Barclays") pursuant to which the Company caused Barclays to deliver to Wells Fargo a direct-pay irrevocable letter of credit in the amount of $30.4 million (an amount equal to the principal amount of the Bonds plus 38 days' interest thereon). The letter of credit permitted Wells Fargo to draw funds to pay the Company's obligations to pay principal and interest on the Bonds and, in the event the Bonds are redeemed or tendered for purchase, the redemption price or purchase price thereof. Under the reimbursement agreement, the Company deposited $31.8 million in a sequestered account with Barclays, subject to an account control agreement, which funds collateralized the letter of credit pursuant to a cash collateral account pledge agreement entered into by the Company and Barclays on December 29, 2010.

On June 1, 2011, the Bonds were converted to bear interest at a fixed rate of 8.50% to maturity and the holders' rights to tender the Bonds prior to their stated maturity was removed. Following the conversion of the Bonds to a fixed rate instrument on June 1, 2011 (for which the letter of credit is no longer required), Barclays returned $31.8 million of the deposit, plus the remaining unspent funds and interest earnings, to the Company. In addition, the letter of credit terminated on June 16, 2011, and the Company's obligations under the reimbursement agreement, the cash collateral account pledge agreement and the related account control agreement were thereby terminated.

The Company's outstanding borrowings under the loan agreement with CEDA on its Consolidated Balance Sheets is as follows:

	As of	
(In thousands)	**December 30, 2012**	**January 1, 2012**
Long-term debt	$ 30,000	$ 30,000

September 2011 Revolving Credit Facility with Credit Agricole

On September 27, 2011, the Company entered into a revolving credit agreement with Credit Agricole, as administrative agent, and certain financial institutions, under which the Company may borrow up to $275.0 million until September 27, 2013. Amounts borrowed may be repaid and reborrowed until September 27, 2013.

On December 24, 2012, the Company amended the facility to reflect Total S.A.'s guarantee of its obligations under the facility. The facility amendment extended the maturity date to January 31, 2014, reduced interest rates payable and removed certain financial and restrictive covenants. Subsequent to the amendment, the Company is required to pay interest on outstanding borrowings of (a) with respect to any LIBOR loan, 0.6% plus the LIBOR 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 (b) with respect to any alternative base loan, 0.25% plus the greater of (1) the prime rate, (2) the Federal Funds rate plus 0.5%, and (3) the one month LIBOR plus 1%; and a commitment fee equal to 0.06% per annum on funds available for borrowing and not borrowed.

The Company's outstanding borrowings under the revolving credit facility with Credit Agricole on its Consolidated Balance Sheets is as follows:

	As of	
(In thousands)	**December 30, 2012**	**January 1, 2012**
Long-term debt	$ 275,000	$ 250,000

Liquidity Support Agreement with Total S.A.

On February 28, 2012, the Company entered into a Liquidity Support Agreement with Total S.A. and the DOE, and a series of related agreements with Total S.A. and Total, under which Total S.A. has agreed to provide the Company, or cause to be provided, additional liquidity under certain circumstances (see Note 2). As of December 30, 2012, $325.0 million remained available to the Company under the facility.

Other Debt

Other debt is comprised of non-recourse project loans related to Tenesol established in 2003 and 2008 which are scheduled to mature through 2028 and totaled $1.1 million and $1.2 million as of December 30, 2012 and January 1, 2012, respectively. Also, the Company's sublessor has made improvements to one of the Company's operating leases, reimbursable by the Company at monthly installments over the remaining lease term. The outstanding balance of the loan as of December 30, 2012 is $0.3 million.

On November 9, 2011, the Company entered into a short-term construction loan agreement with a third party financial institution under which the Company may obtain non-recourse financing up to $31.4 million to facilitate the development of an 18 MW utility and power plant project under construction in California. The Company was required to pay interest of LIBOR plus 2.50% per annum. In the second and third quarters of fiscal 2012 the Company received funds under the construction loan agreement totaling $27.6 million, which was fully repaid on October 23, 2012.

The Company's outstanding project loans on its Consolidated Balance Sheets are as follows:

	As of	
(In thousands)	**December 30, 2012**	**January 1, 2012**
Short-term debt	$ 134	$ —
Long-term debt	1,234	1,240
	$ 1,368	$ 1,240

August 2011 Letter of Credit Facility with Deutsche Bank

On August 9, 2011, the Company entered into a letter of credit facility agreement with Deutsche Bank, as issuing bank and as administrative agent, and certain financial institutions, which was amended on December 20, 2011. Payment of obligations under the letter of credit facility is guaranteed by Total S.A. pursuant to the Credit Support Agreement. The letter of credit facility provides for the issuance, upon request by the Company, of letters of credit by the issuing banks thereunder in order to support certain obligations of the Company, in an aggregate amount not to exceed (a) $725.0 million until December 31, 2012; and (b) $771.0 million for the period from January 1, 2013 through December 31, 2013. Aggregate letter of credit amounts may be increased upon the agreement of the parties but, otherwise, may not exceed (i) $878.0 million for the period from January 1, 2014 through December 31, 2014; (ii) $936.0 million for the period from January 1, 2015 through December 31, 2015; and (iii) $1.0 billion for the period from January 1, 2016 through June 28, 2016. Each letter of credit issued under the letter of credit facility must have an expiration date no later than the second anniversary of the issuance of that letter of credit, provided that up to 15% of the outstanding value of the letters of credit may have an expiration date of between two and three years from the date of issuance.

As of December 30, 2012 and January 1, 2012, letters of credit issued under the August 2011 letter of credit facility with Deutsche Bank totaled $725.3 million and $710.8 million, respectively.

September 2011 Letter of Credit Facility with Deutsche Bank Trust

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

As of December 30, 2012 and January 1, 2012, letters of credit issued under the Deutsche Bank Trust facility amounted to $17.5 million and $51.3 million, respectively, which were fully collateralized with restricted cash on the Consolidated Balance Sheets.

Revolving Credit Facility with Société Générale, Milan Branch ("Société Générale")

In fiscal 2010, the Company entered into a revolving credit facility with Société Générale under which the Company could borrow up to €75.0 million from Société Générale. On May 25, 2011 the Company entered into an amendment of its revolving credit facility with Société Générale which extended the maturity date to November 23, 2011. Under the amended facility the Company was able to borrow up to €75.0 million of which amounts borrowed could be repaid and reborrowed until October 23, 2011. The Company was required to pay interest on outstanding borrowings of (1) EURIBOR plus 3.25% per annum for advances outstanding before May 26, 2011, and (2) EURIBOR plus 2.70% for advances outstanding on May 26, 2011 or thereafter; a front-end fee of 0.50% on the available borrowing; and a commitment fee of 1% per annum on funds available for borrowing and not borrowed.

On September 27, 2011, the Company repaid €75.0 million, or approximately $107.7 million based on the exchange rate as of that date, of outstanding borrowings plus fees, using proceeds received from the September 2011 revolving credit facility with Credit Agricole described above, and terminated the facility.

April 2010 Letter of Credit Facility with Deutsche Bank AG New York Branch ("Deutsche Bank")

In fiscal 2010, the Company and certain subsidiaries of the Company entered into a letter of credit facility with Deutsche Bank, as issuing bank and as administrative agent, and certain financial institutions. The letter of credit facility provided for the issuance, upon request by the Company, of letters of credit by the issuing bank in order to support obligations of the Company. On May 27, 2011, the Company received an additional $25.0 million commitment from a financial institution under the Deutsche Bank letter of credit facility, which increased the aggregate amount of letters of credit that may be issued under the facility from $375.0 million to $400.0 million.

On August 9, 2011, the Company terminated its April 2010 letter of credit facility agreement with Deutsche Bank subsequent to the establishment of the August 2011 letter of credit facility agreement, as described above. All outstanding letters of credit under the April 2010 letter of credit facility were transferred to the August 2011 letter of credit facility and $197.8 million in collateral as of August 9, 2011 was released to the Company.

October 2010 Collateralized Revolving Credit Facility with Union Bank

On October 29, 2010, the Company entered into a revolving credit facility with Union Bank. Until the maturity date of October 28, 2011, the Company was able to borrow up to $70.0 million under the revolving credit facility. Amounts borrowed could be repaid and reborrowed until October 28, 2011. As collateral under the revolving credit facility, the Company pledged its holding of 19.4 million shares of common stock of Woongjin Energy to Union Bank.

The Company was required to pay interest on outstanding borrowings of, at its option, (1) LIBOR plus 2.75% or (2) 1.75% plus a base rate equal to the highest of (a) the federal funds rate plus 1.5%, (b) Union Bank's prime rate as announced from time to time, or (c) LIBOR plus 1.0%, per annum; a front-end fee of 0.40% on the available borrowing; and a commitment fee of 0.25% per annum on funds available for borrowing and not borrowed.

The Company repaid $70.0 million of outstanding borrowings plus fees in the second quarter of fiscal 2011. On June 20, 2011, the Company terminated the facility and the pledge on all shares of Woongjin Energy held by the Company.

July 2011 Uncollateralized Revolving Credit Facility with Union Bank

On July 18, 2011, the Company entered into a Credit Agreement with Union Bank under which the Company was able to borrow up to $50.0 million from Union Bank until October 28, 2011. Amounts borrowed could be repaid and reborrowed until October 28, 2011. All outstanding amounts under the facility were due and payable on October 31, 2011. On July 18, 2011, the Company drew down $50.0 million under the credit facility.

The Company was required to pay interest on outstanding borrowings of (1) LIBOR plus 2.75%, or (2) 1.75% plus a base rate equal to the higher of (a) the federal funds rate plus 0.50%, or (b) Union Bank's reference rate as announced from time to time; a front-end fee of 0.15% on the total amount available for borrowing; and a commitment fee of 0.50% per annum, calculated on a daily basis, on funds available for borrowing and not borrowed.

On September 27, 2011, the Company repaid $50.0 million of outstanding borrowings plus fees, using proceeds received from the July 2011 revolving credit facility with Credit Agricole described above, and terminated the facility.

Note 13. ***FOREIGN CURRENCY DERIVATIVES***

The Company has non-U.S. subsidiaries that operate and sell the Company's products in various global markets, primarily in Europe. As a result, the Company is exposed to risks associated with changes in foreign currency exchange rates. It is the Company's policy to use various techniques, including entering into foreign currency derivative instruments, to manage the exposures associated with forecasted revenues, purchases of foreign sourced equipment and non-U.S. dollar denominated monetary assets and liabilities. The Company does not enter into foreign currency derivative financial instruments for speculative or trading purposes.

The Company is required to recognize derivative instruments as either assets or liabilities at fair value in its Balance Sheets. It is the Company's policy to present all derivative fair value amounts gross on its Consolidated Balance Sheets regardless of legal right of offset. The Company utilizes mid-market pricing to calculate the fair value of its option and forward contracts based on market volatilities, spot and forward rates, interest rates, and credit default swaps rates from published sources. The following table presents information about the Company's hedge instruments measured at fair value on a recurring basis as of December 30, 2012 and January 1, 2012, all of which utilize Level 2 inputs under the fair value hierarchy:

(In thousands)	Balance Sheet Classification	December 30, 2012	January 1, 2012
Assets	Prepaid expenses and other current assets		
Derivatives designated as hedging instruments:			
Foreign currency option contracts		$ 519	$ 5,550
Foreign currency forward exchange contracts		—	47
		$ 519	$ 5,597
Derivatives not designated as hedging instruments:			
Foreign currency option contracts		$ 25	$ 5,080
Foreign currency forward exchange contracts		731	23,745
		$ 756	$ 28,825
Liabilities	Accrued liabilities		
Derivatives designated as hedging instruments:			
Foreign currency option contracts		$ 387	$ —
Foreign currency forward exchange contracts		23	105
		$ 410	$ 105
Derivatives not designated as hedging instruments:			
Foreign currency option contracts		$ 26	$ —
Foreign currency forward exchange contracts		4,455	14,830
		$ 4,481	$ 14,830

Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. The selection of a particular technique to value an over-the-counter ("OTC") foreign currency derivative depends upon the contractual term of, and specific risks inherent with, the instrument as well as the availability of pricing information in the market. The Company generally uses similar techniques to value similar instruments. Valuation techniques utilize a variety of inputs, including contractual terms, market prices, yield curves, credit curves and measures of volatility. For OTC foreign currency derivatives that trade in liquid markets, such as generic forward and option contracts, inputs can generally be verified and selections do not involve significant management judgment.

The following table summarizes the amount of unrealized gain or loss recognized in "Accumulated other comprehensive income (loss)" ("OCI") in "Stockholders' equity" in the Consolidated Balance Sheets:

	Year ended		
(In thousands)	December 30, 2012	January 1, 2012	January 2, 2011
Derivatives designated as cash flow hedges:			
Unrealized gain (loss) recognized in OCI (effective portion)	$ (1,720)	$ (32,224)	$ 56,755
Less: Loss (gain) reclassified from OCI to revenue (effective portion)	(8,996)	30,456	(46,109)
Less: Loss reclassified from OCI to other, net (1)	—	1,593	—
Add: Loss reclassified from OCI to cost of revenue (effective portion)	—	—	12,478
Net gain (loss) on derivatives	$ (10,716)	$ (175)	$ 23,124

(1) During 2011, the Company reclassified from OCI to "Other, net" a net loss of $1.6 million relating to transactions previously designated as effective cash flow hedges as the related forecasted transactions did not occur or were concluded probable not to occur in the hedge period or within the additional two month time period thereafter.

The following table summarizes the amount of gain or loss recognized in "Other, net" in the Consolidated Statements of Operations in the years ended December 30, 2012, January 1, 2012, and January 2, 2011:

	Year ended		
(In thousands)	December 30, 2012	January 1, 2012	January 2, 2011
Derivatives designated as cash flow hedges:			
Loss recognized in "Other, net" on derivatives (ineffective portion and amount excluded from effectiveness testing) (1)	$ (1,853)	$ (18,235)	$ (25,659)
Derivatives not designated as hedging instruments:			
Gain (loss) recognized in "Other, net"	$ 3,126	$ (3,972)	$ 36,607

(1) The amount of loss recognized related to the ineffective portion of derivatives was insignificant. This amount also includes a net loss of $1.6 million reclassified from OCI to "Other, net" in the year ended January 1, 2012 relating to transactions previously designated as effective cash flow hedges as the related forecasted transactions did not occur or were concluded probable not to occur in the hedge period or within the additional two month time period thereafter.

Foreign Currency Exchange Risk

Designated Derivatives Hedging Cash Flow Exposure

The Company's subsidiaries have had and will continue to have material cash flows, including revenues and expenses, which are denominated in currencies other than their functional currencies. The Company's cash flow exposure primarily relates to anticipated third party foreign currency revenues and expenses. Changes in exchange rates between the Company's subsidiaries' functional currencies and other currencies in which it transacts will cause fluctuations in margin, cash flow expectations, and cash flows realized or settled. Accordingly, the Company enters into derivative contracts to hedge the value of a portion of these forecasted cash flows and to protect financial performance.

As of December 30, 2012, the Company had designated outstanding cash flow hedge option contracts and forward contracts with an aggregate notional value of $71.0 million and $26.4 million, respectively. The maturity dates of the outstanding contracts as of December 30, 2012 range from January 2013 to September 2013. As of January 1, 2012, the Company had designated outstanding hedge option contracts and forward contracts with an aggregate notional value of $67.2 million and $38.8 million, respectively. The Company designates either gross external or intercompany revenue up to its net economic exposure. These derivatives have a maturity of one year or less and consist of foreign currency option and forward contracts. The effective portion of these cash flow hedges are reclassified into revenue when third party revenue is recognized in the Consolidated Statements of Operations.

The Company expects to reclassify the majority of its net gains or losses related to these option and forward contracts that are included in accumulated other comprehensive gain as of December 30, 2012 to revenue in the next 12 months. The Company uses the spot to spot method to measure the effectiveness of its cash flow hedges. Under this method for each reporting period, the change in fair value of the forward contracts attributable to the changes in spot exchange rates (the effective portion) is reported in accumulated other comprehensive income (loss) on its consolidated balance sheet and the remaining change in fair value of the forward contract (the excluded and the ineffective portions, if any) is recognized in other income (expense), net, in its Consolidated Statement of Operations. The premium paid or time value of an option whose strike price is equal to or greater than the market price on the date of purchase is recorded as an asset in the Consolidated Balance Sheets. Thereafter, any change in value related to time value is included in "Other, net" in the Consolidated Statements of Operations.

Under hedge accounting rules for foreign currency derivatives, the Company reflects mark-to-market gains and losses on its hedged transactions in accumulated other comprehensive income (loss) rather than current earnings until the hedged transactions occur. However, if the Company determines that the anticipated hedged transactions are probable not to occur, it must immediately reclassify any cumulative market gains and losses into its Consolidated Statement of Operations. During the year ended December 30, 2012, the Company determined that all its anticipated hedged transactions were probable to occur.

Non-Designated Derivatives Hedging Transaction Exposure

Other derivatives not designated as hedging instruments consist of forward contracts used to hedge re-measurement of foreign currency denominated monetary assets and liabilities primarily for intercompany transactions, receivables from customers, and payables to third parties. Changes in exchange rates between the Company's subsidiaries' functional currencies and the currencies in which these assets and liabilities are denominated can create fluctuations in the Company's reported consolidated financial position, results of operations and cash flows. The Company enters into forward contracts, which are originally designated as cash flow hedges, and de-designates them upon recognition of the anticipated transaction to protect resulting non-functional currency monetary assets. These forward contracts as well as additional forward contracts are entered into to hedge foreign currency denominated monetary assets and liabilities against the short-term effects of currency exchange rate fluctuations. The Company records its derivative contracts that are not designated as hedging instruments at fair value with the related gains or losses recorded in "Other, net" in the Consolidated Statements of Operations. The gains or losses on these contracts are substantially offset by transaction gains or losses on the underlying balances being hedged. As of December 30, 2012, the Company held option contracts and forward contracts with an aggregate notional value of zero and $121.8 million, respectively, to hedge balance sheet exposure. These forward contracts have maturities of three month or less. The Company held option and forward contracts with an aggregate notional value of $63.2 million and $162.0 million, respectively, as of January 1, 2012, to hedge balance sheet exposure.

Credit Risk

The Company's option and forward contracts do not contain any credit-risk-related contingent features. The Company is exposed to credit losses in the event of nonperformance by the counterparties of its option and forward contracts. The Company enters into derivative contracts with high-quality financial institutions and limits the amount of credit exposure to any single counterparty. In addition, the derivative contracts are limited to a time period of less than one year and the Company continuously evaluates the credit standing of its counterparties.

Note 14. *INCOME TAXES*

The geographic distribution of income (loss) from continuing operations before income taxes and equity in earnings of unconsolidated investees and the components of provision for income taxes are summarized below:

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Geographic distribution of income (loss) from continuing operations before income taxes and equity in earnings of unconsolidated investees:			
U.S. loss	$ (140,432)	$ (431,185)	$ (33,795)
Non-U.S. income (loss)	(189,231)	(171,347)	217,208
Income (loss) from continuing operations before income taxes and equity in earnings of unconsolidated investees	$ (329,663)	$ (602,532)	$ 183,413
Provision for income taxes:			
Current tax benefit (expense)			
Federal	$ —	$ (3,105)	$ (1,490)
State	(805)	(317)	2,683
Foreign	(28,183)	(14,112)	(25,067)
Total current tax expense	$ (28,988)	$ (17,534)	$ (23,874)
Deferred tax benefit			
Federal	—	—	—
State	—	—	—
Foreign	7,146	326	499
Total deferred tax benefit	7,146	326	499
Provision for income taxes	$ (21,842)	$ (17,208)	$ (23,375)

The provision for income taxes differs from the amounts obtained by applying the statutory U.S. federal tax rate to income before taxes as shown below:

(In thousands)	Year ended December 30, 2012	January 1, 2012	January 2, 2011
Statutory rate	35%	35%	35%
Tax benefit (expense) at U.S. statutory rate	$ 115,382	$ 210,886	$ (64,195)
Foreign rate differential	(82,017)	(73,757)	48,051
State income taxes, net of benefit	(805)	(317)	3,349
Goodwill impairment	(12,596)	(52,247)	—
Share lending arrangement	—	—	8,400
Total investment related costs	—	(2,878)	—
Tax credits (research and development/investment tax credit)	939	4,409	642
Deferred taxes not benefitted	(53,075)	(99,703)	(19,184)
Lehman settlement	17,726	—	—
Other, net	(7,396)	(3,601)	(438)
Total	$ (21,842)	$ (17,208)	$ (23,375)

(In thousands)	As of December 30, 2012	January 1, 2012
Deferred tax assets:		
Net operating loss carryforwards	$ 118,738	$ 68,080
Research and development credit and California manufacturing credit carryforwards	11,372	10,413
Reserves and accruals	114,125	64,482
Synthetic debt	31,921	60,772
Stock-based compensation stock deductions	13,147	10,320
Total deferred tax asset	289,303	214,067
Valuation allowance	(182,322)	(129,946)
Total deferred tax asset, net of valuation allowance	106,981	84,121
Deferred tax liabilities:		
Foreign currency derivatives unrealized gains	42	(1,971)
Other intangible assets and accruals	(32,464)	(52,938)
Equity interest in Woongjin Energy	—	(8,830)
Fixed asset basis difference	(67,473)	(20,442)
Total deferred tax liabilities	(99,895)	(84,181)
Net deferred tax liability	$ 7,086	$ (60)

As of December 30, 2012, the Company had federal net operating loss carryforwards of $395.9 million for tax purposes, of which $13.9 million relate to stock deductions and $115.1 million relate to debt issuance, both of which will benefit equity when realized. These federal net operating loss carryforwards will expire at various dates from 2030 to 2032. As of December 30, 2012, the Company had California state net operating loss carryforwards of approximately $227.3 million for tax purposes, of which $20.1 million relate to stock deductions and $76.0 million relate to debt issuance, both of which will benefit equity when realized. These California net operating loss carryforwards will expire at various dates from 2015 to 2032. The Company also had credit carryforwards of approximately $13.8 million for federal tax purposes and $7.9 million for state tax purposes. These federal credit carryforwards will expire at various dates from 2017 to 2031, and the California credit carryforwards do not expire. The Company's ability to utilize a portion of the net operating loss and credit carryforwards is dependent upon the Company being able to generate taxable income in future periods and may be limited due to restrictions imposed on utilization of net operating loss and credit carryforwards under federal and state laws upon a change in ownership, such as the transaction with Cypress.

The Company is subject to tax holidays in the Philippines where it manufactures its solar power products. Tax holidays in the Philippines reduce the Company's tax rate to 0% from 30%. Tax savings associated with the Philippines tax holidays were approximately $27.3 million, $3.9 million, and $11.8 million in fiscal 2012, 2011, and 2010, respectively, which provided a diluted net income (loss) per share benefit of $0.22, $0.04, and $0.11, respectively.

The Company has a tax ruling in Switzerland where it sells its solar power products. The ruling in Switzerland reduces the Company's tax rate to 11.5% from approximately 24.2%. Tax savings associated with this ruling was approximately $1.8 million, $2.3 million, and $1.6 million in fiscal 2012, 2011, and 2010, respectively, which provided a diluted net income (loss) per share benefit of $0.02, $0.02, and $0.02 in fiscal 2012, 2011, and 2010, respectively. This current tax ruling expires at the end of 2015.

As of December 30, 2012, the Company's foreign subsidiaries have accumulated undistributed earnings of approximately $83.3 million that are intended to be indefinitely reinvested outside the United States and, accordingly, no provision for U.S. federal and state tax has been made for the distribution of these earnings. At December 30, 2012, the amount of the unrecognized deferred tax liability on the indefinitely reinvested earnings was $33.3 million.

Valuation Allowance

The Company's valuation allowance is related to deferred tax assets in the United States and France, and was determined by assessing both positive and negative evidence. When determining whether it is more likely than not that deferred assets are recoverable, with such assessment being required on a jurisdiction by jurisdiction basis, management believes that sufficient uncertainty exists with regard to the realizability of these assets such that a valuation allowance is necessary. Factors considered in providing a valuation allowance include the lack of a significant history of consistent profits, the lack of consistent profitability in the solar industry, and the lack of carryback capacity to realize these assets, and other factors. Based on the absence of sufficient positive objective evidence, management is unable to assert that it is more likely than not that the Company will generate sufficient taxable income to realize these remaining net deferred tax assets. Should the Company achieve a certain level of profitability in the future, it may be in a position to reverse the valuation allowance which would result in a non-cash income statement benefit. The change in valuation allowance for fiscal 2012, 2011, and 2010 was $52.4 million, $125.3 million, and $37.5 million, respectively.

Unrecognized Tax Benefits

Current accounting guidance contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits during fiscal 2012, 2011, and 2010 is as follows:

	Year Ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Balance, beginning of year	$ 33,565	$ 23,649	$ 13,660
Additions for tax positions related to the current year	708	2,535	5,319
Additions for tax positions from prior years	32,493	7,381	5,092
Reductions for tax positions from prior years/statute of limitations expirations	(2,684)	—	(422)
Foreign exchange (gain) loss	(1,150)	—	—
Balance at the end of the period	$ 62,932	$ 33,565	$ 23,649

As of December 30, 2012, the Company had net unrecognized tax benefits of $62.9 million, $32.7 million of which would result in a reduction of the Company's effective tax rate.

Management believes that events that could occur in the next 12 months and cause a change in unrecognized tax benefits include, but are not limited to, the following:

- commencement, continuation or completion of examinations of the Company's tax returns by the U.S. or foreign taxing authorities; and
- expiration of statutes of limitation on the Company's tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Uncertainties include, but are not limited to, the impact of legislative, regulatory and judicial developments, transfer pricing and the application of withholding taxes. Management regularly assesses the Company’s tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. Management determined that an estimate of the range of reasonably possible change in the amounts of unrecognized tax benefits within the next 12 months cannot be made.

Classification of Interest and Penalties

The Company accrues interest and penalties on tax contingencies which are classified as "Provision for income taxes" in the Consolidated Statements of Operations. Accrued interest as of December 30, 2012 and January 1, 2012 was approximately $3.0 million and $1.9 million, respectively. Accrued penalties were not material for any of the periods presented.

Tax Years and Examination

The Company files tax returns in each jurisdiction in which it is registered to do business. In the U.S. and many of the state jurisdictions, and in many foreign countries in which the Company files tax returns, a statute of limitations period exists. After a statute of limitations period expires, the respective tax authorities may no longer assess additional income tax for the expired period. Similarly, the Company is no longer eligible to file claims for refund for any tax that it may have overpaid. The following table summarizes the Company’s major tax jurisdictions and the tax years that remain subject to examination by these jurisdictions as of December 30, 2012:

Tax Jurisdictions	Tax Years
United States	2007 and onward
California	2005 and onward
Switzerland	2009 and onward
Philippines	2006 and onward
France	2010 and onward
Italy	2009 and onward

Additionally, the 2005 U.S. corporate tax return and 2004 and prior California tax returns are not open for assessment. The tax authorities can adjust net operating loss and research and development carryovers that were generated.

The Italian and French federal authorities are currently examining the Company's 2009/2010 and 2010 federal income tax returns, respectively. The Company does not expect the examination to result in a material assessment outside of existing reserves. If a material assessment in excess of current reserves results, the amount that the assessment exceeds current reserves will be a current period charge to earnings.

Note 15. *PREFERRED STOCK AND COMMON STOCK*

Preferred Stock

At December 30, 2012, the Company was authorized to issue approximately 10.0 million shares of $0.001 par value preferred stock. As of December 30, 2012 and January 1, 2012, the Company had no preferred stock issued and outstanding.

In fiscal 2008, the Company entered into a rights agreement with Computershare Trust Company, N.A., as rights agents, which provided for the issuance of shares of Series A Junior Participating Preferred Stock to holders of the Company’s former class A common stock, and the issuance of shares of Series B Junior Participating Preferred Stock to holders of its former class B common stock, in certain circumstances defined therein. On November 16, 2011, the Company amended the rights agreement as a result of the Company's reclassification of its former class A common stock and former class B common stock into a single class of common stock, as described below. Under the amended rights agreement each of the former class A and former class B Rights became a "Right" to purchase Series A Junior Participating Preferred Stock of the Company.

Common Stock

On November 15, 2011, the Company's stockholders approved the reclassification of all outstanding former class A common stock and former class B common stock into a single class of common stock. The reclassification was effective November 16, 2011 upon which each share of the Company's outstanding former class A common stock and former class B common stock automatically reclassed as, and became one share of, a new single class of common stock having the same voting powers, rights and qualifications, limitations and restrictions as the former Class A common stock.

In connection with the reclassification, the Company entered into four new supplemental indentures on November 16, 2011, covering the Company's 4.50%, debentures, 4.75% debentures, 1.25% debentures and 0.75% debentures (see Note 12).

Voting Rights - Common Stock

Prior to the November 16, 2011 reclassification, holders of shares of former class B common stock were entitled to cast eight votes per share on any matters subject to a stockholder vote, and holders of share of former class A common stock were entitled to cast one vote per share. As a result of the reclassifications, all common stock holders are entitled to one vote per share on all matters submitted to be voted on by the Company's stockholders, subject to the preferences applicable to any preferred stock outstanding.

Dividends - Common Stock

All common stock holders are entitled to receive equal per share dividends when and if declared by the Board of Directors, subject to the preferences applicable to any preferred stock outstanding. The Company's credit facilities place restrictions on the Company and its subsidiaries' ability to pay cash dividends. Additionally, the 1.25% debentures and 0.75% debentures, as amended by the associated November 16, 2011 supplemental indentures, allow the holders to convert their bonds into the Company's common stock if the Company declares a dividend that on a per share basis exceeds 10% of its common stock's market price.

As of December 30, 2012, common stock consisted of the following:

(In thousands, except share data)	**December 30, 2012**	**January 1, 2012**
Common stock, $0.001 par value, 367,500,000 shares authorized; 123,315,990 shares issued, and 119,234,280 outstanding as of December 30, 2012; 101,851,290 shares issued, and 100,475,533 shares outstanding as of January 1, 2012	$ 119	$ 100

Shares Reserved for Future Issuance

The Company had shares of common stock reserved for future issuance as follows:

(In thousands)	**December 30, 2012**	**January 1, 2012**
Equity compensation plans	3,566	3,293

Note 16. ***NET INCOME (LOSS) PER SHARE OF COMMON STOCK***

The Company calculates net income (loss) per share by dividing earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. The Company's outstanding unvested restricted stock awards are considered participating securities as they may participate in dividends, if declared, even though the awards are not vested. As participating securities, the unvested restricted stock awards are allocated a proportionate share of net income, but excluded from the basic weighted average shares. No allocation is generally made to other participating securities in the case of a net loss per share.

Prior to the November 15, 2011 reclassification, the Company had two classes of outstanding stock, class A and class B common stock. The Company therefore calculated its net income (loss) per share prior to the fourth quarter of fiscal 2011 under the two-class method. In applying the two-class method, earnings are allocated to both classes of common stock and other participating securities based on their respective weighted average shares outstanding during the period. Under the two-class method, basic weighted average shares was computed using the weighted average of the combined former class A and former class B common stock outstanding. Class A and class B common stock were considered equivalent securities for purposes of the earnings per share calculation because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

Diluted weighted average shares is computed using basic weighted average shares plus any potentially dilutive securities outstanding during the period using the if-converted method and treasury-stock-type method, except when their effect is anti-dilutive. The Company uses income from continuing operations as the control number in determining whether potential common shares are dilutive or anti-dilutive in the period it reports a discontinued operation (see Note 5). Potentially dilutive securities include stock options, restricted stock units, senior convertible debentures, amended warrants associated with the CSO2015, and the Upfront Warrants held by Total. As a result of the net loss from continuing operations for the years ended December 30, 2012 and January 1, 2012 there is no dilutive impact to the net loss per share calculation for the period.

The following table presents the calculation of basic and diluted net loss per share:

(In thousands, except per share amounts)	Year ended December 30, 2012	Year ended January 1, 2012	Year ended January 2, 2011
Basic net income (loss) per share:			
Numerator			
Income (loss) from continuing operations	$ (352,020)	$ (613,737)	$ 166,883
Less: undistributed earnings allocated to unvested restricted stock awards (1)	—	—	(258)
Income (loss) from continuing operations available to common stockholders	$ (352,020)	$ (613,737)	$ 166,625
Denominator			
Basic weighted-average common shares	117,093	97,724	95,660
Basic net income (loss) per share from continuing operations	$ (3.01)	$ (6.28)	$ 1.74
Basic net income (loss) per share from discontinued operations	—	—	0.13
Basic net income (loss) per share	$ (3.01)	$ (6.28)	$ 1.87
Diluted net income (loss) per share:			
Numerator			
Income (loss) from continuing operations	$ (352,020)	$ (613,737)	$ 166,883
Add: Interest expense incurred on 4.75% debentures, net of tax	—	—	6,664
Less: undistributed earnings allocated to unvested restricted stock awards (1)	—	—	(242)
Income (loss) from continuing operations available to common stockholders	$ (352,020)	$ (613,737)	$ 173,305
Denominator			
Basic weighted-average common shares	117,093	97,724	95,660
Effect of dilutive securities:			
Stock options	—	—	990
Restricted stock units	—	—	336
4.75% debentures	—	—	8,712
Diluted weighted-average common shares	117,093	97,724	105,698
Diluted net income (loss) per share from continuing operations	$ (3.01)	$ (6.28)	$ 1.64
Diluted net income (loss) per share from discontinued operations	—	—	0.11
Diluted net income (loss) per share	$ (3.01)	$ (6.28)	$ 1.75

(1) Losses are not allocated to unvested restricted stock awards because such awards do not contain an obligation to participate in losses.

Holders of the Company's 4.75% debentures may convert the debentures into shares of the Company's common stock, at the applicable conversion rate, at any time on or prior to maturity. The 4.75% debentures are included in the calculation of diluted net income per share if their inclusion is dilutive under the if-converted method. During fiscal 2012, 2011 and 2010, there were zero, zero, and $8.7 million dilutive potential common shares under the 4.75% debentures, respectively.

Holders of the Company's 1.25% debentures (prior to their repurchase on February 16, 2012) and 0.75% debentures may, under certain circumstances at their option, convert the debentures into cash and, if applicable, shares of the Company's common stock at the applicable conversion rate, at any time on or prior to maturity. The 1.25% debentures and 0.75% debentures are included in the calculation of diluted net income per share if their inclusion is dilutive under the treasury-stock-type method. The Company's average stock price during fiscal 2012, 2011 and 2010 did not exceed the conversion price for the 1.25% debentures and 0.75% debentures. Under the treasury-stock-type method, the Company's 1.25% debentures and 0.75% debentures will generally have a dilutive impact on net income per share if the Company's average stock price for the period exceeds the conversion price for the debentures.

Holders of the Company's 4.50% debentures may, under certain circumstances at their option, convert the debentures into cash, and not into shares of the Company's common stock (or any other securities). Therefore, the 4.50% debentures are excluded from the net income per share calculation.

Holders of the amended and restated Warrants under the CSO2015, upon exercise of the 4.50% Warrants, may acquire up to 11.1 million shares of the Company's common stock at an exercise price of $27.03. In the third quarter of fiscal 2011, as a result of the Total Tender Offer, the Company and the counterparties to the 4.50% Warrants agreed to reduce the exercise price of the 4.50% Warrants from $27.03 to $24.00 (see Note 12). If the market price per share of the Company's common stock for the period exceeds the established strike price, the 4.50% Warrants will have a dilutive effect on its diluted net income per share using the treasury-stock-type method.

The Upfront Warrants, issued on February 28, 2012, allow Total to acquire up to 9,531,677 shares of the Company's common stock at an exercise price of $7.8685. If the market price per share of the Company's common stock for the period exceeds the established strike price, the Upfront Warrants will have a dilutive effect on its diluted net income per share using the treasury-stock-type method.

The following is a summary of outstanding anti-dilutive potential common stock which was excluded from income per diluted share in the following periods:

	As of		
(In thousands)	**December 30, 2012 (1)**	**January 1, 2012 (1)**	**January 2, 2011**
Stock options	320	425	309
Restricted stock units	4,435	4,943	2,803
Warrants (under the CSO2015)	*	*	*
Upfront Warrants (held by Total)	**	n/a	n/a
4.75% debentures	8,712	8,712	***
1.25% debentures	n/a	*	*
0.75% debentures	*	*	*

(1) As a result of the net loss per share for the years ended December 30, 2012 and January 1, 2012, the inclusion of all potentially dilutive stock options, restricted stock units, and common shares under the 4.75% debentures would be anti-dilutive. Therefore, those stock options, restricted stock units and shares were excluded from the computation of the weighted-average shares for diluted net loss per share for such period.

* The Company's average stock price during fiscal 2012, 2011 and 2010 did not exceed the conversion price for the amended warrants (under the CSO2015), 1.25% debentures and 0.75% debentures and those instruments were thus non-dilutive in such periods.

** The Upfront Warrants were issued in the first quarter of fiscal 2012. The Company's stock price as of the last business day in fiscal 2012 did not exceed the exercise price of the Upfront Warrants.

*** In fiscal 2010, the 4.75% debentures were dilutive under the if-converted method.

Note 17. *STOCK-BASED COMPENSATION*

The following table summarizes the consolidated stock-based compensation expense by line item in the Consolidated Statements of Operations:

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Cost of Americas revenue	$ 6,181	$ 5,974	$ 4,415
Cost of EMEA revenue	3,851	6,183	10,074
Cost of APAC revenue	1,578	1,030	1,240
Research and development	5,005	6,166	7,555
Sales, general and administrative	25,824	25,772	31,088
Restructuring charges	—	1,611	—
Total stock-based compensation expense	$ 42,439	$ 46,736	$ 54,372

The following table summarizes the consolidated stock-based compensation expense by type of awards:

	Year ended		
(In thousands)	**December 30, 2012**	**January 1, 2012**	**January 2, 2011**
Employee stock options	$ 649	$ 1,658	$ 1,960
Restricted stock awards and units	40,996	45,223	52,481
Change in stock-based compensation capitalized in inventory	794	(145)	(69)
Total stock-based compensation expense	$ 42,439	$ 46,736	$ 54,372

As of December 30, 2012, the total unrecognized stock-based compensation related to outstanding restricted stock units was $41.7 million, which the Company expects to recognize over a weighted-average period of 1.7 years. There was no unrecognized stock-based compensation related to stock options as of December 30, 2012.

Equity Incentive Programs

Stock-based Incentive Plans

The Company has three stock incentive plans: the 1996 Stock Plan ("1996 Plan"), the Third Amended and Restated 2005 SunPower Corporation Stock Incentive Plan ("2005 Plan") and the PowerLight Corporation Common Stock Option and Common Stock Purchase Plan ("PowerLight Plan"). The PowerLight Plan was assumed by the Company by way of the acquisition of PowerLight in fiscal 2007. Under the terms of all three plans, the Company may issue incentive or non-statutory stock options or stock purchase rights to directors, employees and consultants to purchase common stock. The 2005 Plan was adopted by the Company's Board of Directors in August 2005, and was approved by shareholders in November 2005. The 2005 Plan replaced the 1996 Plan and allows not only for the grant of options, but also for the grant of stock appreciation rights, restricted stock grants, restricted stock units and other equity rights. The 2005 Plan also allows for tax withholding obligations related to stock option exercises or restricted stock awards to be satisfied through the retention of shares otherwise released upon vesting. The PowerLight Plan was adopted by PowerLight's Board of Directors in October 2000.

In May 2008, the Company's stockholders approved an automatic annual increase available for grant under the 2005 Plan, beginning in fiscal 2009. The automatic annual increase is equal to the lower of three percent of the outstanding shares of all classes of the Company's common stock measured on the last day of the immediately preceding fiscal quarter, 6.0 million shares, or such other number of shares as determined by the Company's Board of Directors. As of December 30, 2012, approximately 7.1 million shares were available for grant under the 2005 Plan after including the automatic annual increase of approximately 3.6 million shares. No new awards are being granted under the 1996 Plan or the PowerLight Plan.

Incentive stock options may be granted at no less than the fair value of the common stock on the date of grant. Non-statutory stock options and stock purchase rights may be granted at no less than 85% of the fair value of the common stock at the date of grant. The options and rights become exercisable when and as determined by the Company's Board of Directors, although these terms generally do not exceed ten years for stock options. Under the 1996 and 2005 Plans, the options typically vest over five years with a one-year cliff and monthly vesting thereafter. Under the PowerLight Plan, the options typically vest over five years with yearly cliff vesting. Under the 2005 Plan, the restricted stock grants and restricted stock units typically vest in three equal installments annually over three years.

The majority of shares issued are net of the minimum statutory withholding requirements that the Company pays on behalf of its employees. During fiscal 2012, 2011, and 2010, the Company withheld 905,953 shares, 784,427 shares, and 235,911 shares, respectively, to satisfy the employees' tax obligations. The Company pays such withholding requirements in cash to the appropriate taxing authorities. Shares withheld are treated as common stock repurchases for accounting and disclosure purposes and reduce the number of shares outstanding upon vesting.

Other Employee Benefit Plans:

The Company has a statutory pension plan covering its employees in the Philippines. The Company accrues for the unfunded portion of the obligation of which the outstanding liability of this pension plan was $3.3 million and 1.5 million as of December 30, 2012 and January 1, 2012, respectively.

The Company maintains a 401(k) Savings Plan covering eligible domestic employees. During fiscal 2012, 2011, and 2010, the Company contributed $0.7 million, $0.7 million, and $0.6 million, respectively, to the plan.

Stock Options

The following table summarizes the Company's stock option activities:

	Outstanding Stock Options			
	Shares (in thousands)	**Weighted-Average Exercise Price Per Share**	**Weighted-Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic Value (in thousands)**
Outstanding as of January 3, 2010	1,899	$ 10.62		
Exercised	(303)	2.86		
Forfeited	(101)	17.76		
Outstanding as of January 2, 2011	1,495	11.71		
Exercised	(993)	4.09		
Forfeited	(18)	30.53		
Outstanding as of January 1, 2012	484	26.62		
Exercised	(20)	2.59		
Forfeited	(70)	24.17		
Outstanding and exercisable as of December 30, 2012	394	$ 28.27	3.51	$ 310

The intrinsic value of options exercised in fiscal 2012, 2011, and 2010 were $0.1 million, $16.4 million, and $3.0 million, respectively. There were no stock options granted in fiscal 2012, 2011, and 2010.

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of $5.49 at December 30, 2012, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable was 0.1 million shares as of December 30, 2012.

The following table summarizes the Company's non-vested stock options and restricted stock activities thereafter:

	Stock Options			Restricted Stock Awards and Units		
	Shares (in thousands)		Weighted-Average Exercise Price Per Share	Shares (in thousands)		Weighted-Average Grant Date Fair Value Per Share (1)
Outstanding as of January 3, 2010	343	$	28.52	2,736	$	40.33
Granted	—		—	5,251		13.43
Vested (2)	(131)		23.05	(734)		33.53
Forfeited	(101)		17.76	(1,141)		38.60
Outstanding as of January 2, 2011	111		44.85	6,112		18.36
Granted	—		—	5,349		11.79
Vested (2)	(50)		47.09	(2,255)		22.32
Forfeited	(18)		30.53	(1,836)		14.86
Outstanding as of January 1, 2012	43		48.33	7,370		13.25
Granted	—		—	5,638		5.93
Vested (2)	(30)		57.79	(2,844)		13.94
Forfeited	(13)		24.72	(1,588)		11.52
Outstanding as of December 30, 2012	—	$	—	8,576	$	8.53

(1) The Company estimates the fair value of its restricted stock awards and units at its stock price on the grant date.

(2) Restricted stock awards and units vested include shares withheld on behalf of employees to satisfy the minimum statutory tax withholding requirements.

Note 18. ***SEGMENT INFORMATION***

In December 2011, the Company announced a reorganization to align its business and cost structure to a regional focus in order to support the needs of its customers and improve the speed of decision-making processes. As a result, in the first quarter of fiscal 2012, the Company changed its segment reporting from its UPP Segment and R&C Segment to three regional segments: (i) the Americas Segment, (ii) the EMEA Segment, and (iii) the APAC Segment. The Americas Segment includes both North and South America. The EMEA Segment includes European countries, as well as the Middle East and Africa. The APAC segment includes all Asia-Pacific countries. The Company's President and Chief Executive Officer, as the CODM, has organized the Company, manages resource allocations and measures performance of the Company's activities among these three regional segments.

The CODM assesses the performance of the three regional segments using information about their revenue and gross margin after certain adjustments to reflect the substance of the revenue transactions for certain utility and power plant projects, and adding back certain non-cash expenses such as amortization of other intangible assets, stock-based compensation expense, loss on change in European government incentives, restructuring charges, accelerated depreciation associated with the Company's manufacturing step reduction program, and interest expense. In addition, the CODM assesses the performance of the segments after adding back the results of discontinued operations to revenue and gross margin. The CODM does not review asset information by segment. The following tables present revenue by segment, cost of revenue by segment and gross margin by segment, revenue by geography and revenue by significant customer. Revenue is based on the destination of the shipments. Historical results have been recast under the new segmentation.

(In thousands):	Year ended December 30, 2012	Year ended January 1, 2012	Year ended January 2, 2011
Revenue			
Americas	$ 1,696,348	$ 1,266,347	$ 632,053
EMEA	489,484	924,337	1,526,480
APAC	231,669	183,692	60,697
Total Revenue	2,417,501	2,374,376	2,219,230
Cost of revenue			
Americas	1,415,417	1,131,771	502,780
EMEA	559,993	868,330	1,159,115
APAC	195,693	148,057	47,442
Total cost of revenue	2,171,103	2,148,158	1,709,337
Gross margin	$ 246,398	$ 226,218	$ 509,893

	Year ended December 30, 2012	Year ended January 1, 2012	Year ended January 2, 2011
Revenue by region (in thousands):			
Americas (as reviewed by CODM)	$ 1,901,159	$ 1,452,770	$ 632,053
Utility and power plant projects	(204,811)	(186,423)	—
Americas	$ 1,696,348	$ 1,266,347	$ 632,053
EMEA (as reviewed by CODM)	$ 489,291	$ 923,688	$ 1,537,561
Change in European government incentives	193	649	—
Revenue earned from discontinued operations	—	—	(11,081)
EMEA	$ 489,484	$ 924,337	$ 1,526,480
APAC	$ 231,669	$ 183,692	$ 60,697

	Year ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Cost of revenue by region (in thousands):			
Americas (as reviewed by CODM)	$ 1,486,554	$ 1,250,471	$ 487,050
Utility and power plant projects	(97,648)	(147,037)	—
Amortization of intangible assets	167	404	9,513
Stock-based compensation expense	6,181	5,974	4,415
Acquisition and integration costs	14	—	—
Change in European government incentives	4,029	20,765	—
Charges on manufacturing step reduction program	8,095	—	—
Non-recurring idle equipment impairment	7,001	—	—
Non-cash interest expense	1,024	1,194	1,802
Americas	$ 1,415,417	$ 1,131,771	$ 502,780
EMEA (as reviewed by CODM)	$ 543,823	$ 827,858	$ 1,143,543
Amortization of intangible assets	2,341	858	759
Stock-based compensation expense	3,851	6,183	10,074
Acquisition and integration costs	6	—	—
Change in European government incentives	3,364	32,283	—
Charges on manufacturing step reduction program	3,667	—	—
Non-recurring idle equipment impairment	2,415	—	—
Non-cash interest expense	526	1,148	4,739
EMEA	$ 559,993	$ 868,330	$ 1,159,115
APAC (as reviewed by CODM)	$ 187,748	$ 144,138	$ 45,703
Amortization of intangible assets	—	—	134
Stock-based compensation expense	1,578	1,030	1,239
Acquisition and integration costs	2	—	—
Change in European government incentives	1,476	2,667	—
Charges on manufacturing step reduction program	2,150	—	—
Non-recurring idle equipment impairment	2,447	—	—
Non-cash interest expense	292	222	366
APAC	$ 195,693	$ 148,057	$ 47,442

	Year ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Gross margin by region:			
Americas (as reviewed by CODM)	22%	14%	23%
EMEA (as reviewed by CODM)	(11)%	10%	26%
APAC (as reviewed by CODM)	19%	22%	25%
Americas	17%	11%	20%
EMEA	(14)%	6%	24%
APAC	16%	19%	22%

	Year ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Depreciation by region (in thousands):			
Americas	$ 59,120	$ 50,352	$ 28,362
EMEA	33,047	47,896	66,568
APAC	16,489	8,852	7,262

		Year ended		
(As a percentage of total revenue)		December 30, 2012	January 1, 2012	January 2, 2011
Significant Customers:	**Business Segment**			
NRG Solar, Inc.	Americas	35%	*	*
Customer B	EMEA	*	*	12%

* denotes less than 10% during the period

SELECTED UNAUDITED QUARTERLY FINANCIAL DATA

Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended			
	December 30, 2012	September 30, 2012	July 1, 2012	April 1, 2012
Fiscal 2012:				
Revenue	$ 678,525	$ 648,948	$ 595,897	$ 494,131
Gross margin	46,877	80,773	73,500	45,248
Net loss	(144,771)	(48,538)	(84,181)	(74,530)
Net loss per share of common stock:				
Basic and diluted	$ (1.22)	$ (0.41)	$ (0.71)	$ (0.67)

(In thousands, except per share data)	Three Months Ended			
	January 1, 2012 (1)	October 2, 2011	July 3, 2011	April 3, 2011
Fiscal 2011:				
Revenue	$ 625,276	$ 705,427	$ 592,255	$ 451,418
Gross margin	42,278	76,124	19,294	88,522
Net loss	(92,960)	(370,784)	(147,872)	(2,121)
Net loss per share of common stock:				
Basic and diluted	$ (0.94)	$ (3.77)	$ (1.51)	$ (0.02)

(1) As adjusted to reflect the balances of Tenesol S.A. ("Tenesol") beginning October 10, 2011, as required under the accounting guidelines for a transfer of an entity under common control (see Note 3).

ITEM 9: ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES***

None.

ITEM 9A: ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 30, 2012 at a reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria described in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 30, 2012 based on the criteria described in Internal Control-Integrated Framework issued by COSO. Management reviewed the results of its assessment with our Audit Committee.

The effectiveness of the Company's internal control over financial reporting as of December 30, 2012 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

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

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

ITEM 9B: ***OTHER INFORMATION***

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K. We intend to file a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included therein is incorporated herein by reference.

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Information appearing under this Item is incorporated herein by reference to the similarly named section in our proxy statement for the 2013 annual meeting of stockholders.

We have adopted a code of ethics, entitled Code of Business Conduct and Ethics, that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, and principal accounting officer. We have made it available, free of charge, on our website at www.sunpowercorp.com, and if we amend it or grant any waiver under it that applies to our principal executive officer, principal financial officer, or principal accounting officer, we will promptly post that amendment or waiver on our website as well.

ITEM 11: *EXECUTIVE COMPENSATION*

Information appearing under this Item is incorporated herein by reference to the similarly named section in our proxy statement for the 2013 annual meeting of stockholders.

ITEM 12: *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Information appearing under this Item is incorporated herein by reference to the similarly named section in our proxy statement for the 2013 annual meeting of stockholders.

ITEM 13: *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

Information appearing under this Item is incorporated herein by reference to the similarly named section in our proxy statement for the 2013 annual meeting of stockholders.

ITEM 14: *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Information appearing under this Item is incorporated herein by reference to the similarly named section in our proxy statement for the 2013 annual meeting of stockholders.

PART IV
ITEM 15: *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

The following documents are filed as a part of this Annual Report on Form 10-K:

1. *Financial Statements:*

2. *Financial Statement Schedule:*

All financial statement schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

3. *Exhibits:*

EXHIBIT INDEX

Exhibit Number	Description
2.1	Stock Purchase Agreement, dated December 23, 2011, by and among SunPower Corporation, Total Gas & Power USA, SAS, and Total Energie Développement SAS (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2011).
3.1	Restated Certificate of Incorporation of SunPower Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2011).
3.2	Amended and Restated By-Laws of SunPower Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2012).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on From 10-K filed with the Securities and Exchange Commission on February 29, 2012).
4.2	Indenture, dated February 7, 2007, by and between SunPower Corporation and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 8, 2007).
4.3	Form of Second Supplemental Indenture, by and between SunPower Corporation and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2007).
4.4	Third Supplemental Indenture, dated May 4, 2009, by and between SunPower Corporation and Wells Fargo Bank, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by SunPower Corporation on May 6, 2009).
4.5	Fourth Supplemental Indenture, dated April 1, 2010, by and between SunPower Corporation and Wells Fargo, National Association as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2010).
4.6	Sixth Supplemental Indenture, dated November 16, 2011, by and between SunPower Corporation and Wells Fargo Bank, National Association as Trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2011).
4.7	Seventh Supplemental Indenture, dated November 16, 2011, by and between SunPower Corporation and Wells Fargo Bank, National Association as Trustee (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2011).
4.8	Eighth Supplemental Indenture, dated November 16, 2011, by and between SunPower Corporation and Wells Fargo Bank, National Association as Trustee (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2011).
4.9	Amended and Restated Rights Agreement, dated November 16, 2011, by and between SunPower Corporation and Computershare Trust Company, N.A., as Rights Agent, including the form of Certificate of Designation of Series A Junior Participating Preferred Stock, the forms of Right Certificates, and the Summary of Rights attached thereto as Exhibits A, B, and C, respectively (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on November 16, 2011).
4.10	Certificate of Designation of Series A Junior Participating Preferred Stock of SunPower Corporation (incorporated by reference to Exhibit 4.6 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2011).
4.11	Amendment No. 1, dated May 10, 2012, to the Amended and Restated Rights Agreement, dated as of November 16, 2011, by and between the SunPower Corporation and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 10, 2012).
10.1	Convertible Debenture Hedge Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by SunPower Corporation on April 30, 2009).

10.2	Convertible Debenture Hedge Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by SunPower Corporation on April 30, 2009).
10.3	Convertible Debenture Hedge Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by SunPower Corporation on April 30, 2009).
10.4	Convertible Debenture Hedge Transaction Confirmation, dated March 25, 2010, by and between SunPower Corporation and Bank of America, N.A. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 29, 2010).
10.5	Convertible Debenture Hedge Transaction Confirmation, dated March 25, 2010, by and between SunPower Corporation and Barclays Bank PLC (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 29, 2010).
10.6	Convertible Debenture Hedge Transaction Confirmation, dated March 25, 2010, by and between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 29, 2010).
10.7	Convertible Debenture Hedge Transaction Confirmation, dated March 25, 2010, by and between SunPower Corporation and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 29, 2010).
10.8	Convertible Debenture Hedge Transaction Confirmation, dated April 5, 2010, by and between SunPower Corporation and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 9, 2010).
10.9	Convertible Debenture Hedge Transaction Confirmation, dated April 5, 2010, by and between SunPower Corporation and Barclays Bank PLC (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 9, 2010).
10.10	Convertible Debenture Hedge Transaction Confirmation, dated April 5, 2010, by and between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 9, 2010).
10.11	Convertible Debenture Hedge Transaction Confirmation, dated April 5, 2010, by and between SunPower Corporation and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 9, 2010).
10.12	Warrant Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed by SunPower Corporation on April 30, 2009).
10.13	Warrant Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed by SunPower Corporation on April 30, 2009).
10.14	Warrant Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed by SunPower Corporation on April 30, 2009).
10.15	Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Bank of America, N.A. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2010).
10.16	Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Barclays Bank PLC (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2010).
10.17	Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2010).
10.18	Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2010).
10.19	Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Bank of America, N.A. (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2010).
10.20	Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Barclays Bank PLC (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2010).

10.21	Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2010).
10.22	Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Deutsche Bank AG, London Branch (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2010).
10.23†	Warrant Adjustment Notice, dated August 26, 2011, from Wachovia Bank, National Association, regarding Warrant Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.24	Warrant Adjustment Notice, dated August 30, 2011, from Deutsche Bank AG, London Branch, regarding (1) Warrant Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Deutsche Bank AG, London Branch; (2) Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Deutsche Bank AG, London Branch; and (3) Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Deutsche Bank AG, London (incorporated by reference to Exhibit 10.5 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.25†	Warrant Adjustment Notice, dated August 31, 2011, from Credit Suisse International, regarding (1) Warrant Transaction Confirmation, dated April 28, 2009, by and between SunPower Corporation and Credit Suisse International; (2) Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Credit Suisse International; and (3) Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.6 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.26	Warrant Adjustment Notice, dated September 21, 2011, from Bank of America, N.A., regarding (1) Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Bank of America, N.A.; and (2) Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Bank of America, N.A. (incorporated by reference to Exhibit 10.7 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.27	Warrant Adjustment Notice, dated September 21, 2011, from Barclays Bank PLC, regarding (1) Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Barclays Bank PLC; and (2) Warrant Transaction Confirmation, dated December 22, 2010, by and between SunPower Corporation and Barclays Bank PLC (incorporated by reference to Exhibit 10.8 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.28	Tender Offer Agreement, dated April 28, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 99.2 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.29	Amendment to Tender Offer Agreement, dated June 7, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 2.1 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 7, 2011).
10.30	Tender Offer Agreement Guaranty, dated April 28, 2011, between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 99.4 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.31	Credit Support Agreement, dated April 28, 2011, between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 99.5 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.32	Amendment to Credit Support Agreement, dated June 7, 2011, between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 7, 2011).
10.33	Second Amendment to Credit Support Agreement, dated December 12, 2011, by and between Total S.A. and SunPower Corporation (incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2011).
10.34	Third Amendment to Credit Support Agreement, dated December 14, 2012, by and between SunPower Corporation and Total S.A.
10.35	Affiliation Agreement, dated April 28, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 99.6 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.36	Amendment to Affiliation Agreement, dated June 7, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 7, 2011).

10.37	Second Amendment to Affiliation Agreement, dated December 23, 2011, by and between Total G&P and SunPower Corporation (incorporated by reference to Exhibit 10.4 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2011).
10.38	Amendment No. 3 to Affiliation Agreement, dated February 28, 2012, by and between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.91 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.39	Amendment No. 4 to Affiliation Agreement, dated August 10, 2012, by and between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 2, 2012).
10.40	Affiliation Agreement Guaranty, dated April 28, 2011, between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 99.7 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.41	Research & Collaboration Agreement, dated April 28, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 99.8 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.42	Amendment to Research & Collaboration Agreement, dated June 7, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 7, 2011).
10.43	Registration Rights Agreement, dated April 28, 2011, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 99.9 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2011).
10.44	Private Placement Agreement, dated December 23, 2011, by and between Total Gas & Power USA, SAS and SunPower Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2011).
10.45	Master Agreement, dated December 23, 2011, by and among SunPower Corporation, Total Gas & Power USA, SAS, and Total S.A. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2011).
10.46^	SunPower Corporation 1996 Stock Plan and form of agreements there under (incorporated by reference to Exhibit 10.3 to the Registrant’s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 25, 2005).
10.47^	SunPower Corporation 2005 Stock Unit Plan (incorporated by reference to Exhibit 10.28 to the Registrant’s Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on October 31, 2005).
10.48^	Third Amended and Restated SunPower Corporation 2005 Stock Incentive Plan and forms of agreements there under (incorporated by reference to Exhibit 4.1 to the Registrant’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 17, 2011).
10.49^	PowerLight Corporation Common Stock Option and Common Stock Purchase Plan (incorporated by reference to Exhibit 4.3 to the Registrant’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on January 25, 2007).
10.50^	Form of PowerLight Corporation Incentive/Non-Qualified Stock Option, Market Standoff and Stock Restriction Agreement (Employees) (incorporated by reference to Exhibit 4.4 to the Registrant’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on January 25, 2007).
10.51^	Outside Director Compensation Policy, as amended on June 15, 2011 (incorporated by reference to Exhibit 10.17 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011).
10.52^	Form of Employment Agreement for Executive Officers (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 19, 2010).
10.53^	SunPower Corporation Management Career Transition Plan (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 19, 2010).
10.54^*	SunPower Corporation Executive Quarterly Key Initiative Bonus Plan (amended and restated February 19, 2013).
10.55^	SunPower Corporation Annual Executive Bonus Plan (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 19, 2010).

10.56^	Form of Indemnification Agreement for Directors and Officers (incorporated by reference to Exhibit 10.55 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.57^	Form of Retention Agreement, dated May 20, 2011, by and between SunPower Corporation and certain executive officers (incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011).
10.58^	Amended and Restated Employment Agreement, dated December 23, 2011, by and between SunPower Corporation and Dennis Arriola (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2011).
10.59^	Amended and Restated Employment Agreement, dated October 27, 2011, by and between SunPower Corporation and Bruce Ledesma (incorporated by reference to Exhibit 10.58 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.60†	Mortgage Loan Agreement, dated May 6, 2010, by and among SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation (incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 13, 2010).
10.61	Guarantee Agreement, dated May 6, 2010, by and between SunPower Corporation and International Finance Corporation (incorporated by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 13, 2010).
10.62	Amendment No. 1 to Loan Agreement, dated November 2, 2010, by and between SunPower Philippines Manufacturing Ltd. and International Finance Corporation (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2011).
10.63*	Mortgage Supplement No. 1, dated November 3, 2010, by and between SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation.
10.64*	Mortgage Supplement No. 2, dated October 9, 2012, by and between SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation.
10.65	Loan Agreement, dated December 1, 2010, by and among California Enterprise Development Authority and SunPower Corporation, relating to $30,000,000 California Enterprise Development Authority Tax Exempt Recovery Zone Facility Revenue Bonds (SunPower Corporation - Headquarters Project) Series 2010 (incorporated by reference to Exhibit 10.50 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2011).
10.66	First Supplement to Loan Agreement, dated June 1, 2011, by and between California Enterprise Development Authority and SunPower Corporation, relating to $30,000,000 California Enterprise Development Authority Tax Exempt Recovery Zone Facility Revenue Bonds (SunPower Corporation - Headquarters Project) Series 2010 (incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011).
10.67†	Letter of Credit Facility Agreement, dated August 9, 2011, by and among SunPower Corporation, Total S.A., the Subsidiary Applicants party thereto, the Banks party thereto, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.68†	First Amendment to Letter of Credit Facility Agreement, dated December 20, 2011, by and among SunPower Corporation, Total S.A., the Subsidiary Applicants party thereto, the Banks party thereto, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.65 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.69*	Second Amendment to Letter of Credit Facility Agreement, dated December 19, 2012, by and among SunPower Corporation, Total S.A., the Subsidiary Applicants party thereto, the Banks party thereto, and Deutsche Bank AG New York Branch.
10.70	Revolving Credit Agreement, dated September 27, 2011, by and among SunPower Corporation, Credit Agricole Corporate and Investment Bank, and the financial institutions party thereto (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.71	First Amendment to Revolving Credit Agreement, dated December 21, 2011, by and among SunPower Corporation, Credit Agricole Corporate and Investment Bank, and the financial institutions party thereto(incorporated by reference to Exhibit 10.67 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.72	Second Amendment to Revolving Credit Agreement, dated June 29, 2012, by and among SunPower Corporation and Credit Agricole Corporate and Investment Bank, as administrative agent for the Lenders (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2012).

10.73*	Third Amendment to Revolving Credit Agreement, dated December 24, 2012 by and among SunPower Corporation and Credit Agricole Corporate and Investment Bank, and the financial institutions party thereto.
10.74	Continuing Agreement for Standby Letters of Credit and Demand Guarantees, dated September 27, 2011, by and among SunPower Corporation, Deutsche Bank Trust Company Americas, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.10 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.75	Security Agreement, dated September 27, 2011, by and among SunPower Corporation, Deutsche Bank Trust Company Americas, and Deutsche Bank AG New York Branch (incorporated by reference to Exhibit 10.11 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2011).
10.76†	Joint Venture Agreement, dated May 27, 2010, by and among SunPower Technology, Ltd., AU Optronics Singapore Pte. Ltd., AU Optronics Corporation and AUO SunPower Sdn. Bhd. (formerly known as SunPower Malaysia Manufacturing Sdn. Bhd.) (incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 13, 2010).
10.77	Amendment No. 1 to Joint Venture Agreement, dated June 29, 2010, by and among SunPower Technology, Ltd., AU Optronics Singapore Pte. Ltd., AU Optronics Corporation and AUO SunPower Sdn. Bhd. (formerly known as SunPower Malaysia Manufacturing Sdn. Bhd.) (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2010).
10.78	Amendment No. 2 to Joint Venture Agreement, dated July 5, 2010, by and among SunPower Technology, Ltd., AU Optronics Singapore Pte. Ltd., AU Optronics Corporation and AUO SunPower Sdn. Bhd. (formerly known as SunPower Malaysia Manufacturing Sdn. Bhd.) (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2010.
10.79†	Supply Agreement, dated July 5, 2010, by and among AUO SunPower Sdn. Bhd. (formerly known as SunPower Malaysia Manufacturing Sdn. Bhd.), SunPower Systems, Sarl and AU Optronics Singapore Pte. Ltd. (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2010).
10.80	License and Technology Agreement, dated July 5, 2010, by and among SunPower Technology, Ltd., AU Optronics Singapore Pte. Ltd. and AUO SunPower Sdn. Bhd. (formerly known as SunPower Malaysia Manufacturing Sdn. Bhd.) (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2010).
10.81	Tax Sharing Agreement, dated October 6, 2005, by and between SunPower Corporation and Cypress Semiconductor Corporation (incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on October 11, 2005).
10.82	Amendment No. 1 to Tax Sharing Agreement, dated August 12, 2008, by and between SunPower Corporation and Cypress Semiconductor Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 12, 2008).
10.83	Liquidity Support Agreement, dated February 28, 2012, by and among SunPower Corporation, Total S.A. and the U.S. Department of Energy, acting by and through the Secretary of Energy (incorporated by reference to Exhibit 10.89 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.84	Compensation and Funding Agreement, dated February 28, 2012, by and between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 10.90 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.85	Amendment No. 1 to Compensation and Funding Agreement, dated August 10, 2012, by and between SunPower Corporation and Total S.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 2, 2012).
10.86	Warrant to Purchase Common Stock, dated February 28, 2012, issued to Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.92 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.87†	Revolving Credit and Convertible Loan Agreement, dated February 28, 2012, by and between Total Gas & Power USA, SAS and SunPower Corporation (incorporated by reference to Exhibit 10.93 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.88	Private Placement Agreement, dated February 28, 2012, by and between Total Gas & Power USA, SAS and SunPower Corporation (incorporated by reference to Exhibit 10.94 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.89	Form of Warrant to Purchase Common Stock, issued by SunPower Corporation to Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.95 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).

10.90	Form of Guarantee from Total S.A. and Bank (incorporated by reference to Exhibit 10.96 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.91	Form of Convertible Term Loan Note, issued by SunPower Corporation to Holder (incorporated by reference to Exhibit 10.97 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.92	Revolving Loan Note, dated February 28, 2012, issued by SunPower Corporation to Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.98 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.93	Form of Terms Agreement, between SunPower Corporation and Total Gas & Power USA, SAS (incorporated by reference to Exhibit 10.99 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012).
10.94*	Waiver Letter, dated October 3, 2012, from the International Finance Corporation.
10.95†	Engineering, Procurement and Construction Agreement, dated September 30, 2011 by and between High Plains Ranch II, LLC and SunPower Corporation, Systems (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 2, 2012).
10.96*†	Engineering, Procurement and Construction Agreement (Antelope Valley Solar Project 308.97MW at the Delivery Point), dated December 28, 2012, by and between SunPower Corporation, Systems and Solar Star California XIX, LLC.
10.97*†	Engineering, Procurement and Construction Agreement (Antelope Valley Solar Project 270.18 MW at the Delivery Point), dated December 28, 2012, by and between SunPower Corporation, Systems and Solar Star California XX, LLC.
10.98*	Amendment No. 1 to Master Agreement, dated February 20, 2013, by and among SunPower Corporation, Total Gas & Power U.S.A. SAS and Total S.A.
21.1*	List of Subsidiaries.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
23.2*	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
24.1*	Power of Attorney.
31.1*	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2*	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1*	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*+	XBRL Instance Document.
101.SCH*+	XBRL Taxonomy Schema Document.
101.CAL*+	XBRL Taxonomy Calculation Linkbase Document.
101.LAB*+	XBRL Taxonomy Label Linkbase Document.
101.PRE*+	XBRL Taxonomy Presentation Linkbase Document.
101.DEF*+	XBRL Taxonomy Definition Linkbase Document.

Exhibits marked with a carrot (^) are director and officer compensatory arrangements.

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

Exhibits marked with an extended cross (†) are subject to a request for confidential treatment filed with the Securities and Exchange Commission.

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

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: February 22, 2013

By: /s/ CHARLES D. BOYNTON

Charles D. Boynton
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ THOMAS H. WERNER Thomas H. Werner	President, Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2013
/S/ CHARLES D. BOYNTON Charles D. Boynton	Executive Vice President and Chief Financial Officer (Principal Accounting Officer)	February 22, 2013
/S/ ERIC BRANDERIZ Eric Branderiz	Senior Vice President, Corporate Controller and Principal Accounting Officer (Principal Accounting Officer)	February 22, 2013
* Arnaud Chaperon	Director	February 22, 2013
* Bernard Clement	Director	February 22, 2013
* Denis Giorno	Director	February 22, 2013
* Thomas R. McDaniel	Director	February 22, 2013
* Jerome Schmitt	Director	February 22, 2013
* Humbert de Wendel	Director	February 22, 2013
* Patrick Wood III	Director	February 22, 2013

*By: /S/ CHARLES D. BOYNTON
Charles D. Boynton
Power of Attorney

Index to Exhibits

Exhibit Number	Description
10.34*	Third Amendment to Credit Support Agreement, dated December 14, 2012, by and between SunPower Corporation and Total S.A.
10.54^*	SunPower Corporation Executive Quarterly Key Initiative Bonus Plan (amended and restated February 19, 2013).
10.63*	Mortgage Supplement No. 1, dated November 3, 2010, by and between SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation.
10.64*	Mortgage Supplement No. 2, dated October 9, 2012, by and between SunPower Philippines Manufacturing Ltd., SPML Land, Inc. and International Finance Corporation.
10.69*	Second Amendment to Letter of Credit Facility Agreement, dated December 19, 2012, by and among SunPower Corporation, Total S.A., the Subsidiary Applicants party thereto, the Banks party thereto, and Deutsche Bank AG New York Branch.
10.73*	Third Amendment to Revolving Credit Agreement, dated December 24, 2012, by and among SunPower Corporation and Credit Agricole Corporate and Investment Bank, and the financial institutions party thereto.
10.94*	Waiver Letter, dated October 3, 2012, from the International Finance Corporation
10.96*†	Engineering, Procurement and Construction Agreement (Antelope Valley Solar Project 308.97MW at the Delivery Point), dated December 28, 2012, by and between SunPower Corporation, Systems and Solar Star California XIX, LLC.
10.97*†	Engineering, Procurement and Construction Agreement (Antelope Valley Solar Project 270.18 MW at the Delivery Point), dated December 28, 2012, by and between SunPower Corporation, Systems and Solar Star California XX, LLC.
10.98*	Amendment No. 1 to Master Agreement, dated February 20, 2013, by and among SunPower Corporation, Total Gas & Power U.S.A. SAS and Total S.A.
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SUNPOWER

NOTICE OF THE 2013 ANNUAL MEETING OF STOCKHOLDERS

TO ALL SUNPOWER STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2013 Annual Meeting of Stockholders (the “Annual Meeting”) of SunPower Corporation, a Delaware corporation (“SunPower”), will be held on:

Date:	Wednesday, July 24, 2013	
Time:	Noon Pacific Time	
Place:	SunPower Corporation, 77 Rio Robles, San Jose, California 95134	
Items of Business:	1.	The re-election of three directors to serve as Class II directors on our board of directors (the “Board”);
	2.	The proposal to approve, in an advisory vote, our named executive officer compensation;
	3.	The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2013; and
	4.	To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this Notice. On June 10, 2013 we began mailing to stockholders either a Notice of Internet Availability of Proxy Materials or this notice of the Annual Meeting, the proxy statement and the form of proxy.

All stockholders are cordially invited to attend the Annual Meeting in person. Only stockholders of record at the close of business on May 28, 2013 (the “Record Date”) are entitled to receive notice of, and to vote at, the Annual Meeting or any adjournment or postponement of the Annual Meeting. Any registered stockholder in attendance at the Annual Meeting and entitled to vote may do so in person even if such stockholder returned a proxy.

San Jose, California
June 10, 2013

FOR THE BOARD OF DIRECTORS

Lisa Bodensteiner

Lisa Bodensteiner
Corporate Secretary

IMPORTANT: WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE AND SIGN THE PROXY CARD AND MAIL IT PROMPTLY, OR YOU MAY VOTE BY TELEPHONE OR VIA THE INTERNET BY FOLLOWING THE DIRECTIONS ON THE PROXY CARD. ANY ONE OF THESE METHODS WILL ENSURE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING. NO POSTAGE NEED BE AFFIXED TO THE COMPANY-PROVIDED PROXY CARD ENVELOPE IF MAILED IN THE UNITED STATES.

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PROXY STATEMENT FOR
2013 ANNUAL MEETING OF STOCKHOLDERS

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SUNPOWER CORPORATION
77 Rio Robles
San Jose, California 95134

PROXY STATEMENT FOR 2013 ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The Board of Directors (the "Board") of SunPower Corporation, a Delaware corporation, is furnishing this proxy statement and proxy card to you in connection with its solicitation of proxies to be used at SunPower Corporation's Annual Meeting of Stockholders to be held on July 24, 2013 at noon Pacific Time at SunPower Corporation, 77 Rio Robles, San Jose, California, or at any adjournment(s), continuation(s) or postponement(s) of the meeting (the "Annual Meeting").

We use a number of abbreviations in this proxy statement. We refer to SunPower Corporation as "SunPower," "the Company," or "we," "us" or "our." The term "proxy solicitation materials" includes this proxy statement, the notice of the Annual Meeting, and the proxy card. References to "fiscal 2012" mean our 2012 fiscal year, which began on January 2, 2012 and ended on December 30, 2012.

Our principal executive offices are located at 77 Rio Robles, San Jose, California 95134, and our telephone number is (408) 240-5500.

Important Notice Regarding the Availability of Proxy Materials

We have elected to comply with the Securities and Exchange Commission (the "SEC") "Notice and Access" rules, which allow us to make our proxy solicitation materials available to our stockholders over the Internet. Under these rules, on or about June 10, 2013, we started mailing to certain of our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice of Internet Availability"). The Notice of Internet Availability contains instructions on how our stockholders can both access the proxy solicitation materials and our 2012 Annual Report for the fiscal year ended December 30, 2012 ("2012 Annual Report") online and vote online. By sending the Notice of Internet Availability instead of paper copies of the proxy materials, we expect to lower the costs and reduce the environmental impact of our Annual Meeting.

Our proxy solicitation materials and our 2012 Annual Report are available at www.proxyvote.com.

Stockholders receiving the Notice of Internet Availability may request a paper or electronic copy of our proxy solicitation materials by following the instructions set forth on the Notice of Internet Availability. Stockholders who did not receive the Notice of Internet Availability will continue to receive a paper or electronic copy of our proxy solicitation materials, which were first mailed to stockholders and made public on or about June 10, 2013.

Delivery of Voting Materials

If you would like to further reduce our costs in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions provided for voting via www.proxyvote.com and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

To reduce the expenses of delivering duplicate materials to our stockholders, we are taking advantage of householding rules that permit us to deliver only one set of proxy solicitation materials, proxy card, and our 2012

Annual Report, or one copy of the Notice of Internet Availability, to stockholders who share the same address, unless otherwise requested. Each stockholder retains a separate right to vote on all matters presented at the Annual Meeting.

If you share an address with another stockholder and have received only one set of materials, you may write or call us to request a separate copy of these materials at no cost to you. For future annual meetings, you may request separate materials or request that we only send one set of materials to you if you are receiving multiple copies by writing to us at SunPower Corporation, 77 Rio Robles, San Jose, California 95134, Attention: Corporate Secretary, or calling us at (408) 240-5500.

A copy of our Annual Report on Form 10-K has been furnished with this proxy statement to each stockholder. A stockholder may also request a copy of our Annual Report on Form 10-K by writing to our Corporate Secretary at 77 Rio Robles, San Jose, California 95134. Upon receipt of such request, we will provide a copy of our Annual Report on Form 10-K without charge, including the financial statements required to be filed with the SEC pursuant to Rule 13a-1 of the Securities Exchange Act of 1934 ("Exchange Act") for our fiscal year 2012. Our Annual Report on Form 10-K is also available on our website at *http://investors.sunpowercorp.com/sec.cfm.*

Record Date and Shares Outstanding

Stockholders who owned shares of our common stock, par value $0.001 per share, at the close of business on May 28, 2013, which we refer to as the Record Date, are entitled to notice of, and to vote at, the Annual Meeting. On the Record Date, we had 120,930,524 shares of common stock outstanding. For more information about beneficial ownership of our issued and outstanding common stock, please see "*Security Ownership of Management and Certain Beneficial Owners*."

Board Recommendations

Our Board recommends that you vote:

- "FOR" Proposal One: re-election of each of the nominated Class II directors;
- "FOR" Proposal Two: the approval, on an advisory basis, of the compensation of our named executive officers; and
- "FOR" Proposal Three: the ratification of appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2013.

Voting

Each holder of shares of common stock is entitled to one vote for each share of common stock held as of the Record Date. Cumulating votes is not permitted under our By-laws.

Many of our stockholders hold their shares through a stockbroker, bank or other nominee, rather than directly in their own name. As summarized below, there are distinctions between shares held of record and those beneficially owned.

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Computershare Trust Company N.A., you are considered, with respect to those shares, the stockholder of record and these proxy solicitation materials are being furnished to you directly by us.

Beneficial Owner. If your shares are held in a stock brokerage account, or by a bank or other nominee (also known as shares registered in "street name"), you are considered the beneficial owner of such shares held in street name, and these proxy solicitation materials are being furnished to you by your broker, bank or other nominee, who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other nominee as to how to vote your shares. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not automatically vote your shares in person at the Annual Meeting.

How To Vote. If you hold shares directly as a stockholder of record, you can vote in one of the following three ways, in addition to attending the Annual Meeting:

(1) Vote via the Internet at www.proxyvote.com. Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time on July 23, 2013. Have your Notice of Internet Availability or proxy card in hand when you access the website and then follow the instructions.

(2) Vote by Telephone at 1-800-690-6903. Use a touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on July 23, 2013. Have your Notice of Internet Availability or proxy card in hand when you call and then follow the instructions. This number is toll free in the U.S. and Canada.

(3) Vote by Mail. Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided with any paper copy of the proxy statement, or return the proxy card to SunPower Corporation, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

If you hold shares beneficially in street name, you may submit your voting instructions in the manner prescribed by your broker, bank or other nominee by following the instructions provided by your broker, bank or other nominee. Shares registered in street name may be voted in person by you at the Annual Meeting only if you obtain a signed proxy from the broker, bank or other nominee who holds your shares, giving you the right to vote the shares.

Even if you plan to attend the Annual Meeting, we recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the Annual Meeting.

Quorum. A quorum, which is the holders of at least a majority of shares of our stock issued and outstanding and entitled to vote as of the Record Date, is required to be present in person or by proxy at the Annual Meeting in order to hold the Annual Meeting and to conduct business. Your shares will be counted as being present at the Annual Meeting if you appear in person at the Annual Meeting (and are the stockholder of record for your shares), if you vote your shares by telephone or over the Internet, or if you submit a properly executed proxy card. Abstentions and "broker non-votes" are counted as present and entitled to vote for purposes of determining a quorum. Votes against a particular proposal will also be counted both to determine the presence or absence of a quorum and to determine whether the requisite number of voting shares has been obtained.

Explanation of Broker Non-Votes and Abstentions. A "broker non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. NYSE rules (which also apply to companies listed on The Nasdaq Stock Exchange) prohibit brokers from voting in their discretion on any of our proposals without instructions from the beneficial owners. If you do not instruct your broker how to vote on the proposals, your broker will not vote for you. Abstentions are deemed to be entitled to vote for purposes of determining whether stockholder approval of that matter has been obtained, and they would be included in the tabulation of voting results as votes against the proposal.

Votes Required/Treatment of Broker Non-Votes and Abstentions.

Proposal One—Re-election of Class II Directors. Election of a director requires the affirmative vote of the holders of a plurality of votes represented by the shares present in person or represented by proxy at a meeting at which a quorum is present. The three persons receiving the greatest number of votes at the Annual Meeting shall be elected as Class II directors. Since only affirmative votes will be counted, neither "broker non-votes" nor abstentions will affect the outcome of the voting on Proposal One.

Proposal Two—Advisory Vote on Named Executive Officer Compensation. The advisory vote on named executive compensation requires the affirmative vote of the holders of a majority of our stock having voting power and present in person or represented by proxy at the Annual Meeting. "Broker non-votes" and abstentions will not count as votes in favor of the advisory vote on named executive officer compensation and abstentions, but not "broker non-votes," will have the effect of votes against Proposal Two.

Proposal Three—Ratification of the Appointment of Independent Registered Public Accounting Firm for Fiscal Year 2013. Ratification of the appointment of our independent registered public accounting firm requires the affirmative vote of the holders of a majority of our stock having voting power and present in person or represented by proxy at the Annual Meeting. "Broker non-votes" and abstentions will not count as votes in favor of this proposal and abstentions, but not "broker non-votes," will have the effect of votes against Proposal Three.

How Your Proxy Will Be Voted

If you complete and submit your proxy card or vote via the Internet or by telephone, the shares represented by your proxy will be voted at the Annual Meeting in accordance with your instructions. If you submit your proxy card by mail, but do not fill out the voting instructions on the proxy card, the shares represented by your proxy will be voted in favor of each of the three proposals. In addition, if any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as directed by the Board. We have not received notice of any other matters that may properly be presented at the Annual Meeting.

Revoking Your Proxy

You may revoke your proxy at any time prior to the date of the Annual Meeting by: (1) submitting a later-dated vote in person at the Annual Meeting, via the Internet, by telephone or by mail; or (2) delivering instructions to us at 77 Rio Robles, San Jose, California 95134 to the attention of our Corporate Secretary. Any notice of revocation sent to us must include the stockholder's name and must be actually received by us prior to the Annual Meeting to be effective. Your attendance at the Annual Meeting after having executed and delivered a valid proxy card or vote via the Internet or by telephone will not in and of itself constitute a revocation of your proxy. If you intend to revoke your proxy by voting in person at the Annual Meeting, you will be required to give oral notice of your intention to do so to the Inspector of Elections at the Annual Meeting. If your shares are held in "street name," you should follow the directions provided by your broker, bank or other nominee regarding how to revoke your proxy.

Solicitation of Proxies

We will pay for the cost of this proxy solicitation. We may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding or furnishing proxy solicitation materials to such beneficial owners. Proxies may also be solicited personally or by telephone, telegram, or facsimile by certain of our directors, officers, and regular employees, without additional compensation.

Voting Results

We will announce preliminary voting results at the Annual Meeting and publish final results pursuant to a Current Report on Form 8-K which we intend to file with the SEC within four business days following the Annual Meeting.

Note Concerning Forward-Looking Statements

Certain of the statements contained in this proxy statement are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that do not represent historical facts and the assumptions underlying such statements. We use words such as *"anticipate," "believe," "continue" "could," "estimate," "expect," "intend," "may," "potential," "should," "will," "would" and similar expressions to identify forward-looking statements. These statements include, but are not limited to, operating results, business strategies, management's plans and objectives for future operations, expectations and intentions, actions to be taken by us and other statements that are not historical facts. These forward-looking statements are based on information available to us as of the date of this proxy statement and our current expectations, forecasts and assumptions and involve a number of risks and uncertainties that could cause actual results to differ materially from those anticipated by these forward-looking statements. Such risks and uncertainties include a variety of factors, some of which are beyond our control. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in Part I, Item 1A, "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended December 30, 2012, which accompanies this proxy statement. There may be other factors of which we are not currently aware that may affect matters discussed in the forward-looking statements and may also cause actual results to differ materially from those discussed. These forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we are under no obligation to, and expressly disclaim any responsibility to, update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.*

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING IN PERSON, YOU ARE REQUESTED TO COMPLETE, DATE, AND SIGN THE PROXY CARD AND RETURN IT PROMPTLY, OR VOTE BY TELEPHONE OR VIA THE INTERNET BY FOLLOWING THE DIRECTIONS ON THE PROXY CARD. BY RETURNING YOUR PROXY CARD OR VOTING BY PHONE OR INTERNET PROMPTLY, YOU CAN HELP US AVOID THE EXPENSE OF FOLLOW-UP MAILINGS TO ENSURE A QUORUM IS PRESENT AT THE ANNUAL MEETING. STOCKHOLDERS WHO ATTEND THE ANNUAL MEETING MAY REVOKE A PRIOR PROXY VOTE AND VOTE THEIR SHARES IN PERSON AS SET FORTH IN THIS PROXY STATEMENT.

PROPOSAL ONE

RE-ELECTION OF CLASS II DIRECTORS

Our Board is currently comprised of nine members and divided into three classes, in accordance with Article IV, Section B of our Certificate of Incorporation. Only the terms of the three directors serving as Class II directors are scheduled to expire in 2013. The terms of other directors expire in subsequent years.

On April 28, 2011, we and Total Energies Nouvelles Activités USA, SAS, formerly known as Total Gas & Power USA, SAS (“Total”), a subsidiary of Total S.A. (“Total S.A.”), entered into a Tender Offer Agreement (the “Tender Offer Agreement”). Pursuant to the Tender Offer Agreement, on June 21, 2011, Total purchased in a cash tender offer approximately 60% of the outstanding shares of our former class A common stock and 60% of the outstanding shares of our former class B common stock (the “Tender Offer”) at a price of $23.25 per share for each class. In connection with the Tender Offer, we and Total entered into an Affiliation Agreement that governs the relationship between Total and us following the close of the Tender Offer (the “Affiliation Agreement”). In accordance with the terms of the Affiliation Agreement, our Board had eleven members, composed of our Chief Executive Officer, four non-Total designated members of the Board, and six directors designated by Total. On the first anniversary of the consummation of the Tender Offer on June 21, 2012, the size of the Board was reduced to nine members and one non-Total designated director, W. Steve Albrecht, and one director designated by Total, Jean-Marc Otero del Val, resigned from the Board. If the Total Group’s (as defined in the Affiliation Agreement) ownership percentage declines, the number of members of the Board that Total is entitled to designate will be reduced as set forth in the Affiliation Agreement. Ms. Betsy S. Atkins, a Class II director and an independent director, resigned from the Board effective August 31, 2012, and the Board appointed Catherine Lesjak as a new independent director to fill this vacancy, effective June 6, 2013. Mr. Otero del Val replaced Jérôme Schmitt, a Class I director, as a Total designated director effective April 30, 2013.

The Board has considered and approved the nomination of Bernard Clement, Denis Giorno, and Catherine Lesjak, our current Class II directors, for re-election as directors at the Annual Meeting. Messrs. Clement and Giorno are Total designated directors whose initial appointments and nominations were recommended by Total. Ms. Lesjak is an independent director whose initial appointment was recommended by the third-party search firm of Russell Reynolds Associates. Russell Reynolds Associates was hired by the Board in January 2013 to assist the Board in identifying and evaluating candidates to fill the vacancy left by Ms. Atkins’ resignation from the Board in August 2012. In this process, Russell Reynolds Associates identified and evaluated a number of director candidates, whose names were then submitted to our Nominating and Corporate Governance Committee for final evaluation. Ms. Lesjak’s nomination for re-election has been recommended by our Nominating and Corporate Governance Committee. Each nominee has consented to being named in this proxy statement and to serve if re-elected. Unless otherwise directed, the proxy holders will vote the proxies received by them for the three nominees named below. If any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the present Board to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a director. The Class II directors elected will hold office until the annual meeting of stockholders in 2016 or until their successors are elected.

The Class I group of directors consists of Arnaud Chaperon, Jean-Marc Otero del Val and Pat Wood III, who will hold office until the annual meeting of stockholders in 2015 or until their successors are elected. Messrs. Chaperon and Otero del Val are Total designated directors. The Class III group of directors consists of Thomas R. McDaniel, Humbert de Wendel and Thomas H. Werner, who will hold office until the annual meeting of stockholders in 2014 or until their successors are elected. Mr. de Wendel is a Total designated director.

Additional information, as of June 10, 2013, about the Class II director nominees for re-election and the Class I and Class III directors is set forth below.

Class II Directors Nominated for Re-Election at the Annual Meeting

Name	Class	Age	Position(s) with SunPower	Director Since
Bernard Clement	II	54	Director	2011
Denis Giorno	II	62	Director	2011
Catherine Lesjak	II	54	Director	2013

Mr. Bernard Clement has served as the Senior Vice President, Business & Operations, of the New Energies division of Total S.A. since July 1, 2012. Prior to this appointment, he was Senior Vice President of Gas Assets, Technology, and Research & Development for the Gas & Power division of Total S.A. since January 1, 2010. From 2003 through 2009, Mr. Clement served as Vice President of the Exploration & Production division of Total S.A. relative to its interests in the Middle East. Previous to that, he held other positions within the Total group, where he has been employed since 1983. Mr. Clement has engineering degrees from Ecole Nationale Supérieure du Pétrole et des Moteurs, where he focused on geophysics, and from École Polytechnique.

Mr. Clement brings significant international operational and development experience to the Board. His extensive experience managing international energy projects and assets, as well as managing the development of technology allows him to provide valuable insight into the strategic development of the Company and its ability to meet its manufacturing roadmap. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Mr. Clement should serve as a director of the Company.

Mr. Denis Giorno has served as President and General Manager of Total New Energies USA since November 2011. From October 2007 until October 2011, he served as the Vice President of New Ventures for the Gas & Power division of Total S.A. From 2005 to 2007, Mr. Giorno was Vice President, Business Development, of the Gas & Power division relative to Total's interests in Asia, South America, and Africa. Previous to that, he held other positions within the Total group, where he has been employed since 1975. Mr. Giorno received a degree in civil engineering from École Nationale des Ponts et Chaussées, a Master of Science degree in managerial science and engineering from Stanford University and a degree in Petroleum Engineering from École Nationale du Pétrole et des Moteurs. Mr. Giorno also completed the Stanford Graduate School of Business' Executive Education program.

Mr. Giorno's extensive, worldwide business development and international negotiation experience covers a broad spectrum of traditional power projects and renewable energy projects, including throughout the value chain in the solar sector. This experience allows him to make significant contributions to the Company's strategic outlook and international development perspectives. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Mr. Giorno should serve as a director of the Company.

Ms. Catherine A. Lesjak has served as Executive Vice President and Chief Financial Officer of Hewlett-Packard Company ("HP") since January 1, 2007. Ms. Lesjak served as interim Chief Executive Officer of HP from August 2010 through October 2010. As a 27-year veteran at HP, Ms. Lesjak has held a broad range of financial leadership roles across HP. Before being named as CFO, Ms. Lesjak served as Senior Vice President and Treasurer, responsible for managing HP's worldwide cash, debt, foreign exchange, capital structure, risk management and benefits plan administration. Earlier in her career at HP, she managed financial operations for Enterprise Marketing and Solutions and the Software Global Business Unit. Before that, she was group controller for HP's Software Solutions Organization and managed HP's global channel credit risk as controller and credit manager for the Commercial Customer Organization. Ms. Lesjak has a bachelor's degree in biology from Stanford University and a master of business degree in finance from the University of California, Berkeley.

Ms. Lesjak's extensive experience as the chief financial officer of a major corporation, with significant presence in both the business-to-consumer and business-to-business markets, allows her to make significant contributions to the Company's strategic business planning and execution. Her background is also valuable in financial oversight of the Company and in review of its strategic investments. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Ms. Lesjak should serve as a director of the Company.

Class III Directors with Terms Expiring in 2014

Name	Class	Age	Position(s) with SunPower	Director Since
Thomas R. McDaniel	III	64	Director	2009
Humbert de Wendel	III	57	Director	2011
Thomas H. Werner	III	53	President and CEO, Director and Chairman of the Board	2003

Mr. Thomas R. McDaniel was Executive Vice President, Chief Financial Officer and Treasurer of Edison International, a generator and distributor of electric power and investor in infrastructure and energy assets, before retiring in July 2008 after 37 years of service. Prior to January 2005, Mr. McDaniel was Chairman, Chief Executive Officer and President of Edison Mission Energy, a power generation business specializing in the development, acquisition, construction, management and operation of power production facilities. Mr. McDaniel was also Chief Executive Officer and a director of Edison Capital, a provider of capital and financial services supporting the growth of energy and infrastructure projects, products and services, both domestically and internationally. He is Chairman of the Board of Tendril, a smart grid software as a service company. Mr. McDaniel is a director of SemGroup, L.P., a midstream energy service company. He is also on the advisory board of Cypress Envirosystems, a subsidiary of Cypress Semiconductor Corporation, which develops and markets energy efficiency products. Mr. McDaniel also serves on the Advisory Board of Coda Automotive, which is a manufacturer and distributor of all-electric cars and transportation battery systems, and On Ramp Wireless, a communications company serving electrical, gas and water utilities. Mr. McDaniel currently serves on the board of directors of the Senior Care Action Network (SCAN). Through the McDaniel Family Foundation, he is also actively involved in a variety of charitable activities such as the Boys and Girls Club of Huntington Beach, the Adult Day Care Center and the Free Wheelchair Mission.

Mr. McDaniel brings significant operational and development experience to the Board. Mr. McDaniel's extensive experience growing and operating global electric power businesses is directly aligned with the Company's efforts to expand the utility and power plant segment of the business. In addition, Mr. McDaniel's prior experience as a Chief Financial Officer qualifies him as a financial expert, which is relevant to his duties as an audit committee member. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Mr. McDaniel should serve as a director of the Company and Chairman of the Audit Committee and Chairman of the Finance Committee.

Mr. Humbert de Wendel has served as the Total Group Treasurer since the beginning of 2012. Previously, Mr. de Wendel served as the Senior Vice President of Corporate Business Development for Total from 2006 to 2011. From 2000 to 2006, Mr. de Wendel served as a Vice President for Total overseeing finance operations of its exploration and production subsidiaries. Previous to that, he held other positions within the Total group, where he has been employed since 1982. Mr. de Wendel holds a degree in law and economics from the Institut d'études Politiques de Paris, and a degree in business administration from École Supérieure des Sciences Économiques et Commerciales.

Mr. de Wendel brings extensive international experience in finance and business development to the Board. This experience allows him to bring valuable perspective on the Company's relationships with its key financial and industrial partners. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Mr. de Wendel should serve as a director of the Company.

Mr. Thomas H. Werner has served as our President and Chief Executive Officer since May 2010, as a member of our Board since June 2003, and Chairman of the Board of Directors since May 2011. From June 2003 to April 2010, Mr. Werner served as our Chief Executive Officer. Prior to joining SunPower, from 2001 to 2003, he held the position of Chief Executive Officer of Silicon Light Machines, Inc., an optical solutions subsidiary of Cypress Semiconductor Corporation. From 1998 to 2001, Mr. Werner was Vice President and General Manager of the Business Connectivity Group of 3Com Corp., a network solutions company. He has also held a number of executive management positions at Oak Industries, Inc. and General Electric Co. Mr. Werner currently serves as a board member of Cree, Inc., Silver Spring Networks, and the Silicon Valley Leadership Group. Mr. Werner is on the Board of Trustees of Marquette University. Mr. Werner holds a bachelor's degree in industrial engineering from the University of Wisconsin Madison, a bachelor's degree in electrical engineering from Marquette University and a master's degree in business administration from George Washington University.

Mr. Werner brings significant leadership and operational management experience to the Board. Mr. Werner provides the Board with valuable insight into management's perspective with respect to the Company's operations. Mr. Werner brings significant technical, operational and financial management experience to the Board. Mr. Werner has demonstrated strong executive leadership skills through nearly 20 years of executive officer service with various companies and brings the most comprehensive view of the Company's operational history over the past few years. Mr. Werner also brings to the Board leadership experience through his service on the board of directors for two other organizations, which gives him the ability to compare the way in which management and the boards operate within the companies he serves. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Mr. Werner should serve as a director of the Company.

Class I Directors with Terms Expiring in 2015

Name	Class	Age	Position(s) with SunPower	Director Since
Arnaud Chaperon	I	57	Director	2011
Jean-Marc Otero del Val	I	47	Director	2013
Pat Wood III	I	50	Director	2005

Mr. Arnaud Chaperon currently serves as the Senior Vice President of Prospective Analysis, Institutional Relations and Communications for the New Energies division of Total S.A. Before taking this position with the New Energies division in 2007, Mr. Chaperon was the Managing Director for five years of Total E&P Qatar and country representative of the Total group, which has oil, gas, and petrochemical assets and operations in the State of Qatar. Previous to that, he held other positions within the Total group, where he has been employed since 1980. Mr. Chaperon holds a master's degree in engineering from École Nationale Supérieure de Techniques Avancées.

Mr. Chaperon brings significant international strategic, operational and development experience to the Board. His experience developing renewable energy projects and investments throughout the value chain for the Total group, as well as managing traditional oil and gas operations, gives him a unique perspective on the Company's strategic outlook and worldwide opportunities. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Mr. Chaperon should serve as a director of the Company.

Mr. Jean-Marc Otero del Val has served as Vice President Strategy & Business Development in the New Energies Division of Total S.A. since July 2012 where he is also the Deputy Senior Vice President of Business Operation. He served as the Vice President, Electricity, for the Gas & Power Division of Total S.A. from September 2011 to June 2012. Mr. Otero del Val previously served as General Manager of the Grandpuits Refinery for Total France S.A. from 2007 to August 2011. From 2003 to 2007, Mr. Otero del Val served as the Managing Director for Total Coal South Africa (Pty) Ltd., a subsidiary of Total S.A. that focuses on the mining of export quality coal in South Africa. Previous to that, he held other positions within the Total S.A. group, where he has been employed since 1998. Mr. Otero del Val received a degree in chemical engineering from École Polytechnique, a Bachelor of Arts in finance from Strasbourg University, and a Master of Arts in finance from Paris-Dauphine University. Mr. Otero del Val brings significant international managerial and operational experience to the Board. His extensive experience managing complex industrial assets gives him a unique perspective on the Company's efforts to manage its manufacturing and project development activities. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Mr. Otero del Val should serve as a director of the Company.

Mr. Pat Wood III has served as a Principal of Wood3 Resources, an energy infrastructure developer, since July 2005. He is active in the development of electric power and natural gas infrastructure assets in North America. From 2001 to 2005 Mr. Wood served as the Chairman of the Federal Energy Regulatory Commission. From 1995 to 2001, he chaired the Public Utility Commission of Texas. Mr. Wood has also been an attorney with Baker & Botts, a global law firm, and an associate project engineer with Arco Indonesia, an oil and gas company, in Jakarta. He currently serves as Chairman of Dynegy, Inc., and is a director of Quanta Services, Inc. and of Xtreme Power. He is a strategic advisor to Natural Gas Partners, an energy private equity fund, and to Hunt Transmission Services/InfraREIT Capital Partners. Mr. Wood is a past director of the American Council on Renewable Energy and is a member of the National Petroleum Council.

Mr. Wood brings significant strategic and operational management experience to the Board. Mr. Wood has demonstrated strong leadership skills through a decade of regulatory leadership in the energy sector. Mr. Wood brings a unique perspective and extensive knowledge of energy project development, public policy development, governance and the regulatory process. His legal background also provides the Board with a perspective on the legal implications of matters affecting our business. Based on the Board's identification of these qualifications, skills and experiences, the Board has concluded that Mr. Wood should serve as a director of the Company and Chairman of the Nominating and Corporate Governance Committee and the Chairman of the Compensation Committee.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION TO THE BOARD OF EACH OF THE CLASS II PROPOSED NOMINEES.

BOARD STRUCTURE

Determination of Independence

Our Board has determined that three of our nine directors, namely Messrs. McDaniel and Wood and Ms. Lesjak, each meet the standards for independence as defined by applicable listing standards of the Nasdaq Global Select Market and rules and regulations of the SEC. Our Board has also determined that Mr. Werner, our President and Chief Executive Officer, and Messrs. Chaperon, Clement, Giorno, Otero del Val and de Wendel, as directors designated by our controlling stockholder Total Energies Nouvelles Activités USA, SAS, formerly known as Total Gas & Power USA, SAS ("Total"), pursuant to our Affiliation Agreement with Total, are not "independent" as defined by applicable listing standards of the Nasdaq Global Select Market. There are no family relationships among any of our directors or executive officers.

Leadership Structure and Risk Oversight

The Board has determined that having a lead independent director assist Mr. Werner, the Chairman of the Board and Chief Executive Officer, is in the best interest of stockholders at this time. In early 2010, Betsy S. Atkins was appointed to serve as the lead independent director for the Board. Mr. Wood became the lead independent director of the Board in June 2012, replacing Ms. Atkins. This structure ensures a greater role for the independent directors in the oversight of the Company and active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of the Board. We believe that this leadership structure also is preferred by a significant number of our stockholders.

The Board is actively involved in oversight of risks that could affect the Company. This oversight is conducted primarily through committees of the Board, in particular our Audit Committee, as disclosed in the descriptions of each of the committees below and in the charters of each of the committees. The full Board, however, has retained responsibility for general oversight of risks. The Board satisfies this responsibility through full reports by each committee chair regarding the committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within the Company. The Board believes its administration of its risk oversight function has not affected the Board's leadership structure.

Board Meetings

Our Board held four regular, quarterly meetings, one annual meeting and five special meetings during fiscal year 2012. During fiscal year 2012, each director (other than Ms. Lesjak, who was appointed in 2013) attended at least 75% of the aggregate number of meetings of the Board and its committees on which such director served. Our independent directors held four executive sessions during regular, quarterly meetings without management present during fiscal year 2012.

Controlled Company, Nasdaq Listing Standards

Total presently owns 65% of our outstanding voting securities and we are therefore considered a "controlled company" within the meaning of the Nasdaq Stock Market rules. As a "controlled company," we are presently exempt from the rules that would otherwise require that our Board be comprised of a majority of independent directors and that our Compensation Committee and Nominating and Corporate Governance Committee be composed entirely of independent directors. This "controlled company" exception does not modify the independence requirements for the Audit Committee, and we comply with the requirements of the Sarbanes-Oxley Act and the Nasdaq Stock Market rules that require that our Audit Committee be comprised exclusively of independent directors.

Board Committees

We believe that good corporate governance is important to ensure that we are managed for the long-term benefit of our stockholders. Our Board has established committees to ensure that we maintain strong corporate governance standards. Our Board has standing Audit, Compensation, Nominating and Corporate Governance, and Finance Committees. The charters of our Audit, Compensation, Nominating and Corporate Governance, and Finance Committees are available on our website at *http://investors.sunpowercorp.com/documents.cfm*. You may also request copies of our committee charters free of charge by writing to SunPower Corporation, 77 Rio Robles, San Jose, California 95134, Attention: Corporate Secretary. Below is a summary of our committee structure and membership information.

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Finance Committee
Arnaud Chaperon	—	—	—	Member
Bernard Clement	—	—	Member	—
Denis Giorno	—	—	Member	—
Catherine Lesjak (I)	Member	—	—	Member
Thomas R. McDaniel (I)	Chair	Member	Member	Chair
Jean-Marc Otero del Val	—	Member	—	—
Humbert de Wendel	—	Member	—	Member
Pat Wood III (I)	Member	Chair	Chair	—

(I) Indicates an independent director.

Audit Committee

Our Audit Committee is a separately-designated standing committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Board has determined that each member of our Audit Committee is "independent" as that term is defined in Section 10A of the Exchange Act and as defined by applicable listing standards of the Nasdaq Global Select Market. Each member of the Audit Committee is financially literate and has the requisite financial sophistication as required by the applicable listing standards of the Nasdaq Global Select Market. Mr. Albrecht, formerly the Chairman of the Audit Committee, resigned from the Board in June 2012, and Mr. McDaniel became the Chairman of the Audit Committee. The Board has determined that each of Ms. Lesjak and Mr. McDaniel meet the criteria of an "audit committee financial expert" within the meaning of applicable SEC regulations due to their professional experience. Mr. McDaniel's and Ms. Lesjak's relevant professional experience is described above under "*Proposal One—Re-election of Class II Directors*." The Audit Committee held 11 meetings during fiscal 2012.

The purpose of the Audit Committee, pursuant to its charter, is to:

- provide oversight of our accounting and financial reporting processes and the audit of our financial statements and internal controls by our independent registered public accounting firm;
- assist the Board in the oversight of: (1) the integrity of our financial statements; (2) our compliance with legal and regulatory requirements; (3) the independent registered public accounting firm's performance, qualifications and independence; and (4) the performance of our internal audit function;
- oversee management's identification, evaluation, and mitigation of major risks to the Company;
- prepare an audit committee report as required by the SEC to be included in our annual proxy statement;
- provide to the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board; and
- consider questions of actual and potential conflicts of interest (including corporate opportunities) of Board members and corporate officers and review and approve proposed related party transactions (as defined in Item 404 of Regulation S-K); any waiver of the Code of Business Conduct and Ethics for directors and executive officers and any approval of related party transactions may be made only by the disinterested members of the Audit Committee.

The Audit Committee also serves as the representative of the Board with respect to its oversight of the matters described below in the "*Audit Committee Report*." The Audit Committee has also established procedures for (1) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and (2) the confidential, anonymous submission by our employees of concerns regarding accounting or auditing matters. The Audit Committee promptly reviews such complaints and concerns.

Compensation Committee

In August 2012, Ms. Atkins, formerly the Chairman of the Compensation Committee resigned from the Board, and Mr. Wood was appointed to the Compensation Committee as its Chairman in November 2012. Two of the four members of the Compensation Committee, Messrs. McDaniel and Wood, are "independent" as defined by applicable listing standards of the Nasdaq Global Select Market. Messrs. Otero del Val and de Wendel were designated by Total to be on the Compensation Committee pursuant to our Affiliation Agreement with Total. The Compensation Committee held eight meetings during fiscal 2012.

The Compensation Committee, pursuant to its charter, assists the Board in discharging its duties with respect to:

- the formulation, implementation, review, and modification of the compensation of our directors and executive officers;
- the preparation of an annual report of the Compensation Committee for inclusion in our annual proxy statement or Annual Report on Form 10-K, in accordance with applicable rules of the SEC and applicable listing standards of the Nasdaq Global Select Market;
- reviewing and discussing the Compensation Discussion and Analysis, set forth in our annual proxy statement or Annual Report on Form 10-K, with management;
- the establishment of a company compensation philosophy, which may be performance-based, to reward and retain employees based on achievement of goals; and
- the administration of our stock plans, including the Third Amended and Restated SunPower Corporation 2005 Stock Incentive Plan.

In certain instances, the Compensation Committee has delegated limited authority to Mr. Werner, in his capacity as a Board member, with respect to compensation and equity awards for employees other than our executive officers. For more information on our processes and procedures for the consideration and determination of executive compensation, see "*Compensation Discussion and Analysis*" below.

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee was at any time during fiscal 2012 one of our officers or employees, or is one of our former officers or employees. No member of our Compensation Committee had any relationship requiring disclosure under Item 404 and Item 407(e)(4) of Regulation S-K. Additionally, during fiscal 2012, none of our executive officers or directors was a member of the board of directors, or any committee of the board of directors, or of any other entity such that the relationship would be construed to constitute a compensation committee interlock within the meaning of the rules and regulations of the SEC.

Nominating and Corporate Governance Committee

In August 2012, Ms. Atkins resigned from the Board, and Mr. McDaniel was appointed to the Nominating and Corporate Governance Committee in November 2012. Two of the four members of the Nominating and Corporate Governance Committee, Messrs. McDaniel and Wood, are "independent" as defined by applicable listing standards of the Nasdaq Global Select Market. Messrs. Clement and Giorno were designated by Total to be on the Nominating and Corporate Governance Committee pursuant to our Affiliation Agreement with Total. The Nominating and Corporate Governance Committee held three meetings during fiscal 2012.

The Nominating and Corporate Governance Committee, pursuant to its charter, assists the Board in discharging its responsibilities with respect to:

- the identification of individuals qualified to become directors and the selection or recommendation of candidates for all directorships to be filled by the Board or by the stockholders;
- the evaluation of whether an incumbent director should be nominated for re-election to the Board upon expiration of such director's term, based upon factors established for new director candidates as well as the incumbent director's qualifications, performance as a Board member, and such other factors as the Committee deems appropriate; and
- the development, maintenance and recommendation of a set of corporate governance principles applicable to us, and for periodically reviewing such principles.

The Nominating and Governance Committee also considers diversity in identifying nominees for directors. In particular, the Nominating and Governance Committee believes that the members of the Board should encompass a diverse range of talent, skill and expertise sufficient to provide sound and prudent guidance with respect to the Company's operations and interests. In addition, the Nominating and Governance Committee has determined that the Board as a whole must have the right diversity, mix of characteristics and skills for the optimal functioning of the Board in its oversight of the Company.

The Nominating and Governance Committee believes the Board should be comprised of persons with skills in areas such as:

- relevant industries, especially solar products and services;
- technology manufacturing;
- sales and marketing;
- leadership of large, complex organizations;
- finance and accounting;
- corporate governance and compliance;
- strategic planning;
- international business activities; and
- human capital and compensation.

Under our Corporate Governance Principles, during the director nominee evaluation process, the Nominating and Corporate Governance Committee and the Board will take the following into account:

- A significant number of directors on the Board should be independent directors, unless otherwise required by applicable law or the Nasdaq Stock Market rules;
- Candidates should be capable of working in a collegial manner with persons of different educational, business and cultural backgrounds and should possess skills and expertise that complement the attributes of the existing directors;
- Candidates should represent a diversity of viewpoints, backgrounds, experiences and other demographics;
- Candidates should demonstrate notable or significant achievement and possess senior-level business, management or regulatory experience that would benefit the Company;
- Candidates shall be individuals of the highest character and integrity;
- Candidates shall be free from any conflict of interest that would interfere with their ability to properly discharge their duties as a director or would violate any applicable law or regulation;

- Candidates shall be capable of devoting the necessary time to discharge their duties, taking into account memberships on other boards and other responsibilities; and
- Candidates shall have the desire to represent the interests of all stockholders.

Finance Committee

Two of the four members of the Finance Committee, Ms. Lesjak and Mr. McDaniel, are “independent” as defined by applicable listing standards of the Nasdaq Global Select Market. Messrs. Chaperon and de Wendel were designated by Total to be on the Finance Committee pursuant to our Affiliation Agreement with Total. The Finance Committee held 13 meetings during fiscal 2012.

The Finance Committee, pursuant to its charter, assists the Board in discharging its duties with respect to:

- The review, evaluation and approval of financing transactions, including credit facilities, structured finance, issuance of debt and equity securities in private and public transactions, and the repurchase of debt and equity securities (other than financing activity exceeding $50 million which requires the review and approval of the Board);
- The review of the Company’s annual operating plan for recommendation to the Board, and the monitoring of capital spend as compared to the annual operating plan;
- The review and recommendation to the Board of investments, acquisitions, divestitures and other corporate transactions; and
- General oversight of the Company’s treasury activities, and the review, at least annually, of the Company’s counterparty credit risk and insurance programs.

CORPORATE GOVERNANCE

Stockholder Communications with Board of Directors

We provide a process by which stockholders may send communications to our Board, any committee of the Board, our non-management directors or any particular director. Stockholders can contact our non-management directors by sending such communications to the chairman of the Nominating and Corporate Governance Committee, c/o Corporate Secretary, SunPower Corporation, 77 Rio Robles, San Jose, California 95134. Stockholders wishing to communicate with a particular Board member, a particular Board committee or the Board as a whole, may send a written communication to our Corporate Secretary, SunPower Corporation, 77 Rio Robles, San Jose, California 95134. The Corporate Secretary will forward such communication to the full Board, to the appropriate committee or to any individual director or directors to whom the communication is addressed, unless the communication is unduly hostile, threatening, illegal, or harassing, in which case the Corporate Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

Directors' Attendance at Our Annual Meetings

Although we do not have a formal policy that mandates the attendance of our directors at our annual stockholder meetings, our directors are encouraged to attend. All of our nine directors are expected to attend the 2013 Annual Meeting, and eight of our eleven directors attended our annual meeting of stockholders held on May 9, 2012 (the "2012 Annual Meeting").

Submission of Stockholder Proposal for the 2014 Annual Meeting

As a SunPower stockholder, you may submit a proposal, including director nominations, for consideration at future annual meetings of stockholders.

Stockholder Proposals. Only stockholders meeting certain criteria outlined in our By-laws are eligible to submit nominations for election to the Board or to propose other proper business for consideration by stockholders at an annual meeting. Under the By-laws, stockholders who wish to nominate persons for election to the Board or propose other proper business for consideration by stockholders at an annual meeting must give proper written notice to us not earlier than the 120th day and not later than the 90th day prior to the first anniversary of the preceding year's annual meeting, provided that in the event that our 2014 annual meeting is called for a date that is not within 25 days before or after such anniversary date, notice by the stockholder in order to be timely must be received not later than the close of business on the 10th day following the day on which we mail or publicly announce our notice of the date of the annual meeting, whichever occurs first. Therefore, notices regarding nominations of persons for election to the Board and proposals of other proper business for consideration at the 2014 annual meeting of stockholders must be submitted to the Company no earlier than March 26, 2014 and no later than April 25, 2014. If the date of the 2014 annual meeting is moved more than 25 days before or after the anniversary date of the 2013 Annual Meeting, the deadline will instead be the close of business on the 10th day following notice of the date of the 2014 annual meeting of stockholders or public disclosure of such date, whichever occurs first. We have discretionary power, but are not obligated, to consider stockholder proposals submitted after April 25, 2014.

Stockholder proposals will also need to comply with SEC regulations, such as Rule 14a-8 of the Exchange Act regarding the inclusion of stockholder proposals in any Company-sponsored proxy material. The submission deadline for stockholder proposals to be included in our proxy materials for the 2014 annual meeting of stockholders pursuant to Rule 14a-8 of the Exchange Act is February 7, 2014. All written proposals must be received by our Corporate Secretary, at our corporate offices at 77 Rio Robles, San Jose, California 95134 by the close of business on the required deadline in order to be considered for inclusion in our proxy materials for the 2014 annual meeting of stockholders.

Nomination of Director Candidates. Our Nominating and Corporate Governance Committee will consider director candidates recommended by our stockholders. Such nominations should be directed to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, SunPower Corporation, 77 Rio Robles, San Jose, California 95134. In addition, the stockholder must give notice of a nomination to our Corporate Secretary, and such notice must be received within the time period described above under "*Stockholder Proposals*." Any such proposal must include the following:

- the name, age, business address, residence address and record address of such nominee;
- the principal occupation or employment of such nominee;
- the class or series and number of shares of our stock owned beneficially or of record by such nominee;
- any information relating to the nominee that would be required to be disclosed in our proxy statement;
- the nominee holder for, and number of, shares owned beneficially but not of record by such person;
- whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement or understanding (including any derivative or short positions, profit interests, options or borrowed or loaned shares) has been made, the effect or intent of which is to mitigate loss to or manage risk or benefit of share price changes for, or to increase or decrease the voting power of, such person with respect to any share of our stock;
- to the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or reelection as a director on the date of such stockholder's notice;
- a description of all arrangements or understandings between or among such persons pursuant to which the nomination(s) are to be made by the stockholder and any relationship between or among the stockholder giving notice and any person acting in concert, directly or indirectly, with such stockholder and any person controlling, controlled by or under common control with such stockholder, on the one hand, and each proposed nominee, on the other hand; and
- a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice.

If a director nomination is made pursuant to the process set forth above, the Nominating and Corporate Governance Committee will apply the same criteria in evaluating the nominee as it would any other board nominee candidate, and will recommend to the Board whether or not the stockholder nominee should be included as a candidate for election in our proxy statement. The nominee and nominating stockholder should be willing to provide any information reasonably requested by the Nominating and Corporate Governance Committee in connection with its evaluation. The Board shall make the final determination whether or not a nominee will be included in the proxy statement and on the proxy card for election.

Once either a search firm selected by the Nominating and Corporate Governance Committee or a stockholder has provided our Nominating and Corporate Governance Committee with the identity of a prospective candidate, the Nominating and Corporate Governance Committee communicates the identity and known background and experience of the candidate to the Board. If warranted by a polling of the Board, members of our Nominating and Corporate Governance Committee and/or other members of our senior management may interview the candidate. If the Nominating and Governance Committee reacts favorably to a candidate, the candidate is next invited to interview with the members of the Board who are not on the Nominating and Governance Committee. The Nominating and Governance Committee then makes a final determination whether to recommend the candidate to the Board for directorship. The Nominating and Governance Committee currently has not set specific, minimum qualifications or criteria for nominees that it proposes for Board membership, but evaluates the entirety of each candidate's credentials. The Nominating and Governance Committee believes, however, that we will be best served if our directors bring to the Board a variety of diverse experience and backgrounds and, among other things, demonstrated integrity, executive leadership and financial, marketing or business knowledge and experience. See "*Board Structure—Nominating and Corporate Governance Committee*" for factors considered by the Nominating and Corporate Governance Committee and the Board in considering director nominees.

Corporate Governance Principles

We believe that strong corporate governance practices are the foundation of a successful, well-run company. The Board has adopted Corporate Governance Principles that set forth our core corporate governance principles, including:

- oversight responsibilities of the Board;
- election and responsibilities of the lead independent director;
- role of Board committees and assignment and rotation of members;
- review of the Code of Business Conduct and Ethics and consideration of related party transactions;
- independent directors meetings without management and with outside auditors;
- Board's access to employees;
- annual review of Board member compensation;
- membership criteria and selection of the Board;
- annual review of Board performance;
- director orientation and continuing education;
- annual review of performance and compensation of executive officers; and
- succession planning for key executive officers.

The Corporate Governance Principles are available on our website at *http://investors.sunpowercorp.com*.

Code of Business Conduct and Ethics; Related Persons Transactions Policy and Procedures

It is our general policy to conduct our business activities and transactions with the highest level of integrity and ethical standards and in accordance with all applicable laws. In addition, it is our policy to avoid situations that create an actual or potential conflict between our interests and the personal interests of our officers and directors. Such principles are described in our Code of Business Conduct and Ethics. Our Code of Business Conduct and Ethics is applicable to our directors, officers, and employees (including our principal executive officer, principal financial officer and principal accounting officer) and is designed to promote compliance with the laws applicable to our business, accounting standards, and proper and ethical business methods and practices. Our Code of Business Conduct and Ethics is available on our website at *http://investors.sunpowercorp.com/governance.cfm* under the link for "Code of Conduct." You may also request a copy by writing to us at SunPower Corporation, 77 Rio Robles, San Jose, California 95134, Attention: Corporate Secretary. If we amend or grant a waiver applicable to our principal executive officer, principal financial officer or principal accounting officer, we will post a copy of such amendment or waiver on our website. Under the Corporate Governance Principles, the Nominating and Corporate Governance Committee is responsible for reviewing and recommending changes to our Code of Business Conduct and Ethics.

Pursuant to our Corporate Governance Principles and our Audit Committee Charter, our Audit Committee will consider questions of actual and potential conflicts of interest (including corporate opportunities) of directors and officers, and approve or prohibit such transactions. The Audit Committee will review and approve in advance all proposed related party transactions (as defined in Item 404 of Regulation S-K), in compliance with the applicable Nasdaq Stock Market rules. A related party transaction will only be approved if the Audit Committee determines that it is in the best interests of SunPower. If a director is involved in the transaction, he or she will be recused from all voting and approval processes in connection with the transaction.

Certain Relationships and Related Persons Transactions

Other than the compensation agreements and other arrangements described herein, and the transactions described below, since the start of our last fiscal year on January 2, 2012, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which SunPower has been or will be a party:

- in which the amount involved exceeded or will exceed $120,000; and
- in which any director, director nominee, executive officer, beneficial owner of more than 5% of any class of our common stock, or any immediate family member of such persons had or will have a direct or indirect material interest.

Agreements with Total Energies Nouvelles Activités USA, SAS ("Total") and Total S.A.

Tender Offer Agreement and Tender Offer Agreement Guaranty

On April 28, 2011, we and Total entered into a Tender Offer Agreement (the "Tender Offer Agreement"), pursuant to which, on May 3, 2011, Total commenced a cash tender offer to acquire up to 60% of our outstanding shares of former class A common stock and up to 60% of our outstanding shares of former class B common stock (the "Tender Offer") at a price of $23.25 per share for each class. The Tender Offer expired on June 14, 2011 and Total accepted for payment on June 21, 2011 a total of 34,756,682 shares of our former class A common stock and 25,220,000 shares of our former class B common stock, representing 60% of each class of outstanding common stock as of June 13, 2011, for a total cost of approximately $1.4 billion.

Total S.A., the parent company of Total, entered into a Tender Offer Agreement Guaranty in connection with the Tender Offer pursuant to which Total S.A. unconditionally guarantees the full and prompt payment of Total's payment obligations under the Tender Offer Agreement and the full and prompt performance of all of Total's representations, warranties, covenants, duties and agreements contained in the Tender Offer Agreement; provided, that the maximum aggregate liability of Total S.A. under the Tender Offer Guaranty will not be more than the aggregate value at the offer price of the maximum number of shares which may be validly tendered and accepted for payment pursuant to and in accordance with the terms of the Tender Offer Agreement.

Credit Support Agreement

On April 28, 2011, we entered into a Credit Support Agreement with Total S.A. The Credit Support Agreement was amended on June 7, 2011 and December 12, 2011. Pursuant to the Credit Support Agreement, subject to the terms and conditions described below, Total S.A., as "Guarantor" has agreed to enter into one or more guarantee agreements (each a "Guaranty") with banks providing letter of credit facilities to us or our subsidiaries in support of our utility and power plant ("UPP") and large commercial portion of the residential and commercial segment ("LComm") businesses and certain other permitted purposes. Pursuant to such Guarantees, Guarantor would guarantee the payment to the applicable bank of our obligation to reimburse a draw on a letter of credit and pay interest thereon in accordance with the letter of credit facility between such bank and us. The Credit Support Agreement became effective on June 28, 2011 (the "CSA Effective Date"), and was amended on June 7, 2011, December 12, 2011 and December 14, 2012.

Under the Credit Support Agreement, at any time from the CSA Effective Date until the fifth anniversary thereof, we may request that Guarantor provide a Guaranty with respect to a letter of credit facility. Guarantor is required to issue and enter into the Guaranty requested by SunPower subject to certain terms and conditions, any of which may be waived by Total S.A. These terms and conditions are detailed in the Credit Support Agreement. The aggregate letter of credit amount cannot exceed $725 million for the period from the CSA Effective Date through December 31, 2012, $771 million for the period from January 1, 2013 through December 31, 2013, $878 million for the period from January 1, 2014 through December 31, 2014, $936 million for the period from January 1, 2015 through December 31, 2015 and $1 billion for the period from January 1, 2016 through the termination of the Credit Support Agreement (the "Maximum L/C Amount"), subject to certain adjustments.

Payments to be Paid by the Company to Guarantor. In consideration for the commitments of Guarantor, we are required to pay Guarantor a guarantee fee, repay any payments made under any Guaranty plus interest, and pay certain expenses of Guarantor and interest on overdue amounts owed to Guarantor. The guarantee fee for each letter of credit that is the subject of a Guaranty and was outstanding for all or part of the preceding calendar quarter will be equal to: (x) the average daily amount of the undrawn amount of such letter of credit plus the amount drawn on such letter of credit that has not yet been reimbursed by us or Guarantor, (y) multiplied by 1.00% for letters of credit issued or extended prior to the second anniversary of the CSA Effective Date, 1.40% for letters of credit issued or extended from the second anniversary of the CSA Effective Date until the third anniversary of the CSA Effective Date, 1.85% for letters of credit issued or extended from the third anniversary of the CSA Effective Date until the fourth anniversary of the CSA Effective Date, and 2.35% for letters of credit issued or extended from the fourth anniversary of the CSA Effective Date until the fifth anniversary of the CSA Effective Date, (z) multiplied by the number of days that such letter of credit was outstanding, divided by 365. We are required to reimburse payments made by Guarantor under any Guaranty within 30 days plus interest at a rate equal to LIBOR (as in effect as of the date of Guarantor's payment) plus 3.00%. The expenses of Guarantor to be reimbursed by us will include reasonable out-of-pocket expenses incurred after the CSA Effective Date in the performance of its services under the Credit Support Agreement and reasonable out-of-pocket attorneys' fees and expenses incurred in connection with payments to a bank under a Guaranty or enforcement of any of our obligations. Overdue payment obligations will accrue interest at a rate per annum equal to LIBOR as in effect at such time such payment was due plus 5.00%. Finally, we are solely responsible for any bank fees incurred in connection with securing any letter of credit facilities. In fiscal 2012, we incurred guaranty fees of $6.9 million to Total S.A.

Benchmark Credit Terms. No later than June 30, 2012 and annually every June 30 thereafter throughout the term of the Credit Support Agreement, and also at any time we desire to obtain a letter of credit facility that would be the subject of a Guaranty, we are required to solicit benchmark credit terms for a letter of credit facility without a Guaranty from Guarantor and without collateral and report those benchmark terms to Guarantor. If (a) the annual fees payable by us on the issued amount of a letter of credit under a proposed letter of credit facility that is not guaranteed by Guarantor are equal to or less than 110% of the annual fees plus any applicable guarantee fee payable to Guarantor pursuant to a guaranteed letter of credit facility under the Credit Support Agreement, (b) the other fees payable under such non-guaranteed letter of credit facility are reasonable in light of the fees payable under a guaranteed letter of credit facility and the anticipated uses of such non-guaranteed letter of credit facility and (c) the other terms and conditions of such non-guaranteed letter of credit facility (including restrictive covenants) are reasonable in light of the anticipated use of such non-guaranteed letter of credit facility, then (i) we will be required to enter into such non-guaranteed letter of credit facility as soon as commercially reasonable, (ii) we will be required to reduce the commitments under guaranteed letter of credit facilities in an amount equal to such non-guaranteed letter of credit facility and (iii) so long as such non-guaranteed letter of credit facility remains in effect, the Maximum L/C Amount during such period will be reduced by the maximum aggregate amount of the letters of credit that may be issued pursuant to such non-guaranteed letter of credit facility. Total S.A. waived the requirement for SunPower to conduct the benchmarking for 2012.

Covenants of SunPower. Under the Credit Support Agreement, we have agreed to undertake certain actions, including, but not limited to, ensuring that our payment obligations to Guarantor rank at least equal in right of payment with all of our other present and future indebtedness, other than certain permitted secured indebtedness. We have agreed to refrain from taking certain actions as detailed in the Credit Support Agreement, including (1) amending any agreements related to any guaranteed letter of credit facility, (2) granting any lien to secure indebtedness unless (a) an identical lien is granted to Guarantor and (b) such other lien is at all times equal or subordinate to the priority of the lien granted to Guarantor under (a), and (3) making any equity distributions.

Trigger Events. Under the Credit Support Agreement, following a Trigger Event, and during its continuation, Guarantor may elect not to enter into any additional Guaranties; declare all or any portion of the outstanding amounts owed by us to Guarantor to be due and payable; direct banks that have provided guaranteed letter of credit facilities to stop all issuances of any additional letters of credit under such facilities; access and inspect our relevant financial records and other documents upon reasonable notice to us; and exercise all other rights it may have under applicable law, provided that at its discretion Guarantor may also rescind such actions.

The following events each constitute a "Trigger Event":

- we default with respect to our reimbursement obligations to Guarantor described above or any other payment obligation under the Credit Support Agreement that is 30 days overdue for which Guarantor has demanded payment in writing;
- any representation or warranty made by us in the Credit Support Agreement is false, incorrect, incomplete or misleading in any material respect when made and has not been cured within 15 days after notice thereof by Guarantor;
- we fail, and continue to fail for 15 days, to observe or perform any material covenant, obligation, condition or agreement in the Credit Support Agreement;
- we default in the observance or performance of any agreement, term or condition contained in a guaranteed letter of credit facility that would constitute an event of default or similar event thereunder (other than an obligation to pay any amount, the payment of which is guaranteed by Guarantor), up to or beyond any grace period provided in such facility, unless waived by the applicable bank and Guarantor;
- we or any of our subsidiaries defaults in the observance or performance of any agreement, term or condition contained in any bond, debenture, note or other indebtedness such that the holders of such indebtedness may accelerate the payment of $25 million or more of such indebtedness; and
- certain bankruptcy or insolvency events.

Termination. The Credit Support Agreement will terminate after the later of the payment in full of all obligations thereunder and the termination or expiration of each Guaranty provided thereunder following the fifth anniversary of the CSA Effective Date.

Affiliation Agreement

In connection with the Tender Offer, we and Total entered into an affiliation agreement (the "Affiliation Agreement"). The Affiliation Agreement was amended on June 7, 2011, December 12, 2011, February 28, 2012 and August 10, 2012. The Affiliation Agreement governs the relationship following the closing of the Tender Offer between SunPower, on the one hand, and Total S.A., Total, any other affiliate of Total S.A. and any member of a group of persons formed for the purpose of acquiring, holding, voting, disposing of or beneficially owning our voting stock of which Total S.A. or any of its affiliates is a member (the "Total Group"), on the other hand.

Standstill. Following the closing of the Tender Offer and during the Standstill Period (as defined below), Total, Total S.A., and the Total Group may not:

- effect or seek, or announce any intention to effect or seek, any transaction that would result in the Total Group beneficially owning shares in excess of the Applicable Standstill Limit (as defined below), or take any action that would require us to make a public announcement regarding the foregoing;
- request that (i) we, (ii) our Board members that are independent directors and not appointed to the Board by Total (the "Disinterested Directors"), or (iii) our officers or employees, amend or waive any of the standstill restrictions applicable to the Total Group; or
- enter into any discussions with any third party regarding any of the foregoing.

In addition, no member of the Total Group may, among other things, solicit proxies relating to the election of directors to the Board without the prior approval of the Disinterested Directors.

However, the Total Group is permitted to undertake any of the following actions:

- until June 21, 2013, and following the written invitation from the Disinterested Directors, either (i) make and consummate a tender offer to acquire 100% of the outstanding voting power of the Company (a "Total Tender Offer") that is approved and recommended by the Disinterested Directors, or (ii) propose and effect a merger providing for the acquisition of 100% of the outstanding voting power of the Company (a "Total Merger") that is approved and recommended by the Disinterested Directors;
- from June 22, 2013 until December 31, 2014, either (i) make and consummate a Total Tender Offer that is approved and recommended by the Disinterested Directors or (ii) propose and effect a Total Merger that is approved and recommended by the Disinterested Directors; and
- during the period commencing on January 1, 2015 and at any time thereafter, either (i) make and consummate a Total Tender Offer or (ii) propose and effect a Total Merger so long as, in each case, Total complies with certain advance notice and prior negotiation obligations, including providing written notice to us at least 120 days prior to commencing or proposing such Total Tender Offer or Total Merger and making its designees reasonably available for the purpose of negotiation with the Disinterested Directors concerning such Total Tender Offer or Total Merger.

The "Standstill Period" is the period beginning on the date of the Affiliation Agreement and ending on the earlier to occur of:

- a change of control of the Company;
- the first time that the Total Group beneficially owns less than 15% of outstanding voting power of the Company;
- prior to Total, together with any controlled subsidiary of Total S.A., owning 50% or less of the outstanding voting power of the Company or 40% or less of the outstanding voting power of the Company when at least $100 million in Guaranties are outstanding under the Credit Support Agreement, we or our Board taking or failing to take certain of the actions described below under "—Events Requiring Stockholder Approval by Total" or failing to comply with certain of the covenants described below under "—Covenants of Total and SunPower";
- upon the first time that Total, together with any controlled subsidiary of Total S.A. owns 50% or less of the outstanding voting power of the Company or 40% or less of the outstanding voting power of the Company when at least $100 million in Guarantees are outstanding under the Credit Support Agreement, a tender offer for at least 50% of the outstanding voting power of the Company is commenced by a third party; and
- the termination of the Affiliation Agreement.

The "Applicable Standstill Limit" is the applicable percentage of the lower of (i) the then outstanding shares of our common stock or (ii) the then outstanding voting power of the Company equal to:

- 63% during the period commencing with the closing of the Tender Offer and ending on June 21, 2013;
- 66- 2/3% during the period commencing on June 22, 2013 and ending on December 31, 2014; and
- 70% during the period commencing on January 1, 2015 and continuing thereafter until the termination of the Affiliation Agreement.

During the Standstill Period, the Total Group will not be in breach of its standstill obligations described above if any member of the Total Group holds beneficial ownership of shares of our common stock in excess of the Applicable Standstill Limit solely as a result of:

- recapitalizations, repurchases or other actions taken by us or our controlled subsidiaries that have the effect of reducing the number of shares of our common stock then outstanding;

- the issuance of shares of our common stock to Total in connection with the acquisition of Tenesol SA;
- the rights specified in any "poison pill" share purchase rights plan having separated from the shares of our common stock and a member of the Total Group having exercised such rights; or
- the issuance of voting securities to Total, including from the conversion into voting securities of convertible securities, in connection with the Compensation and Funding Agreement or the Liquidity Support Agreement (each as described below).

Transfer of Control. If any member or members of the Total Group seek to transfer, in one or a series of transactions, either (i) 40% or more of the outstanding shares of our common stock or (ii) 40% or more of the outstanding voting power of the Company to a single person or group, then such transfer must be conditioned on, and may not be effected, unless the transferee either:

- makes a tender offer to acquire 100% of the voting power of the Company, at the same price per share of voting stock and using the same form of consideration to be paid by the transferee to the Total Group; or
- proposes a merger providing for the acquisition of 100% of the voting power of the Company, at the same price per share of voting stock and using the same form of consideration to be paid by the transferee to the Total Group.

Total's Rights to Maintain. The Total Group has the following rights to maintain its ownership in us until (i) the first time that the Total Group owns less than 40% of the outstanding voting power of the Company, or (ii) until the first time that Total transfers shares of our common stock to a person other than Total S.A. or a controlled subsidiary of Total S.A. and as a result of such transfer Total S.A. and its subsidiaries own less than 50% of the outstanding voting power of the Company.

If we propose to issue new securities primarily for cash in a financing transaction, then Total has the right to purchase a portion of such new securities equal to its percentage ownership in us. Total can also elect to purchase our securities in open market transactions or through privately-negotiated transactions in an amount equal to its percentage ownership in connection with such issuance of new securities. If we propose to issue new securities in consideration for our purchase of a business or asset of a business, then Total has the right to purchase additional securities in the open market or through privately-negotiated transactions equal to its percentage ownership in us. Total has similar rights in the event that we issue or propose to issue (including pursuant to our equity plans or as the result of the conversion of our convertible securities) securities that, together with all other issuances of securities by us since the end of the preceding fiscal quarter aggregate to more than 1% of our fully diluted equity. Total has a nine month grace period, subject to certain extensions to satisfy regulatory conditions, to acquire securities in the open market or through privately-negotiated transactions in connection with any of the securities issuances described above.

SunPower Board. The Affiliation Agreement provides that, immediately after the consummation of the Tender Offer, our Board will be expanded to eleven persons, composed of the Chief Executive Officer (who will also serve as the Chairman of the Board), four current members of the board and six directors designated by Total. See Proposal One for more details on our current Board members.

On the first anniversary of the completion of the Tender Offer (i) the Disinterested Directors are obligated to cause one of the Disinterested Directors to resign from the board, (ii) upon the effectiveness of such resignation, Total will promptly cause one of the directors previously designated by it to resign, and (iii) thereafter, the Board will take all action necessary to reduce the number of authorized members of the Board to nine directors (such actions, a "Board Reduction Event"). On June 21, 2012, the Board Reduction Event occurred and the authorized size of our Board was reduced to nine directors.

So long as Total, together with the controlled subsidiaries of Total S.A., owns at least 10% of the outstanding voting power of the Company, then our Board must use its reasonable best efforts to elect the directors designated by Total as follows:

- until the first time that Total, together with controlled subsidiaries of Total S.A., own less than 50% of the voting power of the Company, Total will be entitled to designate six nominees to serve on our Board until the Board Reduction Event, and five nominees to serve on our Board thereafter;
- until the first time that Total, together with controlled subsidiaries of Total S.A., own less than 50% but not less than 40% of the voting power of the Company, Total will be entitled to designate five nominees to serve on our Board until the Board Reduction Event, and four nominees to serve on our Board thereafter;
- until the first time that Total, together with controlled subsidiaries of Total S.A., own less than 40% but not less than 30% of the voting power of the Company, Total will be entitled to designate four nominees to serve on our Board until the Board Reduction Event, and three nominees to serve on our Board thereafter
- until the first time that Total, together with controlled subsidiaries of Total S.A., own less than 30% but not less than 20% of the voting power of the Company, Total will be entitled to designate three nominees to serve on our Board until the Board Reduction Event, and two nominees to serve on our Board thereafter; and
- until the first time that Total, together with controlled subsidiaries of Total S.A., own less than 20% but not less than 10% of the voting power of the Company, Total will be entitled to designate two nominees to serve on our Board until the Board Reduction Event, and one nominee to serve on our Board thereafter.

For as long as they are serving on our Board, the directors designated by the Total Group will be allocated across the three classes that comprise our Board in a manner as equal as practicable.

Subject to the listing standards of the Nasdaq Global Select Market, until the first time that Total, together with any controlled subsidiaries of Total S.A., owns less than 30% of the outstanding voting power of the Company:

- the Audit Committee will be comprised of three Disinterested Directors;
- the Compensation Committee and the Nominating and Governance Committee will each be comprised of two Disinterested Directors and two directors designated by the Total Group; and
- any other standing committee will be comprised of two Disinterested Directors and two directors designated by the Total Group.

Until the first time that Total, together with any controlled subsidiaries of Total S.A., own less than 10% of the outstanding voting power of the Company, a representative of Total will, subject to certain exceptions, be permitted to attend all meetings of our Board or any committee thereof in a non-voting, observer capacity (other than any committee whose sole purpose is to consider a transaction for which there exists an actual conflict of interest between the Total Group, on the one hand, and the Company and any of our affiliates, on the other hand).

Events Requiring Specific Board Approval. At any time when Total, together with any controlled subsidiaries of Total S.A., owns at least 30% of the outstanding voting power of the Company, neither the Total Group nor the Company (or any of our affiliates) may effect any of the following without first obtaining the approval of a majority of the Disinterested Directors:

- any amendment to our Certificate of Incorporation or By-laws;
- any transaction that, in the reasonable judgment of the Disinterested Directors, involves an actual conflict of interest between the Total Group, on the one hand, and the Company and any of our affiliates, on the other hand;

- the adoption of any shareholder rights plan or the amendment or failure to renew our existing shareholder rights plan;
- except as provided above, the commencement of any tender offer or exchange offer by the Total Group for shares of our common stock or securities convertible into shares of our common stock, or the approval of a merger of SunPower or any company that we control with a member of the Total Group;
- any voluntary dissolution or liquidation of the Company or any company that we control;
- any voluntary bankruptcy filing by the Company or any company that we control or the failure to oppose any other person's bankruptcy filing or action to appoint a receiver of the Company or any company that we control;
- any delegation of all or a portion of the authority of our Board to any committee thereof;
- any amendment, modification or waiver of any provision of the Affiliation Agreement;
- any modification of, or action with respect to, director's and officer's insurance coverage; or
- any reduction in the compensation of the Disinterested Directors.

Events Requiring Supermajority Board Approval. At any time when Total, together with any controlled subsidiaries of Total, own at least 30% of the outstanding voting power of the Company, neither the Total Group nor the Company (or any of our affiliates) may, without first obtaining the approval of two-thirds of the directors of the Company (including at least one Disinterested Director), effect any approval or adoption of our annual operating plan or budget that has the effect of reducing the planned letter of credit utilization in any given year by more than 10% below the applicable maximum letter of credit amount in the Credit Support Agreement.

Events Requiring Stockholder Approval by Total. Until the first time that Total, together with any controlled subsidiaries of Total, owns 50% or less of the outstanding voting power of the Company or 40% or less of the outstanding voting power of the Company (a) when at least $100 million in Guarantees are outstanding pursuant to the Credit Support Agreement or (b) for so long as the Liquidity Support Agreement (as described below) remains in effect and, thereafter, for so long as (1) any loans by Total S.A. to the Company remain outstanding, (2) any guarantees by Total S.A. of any of our indebtedness remain outstanding, or (3) any other continuing obligation of Total S.A. to or for the benefit of SunPower remain outstanding ("Total Stockholder Approval Period"), neither the Company (including any of our controlled subsidiaries) nor the Board may effect any of the following without first obtaining the approval of Total:

- any amendment to our Certificate of Incorporation or By-laws;
- any transaction pursuant to which the Company or any company that we control acquires or otherwise obtains the ownership or exclusive use of any business, property or assets of a third party if as of the date of the consummation of such transaction the aggregate net present value of the consideration paid or to be paid exceeds the lower of (i) 15% of our then-consolidated total assets or (ii) 15% of our market capitalization;
- any transaction pursuant to which a third party obtains ownership or exclusive use of any business, property or assets of the Company or any company that we control if as of the date of the consummation of such transaction the aggregate net present value of the consideration received or to be received exceeds the lower of (i) 10% of our then-consolidated total assets or (ii) 10% of our market capitalization;
- the adoption of any shareholder rights plan or certain changes to our existing shareholder rights plan;
- except for the incurrence of certain permitted indebtedness, the incurrence of additional indebtedness in excess of the difference, if any, of 3.5 times our LTM EBITDA (as defined in the Affiliation Agreement) less our Outstanding Gross Debt (as defined in the Affiliation Agreement);
- subject to certain exceptions, any voluntary dissolution or liquidation of the Company or any company that we control;

- any voluntary bankruptcy filing by the Company or any company that we control or the failure to oppose any other person's bankruptcy filing or action to appoint a receiver of the Company or any company that we control; or
- any repurchase of our common stock.

Certain Matters Related to SunPower's Shareholder Rights Plan. Until the Total Group beneficially owns less than 15% of the outstanding voting power of the Company, neither the Company nor our Board is permitted to adopt any shareholder rights plan or make certain changes to our existing shareholder rights plan without the approval of Total.

Covenants of Total and SunPower. In order to effect the transactions contemplated by the Affiliation Agreement, each of Total and the Company have committed to taking certain actions. With respect to the Company, such actions include:

- amending our By-laws to provide that the Total Group may call a special meeting of stockholders in certain circumstances;
- taking certain actions to exculpate Total S.A., Total, any controlled subsidiary of Total S.A. and those of our directors designated by Total from corporate opportunities, to the fullest extent permitted by applicable law;
- taking certain actions to render Delaware's business combination statute inapplicable to the Total Group and certain future transferees of the Total Group;
- making certain amendments to our shareholder rights plan, including excluding the Total Group from the definition of "Acquiring Person" under such plan;
- renewing our existing shareholder rights plan so long as the Total Group beneficially owns at least 15% of our outstanding voting power; and
- providing Total with certain financial information of the Company from time to time.

Termination. The Affiliation Agreement generally terminates upon the earlier to occur of (i) the Total Group owning less than 10% of the outstanding voting power of the Company or (ii) the Total Group owning 100% of the outstanding voting power of the Company.

Reimbursement. We have a reimbursement arrangement with Total pursuant to the Affiliation Agreement, under which Total shall reimburse certain costs that we incur for our acceleration of the accounting close process and implementation of International Financial Reporting Standards. This arrangement facilitates our implementation of accounting and reporting systems in order to timely report monthly financial results to Total pursuant to the Affiliation Agreement. In fiscal 2012, we received $4.5 million from Total under this reimbursement arrangement. We expect to receive $210,000 from Total in 2013 under this arrangement.

Affiliation Agreement Guaranty

Total S.A. has entered into a guaranty (the "Affiliation Agreement Guaranty") in connection with the Tender Offer and entry into the Affiliation Agreement, pursuant to which Total S.A. unconditionally guarantees the full and prompt payment of Total S.A.'s, Total's and each Total S.A. controlled company's payment obligations under the Affiliation Agreement and the full and prompt performance of their respective representations, warranties, covenants, duties and agreements contained in the Affiliation Agreement.

Research & Collaboration Agreement

In connection with the Tender Offer, we and Total entered into a Research & Collaboration Agreement (the "R&D Agreement") that establishes a framework under which the parties may engage in long-term research and development collaboration (the "R&D Collaboration"). The R&D Collaboration is expected to encompass a number of different projects (“R&D Projects”), with a focus on advancing technology in the area of photovoltaics. The primary purpose of the R&D Collaboration is to: (i) maintain and expand our technology position in the crystalline silicon domain; (ii) ensure our industrial competitiveness; and (iii) guarantee a sustainable position for both SunPower and Total to be best-in-class industry players.

The R&D Agreement contemplates a joint committee (the “R&D Strategic Committee”) that identifies, plans and manages the R&D Collaboration. Due to the impracticability of anticipating and establishing all of the legal and business terms that will be applicable to the R&D Collaboration or to each R&D Project, the R&D Agreement sets forth broad principles applicable to the parties’ potential R&D Collaboration, and the R&D Collaboration Committee establishes the particular terms governing each particular R&D Project consistent with the terms set forth in the R&D Agreement. In December 2011, Total committed to spend at least $6 million per year for three years for the R&D collaboration activities. The parties also agreed to a 2012 Annual Collaboration Plan Budget (“ACPB”) of $30 million of which Total was to contribute $10.7 million. Total contributed approximately $3.4 million in 2012. The overall 2013 ACPB is $23 million of which Total has agreed to contribute approximately $11 million. This amount carries forward certain 2012 project expenditures that were not completed due primarily to delays in our recruiting efforts and third party contract negotiations.

Registration Rights Agreement

In connection with the Tender Offer, we and Total entered into a customary registration rights agreement (the “Registration Rights Agreement”) related to Total’s ownership of shares of our common stock. The Registration Rights Agreement provides Total with shelf registration rights, subject to certain customary exceptions, and up to two demand registration rights in any 12-month period, also subject to certain customary exceptions. Total also has certain rights to participate in any registrations of securities that we initiate. We will generally pay all costs and expenses we incur and that Total incurs in connection with any shelf or demand registration (other than selling expenses incurred by Total). We and Total have also agreed to certain indemnification rights under the agreement. The Registration Rights Agreement terminates on the first date on which: (i) the shares held by Total constitute less than 5% of our then-outstanding common stock; (ii) all SunPower securities held by Total may be immediately resold pursuant to Rule 144 promulgated under the Exchange Act during any 90-day period without any volume limitation or other restriction; or (iii) we cease to be subject to the reporting requirements of the Exchange Act.

The Registration Rights Agreement was amended on May 29, 2013, in connection with the issuance of our 0.75% Senior Convertible Debentures due 2018, to provide that the debentures and our common stock underlying the debentures were “registrable securities” within the meaning of the Registration Rights Agreement.

Stockholder Rights Plan

On April 28, 2011, prior to the execution of the Tender Offer Agreement, we entered into an amendment (the “Rights Agreement Amendment”) to the Rights Agreement, dated August 12, 2008, by and between us and Computershare Trust Company, N.A., as Rights Agent (the “Rights Agreement”), in order to, among other things, render the rights therein inapplicable to each of: (i) the approval, execution or delivery of the Tender Offer Agreement; (ii) the commencement or consummation of the Tender Offer; (iii) the consummation of the other transactions contemplated by the Tender Offer Agreement and the related agreements; and (iv) the public or other announcement of any of the foregoing.

On June 14, 2011, we entered into a second amendment to the Rights Agreement (the “Second Rights Agreement Amendment”), in order to, among other things, exempt Total, Total S.A. and certain of their affiliates and certain members of a group of which they may become members from the definition of “Acquiring Person” thereunder, such that the rights issuable pursuant to the Rights Agreement will not become issuable in connection with the completion of the Tender Offer.

By-laws Amendment

On June 14, 2011, our board approved the amendment of our By-laws as required under the Affiliation Agreement. The amendments: (i) allow any member of the Total Group to call a meeting of stockholders for the sole purpose of considering and voting on a proposal to effect a Total Merger or a Transferee Merger (as defined in the Affiliation Agreement); (ii) provide that the number of directors of our Board shall be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board at any regular or special meeting; and (iii) require, prior to the termination of the Affiliation Agreement, the approval of a majority of our independent directors to amend the By-laws so long as Total, together with Total S.A.'s subsidiaries collectively own at least 30% of our voting securities as well as require, prior to the termination of the Affiliation Agreement, Total's written consent during the Total Stockholder Approval Period to amend the By-laws. In addition, in November 2011, the By-laws were amended to remove restrictions prohibiting stockholder consents in writing.

Tenesol Stock Purchase Agreement

On December 23, 2011, we entered into a Stock Purchase Agreement with Total, under which we agreed to acquire 100% of the equity interests of Tenesol SA ("Tenesol") from Total for $165.4 million in cash. The Tenesol acquisition was consummated on January 31, 2012. Tenesol is a European-based manufacturer and developer of solar projects with module manufacturing operations in France and South Africa.

Private Placement Agreement

Contemporaneously with the execution of the Tenesol Stock Purchase Agreement, we entered into a Private Placement Agreement with Total, under which Total agreed to purchase, and we agreed to issue and sell 18.6 million shares of our common stock for a purchase price of $8.80 per share. The sale was completed contemporaneously with the closing of the Tenesol acquisition on January 31, 2012, thereby increasing Total's ownership to approximately 66% of outstanding common stock.

Master Agreement

On December 23, 2011, we also entered into a Master Agreement with Total, under which we and Total agreed to a framework of transactions related to the Tenesol acquisition and Private Placement Agreement. Additionally, Total has agreed to pursue several negotiations on additional agreements related to directly investing in our R&D program over a multi-year period, the purchase of our modules and the development of a multi-megawatt project using our products. We and Total amended the Master Agreement on December 20, 2012 to clarify that the development of the multi-megawatt project using our products shall mean development of up to 10 C-7 Tracker demonstration projects at a total cost to Total of not more than $2.5 million provided agreements for such projects are entered into before December 31, 2013.

Liquidity Support Agreement

SunPower Corporation, Systems, a Delaware corporation and an indirect wholly owned subsidiary of the Company ("SunPower Systems"), is providing engineering, procurement and construction ("EPC") services, as well as solar panels and power plant technology, to the California Valley Solar Ranch ("CVSR"), a 250 MW AC solar power plant that is currently under construction. SunPower Systems is performing this work under an Engineering, Procurement and Construction Agreement, dated as of September 30, 2011 (the "EPC Contract"), between SunPower Systems, and High Plains Ranch II, LLC, a Delaware limited liability company ("HPR II"). HPR II is the CVSR project company sold by the Company to NRG Solar LLC in September 2011. Part of the debt financing necessary for SunPower Systems' customer, NRG Solar LLC, to pay for the construction of the CVSR project is being provided by the Federal Financing Bank in reliance on a guarantee of repayment provided by the United States Department of Energy (DOE) under a loan guarantee program. In late 2011, the DOE requested that the Company, as the EPC contractor for the CVSR project, provide additional financial assurances to support SunPower System's obligations under the EPC Contract in connection with the project's loan guarantee. In response, on February 28, 2012, we and Total S.A. entered into a Liquidity Support Agreement with the DOE, under which Total S.A. agreed to provide us, or cause to be provided, additional liquidity under certain circumstances up to an aggregate amount of $600 million. In connection with the Liquidity Support Agreement, we, Total S.A., and Total entered into a series of related agreements (the "Liquidity Support Transaction Agreements") to establish the parameters for the terms of the liquidity support to be provided by Total S.A. and Total, including the parameters for the terms of any liquidity injections that may be required to be provided to the Company under the Liquidity Support Agreement.

The Liquidity Support Agreement provides that, subject to the terms and conditions set forth therein, upon a Liquidity Support Event (defined below), Total S.A. will make available, as of the date of the Liquidity Support Agreement, and provide to us from time to time various forms of equity, debt (both convertible and non-convertible), guarantee or other liquidity support ("Liquidity Injections"), as may be required to increase the amount of our unrestricted cash, cash equivalents and unused borrowing capacity, and to ensure our satisfaction of our financial covenants under certain third party indebtedness, up to the maximum aggregate amount of $600 million (the "Liquidity Support Facility"). A "Liquidity Support Event" occurs when (a) our unrestricted cash and cash equivalents shown on our balance sheet plus any unused availability under any committed credit that is available to us ("Reported Liquidity") is below $100 million in a completed fiscal quarter, or our projected liquidity measured in the same manner for the next fiscal quarter ("Projected Liquidity") is below $100 million; or (b) at any time during a fiscal quarter, we fail to satisfy any financial covenant under our indebtedness. Upon a Liquidity Support Event, Total S.A. is required to provide to us, and we are required to accept from Total S.A., a Liquidity Injection sufficient to (a) cause our Reported Liquidity and Projected Liquidity to be at least $100 million, or, as applicable, (b) to cure any breach and satisfy the applicable financial covenant in our indebtedness. The terms and conditions of such Liquidity Support Facility are set forth in the Liquidity Support Transaction Agreements, including a Compensation and Funding Agreement, a Revolving Credit and Convertible Loan Agreement, and a Private Placement Agreement, each as described below. On December 24, 2012, Total S.A. agreed to guarantee our Credit Agricole Facility Agreement (defined below), which reduced the capacity available under the liquidity support facility by $275.0 million.

The Liquidity Support Agreement will terminate, all outstanding guarantees issued thereunder will terminate, and all outstanding loans made thereunder will become due (except for Total S.A.'s guarantee of the Credit Agricole facility), upon the earliest to occur of (i) the final completion date of the CVSR project as defined under the EPC Contract, (ii) the date of December 31, 2015, as may be extended under certain circumstances as described in the EPC Contract, but not beyond December 31, 2016, (iii) the date on which all secured obligations, as defined under that certain Loan Guarantee Agreement, dated as of September 30, 2011, between the DOE and HPR II, have been paid in full and all commitments to extend credit as set forth therein in connection with the CVSR project have been terminated, and (iv) the date on which SunPower Systems terminates the EPC Contract.

Compensation and Funding Agreement

In connection with the Liquidity Support Agreement, on February 28, 2012, we entered into a Compensation and Funding Agreement (the "Compensation and Funding Agreement") with Total S.A., pursuant to which, among other things, we and Total S.A. established the parameters for the terms of the Liquidity Support Facility and any Liquidity Injections that may be required to be provided by Total S.A. to us pursuant to the Liquidity Support Agreement (the "Liquidity Support Arrangements"). We agreed in the Compensation and Funding Agreement to use commercially reasonable efforts to assist Total S.A. in the performance of its obligations under the Liquidity Support Agreement and to conduct, and to act in good faith in conducting, our affairs in a manner such that Total S.A.'s obligation under the Liquidity Support Agreement to provide Liquidity Injections will not be triggered or, if triggered, will be minimized. We also agreed to use any cash provided under the facility in such a way as to minimize the need for further liquidity support.

Upfront Payment Obligations. On February 28, 2012, in consideration for Total S.A.'s agreement to enter into the Liquidity Support Agreement and for Total S.A.'s commitments set forth in the Liquidity Support

Agreement, we issued to Total a warrant (the "Upfront Warrant"), in the form of Exhibit A to the Compensation and Funding Agreement, that is exercisable to purchase 9,531,677 shares of our common stock at an exercise price of $7.8685 per share, subject to adjustment for customary anti-dilution and other events. The Upfront Warrant is exercisable at any time for seven years after its issuance, provided that, so long as at least $25 million of our existing convertible debt remains outstanding, such exercise will not cause "any person," including Total S.A., to, directly or indirectly, including through one or more wholly-owned subsidiaries, become the "beneficial owner" (as such terms are defined in Rule 13d-3 and Rule 13d-5 under the Securities and Exchange Act of 1934, as amended), of more than 74.99% of the voting power of our common stock at such time, because "any person" becoming such "beneficial owner" would trigger the repurchase or conversion of our existing convertible debt.

Ongoing Payment Obligations. The Compensation and Funding Agreement further provides that, subject to the terms and conditions set forth therein, we will make certain cash payments to Total S.A. within 30 days after the end of each calendar quarter during the term of the Compensation and Funding Agreement as follows:

- Quarterly payment of a commitment fee in an amount equal to 0.25% of the unused portion of the $600 million Liquidity Support Facility as of the end of such quarter; and
- Quarterly payment of a guarantee fee in an amount equal to 2.75% per annum of the average amount of our indebtedness that is guaranteed by Total S.A. pursuant to any Guaranty (as defined below) issued in accordance with the terms of the Compensation and Funding Agreement during such quarter.

In addition, any of our payment obligations to Total S.A. under the Compensation and Funding Agreement that are not paid when due shall accrue interest until paid in full at a rate equal to 6-months U.S. LIBOR as in effect from time to time plus 5.00% per annum. In fiscal 2012, we incurred commitment fees of $4.9 million to Total S.A.

Form of Liquidity Support. In the event that Total S.A. becomes obligated to provide a Liquidity Injection to us in a Liquidity Support Event pursuant to the Liquidity Support Agreement, the Compensation and Funding Agreement sets forth the form of such Liquidity Injection based on the greatest "Drawn Support Amount" (defined in the Liquidity Support Agreement) that has been outstanding at any time prior to the date of determination (the "Maximum Drawn Support Amount") at such time, as follows:

(i) To the extent that the Maximum Drawn Support Amount at such time is equal to or less than $60 million, the Liquidity Injection shall be, at Total S.A.'s option, in the form of a revolving, non-convertible debt facility (a "Revolving Loan") pursuant to the terms of the Revolving Credit and Convertible Loan Agreement, a Total S.A. Guaranty (defined below), or any other form of Liquidity Injection agreed to by us. In addition, at the time of funding of each such Revolving Loan, we will issue to or as directed by Total S.A. a warrant, in the form of Exhibit A to the Compensation and Funding Agreement, that is exercisable for seven years to purchase an amount of our common stock equal to 20% of the amount of such Revolving Loan divided by the volume-weighted average price for our common stock for the 30 trading-day period ending on the trading day immediately preceding the date of calculation (the "30-Day VWAP") as of the date of funding of such Revolving Loan. Notwithstanding the foregoing, the aggregate exercise price of warrants issued in connection with Revolving Loans may not exceed 20% of the maximum aggregate amount of Revolving Loans that has been outstanding at any time under the Revolving Credit and Convertible Loan Agreement. Interest payable on the Revolving Loan shall be 6-months U.S. LIBOR plus 5% per annum when the Maximum Drawn Support Amount is equal to or less than $60 million, 6-months U.S. LIBOR plus 7% per annum when the Maximum Drawn Support Amount is greater than $60 million but less than or equal to $200 million, and 6-months U.S. LIBOR plus 8% per annum when the Maximum Drawn Support Amount is greater than $200 million.

(ii) To the extent that the Maximum Drawn Support Amount at such time is greater than $60 million but equal to or less than $200 million, Total may, at its sole discretion, convert any Revolving Loan into a convertible debt facility (a "Convertible Loan"), pursuant to the terms of the Revolving Credit and Convertible Loan Agreement, and any future Liquidity Injections will be, at Total S.A.'s option, in the form of a Convertible

Loan, a Total S.A. Guaranty (defined below), or any other form of Liquidity Injection agreed to by us. Each Convertible Loan will be convertible into our common stock at a conversion price equal to the amount of debt being converted, divided by the closing price of our common stock on the trading day immediately preceding the conversion date at the option of Total S.A. at any time after (A) the Convertible Loan has not been repaid within 6 months; (B) our debt to EBITDA ratio exceeds 3.5 to 1.0 (or for the 2012 fiscal year, 4.0 to 1.0); or (C) any time the Maximum Drawn Support Amount exceeds $200 million. In addition, at the time of funding of each such Convertible Loan, we will issue to or as directed by Total S.A. a warrant, in the form of Exhibit A to the Compensation and Funding Agreement, that is exercisable for seven years to purchase an amount of our common stock equal to 25% of the amount of such Convertible Loan (if the Maximum Drawn Support Amount at such time is not in excess of $200 million) or 35% of the amount of such Convertible Loan (to the extent that the Maximum Drawn Support Amount at such time is in excess of $200 million), in each case, divided by the 30-Day VWAP as of the date of funding of such Convertible Loan. Notwithstanding the foregoing, the aggregate exercise price of warrants issued in connection with Convertible Loans up to $140 million may not exceed 25% of the maximum aggregate amount of such Convertible Loans that has been outstanding at any time under the Revolving Credit and Convertible Loan Agreement, and the aggregate exercise price of warrants issued in connection with Convertible Loans in excess of $140 million may not exceed 35% of the maximum aggregate amount of such Convertible Loans that has been outstanding at any time under the Revolving Credit and Convertible Loan Agreement. Interest payable on the Convertible Loan shall be 6-months U.S. LIBOR plus 7% per annum for any Convertible Loan outstanding when the Maximum Drawn Support Amount is less than or equal to $200 million, and 6-months U.S. LIBOR plus 8% per annum when the Maximum Drawn Support Amount is greater than $200 million.

(iii) If the Maximum Drawn Support Amount at such time exceeds $200 million, or if our debt to EBITDA ratio exceeds 3.5 to 1.0 (or, for the 2012 fiscal year, 4.0 to 1.0), the Liquidity Injection will be in the form selected by Total S.A., at its complete discretion, as an additional Revolving Loan, an additional Convertible Loan, a purchase of our equity securities, pursuant to the terms of the Private Placement Agreement (as described below), a guarantee by Total S.A. of our indebtedness, pursuant to the form Guaranty set forth as Exhibit B to the Compensation and Funding Agreement (a "Guaranty"), or another form of Liquidity Injection acceptable to the applicable lender. We shall issue to Total S.A. warrants in connection with additional Revolving Loans or Convertible Loans as described above. If such Liquidity Injection is in the form of a purchase of equity securities, then we will issue to or as directed by Total S.A. a warrant, in the form of Exhibit A to the Compensation and Funding Agreement, that is exercisable for seven years to purchase an amount of our common stock equal to 25% of the amount of such Liquidity Injection divided by the 30-Day VWAP as of the date of such Liquidity Injection. Any common stock sold to Total S.A. under the Private Placement Agreement will be priced at a 17% discount from the 30-Day VWAP as of the date such common stock is sold, and may be rounded up, at Total S.A.'s option, from the required amount of such Liquidity Injection to the next integral multiple of $25 million.

No warrants issued shall be exercisable so long as at least $25 million of our existing convertible debt remains outstanding and such exercise will cause "any person," including Total S.A., to, directly or indirectly, including through one or more wholly-owned subsidiaries, become the "beneficial owner" of more than 74.99% of the voting power of our common stock at such time. Loans made by Total S.A. under the Compensation and Funding Agreement shall be prepayable by us in agreed increments, so long as after giving effect to any such prepayment our Reported Liquidity and Project Liquidity would be at least $125 million.

Notwithstanding the foregoing, if the incurrence of any such debt or issuance of any such warrants or equity securities would trigger a default under the terms of any of our existing debt agreements in an amount greater than $10 million, Total S.A. will have the option, in its reasonable discretion, to provide a Liquidity Injection in an alternative form so as not to cause us to be in breach or default of any of our debt agreements. Notwithstanding the limitations on the form of Liquidity Injections described above, in connection with an actual or potential breach by us of our covenants under our Revolving Credit Agreement with Credit Agricole Corporate and Investment Bank (the "Credit Agricole Facility Agreement"), Total S.A. may make Liquidity Injections in the form of equity purchases sufficient to provide us with an "equity cure" under the Credit Agricole Facility Agreement, plus up to an additional $25 million of equity purchases. In addition to the provision of any "equity cure," Total S.A. may also in such event elect to lend money to us, in the form of Revolving Loans or Convertible Loans as described above, in order to repay amounts owing under the Credit Agricole Facility Agreement. Notwithstanding the interest rates described above, any such debt would bear interest at a rate of LIBOR plus 4.25% per annum until September 27, 2013, and would thereafter bear interest at the rates described above, depending on the Maximum Drawn Support Amount.

If Total S.A. is required to make any payment to a lender under a Guaranty, and if we do not repay such payment to Total S.A. within 30 days, the amount of such payment, plus interest, shall be convertible, at Total S.A.'s option, into a Revolving Loan, a Convertible Loan or a purchase of equity pursuant to the Private Placement Agreement, in each case upon notice from Total S.A. to us and in each case with warrant coverage as described above.

Termination. The Compensation and Funding Agreement will remain in effect as long as (i) any obligations of the Company remain outstanding under the Revolving Credit and Convertible Loan Agreement or the Private Placement Agreement, (ii) any obligations of Total S.A. remain outstanding under any Guaranty, or (iii) Total S.A. has any obligation to provide Liquidity Injections pursuant to the Liquidity Support Agreement.

Revolving Credit and Convertible Loan Agreement

In connection with the Liquidity Support Agreement, on February 28, 2012, we and Total entered into a Revolving Credit and Convertible Loan Agreement which establishes the terms and conditions for any Revolving Loans or Convertible Loans that may be provided to us pursuant to the Compensation and Funding Agreement described above. All Revolving Loans and Convertible Loans shall accrue interest as described above. All Revolving Loans shall be in an initial principal amount that is an integral multiple of $1 million and not less than $5 million, or the amount remaining available under the $600 million Liquidity Support Facility. All Convertible Loans shall be in an initial principal amount that is an integral multiple of $1 million and not less than $10 million, or the amount remaining available under the $600 million Liquidity Support Facility. All Revolving Loans or Convertible Loans must rank pari passu with our existing senior indebtedness, and secured to the fullest extent permitted by the Company's debt agreements. Total may demand prepayment of any Revolving Loans and/or Convertible Loans, provided that after such prepayment, we would maintain our Reported Liquidity of at least $150 million and would not be in default of any financial covenant under our indebtedness; after the expiration of the Compensation and Funding Agreement, Total may demand prepayment without regard to these conditions.

Private Placement Agreement

In connection with the Liquidity Support Agreement, on February 28, 2012, we and Total entered into a Private Placement Agreement, pursuant to which we will issue and sell to Total, and Total will purchase from us, our common stock or warrants to purchase our common stock with respect to each Liquidity Injection as specified by the terms of the Compensation and Funding Agreement. The number of warrant shares and exercise price will be calculated in accordance with the Compensation and Funding Agreement, and any common stock sold under the Private Placement Agreement will be priced at a 17% discount from the 30-Day VWAP as of the date such common stock is sold.

The Tender Offer Agreement, Tender Offer Agreement Guaranty, Credit Support Agreement, Affiliation Agreement, Affiliation Agreement Guaranty, Research and Collaboration Agreement, Registration Rights Agreement, Rights Agreement Amendment, Second Rights Agreement Amendment and By-laws, and amendments thereto, are attached to, and more fully described in, our Form 8-Ks as filed with the SEC on May 2, 2011, June 7, 2011, June 15, 2011 and December 23, 2011, our Solicitation/Recommendation Statement on Form 14D-9 filed with the SEC on May 3, 2011, and our Form 10-Q as filed with the SEC on November 2, 2012. The Tenesol Stock Purchase Agreement, the Private Placement Agreement and the Master Agreement are attached to, and more fully described in, our Form 8-K filed with the SEC on December 23, 2011 and Information Statement on Schedule 14C filed with the SEC on January 3, 2012. The Liquidity Support Agreement, the Compensation and Funding Agreement, the Upfront Warrant, the Revolving Credit and Convertible Loan Agreement, the Private Placement Agreement, and amendments thereto are attached to, and more fully described in, our Form 10-K as filed with the SEC on February 29, 2012, our Information Statement on Schedule 14C filed with the SEC on March 22, 2012, and our Form 10-Q as filed with the SEC on November 2, 2012.

Sale of Debentures

On May 29, 2013, we issued $300 million in aggregate principal amount of our 0.75% Senior Convertible Debentures due 2018 (the "Debentures") in a private offering. $200 million in aggregate principal amount of the Debentures were sold to Total by the initial purchasers of the Debentures. The Debentures are convertible into shares of our common stock at any time based on an initial conversion rate of 40.0871 shares of common stock per $1,000 principal amount of Debentures (which is equivalent to an initial conversion price of approximately $24.95 per share of our common stock), subject to adjustment under certain circumstances. The holders of the Debentures may require us to repurchase their Debentures under certain circumstances. The Debentures are subject to redemption at our option under certain circumstances.

Other Agreements

In October 2012, our subsidiary in Spain entered into an engineering and construction contract with a Total affiliate in Valdemoro, Spain. We are engaged to design, build and commission a solar installation of 100 kWp over a rooftop of premises belonging to the Total affiliate at the contract price of €189,000.

In the fourth quarter of 2012, we merged certain insurance programs with Total to allow for increased coverage at reduced cost. Total is partially self-insured through an affiliate. We pay through our insurance broker an estimated $800,000 annual premiums for cargo, excess liability and property insurance, and we expect approximately $400,000 of which to be passed on to Total's affiliate.

In January 2013, we entered into an agreement with a Total affiliate in order for such affiliate to support certain former employees in France in their post-termination entrepreneurial plans, including providing loans to the former employees. We will pay service fees estimated at €100,000 in 2013 to Total and 10% of employee loans' principal amount (estimated at €55,000).

AUDIT COMMITTEE REPORT

The Audit Committee of our Board of Directors serves as the representative of the Board of Directors with respect to its oversight of:

- our accounting and financial reporting processes and the audit of our financial statements;
- the integrity of our financial statements;
- our internal controls;
- our compliance with legal and regulatory requirements and efficacy of and compliance with our corporate policies;
- the independent registered public accounting firm's appointment, qualifications and independence; and
- the performance of our internal audit function.

The Audit Committee also reviews the performance of our independent registered public accounting firm, Ernst & Young LLP, in the annual audit of financial statements and in assignments unrelated to the audit, and reviews the independent registered public accounting firm's fees.

The Audit Committee provides the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board. The Audit Committee reviews our financial disclosures, and meets privately, outside the presence of our management, with our independent registered public accounting firm. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements in our Annual Report on Form 10-K for our fiscal year ended December 30, 2012 with management, including a discussion of the quality and substance of the accounting principles, the reasonableness of significant judgments made in connection with the audited financial statements, and the clarity of disclosures in the financial statements. The Audit Committee reports on these meetings to our Board of Directors.

Our management has primary responsibility for preparing our financial statements and for our financial reporting process. In addition, our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our independent registered public accounting firm, Ernst & Young LLP, is responsible for expressing an opinion on the conformity of our financial statements to generally accepted accounting principles, and on the effectiveness of our internal control over financial reporting.

The Audit Committee reports as follows:

(1) The Audit Committee has reviewed and discussed the audited financial statements for fiscal year 2012 with our management.

(2) The Audit Committee has discussed with Ernst & Young LLP, our independent registered public accounting firm, the matters required to be discussed by statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

(3) The Audit Committee has received the written disclosures and the letter from Ernst & Young LLP required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee regarding independence, and has discussed with Ernst & Young LLP its independence, including whether Ernst & Young LLP's provision of non-audit services to us is compatible with its independence.

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the independent registered public accounting firm. The policy provides for pre-approval by the Audit Committee (or its Chair pursuant to delegated authority) of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that fiscal year, the Audit Committee (or its Chair pursuant to delegated authority) must approve the specific service before the independent registered public accounting firm is engaged to perform such services for us.

Based on the review and discussion referred to in items (1) through (3) above, the Audit Committee recommended to our Board of Directors, and the Board approved, the inclusion of our audited financial statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2012, as filed with the SEC.

The foregoing report was submitted by the Audit Committee of the Board and shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A promulgated by the SEC or Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any prior or subsequent filing by us under the Securities Act of 1933 or the Exchange Act.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Thomas R. McDaniel, Chair
Pat Wood III

February 19, 2013

DIRECTOR COMPENSATION

The following table sets forth a summary of the compensation we paid to our non-employee directors for fiscal 2012. Ms. Lesjak was not a director during fiscal 2012 and is not included in the table below.

2012 Director Compensation Table

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)(3)	Total ($)
W. Steve Albrecht (4)	50,009	149,991	200,000
Betsy S. Atkins (5)	87,511	224,902	312,413
Arnaud Chaperon	0	0	0
Bernard Clement	0	0	0
Denis Giorno	0	0	0
Jean-Marc Otero del Val (4)	0	0	0
Thomas R. McDaniel	100,012	299,900	$399,912
Jérôme Schmitt (4)	0	0	0
Humbert de Wendel	0	0	0
Pat Wood III	112,512	299,900	$412,412

(1) The amounts reported in this column represent the aggregate cash retainers and payments for fractional shares received by the non-employee directors for 2012, but do not include amounts reimbursed to the non-employee directors for expenses incurred in attending Board and committee meetings.

(2) The amounts reported in this column represent the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board (or FASB) ASC Topic 718 for restricted stock units granted to our non-employee directors in 2012, as further described below. Each non-employee director received the following grants of restricted stock units on the following dates with the following grant date fair values (please note that some amounts reported may not add up exactly due to rounding on an award-by-award basis):

Non-Employee Director	Grant Date	Restricted Stock Units (#)	Grant Date Fair Value ($)
W. Steve Albrecht	02/13/2012	9,578	74,996
	05/11/2012	13,537	74,995
Betsy Atkins	02/13/2012	9,578	74,996
	05/11/2012	13,537	74,995
	08/13/2012	17,523	74,911
Thomas R. McDaniel	02/13/2012	9,578	74,996
	05/11/2012	13,537	74,995
	08/13/2012	17,523	74,911
	11/12/2012	16,304	74,998
Pat Wood III	02/13/2012	9,578	74,996
	05/11/2012	13,537	74,995
	08/13/2012	17,523	74,911
	11/12/2012	16,304	74,998

(3) As of December 30, 2012, the following non-employee directors held options for the following number of shares: Mr. Albrecht, 12,000; Ms. Atkins, 7,500; and Mr. Wood, 48,000.

(4) Messrs. Albrecht and Otero del Val resigned from the Board effective June 21, 2012 pursuant to the terms of the Affiliation Agreement with Total Energies Nouvelles Activités USA, SAS. Mr. Otero del Val replaced Mr. Schmitt on the Board effective April 30, 2013.

(5) Ms. Atkins resigned from the Board effective August 31, 2012.

2012 Director Compensation Program

We paid each of our non-employee directors the following compensation in 2012:

- an annual fee of $400,000 ($100,000 quarterly) for our non-employee directors other than the Chairman of the Board for service on our Board and on Board committees;
- an annual fee of $450,000 ($112,500 quarterly) to our Chairman of the Board for service on our Board and on Board committees; and
- an additional annual fee of $25,000 ($6,250 quarterly) to the lead independent director.

These annual fees are prorated on a quarterly basis for any director that joins the Board during the year. The $25,000 additional fee payable to the lead independent director is paid in cash. All of the fees payable to the Chairman of the Board are paid in the form of restricted stock units. The other fees are paid on a quarterly basis, 25% in cash on or about the date of the Board meeting and 75% in the form of fully-vested restricted stock units on the 11th day in the second month of each quarter (or on the next trading day if such day is not a trading day). The restricted stock units are settled in shares of our common stock within seven days of the date of grant. Because Mr. Werner is our President and Chief Executive Officer, he is not separately compensated for his service as Chairman of the Board. Similarly, because each of our Total nominated directors do not qualify as independent directors under our director compensation policy, such individuals receive no director compensation.

PROPOSAL TWO

ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and Section 14A of the Exchange Act, we are asking our stockholders to again vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC's rules.

As described in detail under the headings "*Compensation Discussion and Analysis*" and "*Executive Compensation*," we have adopted an executive compensation philosophy designed to deliver competitive total compensation to our executive officers upon the achievement of financial and strategic performance objectives. In order to implement that philosophy, the Compensation Committee has established a disciplined process for the adoption of executive compensation programs and individual executive officer pay actions that includes the analysis of competitive market data, a review of each executive officer's role, performance assessments and consultation with the Compensation Committee's independent compensation consultant. Please read the "*Compensation Discussion and Analysis*" beginning on page 43 and "*Executive Compensation*" beginning on page 56 for additional details about our executive compensation programs, including information about the fiscal year 2012 compensation of our named executive officers.

2012 SunPower Performance. We delivered strong financial and operational results for fiscal year 2012 despite the challenges the global economy and credit markets experienced during that period:

- We grew revenues in 2012 to $2.4 billion.
- We sold our 579 megawatt Antelope Valley Solar Project to MidAmerican Energy Holding Company, which is the biggest utility scale solar project in the world, for between $2.0 billion and $2.5 billion.
- We installed 131 megawatts for the 250-megawatt California Valley Solar Ranch project, and are on track to complete construction in 2013.
- We surpassed our manufacturing cost reduction targets by achieving more than 25 percent blended panel cost reduction in 2012.
- We ramped-up our residential lease program in the United States across nine states, with more than 14,000 customers and 114 megawatt booked at the end of 2012.
- We signed a joint venture agreement with partners in China to deliver SunPower's C7 Tracker concentrator technology into the Chinese market, and extended our long-term relationship with Toshiba to serve the Japanese market.
- We began production of our third-generation Maxeon solar cell and the industry's first 21.5 % efficient solar panel.

2012 Compensation Features. Our compensation programs are intended to align our named executive officers' interests with those of our stockholders by rewarding performance that meets or exceeds the goals that the Compensation Committee establishes with the objective of increasing stockholder value. The Compensation Committee continually reviews the compensation programs for our named executive officers to ensure they achieve the desired goals of aligning our executive compensation structure with our stockholders' interests and current market practices. Among the program features incorporated by the Compensation Committee in fiscal year 2012 to implement the executive compensation philosophy stated above are the following:

- Revenue, adjusted profit before tax, and corporate milestone performance targets determined the actual payouts under our performance-based cash bonus programs (specifically, the 2012 Annual Bonus Program and the 2012 Quarterly Bonus Program) for our named executive officers.

- Long-term incentives in the form of time- and performance-based restricted stock units make up a large portion of each named executive officer's compensation and are linked to the long-term performance of our stock. Restricted stock units generally vest over three years, and performance-based restricted stock units are earned only after the achievement of corporate performance targets and also vest over a three-year period.
- Earning performance-based restricted stock units depends on the achievement of revenue and adjusted profit before tax performance targets.
- Individual performance was additionally measured each quarter based on each named executive officer's achievement of his personal Key Initiatives, which support our corporate, strategic and operational milestones. An individual's personal Key Initiative score would result in no award being payable under the 2012 Quarterly Bonus Program even if we achieved our corporate targets if the personal Key Initiative score was determined to be zero.
- Our change of control severance agreements do not entitle our named executive officers to payment without termination of employment following a change of control.

Our financial and operational performance described above was the key factor in the compensation decisions and outcomes for fiscal year 2012, as further described in "*Compensation Discussion and Analysis*" and "*Executive Compensation*." One of the core tenets of our executive compensation philosophy is our emphasis on performance pay. As highlighted in the Compensation Components chart in "*Compensation Discussion and Analysis*," in fiscal 2012 a large portion of our named executive officers' target compensation (87% for our Chief Executive Officer and averaging 78% for our other named executive officers, excluding Mr. Arriola) was delivered in the form of annual and quarterly bonus programs, as well as long-term equity incentives, including retention equity awards.

The Compensation Committee believes that our executive compensation programs, executive officer pay levels and individual pay actions approved for our executive officers, including our named executive officers, are directly aligned with our executive compensation philosophy and fully support its goals. We are asking our stockholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, the Board recommends that our stockholders vote "FOR" the following resolution at the Annual Meeting:

> "RESOLVED, that, on an advisory basis, the compensation of SunPower's named executive officers, as disclosed in the Compensation Discussion and Analysis, compensation tables and related narratives and descriptions in SunPower's proxy statement for the Annual Meeting, is hereby APPROVED."

Vote Required

The non-binding advisory vote on named executive officer compensation requires the affirmative vote of the holders of a majority of our stock having voting power and present in person or represented by proxy and entitled to vote at the Annual Meeting. "Broker non-votes" and abstentions will not count as votes in favor of the advisory vote on executive compensation and abstentions, but not "broker non-votes," will have the effect of votes against this proposal.

Although the say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or our Board, our Board and our Compensation Committee value the opinions of our stockholders. To the extent there is any significant vote against our named executive officers' compensation as disclosed in this proxy statement, we expect to consider our stockholders' concerns and the Compensation Committee expects to evaluate whether any actions are necessary to address those concerns.

Next Advisory Vote on Named Executive Officers' Compensation

In a non-binding advisory vote at our 2011 Annual Meeting, our stockholders recommended that a non-binding advisory vote to approve the compensation of SunPower's named executive officers be presented to stockholders for their consideration every year. In light of the result of this vote, our Board determined to implement a non-binding advisory stockholder vote on named executive officers' compensation once every year. Therefore, the next non-binding advisory stockholder vote on named executive officers' compensation will occur at the 2014 annual stockholders meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.

EXECUTIVE OFFICERS

Certain information, as of June 10, 2013, regarding each of our executive officers is set forth below.

Name	Age	Position
Thomas H. Werner	53	President, Chief Executive Officer and Chairman of the Board
Charles D. Boynton	45	Executive Vice President and Chief Financial Officer
Howard J. Wenger	53	President, Regions
Marty T. Neese	50	Chief Operating Officer
Lisa Bodensteiner	51	Executive Vice President, General Counsel and Corporate Secretary
Douglas J. Richards	54	Executive Vice President, Administration
Eric Branderiz	48	Senior Vice President, Corporate Controller and Principal Accounting Officer

Mr. Thomas H. Werner has served as our President and Chief Executive Officer since May 2010, a member of our Board since June 2003, and Chairman of the Board of Directors since May 2011. From June 2003 to April 2010, Mr. Werner served as our Chief Executive Officer. Prior to joining SunPower, from 2001 to 2003, he held the position of Chief Executive Officer of Silicon Light Machines, Inc., an optical solutions subsidiary of Cypress Semiconductor Corporation. From 1998 to 2001, Mr. Werner was Vice President and General Manager of the Business Connectivity Group of 3Com Corp., a network solutions company. He has also held a number of executive management positions at Oak Industries, Inc. and General Electric Co., and currently serves as a board member of Cree, Inc., Silver Spring Networks, and the Silicon Valley Leadership Group. Mr. Werner is on the Board of Trustees of Marquette University. Mr. Werner holds a bachelors degree in industrial engineering from the University of Wisconsin Madison, a bachelor’s degree in electrical engineering from Marquette University and a master’s degree in business administration from George Washington University.

Mr. Charles D. Boynton has served as our Executive Vice President and Chief Financial Officer since March 2012. In March 2012, Mr. Boynton also served as our Acting Financial Officer. From June 2010 to March 2012, he served as our Vice President, Finance and Corporate Development, where he drove strategic investments, joint ventures, mergers and acquisitions, field finance and finance, planning and analysis. Prior to joining SunPower in June 2010, Mr. Boynton was the Chief Financial Officer for ServiceSource, LLC from April 2008 to June 2010. From March 2004 to April 2008 he served as the Chief Financial Officer at Intelliden. Earlier in his career, Mr. Boynton held key financial positions at Commerce One, Inc., Kraft Foods, Inc. and Grant Thornton, LLP. He is a member of the board of trustees of the San Jose Technology Museum of Innovation. Mr. Boynton was a certified public accountant, State of Illinois, and a Member FEI, Silicon Valley Chapter.

Mr. Howard J. Wenger has served as our President, Regions since November 2011. From January 2010 to October 2011, Mr. Wenger served as President, Utilities and Power Plants. From August 2008 to January 2010, Mr. Wenger served as President, Global Business Units, and led all of our business units since January 2007 as an executive officer of the Company. From 2003 to 2007, Mr. Wenger served as Executive Vice President and a member of the board of directors of PowerLight Corporation, a solar system integration company that we acquired in January 2007 and subsequently renamed SunPower Corporation, Systems with Mr. Wenger serving as President. From 2000 to 2003, Mr. Wenger was Vice President, North American Business of AstroPower Inc., a solar power manufacturer and system provider acquired by General Electric, and from 1998 to 2000 he was the Director, Grid-Connected Business. From 1993 to 1998, Mr. Wenger co-founded and managed Pacific Energy Group, a solar power consulting firm and, from 1989 to 1993, Mr. Wenger worked for the Pacific Gas & Electric Company, a utility company in northern California, in both research and strategic planning of solar and distributed generation assets.

Mr. Marty T. Neese has served as our Chief Operating Officer since June 2008. From October 2007 to June 2008, Mr. Neese served as Executive Vice President, Worldwide Operations of Flextronics International Ltd., a manufacturing services company. From September 2004 to October 2007, Mr. Neese served in a variety of senior management positions at Solectron Corporation, a manufacturing services company, most recently as its Executive Vice President, Worldwide Operations.

Ms. Lisa Bodensteiner has served as our Executive Vice President, General Counsel and Corporate Secretary since June 2012. From April 2009 to June 2012, Ms. Bodensteiner served in roles with increasing responsibility, and most recently as General Counsel, Project Development at First Solar Inc. From October 2007 to April 2009, Ms. Bodensteiner served as Vice President and General Counsel at OptiSolar Inc., a privately held, vertically integrated solar energy producer, manufacturer of proprietary thin-film photovoltaic solar panels and developer of utility-scale solar farms. Prior to OptiSolar, Ms. Bodensteiner had more than a decade of experience at Calpine Corporation, serving in various legal roles including as Executive Vice President, General Counsel, Secretary and Chief Compliance Officer. From 1989 to 1996, Ms. Bodensteiner practiced as a transactional attorney at law firms.

Mr. Douglas J. Richards has served as our Executive Vice President, Administration since November 2011. From April 2010 to October 2011, Mr. Richards served as our Executive Vice President, Human Resources and Corporate Services. From September 2007 to March 2010, Mr. Richards served as our Vice President, Human Resources and Corporate Services. From 2006 to 2007, Mr. Richards was Vice President of Human Resources and Administration for SelectBuild, a construction services company and a wholly-owned subsidiary of BMHC, and from 2000 to 2006, Mr. Richards was Senior Vice President of Human Resources and Administration for BlueArc, a provider of high performance unified network storage systems to enterprise markets. Prior to BlueArc, Mr. Richards spent 10 years at Compaq Computer Corporation and 5 years at Apple Computer, Inc. in various management positions.

Mr. Eric Branderiz has served as our Senior Vice President, Corporate Controller and Principal Accounting Officer since August 2012, and was Vice President, Corporate Controller and Principal Accounting Officer between September 2011 to July 2012, responsible for all financial accounting, customer global shared services, regional controllership, regional planning and global business finance manufacturing operations. Since first quarter 2013, Mr. Branderiz also leads the global operations and finance organization for the residential and light commercial business, responsible for global order management and fulfillment as well as product offering design and optimization. From June 2010 to August 2011, Mr. Branderiz served as our Vice President and Corporate Controller. Mr. Branderiz was the Vice President, Corporate Controller, Treasurer, and Head of Subsidy Business Operations for the Knowledge Learning Corporation (KLC) from May 2009 to May 2010. Prior to KLC, he served in various positions at Spansion, Inc. from June 2003 to April 2009, including as the Corporate Vice President, Corporate Finance & Corporate Controller. Before Spansion's initial public offering, Mr. Branderiz served in several concurrent capacities as Corporate Controller, Head of Corporate Financial Planning & Analysis, Head of Regional Sales & Marketing Finance, and Internal Controls. Prior to Spansion, Mr. Branderiz held various positions at Advanced Micro Devices, Inc., including American Controller, Ernst & Young, LLP, and the Provincial Branch of Consumer & Corporate Affairs and Treasury Departments in Canada. He is a licensed Certified Public Accountant.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis provides a detailed review and analysis of our compensation policies and programs that applied to our named executive officers during the fiscal year ended December 30, 2012. These executive officers consisted of our Chief Executive Officer, our Chief Financial Officer, our former Chief Financial Officer, and the next three most highly compensated executive officers serving as of December 30, 2012. We refer to these six executive officers (or former executive officers), whose names and titles are included in the following table, collectively as our named executive officers:

Name	Title
Thomas H. Werner	President and Chief Executive Officer
Charles D. Boynton	Executive Vice President and Chief Financial Officer
Howard J. Wenger	President, Regions
Marty T. Neese	Chief Operating Officer
Douglas J. Richards	Executive Vice President, Administration
Dennis V. Arriola	Former Executive Vice President and Chief Financial Officer

Mr. Arriola's employment with the Company terminated on March 5, 2012 and Mr. Boynton became Acting Chief Financial Officer effective March 6, 2012. On March 21, 2012, Mr. Boynton was appointed Executive Vice President and Chief Financial Officer. Since Mr. Arriola indicated his intention to leave the Company in November 2011, he did not participate in the cash bonus program or restricted stock compensation program for 2012 described below.

Executive Summary

Our compensation programs are intended to align our named executive officers' interests with those of our stockholders by rewarding performance that meets or exceeds the goals that the Compensation Committee establishes with the ultimate objective of increasing stockholder value. We have adopted an executive compensation philosophy designed to deliver competitive total compensation upon the achievement of financial and strategic performance objectives. The total compensation received by our named executive officers will vary based on corporate and individual performance, as measured against performance goals. Therefore, a significant portion of each named executive officer's total pay is tied to Company performance (see the "2012 Compensation Components" chart below).

We delivered strong financial and operational results for fiscal year 2012 despite the challenges the global economy and credit markets experienced during that period:

- We grew revenues in 2012 to $2.4 billion.
- We sold our 579 megawatt Antelope Valley Solar Project to MidAmerican Energy Holding Company, which is the biggest utility scale solar project in the world, for between $2.0 billion and $2.5 billion.
- We installed 131 megawatts for the 250-megawatt California Valley Solar Ranch project, and are on track to complete construction in 2013.
- We surpassed our manufacturing cost reduction targets by achieving more than 25 percent blended panel cost reduction in 2012.
- We ramped-up our residential lease program in the United States across nine states, with more than 14,000 customers and 114 megawatts booked at the end of 2012.
- We signed a joint venture agreement with partners in China to deliver SunPower's C7 Tracker concentrator technology into the Chinese market, and extended our long-term relationship with Toshiba to serve the Japanese market.
- We began production of our third-generation Maxeon solar cell and the industry's first 21.5% efficient solar panel.

For fiscal 2012, our financial performance was the key factor in the compensation decisions and outcomes for the fiscal year. In fiscal 2012, the highlights of our named executive officer compensation program were as follows:

- Revenue, adjusted profit before tax, and corporate milestone performance targets determined the actual payouts under our performance-based cash bonus programs (specifically, the 2012 Annual Bonus Program and the 2012 Quarterly Bonus Program) for our named executive officers. Performance with respect to these performance targets reached the threshold performance level and resulted in payment of cash bonus awards. Performance thresholds and targets are further described below in "*Executive Compensation—Non-Equity Incentive Plan Compensation*."
- Long-term incentives in the form of time- and performance-based restricted stock units make up a large portion of each named executive officer's compensation and are linked to the long-term performance of our stock. Restricted stock units generally vest over three years, and performance-based restricted stock units are earned only after the achievement of corporate performance targets and also vest over a three-year period.
- Earning performance-based restricted stock units depends on the achievement of revenue and adjusted profit before tax performance targets. Performance with respect to both performance targets exceeded the threshold performance level, which resulted in payment of equity awards with respect to both portions of the performance-based restricted stock units. Performance thresholds and targets are further described below in "*Executive Compensation—Equity Incentive Plan Compensation*."
- Individual performance was additionally measured each quarter based on each named executive officer's achievement of his personal Key Initiatives, which support our corporate, strategic and operational milestones. An individual's personal Key Initiative score would result in no award being payable under the 2012 Quarterly Bonus Program even if we achieved our corporate targets if the personal Key Initiative score was determined to be zero. We made payments under our 2012 Quarterly Bonus Program after we exceeded the threshold performance level.
- In 2012, we did not raise the salary of Mr. Werner, our Chief Executive Officer, or Mr. Arriola, who indicated his intention to leave the Company in November 2011. We raised the salaries of our other named executive officers from 8% to 13%, except for Mr. Boynton, who received two salary increases in 2012 totaling 45% because of his promotion to Executive Vice President and Chief Financial Officer and due to his outstanding performance during the year.
- Our change of control severance agreements do not entitle our named executive officers to payment without termination of employment following a change of control.

In fiscal 2012 a large portion of our named executive officers' target compensation (87% for our Chief Executive Officer and averaging 78% for our other named executive officers, excluding Mr. Arriola) was delivered in the form of annual and quarterly bonus programs, as well as long-term equity incentives, including retention equity awards. Despite the challenging market environment, we delivered strong financial and operational results and met the thresholds for our performance-based cash bonus programs and performance-based restricted stock unit awards.

At our 2012 Annual Meeting of Stockholders, our stockholders voted to approve, on an advisory basis, the compensation of our named executive officers, as disclosed in the proxy statement for that meeting. We refer to this vote as our Say on Pay vote. Our Compensation Committee considered the results of the Say on Pay vote (which received 85% approval of the votes cast) at its meetings subsequent to the Say on Pay vote when it set annual executive compensation. After our Compensation Committee reviewed the stockholders' approval of the Say on Pay vote in 2012, and in light of our controlling stockholder Total Energies Nouvelles Activités USA, SAS's ("Total") input, our Compensation Committee decided to generally maintain the 2011 compensation policies and programs for our named executive officers in 2012 as it believed such programs continued to be in the best interest of our stockholders.

The following discussion should be read together with the information we present in the compensation tables, the footnotes and narratives to those tables and the related disclosure appearing in "*Executive Compensation*" below.

General Philosophy and Objectives

For fiscal 2012, we continued to operate a compensation program designed primarily to reward our named executive officers for outstanding financial performance and achievement of corporate objectives consistent with increasing long-term stockholder value. Our compensation program continued to be based on the following primary goals:

- aligning executive compensation with business objectives and performance;
- enabling us to attract, retain and reward executive officers who contribute to our long-term success;
- attracting and retaining the best people in the industry; and
- providing additional long-term incentives to executives to work to maximize stockholder value.

In order to implement our philosophy, the Compensation Committee has established a disciplined process for the adoption of executive compensation programs and individual executive officer pay actions that includes the analysis of competitive market data, a review of each executive officer's role, performance assessments and consultation with the Compensation Committee's independent compensation consultant, as described below.

The Compensation Committee believes that the most effective executive compensation program is one that rewards the achievement of specific corporate and financial goals by rewarding our named executive officers when those goals are met or exceeded, with the ultimate objective of increasing stockholder value. In addition, the mix of base salary, performance-based cash awards and equity-based awards provides proper incentives without encouraging excessive risk taking. We believe that the risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on the Company.

Compensation Setting Process

The Compensation Committee is responsible for managing the compensation of our executive officers, including our named executive officers, in a manner consistent with our compensation philosophy. In accordance with the "controlled company" exception under the applicable listing standards of the Nasdaq Global Select Market, our Compensation Committee consists of two independent directors and two directors designated by our controlling stockholder, Total. We also have a Section 162(m) sub-committee of the Compensation Committee available to approve certain compensation matters in accordance with Section 162(m) of the Internal Revenue Code, as may be determined by the Compensation Committee. The Compensation Committee establishes our compensation philosophy and objectives and annually reviews and, as necessary and appropriate, adjusts each named executive officer's compensation. Consistent with its philosophy, the Compensation Committee offered our named executive officers total target compensation opportunities ranging from the 50^{th} percentile to the 75^{th} percentile of our peer group of companies (as further described below) during fiscal 2012. When determining appropriate compensation for the named executive officers, the Compensation Committee considered the advice of an independent compensation consultant, recommendations from management and internal compensation specialists, practices of companies within our peer group, Company performance, the Company's business plan and individual performance. As part of this process, the compensation consultant prepared a competitive analysis of our compensation program, and management presented its recommendations regarding base salary, time- and performance-based equity awards and performance targets under our 2012 Annual Bonus Program and 2012 Quarterly Bonus Program to the Compensation Committee for its review and consideration. The Compensation Committee accepts, rejects or accepts as modified management's various recommendations regarding compensation for the named executive officers other than the Chief Executive Officer. The Compensation Committee also approves, after modification, management's recommendations on various performance targets and milestones. The Compensation Committee met without the Chief Executive Officer when reviewing and establishing his compensation.

Compensation Consultant and Peer Group

For fiscal 2012, the Compensation Committee again directly engaged and retained Radford, a business unit of Aon Hewitt and a compensation consulting firm, to identify and maintain a list of our peer group of companies. The Compensation Committee selected Radford because they are the premiere compensation consultant in the technology industry. The Compensation Committee established the peer group that we used for 2012 compensation decisions consistent with the Compensation Committee's belief that the peer group should closely match our business, and be based on the current and anticipated growth that we have experienced and expect to experience. Our peer group in 2012 was almost the same as our peer group in 2011 and was selected based on the following factors:

- North American companies in the Cleantech Index;
- Companies having at least 50% and no more than two times SunPower's annual revenue; and
- Companies that are comparable in other size and performance metrics: number of employees, revenue per employee, last fiscal year revenue and net income, market capitalization, ratio of market capitalization to revenue, and market capitalization per employee.

The Compensation Committee believes our 2012 peer group closely matches our core business. The companies included in our peer group for fiscal 2012 are listed below:

- Advanced Micro Devices, Inc.
- Altera Corporation
- Analog Devices, Inc.
- Baldor Electric Company
- Energizer Holdings, Inc.
- Fairchild Semiconductor International, Inc.
- First Solar, Inc.
- FLIR Systems, Inc.
- JDS Uniphase Corporation
- Juniper Networks, Inc.
- KLA-Tencor Corporation
- MEMC Electronic Materials, Inc.
- National Semiconductor Corporation
- ON Semiconductor Corporation
- Polycom, Inc.
- Quanta Services, Inc.
- Roper Industries, Inc.
- Waters Corporation
- Xilinx, Inc.

Compared to the peer group, we are in the 75^{th} percentile for revenues per employee, the 50th percentile in revenues, around the 30^{th} percentile in net income, number of employees and market capitalization per employee, and around the 10^{th} percentile in market capitalization and ratio of market capitalization to revenue.

With respect to each company in our peer group, Radford provided compensation data including base salaries, cash bonus awards as a percentage of base salaries, total cash compensation, and equity awards. In 2012, Radford also advised the Compensation Committee in connection with evaluating our compensation practices, developing and implementing our executive compensation program and philosophy, establishing total compensation targets, and setting specific compensation components to reach the determined total compensation targets. We also participated in the Radford Global Technology Survey. Radford did not provide any services to the Company other than advising the Compensation Committee and the Company, at the direction of the Compensation Committee, on executive compensation issues. We have considered and assessed all relevant factors, including, but not limited to, those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Securities Exchange Act of 1934, that could give rise to a potential conflict of interest with respect to the compensation consultant described above. Based on this review, we are not aware of any conflict of interest that has been raised by the work performed by Radford.

Benchmarking

In making its key compensation decisions for the named executive officers for fiscal 2012, the Compensation Committee specifically benchmarked each named executive officer's total compensation to the compensation of individuals in comparative positions at companies in the peer group based on information that management obtained from public filings supplemented by data Radford provided from surveys. In general, the Compensation Committee initially established base salaries at or below the 50^{th} percentile of the peer group and both performance-based cash bonus awards and long-term time- and performance-based equity awards generally above the 50^{th} percentile of the peer group. The Compensation Committee provided a considerably greater proportion of our named executive officers' total compensation in the form of variable, "at risk" pay than that provided by our peers, and gave our named executive officers an opportunity to earn more than their counterparts through strong performance. In establishing incentive opportunities, the Compensation Committee focused on corporate performance so that if our corporate performance was achieved at target levels, the Compensation Committee expected that our named executive officers' total pay would be above the 50^{th} percentile up to the 75^{th} percentile. The Compensation Committee viewed benchmarking as just the beginning, and not the end, of its discussion regarding our named executive officers' pay opportunities for fiscal 2012, and looked to individual performance, the named executive officer's experience in the executive role, and the executive's scope of responsibility being narrower or broader than that of comparable positions at our peer group companies to establish final pay opportunities either above or below the initial benchmarks. The Compensation Committee considered the performance of the named executive officers in approving their compensation in 2012, in particular:

- Mr. Werner was recognized for his leadership in 2011 and successful development and execution of Company strategy in a difficult solar environment, including growing the Company's revenues, selling the 250 megawatt California Valley Solar Ranch project, and signing power purchase agreements with Southern California Edison totaling 771 megawatts;
- Mr. Boynton, who in his previous role as Vice President, Finance and Corporate Development in 2011, excelled at financial planning and corporate development, and his ability and potential to undertake greater responsibilities as the Company's chief financial officer;
- Mr. Wenger was recognized for his expanded scope in covering all customer facing activities as President, Regions (including residential, commercial and utilities sectors), major customer acquisition and his success in securing utility projects that resulted in significant ongoing revenue for the Company;
- Mr. Neese was noted for meeting and exceeding targets to reduce the cost of manufacturing through strategic sourcing and internal efficiency initiatives, and continued high manufacturing product yield and quality; and
- Mr. Richards' contributions included restructuring the organization at the end of 2011 to better align the Company's resources to drive revenue growth and enable efficient decision making, establishing employment centers in lower cost locations, and undertaking his new role managing information technology. Mr. Richards' contributions included the development and execution of a comprehensive organization and workforce plan to better align the Company's resources to drive revenue growth and enable efficient decision making, establishing employment centers in lower cost locations, and undertaking his new role managing information technology.

The Compensation Committee believes that this strongly links our named executive officers' pay to their and our performance, and best aligns our named executive officers' compensation interests with the interests of our stockholders.

2012 Compensation Components

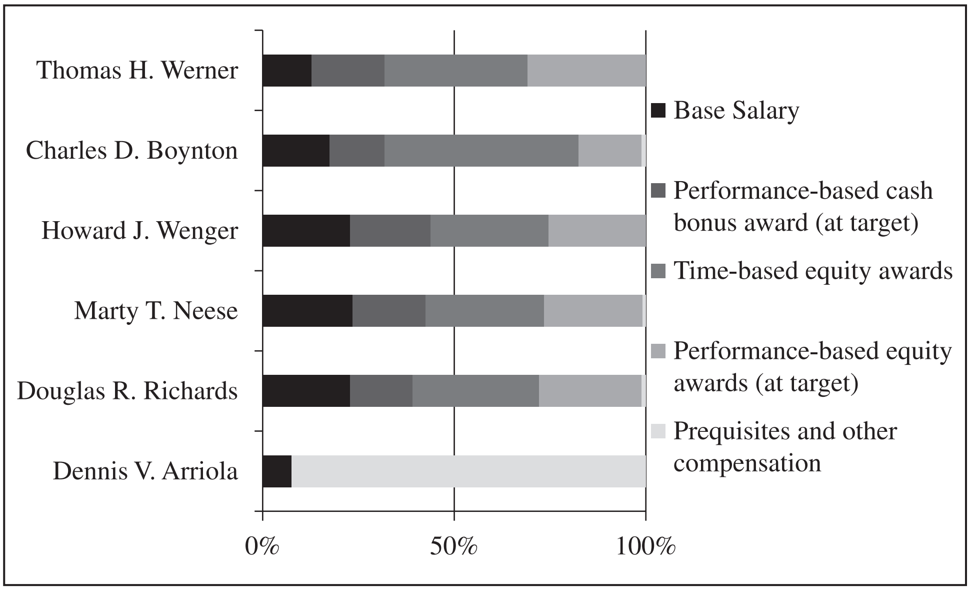
For fiscal 2012, the Compensation Committee allocated total compensation among various pay elements consisting of base salary, performance-based cash bonus awards, time-based equity awards, performance-based equity awards, and perquisites and other compensation. The table below provides an overview of each element of compensation and is followed by a further discussion and analysis of the specific decisions that we made for each element for fiscal 2012:

Compensation Component	Objective and Basis	Form	Practice
Base salary	Fixed compensation that is set at a competitive level for each position to reward demonstrated experience and skills.	Cash	Competitive market ranges are generally established at or below the 50th percentile.
Performance-based cash bonus awards	Quarterly and annual incentives that drive Company performance and align executives' interests with stockholders' interests.	Cash	Target incentives are set as a percentage of base salary and are based on benchmarking from the 50th to the 75th percentile. Actual payment is calculated based on achievement of corporate and individual goals.
Time-based equity awards	Long-term incentive that aligns executives' interests with stockholders' interests and helps retain executives through long-term vesting periods.	Restricted stock units	Equity awards (time-based plus performance-based) generally between the 50th percentile and the 75th percentile.
Performance-based equity awards	Long-term incentive that drives Company performance and aligns executives' interests with stockholders' interests and helps retain executives through long-term vesting periods.	Performance stock units	Equity awards (time-based plus performance-based) generally between the 50th percentile and the 75th percentile. Actual payment is calculated based on achievement of corporate goals.
Perquisites and other compensation	Offered to attract and retain talent and to maintain competitive compensation packages.	Various	Named executive officers are eligible to participate in health and welfare benefits and 401(k) matching available to all employees. Named executive officers are parties to employment agreements that provide for certain severance benefits.

The relative proportion of each element for fiscal 2012 was based generally on the Compensation Committee's comparison of compensation that we offered our executive officers against compensation offered by peer group companies to their executive officers, the tax and accounting consequences of certain types of equity compensation, and a desire to allocate a higher proportion of total compensation to performance-based and equity incentive awards.

The components of compensation for the named executive officers for 2012 are set forth below. This composition is consistent with our philosophy of aligning our named executive officers' interests with those of our stockholders by tying a significant portion of their total compensation to corporate performance goals and providing long-term incentives in the form of equity awards.

2012 Compensation Components



Analysis of Fiscal 2012 Compensation Decisions

Base Salary. For fiscal 2012, with the exception of Messrs. Werner and Arriola, each named executive officer received an increase in base salary after we evaluated competitive market compensation paid by companies in our competitive peer group for similar positions. Mr. Boynton's salary was raised given his new role as our Executive Vice President and Chief Financial Officer. In addition, Mr. Boynton received a second salary increase in November 2012 due to the Compensation Committee's determination of Mr. Boynton's strong performance, in particular his ability to finance our major utility projects and his ability to excel at working with the Finance Committee of the Board. After such salary increase, Mr. Boynton's salary still remained below the 50th percentile. We believe that base salaries for executive officers should be initially targeted at or below the 50th percentile of the range of salaries for executive officers in similar positions and with similar responsibilities at comparable companies. Our Chief Executive Officer's base salary is targeted below the 50th percentile, as we believe that his compensation should be more aligned with the overall performance of our Company. This initial benchmarking is in line with our compensation philosophy, which in part is to help us best attract, retain and equitably reward our executives.

The table below sets forth the salaries in effect in fiscal 2012 compared to the salaries in effect in fiscal 2011 for each of our named executive officers:

Name	2011 Base Salary (1)	2012 Base Salary (2)	% Increase
Thomas H. Werner	\$600,000	\$600,000	0%
Charles D. Boynton	\$278,658	\$405,000	45%
Howard J. Wenger	\$400,000	\$450,000	13%
Marty T. Neese	\$415,000	\$450,000	8%
Douglas R. Richards	\$320,000	\$350,000	9%
Dennis V. Arriola (3)	\$440,000	\$440,000	0%

(1) These amounts represent 2011 base salaries after April 1, 2011.
(2) Except for Mr. Arriola, these amounts represent 2012 base salaries after April 1, 2012. Mr. Boynton's salary was initially increased to \$350,000 effective April 1, 2012, and then increased again to \$405,000 effective December 1, 2012. The amount listed for Mr. Arriola was his annual base salary rate for the portion of 2012 during which he was employed by the Company.
(3) Mr. Arriola's employment with the Company terminated on March 5, 2012.

Our Compensation Committee approves the employee salary for our Chief Executive Officer, and that of each named executive officer below the Chief Executive Officer level. For those below the Chief Executive Officer level our Compensation Committee takes into account the Chief Executive Officer's recommendation. Our Chief Executive Officer's recommendations with respect to the compensation of the other named executive officers were approved by the Compensation Committee. The Compensation Committee reviews base salaries annually, and adjusts base salaries from time to time to realign salaries with market levels, based on the information provided by Radford, after taking into account an individual's prior performance, experience, criticality of position and expected future performance. Based on information presented to our Compensation Committee by Radford regarding market ranges for salaries at peer group companies, we determined that our named executive officers' 2012 base salaries were established below or at approximately the 50th percentile of our peer group of companies. When salaries were established below the 50th percentile (excluding our Chief Executive Officer), it was due to the consideration of the named executive officer's experience in the executive role or the executive's scope of responsibility being narrower than that of comparable positions at our peer group companies.

Performance-Based Cash Bonus Awards. We maintained two performance-based cash bonus programs during fiscal 2012. The first program was our Annual Executive Bonus Plan, under which we adopted the 2012 Annual Bonus Program. The second plan was our Executive Quarterly Key Initiative Bonus Plan, which is effective quarterly on an ongoing basis and which for 2012 we refer to as our 2012 Quarterly Bonus Program. We have two cash bonus programs because the 2012 Annual Bonus Program ties bonus payments to corporate financial goals, while the 2012 Quarterly Bonus Program ties bonus payments to both corporate and individual performance goals. These programs allow us to provide performance-based cash bonus awards that align executive compensation with corporate and financial objectives and performance.

We set base salaries for our executive officers at or below the 50th percentile, and we relied on performance-based cash bonus awards to elevate target total cash compensation to at least the 50th percentile. For each named executive officer, an overall target bonus opportunity was established at the 50th percentile, except for our Chief Executive Officer, whose target bonus opportunity was set at the 75th percentile through our benchmarking process. Our Chief Executive Officer's base salary is targeted below the 50th percentile, as we believe that his compensation should be more aligned with the overall performance of our Company, and hence he has a higher target bonus opportunity in order to promote a variable, performance oriented total compensation philosophy. His total cash compensation remained below the 50th percentile.

We allocated two-thirds of each individual's aggregate annual target cash bonus awards under the 2012 Annual Bonus Program and one-third under the 2012 Quarterly Bonus Program. Our Compensation Committee approved the individual bonus program incentive level for our Chief Executive Officer and for each named executive officer below the Chief Executive Officer level. The table below summarizes the total target payout, including awards under the 2012 Annual Bonus Program and the 2012 Quarterly Bonus Program, as a percentage of annual base salary, for each named executive officer during fiscal 2011 and fiscal 2012. The target payouts under the 2012 Annual Bonus Program and the 2012 Quarterly Bonus Program were effective as of the beginning of fiscal 2012, each following approval by the Compensation Committee. The Compensation Committee did not change the percentage payout as a percentage of annual salary for any of our named executive officers from 2011 to 2012, except for Mr. Boynton, whose participation level increased since he was promoted to be our Executive Vice President and Chief Financial Officer in March 2012. The Compensation Committee made no adjustments to total target payout for any named executive officer during 2012, except for Mr. Boynton, whose target percentage was increased from 60% to 70% in November 2012 due to the Compensation Committee's determination of Mr. Boynton's strong performance as described above. After such increase, Mr. Boynton's target bonus is at the 50th percentile.

Name	2011 Total Target Payout (including Annual and Quarterly Programs) as Percentage of Annual Salary	2012 Total Target Payout (including Annual and Quarterly Programs) as Percentage of Annual Salary	2012 Quarterly Bonus Program Target Payout as Percentage of Annual Salary	2012 Annual Bonus Program Target Payout as Percentage of Annual Salary
Thomas H. Werner	150%	150%	50%	100%
Charles D. Boynton	40%	70%	23%	47%
Howard J. Wenger	90%	90%	30%	60%
Marty T. Neese	80%	80%	27%	53%
Douglas R. Richards	70%	70%	23%	47%
Dennis V. Arriola (1)	90%	n/a	n/a	n/a

(1) Mr. Arriola's employment with the Company terminated on March 5, 2012.

Both the 2012 Annual Bonus Program and the 2012 Quarterly Bonus Program are formula driven, and the formulas are used to calculate actual bonus payments for each named executive officer. See "*Executive Compensation—Non-Equity Incentive Plan Compensation*" below for more information about these formulas.

Payments to our named executive officers under our 2012 Annual Bonus Program required our achieving an annual revenue target (50% of payment) and an adjusted profit before tax target (50% of payment). The targets were set on the basis of the operating plan approved by the Board at the beginning of 2012. The operating plan was based on our history of growth and expectations regarding our future growth, as well as potential challenges in achieving such growth. The performance targets were established to be challenging to achieve for our named executive officers. In 2012, we achieved 91.9% of the revenue target and exceeded the maximum of the adjusted profit before tax target; therefore, our named executive officers earned bonus amounts for both the revenue and adjusted profit before tax portions of the 2012 Annual Bonus Program. Such bonus amounts are reflected in the "*2012 Total Non-Equity Incentive Plan Compensation*" table below.

Payments to our named executive officers under our 2012 Quarterly Bonus Program required our achieving an annual adjusted profit before tax target (same as applicable under our 2012 Annual Bonus Program) and quarterly corporate milestones, as well as each individual achieving quarterly personal milestones that we refer to as the personal Key Initiatives. The Compensation Committee approved our annual adjusted profit before tax targets at the beginning of 2012. We chose an annual adjusted profit before tax target for 2012 instead of a quarterly one due to large quarterly fluctuations in Company profitability as a result of difficult conditions in the solar industry. If the threshold adjusted profit before tax and threshold corporate milestones were achieved, then bonus payouts were determined based on each named executive officer's achievement of around 10 Key Initiatives established for the quarter. Like the 2012 Annual Bonus Program, the targets were set to be challenging goals for our named executive officers to achieve.

We incorporate a "management by objective" system throughout our organization to establish performance goals that are in addition to our financial goals. Management establishes five-year corporate milestones, and then derives from them annual and quarterly corporate milestones. Each milestone is reviewed, revised and approved, and subsequently the scores reviewed and approved, by our Board. In addition, for 2012, each named executive officer established quarterly personal Key Initiatives approved by the Chief Executive Officer that were in line with each quarter's corporate milestones. Quarterly corporate milestones in 2012 included sensitive business objectives applicable to our entire Company focusing on confidential cost targets, major customer transactions, new product development, manufacturing plans, process enhancements, and inventory turns. For 2012, personal Key Initiative objectives included executing on confidential cost and revenue targets, achieving liquidity objectives, product development, market expansion, manufacturing and process efficiencies, among others. The Chief Executive Officer's Key Initiatives consisted solely of the quarterly corporate milestones that our Board approved after discussion with the Chief Executive Officer. These corporate milestones and personal objectives are typically challenging in nature and designed to encourage the individual to achieve success in his or her position during the performance period. In 2010, we achieved an average of 95% of our corporate milestones and an average of 87% of the personal Key Initiatives for our 2010 named executive officers. In 2011, we achieved an average of 84% of our corporate milestones and an average of 81% of the personal Key Initiatives for our 2011 named executive officers. The percentages of achievement were lower in 2011 due to challenging market conditions in the solar industry. However, because we did not achieve our threshold adjusted profit before tax targets in the first two quarters of fiscal 2011, no bonuses were earned under the 2011 Quarterly Bonus Plan for those quarters.

The annual adjusted profit before tax threshold under our 2012 Quarterly Bonus Program was exceeded and achieved at the maximum level. The quarterly corporate milestone scores ranged from 80% to 93% and averaged 87% for the four quarters of 2012. The personal Key Initiative scores for the named executive officers ranged from 64% to 104%, and averaged 85% for the four quarters of 2012. Each named executive officer achieved greater than threshold performance in all four quarters of 2012 under the 2012 Quarterly Bonus Plan. Actual payments were determined based on each individual's attainment of personal Key Initiatives. Bonus amounts are reflected in the following table:

2012 Total Non-Equity Incentive Plan Compensation

	2012 Quarterly Bonus Program Compensation				2012 Annual Bonus Program Compensation Payout ($)	Total Non-Equity Incentive Plan Compensation ($)
	Q1 Payout ($) (1)	Q2 Payout ($) (1)	Q3 Payout ($) (1)	Q4 Payout ($) (1)		
Thomas H. Werner	87,131	85,772	75,206	78,047	725,824	1,051,980
Charles D. Boynton	26,578	26,575	26,679	26,135	228,635	334,602
Howard J. Wenger	31,198	35,079	36,425	28,004	326,621	457,326
Marty T. Neese	38,906	32,156	24,000	30,563	290,330	415,955
Douglas R. Richards	21,693	22,969	23,543	21,757	197,585	287,546
Dennis V. Arriola (2)	n/a	n/a	n/a	n/a	n/a	n/a

(1) The payment under the 2012 Quarterly Bonus Program was made in one lump sum in February 2013 after the achievement of the annual profit before tax measure was approved by the Compensation Committee, although in each quarter, the named executive's officer's Key Initiative scores were measured and the quarterly corporate milestone scores were measured.
(2) Mr. Arriola's employment with the Company terminated on March 5, 2012.

Equity Awards. Our Compensation Committee believes that long-term Company performance is best achieved by an ownership culture that encourages long-term performance by our executive officers through the use of equity-based awards. Our Third Amended and Restated SunPower Corporation 2005 Stock Incentive Plan, or 2005 Equity Plan, permits the grant of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, and other stock-based awards. Consistent with our goal to attract, retain and reward the best available talent, and in light of our setting our total direct compensation above the 50th percentile of our peer group, we targeted long-term equity awards generally approximating the 75th percentile of our peer group. In 2012, our long-term equity awards ranged from below the 50th percentile to the 75th percentile of our peer group. Our Chief Executive Officer's long-term equity awards were above the 50th percentile in order to align his compensation with stockholder returns. For our other named executive officers, they were above the 50th percentile if the scope of their responsibilities was significantly broader than that of executives in similar positions at the peer companies. The Compensation Committee then allocated long-term equity awards between time-based and performance-based restricted stock units. Time-based restricted stock units provide a more effective retention tool while performance-based restricted stock units provide a stronger performance driver. For our annual long-term equity incentive awards granted in 2012, the Compensation Committee decided that the awards would be made half in the form of performance-based restricted stock units and the other half would be in the form of time-based restricted stock units.

Awards granted and earned in 2012 were as follows:

Name	Time-Based Restricted Stock Units	Performance-Based Restricted Stock Units (Target)	Performance-Based Restricted Stock Units Earned
Thomas H. Werner	225,000	225,000	276,694
Charles D. Boynton (1)	125,000	50,000	61,488
Howard J. Wenger	75,000	75,000	92,231
Marty T. Neese	75,000	75,000	92,231
Douglas R. Richards	62,500	62,500	76,859
Dennis V. Arriola (2)	n/a	n/a	n/a

(1) Includes a promotion grant of 75,000 restricted stock units made to Mr. Boynton on March 19, 2012 in connection with his promotion to Executive Vice President and Chief Financial Officer.

(2) Mr. Arriola's employment with the Company terminated on March 5, 2012.

Performance-based equity awards in the form of performance-based restricted stock units were used as incentive compensation during 2012 to align our named executive officers' compensation with corporate performance. In connection with our annual review of executive officer compensation, the Compensation Committee approved revenue and adjusted profit before tax targets (50% of the award is allocated to each target), and a formula under which actual awards would be calculated after completion of the 2012 fiscal year. See "*Executive Compensation—Equity Incentive Plan Compensation*" below for more information about the formula. Awards were assessed at the end of the fiscal year based on our attainment of the revenue and adjusted profit before tax targets for the year.

These performance metrics were selected on the basis of the operating plan approved by our Board after considering our history of growth and expectations regarding our future growth, as well as potential challenges in achieving such growth. The targets were intended to constitute a challenging goal, without certainty of achievement. In 2012, our named executive officers achieved 91.9% of the revenue target and exceeded the maximum of the adjusted profit before tax target. Therefore our named executive officers earned both portions of the performance-based restricted stock units, and such units began vesting in three equal annual installments, subject to continued service, starting March 1, 2013.

Time-based equity awards were used in 2012 as a retention tool and to align our named executive officers' interests with long-term stockholder value creation. In connection with our annual review of executive officer compensation, we awarded restricted stock units to named executive officers in 2012, which vest in three equal installments over a three-year period beginning on March 1, 2013. Mr. Boynton, in connection with his promotion to Executive Vice President and Chief Financial Officer, also received a promotion grant of 75,000 restricted stock units which vest in three equal installments over a three-year period beginning on March 1, 2013. The amount of the promotion grant was determined based on a desire to bring Mr. Boynton's long-term equity awards to between the 50th percentile and 75th percentile of our peer group. The restricted stock units comprising the promotion grant do not accelerate on a change of control of the Company.

In addition to our regular annual equity incentive awards, in connection with Total's tender offer, we implemented a retention program in 2011 under which we granted time-vested RSUs ("Retention RSUs") to some of our officers and employees, including certain of our named executive officers who signed Retention Agreements (see description below). The Retention RSUs vest in equal one-third increments on each of June 1, 2012, June 1, 2013 and June 1, 2014, subject to the recipient remaining employed by us on each applicable vesting date. In adopting this retention program, the Compensation Committee considered factors such as Total's requests for retention in order to undertake the tender offer, the increased risk of departure typically present following a transaction of such nature, the benefits of retaining key officers, market practices in similar circumstances, and other factors. The Compensation Committee reviewed the scope and magnitude of the Retention RSUs with our outside compensation consultant and awarded the grants to the named executive officers based on their roles and responsibilities at the Company.

In August 2010, the Compensation Committee granted 100,000 restricted stock units to Mr. Neese tied to manufacturing cost reduction targets. The Compensation Committee granted this award to appropriately align Mr. Neese's compensation with the achievement of our corporate cost reduction goals, because he is the executive officer responsible for manufacturing cost reduction. These restricted stock units will be earned if we achieve certain solar module cost per-watt targets approved by the Compensation Committee as measured at the end of each of fiscal 2010, fiscal 2011, fiscal 2012 and fiscal 2013. These cost per-watt targets were, and will in future years be, selected from our annual operating plan, and are intended to be challenging for Mr. Neese to achieve. These cost per-watt targets are set as challenging goals for Mr. Neese and decreased from $1.79/watt in 2010 to $1.49/watt in 2011, to $1.20/watt in 2012. In 2012, Mr. Neese exceeded the maximum award and earned 36,000 performance-based restricted stock units vesting on March 1, 2013.

Perquisites and Other Compensation. As in prior years, perquisites were not a material portion of our named executive officers' compensation packages for 2012. We provided certain perquisites and other health and welfare and retirement benefits, such as health, vision, and life insurance coverage and participation in and matching contributions under our 401(k) defined contribution plan, which are generally available to all employees. In addition, Mr. Arriola's employment with the Company terminated on March 5, 2012 and he received payment in accordance with the terms of his amended and restated employment agreement. For more information about these arrangements and benefits, see footnote four to the "*2012 Summary Compensation Table*" below.

Pension Benefits. None of our named executive officers participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us.

Nonqualified Deferred Compensation. None of our named executive officers participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us.

Employment and Severance Arrangements

Employment Agreements. During fiscal 2012, we had employment agreements with our named executive officers that provided change of control arrangements. The change of control arrangements generally entitle each named executive officer to certain calculated payments tied to base salary and bonus targets and accelerated vesting of his outstanding equity awards, but only upon an actual or constructive termination of employment in connection with a change of control of the Company (a "double trigger" arrangement); the RSUs granted to Mr. Boynton in March 2012 do not accelerate vesting on a change of control of the Company. The Chief Executive Officer, however, also receives limited accelerated vesting of outstanding equity awards if terminated without cause or if he resigns for good reason, in each case without a change of control having occurred. These arrangements were adopted to reinforce and encourage the continued attention and dedication of members of management to their assigned duties without the distraction arising from the possibility of a change of control, and to enable and encourage management to focus attention on obtaining the best possible outcome for our stockholders without being influenced by personal concerns regarding the possible impact of various transactions on job security and benefits.

The Compensation Committee approved Retention Agreements with four of our named executive officers on May 20, 2011: Mr. Werner, Mr. Boynton, Mr. Wenger, Mr. Neese and Mr. Richards. The Compensation Committee, in approving the Retention Agreements and the Retention RSUs, was primarily motivated by our desire to ensure that certain key employees and management remain with us following the consummation of the Total tender offer in 2011. See "*Executive Compensation—Employment Agreements—Retention Agreements*" for additional information about the Retention Agreements.

Mr. Arriola's employment agreement with the Company was amended and restated in December 2011 after he announced his intention to leave the Company in November 2011. The Compensation Committee approved the amendment and restatement in consideration of Mr. Arriola remaining with the Company through March 5, 2012 to assist in transitioning his responsibilities to his successor. See "*Executive Compensation—Employment Agreements—Amended and Restated Employment Agreement*" for additional information.

Management Career Transition Plan. During 2011 we maintained a Management Career Transition Plan, or severance plan, that entitled our named executive officers and other key employees to certain calculated payments tied to base salary and bonus targets if employment termination occurred without a change of control. This severance plan expired during 2011. As previously announced, the Company has adopted a new 2014 Management Career Transition Plan in April 2013, which will be described further in the proxy statement for the 2014 annual meeting.

The Compensation Committee believes that the change of control agreements provide benefits that are consistent with industry practice. We believe that entering into change of control and severance arrangements with certain of our executives has helped us attract and retain excellent executive talent. Without these provisions, these executives may not have chosen to accept employment with us or remain employed by us. The severance arrangements also promote stability and continuity in our senior management team. For more information about the named executive officers' change of control arrangements, please see "*Executive Compensation—Employment Agreements*" and "*Executive Compensation—Potential Payments Upon Termination or Change of Control*" below.

Section 162(m) Treatment Regarding Performance-Based Equity Awards

Under Section 162(m) of the Code, we are generally denied deductions for compensation paid to our Chief Executive Officer and certain other highly compensated executive officers to the extent the compensation for any such individual exceeds one million dollars for the taxable year, unless the compensation qualifies as "qualified performance-based compensation" under Section 162(m) of the Code. Our Compensation Committee may take action to preserve the deductibility of compensation payable to our executives, although deductibility will be only one among a number of factors considered in determining appropriate levels or methods of compensation.

Other Disclosures

Under our insider trading policy, our executive officers, directors and employees are prohibited from engaging in short sales of our securities, establishing margin accounts or buying or selling options, puts or calls on Company securities.

We do not maintain any equity or other security ownership guidelines or requirements for our executives. We do not have a policy regarding adjustment or recovery of awards or payments if the relevant performance goals or measures upon which they are based are restated or otherwise adjusted so that awards or payments are reduced.

EXECUTIVE COMPENSATION

Compensation of Named Executive Officers

The 2012 Summary Compensation Table below quantifies the compensation for each of the named executive officers for services rendered during fiscal 2012 and, as applicable, fiscal 2011 and fiscal 2010. The primary elements of each named executive officer's total compensation during 2012 are reported in the table below and include, among others, base salary, performance-based cash bonuses under our 2012 Annual Bonus Program and 2012 Quarterly Bonus Program, awards of restricted stock units subject to time-based vesting, and awards of performance-based restricted stock units subject to achievement of financial targets and subsequent time-based vesting.

2012 Summary Compensation Table

Name and Principal Position	Year	Salary ($) (1)	Bonus ($)	Stock Awards ($) (2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($) (3)	All Other Compensation ($) (4)	Total ($)
Thomas H. Werner,	2012	600,000	—	3,228,750	—	1,051,980	19,482	4,900,212
President, Chief Executive Officer	2011	559,386	—	4,380,000	—	342,153	12,030	5,293,569
and Chairman of the Board	2010	360,006	—	3,388,000	—	864,101	16,766	4,628,873
Charles D. Boynton Executive Vice President and Chief Financial Officer	2012	336,710	—	1,310,000	—	334,602	19,281	2,000,593
Howard J. Wenger,	2012	436,539	—	1,076,250	—	457,326	3,618	1,973,733
President, Regions	2011	414,290	25,000(5)	1,617,600	—	140,488	1,932	2,199,310
	2010	378,193	—	1,762,400	—	374,653	2,540	2,517,786
Marty T. Neese,	2012	440,577	—	1,076,250	—	415,955	14,893	1,947,675
Chief Operating Officer	2011	426,465	—	1,483,200	—	128,860	9,188	2,047,713
	2010	413,673	—	2,645,200	—	386,351	12,648	3,457,872
Douglas R. Richards	2012	341,923	—	896,875	—	287,546	16,489	1,542,833
Executive Vice President,	2011	325,551	—	1,370,400	—	89,961	11,148	1,797,060
Administration	2010	319,231	—	847,000	—	227,632	16,756	1,410,619
Dennis V. Arriola,	2012	86,308	—	—	—	—	1,071,406	1,157,714
Former Executive Vice President and	2011	444,735	—	940,800	—	147,412	7,848	1,540,795
Chief Financial Officer (6)	2010	436,365	—	2,032,800	—	416,043	11,169	2,896,377

(1) The amounts reported in this column for 2012 reflect each named executive officer's salary for 2012 plus payments for paid and unpaid time off, and holidays.

(2) The amounts reported in the "Stock Awards" column for 2012 represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 of stock awards granted during the year (time-based and performance-based restricted stock units), excluding the effect of certain forfeiture assumptions. For the performance-based restricted stock units reported in this column for 2012, such amounts are based on the probable outcome of the relevant performance conditions as of the grant date. Assuming that the highest level of performance is achieved for these awards, the grant date fair value of the performance-based restricted stock units awards would be: Mr. Werner, $2,176,875; Mr. Boynton, $483,750; Mr. Wenger, $725,625; Mr. Neese, $725,625; and Mr. Richards, $604,688. See Note 17 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2012 for details as to the assumptions used to determine the aggregate grant date fair value of these awards. See also our discussion of stock-based compensation under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates*" in our Annual Report on Form 10-K for the fiscal year ended December 30, 2012.

(3) The amounts reported in this column for 2012 reflect the amounts earned under our 2012 Annual Bonus Program and our 2012 Quarterly Bonus Program. Additional information about non-equity incentive plan compensation earned during fiscal 2012 is set forth above in the supplemental "*2012 Total Non-Equity Incentive Plan Compensation*" table in our "*Compensation Discussion and Analysis*."

(4) The amounts reported in this column for 2012 as "All Other Compensation" consist of the elements summarized in the table below.

Name	Health Benefits ($)	Group Life Insurance ($)	401(k) Match ($)	Separation ($) (1)	Total ($)
Thomas H. Werner	17,226	756	1,500	0	19,482
Charles D. Boynton	17,312	469	1,500	0	19,281
Howard J. Wenger	1,446	672	1,500	0	3,618
Marty T. Neese	12,696	697	1,500	0	14,893
Douglas R. Richards	14,451	538	1,500	0	16,489
Dennis V. Arriola	3,701	185	0	1,067,520	1,071,406

(1) Mr. Arriola's employment with the Company terminated on March 5, 2012 and he received payment in accordance with the terms of his amended and restated employment agreement. See "*Executive Compensation—Potential Payments Upon Termination or Change of Control—Termination Payments Made in 2012*" for additional information.

(5) Mr. Wenger was awarded a cash bonus of $25,000 because Mr. Werner temporarily granted him Mr. Werner's authority to make certain decisions for us while Mr. Werner was on medical leave from late May 2011 to early June 2011.

(6) Mr. Arriola's employment with the Company terminated on March 5, 2012.

Grants of Plan-Based Awards

During 2012, our named executive officers were granted plan-based restricted stock units and performance stock units under our Third Amended and Restated SunPower Corporation 2005 Stock Incentive Plan, or 2005 Equity Plan. They also were granted cash bonus awards under our 2012 Annual Bonus Program and our 2012 Quarterly Bonus Program. The following table sets forth information regarding the stock awards and cash bonus awards granted to each named executive officer during 2012.

2012 Grants of Plan-Based Awards Table

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Possible Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards ($)
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**(#)**	
Thomas H. Werner	— (3)	—	600,000	900,000	—	—	—	—	—
	— (4)	—	300,000	375,000	—	—	—	—	—
	3/28/12(5)	—	—	—	—	225,000	337,500	—	1,451,250
	3/19/12(6)	—	—	—	—	—	—	225,000	1,777,500
Charles D. Boynton	— (3)	—	189,000	283,500	—	—	—	—	—
	— (4)	—	94,500	118,125	—	—	—	—	—
	3/28/12(5)	—	—	—	—	50,000	75,000	—	322,500
	3/19/12(6)(7)	—	—	—	—	—	—	125,000	987,500
Howard J. Wenger	— (3)	—	270,000	405,000	—	—	—	—	—
	— (4)	—	135,000	168,750	—	—	—	—	—
	3/28/12(5)	—	—	—	—	75,000	112,500	—	483,750
	3/19/12(6)	—	—	—	—	—	—	75,000	592,500
Marty T. Neese	— (3)	—	238,500	357,750	—	—	—	—	—
	— (4)	—	121,500	151,875	—	—	—	—	—
	3/28/12(5)	—	—	—	—	75,000	112,500	—	483,750
	3/19/12(6)	—	—	—	—	—	—	75,000	592,500
Douglas R. Richards	— (3)	—	164,500	246,750	—	—	—	—	—
	— (4)	—	80,500	100,625	—	—	—	—	—
	3/28/12(5)	—	—	—	—	62,500	93,750	—	403,125
	3/19/12(6)	—	—	—	—	—	—	62,500	493,750
Dennis V. Arriola (8)	—	—	—	—	—	—	—	—	—

(1) Additional information about estimated possible payouts under non-equity incentive plan awards is set forth below in the "*Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Table*."

(2) The amounts reported in these columns represent performance-based restricted stock units opportunities. The Compensation Committee approved the awards on March 28, 2012. The grant date fair value of these awards is reported based on the probable outcome of the applicable performance conditions and is consistent with the estimate of aggregate compensation cost, if any, expected to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures.

(3) Consists of an award under our 2012 Annual Bonus Program. Achievement of certain performance metrics could reduce payouts to zero when applied to the applicable formula, as further described below. As a result, threshold payouts were inapplicable for each named executive officer.

(4) Consists of an award under our 2012 Quarterly Bonus Program. Achievement of certain performance metrics could reduce payouts to zero when applied to the applicable formula, as further described below. As a result, threshold payouts were inapplicable for each named executive officer.

(5) Consists of an award of restricted stock units, subject to achievement of specific performance metrics in addition to time-based vesting requirements, under the 2005 Equity Plan. Failure to achieve certain performance metrics could result in zero restricted stock units being awarded. The maximum attainable award is 150% of target. The closing price of our common stock was $6.45 on March 28, 2012. Actual awards were determined in the first quarter of 2013 and are described in "*Equity Incentive Plan Compensation*" below. The earned award vests ratably on March 1, 2013, March 1, 2014 and March 1, 2015.
(6) Consists of an award of restricted stock units, subject to time-based vesting requirements, under the 2005 Equity Plan. The award vests ratably on March 1, 2013, March 1, 2014 and March 1, 2015. The closing price of our common stock was $7.90 on March 19, 2012.
(7) Includes a promotion grant of 75,000 restricted stock units made to Mr. Boynton on March 19, 2012 in connection with his promotion to Executive Vice President and Chief Financial Officer.
(8) Mr. Arriola's employment with the Company terminated on March 5, 2012.

Non-Equity Incentive Plan Compensation

During fiscal 2012, our named executive officers were eligible for cash bonus payments under two bonus plans. The first plan was our Annual Executive Bonus Plan, under which we adopted our 2012 Annual Bonus Program. The second plan was our Executive Quarterly Key Initiative Bonus Plan, under which we adopted our 2012 Quarterly Bonus Program. The supplemental table below entitled "*Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Table*" provides additional information about each named executive officer's target and maximum payout opportunities under both the 2012 Annual Bonus Program and the 2012 Quarterly Bonus Program. Under the terms of both bonus plans, failure to achieve certain corporate or individual metrics could have resulted in zero payouts for a given period. The table entitled "*2012 Total Non-Equity Incentive Plan Compensation*" above in "*Compensation Discussion and Analysis*" details the actual payouts awarded under the two bonus plans to each named executive officer for fiscal 2012.

Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Table

Name	2012 Quarterly Bonus Program Target Each Quarter ($)	2012 Quarterly Bonus Program Maximum Each Quarter ($)	2012 Annual Bonus Program Target ($)	2012 Annual Bonus Program Maximum ($)
Thomas H. Werner	75,000	93,750	600,000	900,000
Charles D. Boynton	23,625	29,531	189,000	283,500
Howard J. Wenger	33,750	42,188	270,000	405,000
Marty T. Neese	30,375	37,969	238,500	357,750
Douglas R. Richards	20,125	25,156	164,500	246,750
Dennis V. Arriola (1)	n/a	n/a	n/a	n/a

(1) Mr. Arriola's employment with the Company terminated on March 5, 2012.

2012 Annual Bonus Program. Awards under the 2012 Annual Bonus Program were formula-driven. At the beginning of fiscal 2012, the Compensation Committee approved two performance metrics: (1) an annual revenue target and (2) an annual adjusted profit before tax target. Our adjusted profit before tax target is our profit before tax adjusted for items such as asset write-downs, acceleration of amortization of debt issuance costs, stock-based compensation charges, purchase-accounting related charges, any extraordinary non-recurring items, and related tax effects associated with the items described above. Each named executive officer would earn 50% of his target bonus under the 2012 Annual Bonus Program upon the achievement of the revenue target and another 50% of his target bonus upon the achievement of the adjusted profit before tax target. Maximum payment under the program was 150% of target because we wanted to encourage our named executive officers to exceed the performance targets. Payment for each target is determined based on the percentage of performance target that was achieved, as follows:

Percentage of Performance Target Achieved	Payment of Bonus as Percentage of Target Bonus
Under 80%	No bonus paid
80%	80% of target bonus (minimum payment for minimum achievement)
81%—100%	Add 1% for every 1% achieved to 100% payment
Over 100%	Add 2.5% for every 1% achieved over 100%
Over 120%	150% of target bonus (maximum payment)

The performance targets, set at the beginning of fiscal 2012, were assessed at the end of the year. Based on our actual results in fiscal 2012, bonuses were earned and paid to our named executive officers for both the revenue target and the adjusted profit before tax target.

Revenue Target	Revenue Achievement	Payment as % of Target Payment	Adjusted Profit Before Tax Target	Adjusted Profit Before Tax Achievement	Payment as % of Target Payment
$3,140 million	$2,887 million	91.9%	$10.8 million	$180.7 million	150%

2012 Quarterly Bonus Program. Awards under the 2012 Quarterly Bonus Program were also formula-driven. At the beginning of the fiscal year, the Compensation Committee approved an adjusted profit before tax target (same as applicable under the 2012 Annual Bonus Program). At the beginning of each fiscal quarter during 2012, the Compensation Committee approved corporate performance metrics, consisting of a set of corporate milestones representing key initiatives that would support our corporate business plan. The adjusted profit before tax target was adjusted pursuant to the adjustments made under the 2012 Annual Bonus Program. Also at the beginning of each fiscal quarter, each named executive officer was responsible for establishing personal metrics, subject to approval by the Chief Executive Officer, representing personal Key Initiatives that would support the corporate milestones. These three metrics were then incorporated into the plan's formula. An individual's personal Key Initiative score could result in no award being payable even if we achieved our profit before tax target and our corporate milestones in the event that the personal Key Initiative score was determined to be zero. The Chief Executive Officer's Key Initiatives consisted solely of the corporate milestones that our Board established after discussion with the Chief Executive Officer. If threshold corporate milestones were achieved and we exceeded our adjusted profit before tax target, bonus payments could exceed 100% of target, up to a maximum payment of 125% (based on adjusted profit before tax), depending on achievement of personal Key Initiatives.

Payments under the 2012 Quarterly Bonus Program were made as follows:

Achievement of Adjusted Profit Before Tax Target	Achievement of Corporate Milestones	Payment
Under 80%		No payment
80% or over	Under 60%	No payment
80% or over	Over 60% but equal to or under 80%	50% payment Payment = Sum of each quarter ("2012 quarterly salary" multiplied by "target bonus (%)" multiplied by "personal Key Initiative score") multiplied by 50%
80% or over but under 100%	80% or over	100% payment Payment = Sum of each quarter ("2012 quarterly salary" multiplied by "target bonus (%)" multiplied by "personal Key Initiative score")
100% or over	80% or over	Greater than 100% payment Payment = Sum for each quarter ("2012 quarterly salary" multiplied by "target bonus (%)" multiplied by "personal Key Initiative score") multiplied by adjusted profit before tax achievement (up to a maximum of 125%)

The adjusted profit before tax target was assessed at the end of fiscal 2012 (see above under the 2012 Annual Bonus Program). Our 2012 corporate milestones are kept confidential for competitive harm reasons, but they consisted of cost targets, major customer transactions, new product development, manufacturing plans, process enhancements, and inventory turns. The quarterly corporate milestone scores were 93%, 92%, 80% and 83% for each quarter in 2012. The combined personal Key Initiative scores for the named executive officers ranged from 64% to 104%, and averaged 85% for the four quarters of 2012.

Equity Incentive Plan Compensation

In addition to time-based restricted stock awards, to further align executive compensation with maximizing stockholder value, our Compensation Committee granted to our named executive officers certain performance-based equity awards, consisting of restricted stock units, or RSUs, that would be released and begin time-based vesting only upon achievement of certain corporate objectives. Our Compensation Committee met at the beginning of 2012 to approve two performance measures: (1) a revenue target and (2) an adjusted profit before tax target, each based on our operating plan approved by our Board. Each eligible named executive officer would earn 50% of his target performance-based RSUs upon the achievement of the revenue target, and another 50% of his target performance-based RSUs upon the achievement of the adjusted profit before tax target. Both targets are the same as the targets for the 2012 Annual Bonus Program. Payment for each target was determined based on the percentage of performance target that was achieved, as follows:

Percentage of Performance Target Achieved	Grant of RSUs as Percentage of Target RSUs
Under 80%	No RSUs earned
80%	90% of target RSUs (minimum award for minimum achievement)
81%—100%	Add 0.5% for every 1% achieved to 100% payment
Over 100%	Add 2.5% for every 1% achieved over 100%
Over 120%	150% of target RSUs (maximum award)

Performance-based restricted stock units vest, if at all, in three equal annual installments, subject to continued service after achievement of the performance measures, starting March 1, 2013. In connection with our

2012 performance-based equity awards, we achieved 92% of our revenue target, and exceeded the maximum of our adjusted profit before tax target, both of which are the same as the targets under our 2012 Annual Bonus Program. Based on our actual results in fiscal 2012, performance-based RSUs were earned by our named executive officers for both the revenue target and the adjusted profit before tax target. See "*Equity Awards*" above in "*Compensation Discussion and Analysis*" detailing the actual performance-based restricted stock units earned in fiscal 2012.

In August 2010, our Compensation Committee granted additional performance-based RSUs to Mr. Neese and approved performance measures based on solar module cost per-watt targets to be achieved by us measured at the end of each of fiscal 2010, fiscal 2011, fiscal 2012 and fiscal 2013. The maximum award that may be earned is 120% of target because we wanted to encourage Mr. Neese to exceed the cost reduction targets. The award is determined based on the percentage of performance target that is achieved, as follows:

Percentage of Performance Target Achieved	Grant of RSUs as Percentage of Target RSUs
Over 105%	No RSUs earned
105%	80% of target RSUs (minimum award for minimum achievement)
104% to 96%	Pro rated grant of target RSUs (100% achievement will earn 100% of target RSUs)
95% or under	120% of target RSUs (maximum award)

If Mr. Neese achieved the target module cost per watt for 2012, 30,000 shares would vest on March 1, 2013. In 2012, our target module cost per-watt was $1.20, and because less than 95% of the performance target was achieved, Mr. Neese earned 36,000 shares, which was the maximum award.

The named executive officers' targets and earned performance-based RSUs are described above in "*Compensation Discussion and Analysis—Analysis of Fiscal 2012 Compensation Decisions—Equity Awards*."

Retention Program

In connection with the Total tender offer, in 2011, we implemented a retention program under which we granted approximately 1.9 million Retention RSUs to our eligible officers and employees, including certain of our named executive officers. The following named executive officers received the following Retention RSUs under the retention program as consideration for having executed the retention agreements described below: Mr. Werner, 300,000 Retention RSUs; Mr. Wenger, 120,000 Retention RSUs; Mr. Neese, 120,000 Retention RSUs; and Mr. Richards, 100,000 Retention RSUs. Mr. Boynton was not an executive officer at the time the retention agreements were entered into, but signed a retention agreement with the Company. As a part of Retention RSUs granted to other eligible officers and employees, Mr. Boynton received 20,000 Retention RSUs. The Retention RSUs vest in equal one-third increments on each of June 1, 2012, June 1, 2013 and June 1, 2014, subject to the recipient remaining employed by us on each applicable vesting date. See "*Compensation Discussion and Analysis—Analysis of Fiscal 2012 Compensation Decisions—Equity Awards*" for a description of the Retention RSUs.

Employment Agreements

We have entered into employment agreements and award agreements under our equity plans with certain of our executive officers, including our named executive officers. In April 2013, we adopted a severance policy entitled the 2014 Management Career Transition Plan. This plan, however, was not in effect during 2012. Unless otherwise provided by our plan administrator, the award agreement, the employment agreement or the 2014 Management Career Transition Plan, upon termination of a participant's employment or service with us, the participant will forfeit any outstanding equity awards except that a participant will have 90 days following termination of employment or service to exercise any then-vested options or stock appreciation rights (one year if termination of employment or service is a result of the participant's disability or death). Additionally, certain of our executive officers are entitled to receive certain payments from us or our affiliates in the event of certain change of control or termination events.

Employment Agreements. We are party to employment agreements with several executive officers, including the named executive officers. The employment agreements superseded prior agreements of a similar nature. Mr. Boynton's employment agreement was amended in April 2013 to bring it closer to the other named executive officers' employment agreements regarding its terms and provisions. We entered into retention agreements ("Retention Agreements") with certain of our executive officers following the Total tender offer that amended certain terms of the employment agreements, as further described below. Each employment agreement provides that the executive's employment is "at-will" and may be terminated at any time by either party. Each employment agreement generally provides for a three-year term that will automatically renew unless we provide notice of our intent not to renew at least 120 days prior to the renewal date. The agreements do not specify salary, bonus or other basic compensation terms, but instead provide that each executive's base salary, annual bonus and equity compensation will be determined in accordance with our normal practices. Instead, the primary purpose of the agreements is to provide certain severance benefits for employment terminations in connection with a change of control (as defined in the agreement). In the event an executive's employment is terminated by us without cause (as defined in the agreement), or if the executive resigns for good reason (as defined in the agreement), and if such termination or resignation is in connection with a change of control, then the agreements also provide that the executive is entitled to the following benefits:

- a lump-sum payment equivalent to 24 months (or 36 months in Mr. Werner's case) of such executive's base salary;
- a lump-sum payment equal to any earned but unpaid annual bonus for a completed fiscal year;
- a lump-sum payment equal to the product of (a) such executive's target bonus for the then current fiscal year, multiplied by (b) two (or three in Mr. Werner's case);
- continuation of such executive's and such executive's eligible dependents' coverage under our benefit plans for up to 24 months (or 36 months in Mr. Werner's case), at our expense;
- a lump-sum payment equal to such executive's accrued and unpaid base salary and paid time off;
- reimbursement of up to $15,000 for services of an outplacement firm mutually acceptable to us and the executive; and
- annual make-up payments for taxes incurred by the executive in connection with benefit plans' coverage.

In addition, if we terminate an executive's employment without cause or if the executive resigns for good reason, and if such termination or resignation is in connection with a change of control, then the agreements also provide the following benefits to the individual:

- all of such executive's unvested options, shares of restricted stock and restricted stock units (including performance-based restricted stock units) will become fully vested and (as applicable) exercisable as of the termination date and remain exercisable for the time period otherwise applicable to such equity awards following such termination date, other than the RSUs granted to Mr. Boynton in March 2012, which do not accelerate vesting under such circumstances; and
- all provisions regarding forfeiture, restrictions on transfer, and our rights of repurchase, in each case otherwise applicable to shares of restricted stock or restricted stock units shall lapse as of the termination date.

In addition, Mr. Werner's agreement provides for such accelerated vesting and lapsing of provisions regarding forfeiture, restrictions on transfer and our rights of repurchase upon termination of employment without cause or resignation for good reason, regardless of whether such termination is in connection with a change of control; provided, however, that absent a change of control, no such accelerated vesting or lapsing shall apply to Mr. Werner's performance-based equity awards.

Under the employment agreements, "cause" means the occurrence of any of the following, as determined by the Company in good faith:

- acts or omissions constituting gross negligence or willful misconduct on the part of the executive with respect to the executive's obligations or otherwise relating to our business,
- the executive's conviction of, or plea of guilty or nolo contendere to, crimes involving fraud, misappropriation or embezzlement, or a felony crime of moral turpitude,
- the executive's violation or breach of any fiduciary duty (whether or not involving personal profit) to us, except to the extent that his violation or breach was reasonably based on the advice of our outside counsel, or willful violation of any of our published policies governing the conduct of it executives or other employees, or
- the executive's violation or breach of any contractual duty to us which duty is material to the performance of the executive's duties or results in material damage to us or our business;

provided that if any of the foregoing events is capable of being cured, we will provide notice to the executive describing the nature of such event and the executive will thereafter have 30 days to cure such event.

In addition, under the employment agreements, "good reason" means the occurrence of any of the following without the executive's express prior written consent:

- a material reduction in the executive's position or duties,
- a material breach of the employment agreement,
- a material reduction in the executive's aggregate target compensation, including the executive's base salary and target bonus on a combined basis, excluding a reduction that is applied to substantially all of our other senior executives; provided, however, that for purposes of this clause, whether a reduction in target bonus has occurred shall be determined without any regard to any actual bonus payments made to the executive, or
- a relocation of the executive's primary place of business for the performance of his duties to us to a location that is more than 45 miles from our current business location.

The executive shall be considered to have "good reason" under the employment agreement only if, no later than 90 days following an event otherwise constituting "good reason" under the employment agreement, the executive gives notice to us of the occurrence of such event and we fail to cure the event within 30 days following its receipt of such notice from the executive, and the executive terminates service within 24 months following a change of control.

Although consummation of the Total tender offer technically constituted a change of control under the definition of change of control in the employment agreements, it did not, in and of itself, constitute grounds for triggering change of control payments pursuant to the terms of the employment agreements. Rather, to trigger change of control payments, there also needed to be a material reduction in the terms and conditions of an executive's employment. No such changes occurred with respect to the named executive officers as a result of the consummation of the Total tender offer. If any of the severance payments, accelerated vesting and lapsing of restrictions would constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code and be subject to excise tax or any interest or penalties payable with respect to such excise tax, then the executive's benefits will be either delivered in full or delivered as to such lesser extent which would result in no portion of such benefits being subject to such taxes, interest or penalties, whichever results in the executive receiving, on an after-tax basis, the greatest amount of benefits.

Prior to receiving the benefits described in the employment agreements, the executive will be required to sign a separation agreement and release of claims. In addition, the benefits will be conditioned upon the executive not soliciting employees or customers for one year following the termination date. Mr. Werner's agreement also provides that, if his termination without cause or resignation for good reason is not in connection with a change of control, his severance benefits will be conditioned upon a non-competition arrangement lasting one year following employment termination.

These arrangements were adopted to reinforce and encourage the continued attention and dedication of members of management to their assigned duties without the distraction arising from the possibility of a change of control, and to enable and encourage management to focus attention on obtaining the best possible outcome for our stockholders without being influenced by personal concerns regarding the possible impact of various transactions on job security and benefits.

Retention Agreements. In connection with the Total tender offer, the Compensation Committee approved Retention Agreements with Mr. Werner, Mr. Boynton, Mr. Wenger, Mr. Neese and Mr. Richards in May 2011. Under the employment agreements, a termination following a change of control, either without "cause" or by the employee for "good reason" are qualifying terminations for purposes of receiving severance, and the named executive officer would receive severance protection if the qualifying termination were to occur during the period commencing three months prior to a change of control and ending 24 months following a change of control. The Retention Agreements, among other things, amended certain provisions of the employment agreements, including extending the 24-month period described in the prior sentence to a 36-month period following the change of control. Under the Retention Agreements, the executives agreed that the consummation of the Total tender offer and the subsequent continuation of their employment without any material reduction in the terms and conditions of their employment did not, in and of itself, constitute grounds for a termination due to "good reason" as defined in their employment agreements, even though the Total tender offer technically constituted a change of control under the employment agreements. As consideration for executing the Retention Agreements, the four named executive officers received the Retention RSUs. Under the Retention Agreements, the Retention RSUs are not subject to any accelerated vesting on account of any termination of executive's employment without cause or executive's voluntary resignation for good reason which occurs during the 36-month period after the Total tender offer. If the Retention RSUs were characterized as an "excess parachute payment" within the meaning of Section 280G of the Code and subject to an excise tax, then the Retention RSUs would either be delivered in full or delivered as to such lesser extent that would result in no portion of such award being subject to such taxes, whichever results in each named executive officer receiving, on an after-tax basis, the greatest amount of the award. Under no circumstances would the Company pay any excise taxes on the awards.

Amended and Restated Employment Agreement. On November 3, 2011, Mr. Arriola, our former Executive Vice President and Chief Financial Officer, communicated his intention to leave the Company in March 2012. On December 21, 2011, the Compensation Committee approved, and on December 23, 2011 we entered into, an Amended and Restated Employment Agreement with Mr. Arriola that amends his prior employment agreement with us. The Amended and Restated Employment Agreement provided for the following compensation to be paid to Mr. Arriola in connection with and upon his departure on March 5, 2012 in exchange of his execution of release of claims against us: (1) a lump-sum payment of approximately $660,000, which is equivalent to 18 months of Mr. Arriola's base salary; (2) a lump-sum payment of approximately $396,000, which is equivalent to his target bonus for 2011, which is 90% of his base salary; (3) continuation of his and his eligible dependents' coverage under our benefit plans for up to 12 months; (4) a lump-sum payment equivalent to any earned base salary and paid time off that remain unpaid through the date of his departure from the Company; and (5) an annual make-up payment for after-tax premium contributions made by Mr. Arriola in connection with the above described benefit plans' coverage. In addition, we paid him all earned and unpaid amounts owed under the terms of the non-equity incentive programs in which he participated during fiscal year 2011. Mr. Arriola's equity incentive awards granted to him prior to the date of the Amended and Restated Employment Agreement continued to vest until his departure date. Mr. Arriola departed from the Company on March 5, 2012 and was paid pursuant to the terms describe above.

2014 Management Career Transition Plan. In April 2013, we adopted the 2014 Management Career Transition Plan (the "Plan"), effective April 30, 2013, which replaces a similar plan that expired in 2011. The Plan was not in effect in 2012. The Plan generally terminates on the third anniversary of the effective date. The Plan addresses severance for certain employment terminations, and payments are only made if the executive or employee is not already entitled to severance benefits under a separate employment agreement. Participants in the Plan include our Chief Executive Officer, Thomas H. Werner, and those employees who have been employed by the Company for at least six months and report directly to him (including our other named executive officers), as well as other key employees of the Company who are provided with written notice from the Chief Executive Officer that they are Plan participants. Under the terms of the Plan, Mr. Werner and the named executive officers will be eligible for benefits following a termination of employment because of death or disability (as defined in the Plan), or a termination without cause (as defined in the Plan). Such benefits include, except in the case of death or disability:

- a lump-sum payment equivalent to 12 months (or 24 months in Mr. Werner's case) of such executive's base salary;
- a lump-sum payment equal to any earned but unpaid annual bonus for a completed fiscal year;
- a lump-sum payment equal to the pro rata portion of such executive's actual bonus for the then current fiscal year, based on the number of whole calendar months between the start of the fiscal year and the termination date;
- continuation of such executive's and such executive's eligible dependents' coverage under the Company's health benefit plans for up to 12 months (or 24 months in Mr. Werner's case), at the Company's expense;
- a lump-sum payment equal to such executive's accrued and unpaid base salary and paid time off;
- annual make-up payments for taxes incurred by the executive in connection with such health benefit plans' coverage; and
- reimbursement of up to $15,000 for services of an outplacement firm mutually acceptable to the Company and the executive.

In the case of death or disability, such benefits include a lump-sum payment equal to such executive's accrued and unpaid base salary and paid time off.

If any of the severance plan's severance payments would constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code and be subject to excise tax or any interest or penalties payable with respect to such excise tax, then the executive's benefits will be either delivered in full or delivered as to such lesser extent which would result in no portion of such benefits being subject to such taxes, interest or penalties, whichever results in the executive receiving, on an after-tax basis, the greatest amount of benefits.

Businesses in our industry face a number of risks, including the risk of being acquired in the future. We believe that entering into change of control and severance arrangements with certain of our executives has helped us attract and retain excellent executive talent. Without these provisions, these executives may not have chosen to accept employment with us or remain employed by us. The severance arrangements also promote stability and continuity in our senior management team.

Outstanding Equity Awards

The following table sets forth information regarding the outstanding equity awards held by our named executive officers as of December 30, 2012.

Outstanding Equity Awards At 2012 Fiscal Year-End Table

		Option Awards				Stock Awards			
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($) (1)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1)**
Thomas H. Werner	05/03/10(2)	—	—	—	—	33,334	183,004	—	—
	05/03/10(2)	—	—	—	—	40,917	224,634	—	—
	01/31/11(3)	—	—	—	—	66,667	366,002	—	—
	01/31/11(4)	—	—	—	—	30,200	165,798	—	—
	12/21/11(5)	—	—	—	—	200,000	1,098,000	—	—
	03/19/12(6)	—	—	—	—	225,000	1,235,250	—	—
	03/28/12(7)	—	—	—	—	—	—	337,500	1,852,875
Charles D. Boynton	08/05/10(8)	—	—	—	—	10,001	54,905	—	—
	04/15/11(3)	—	—	—	—	6,907	37,920	—	—
	12/09/11(5)	—	—	—	—	13,334	73,204	—	—
	03/19/12(6)	—	—	—	—	125,000	686,250	—	—
	03/28/12(7)	—	—	—	—			75,000	411,750
Howard J. Wenger	05/03/10(2)	—	—	—	—	23,334	128,104	—	—
	08/05/10(2)	—	—	—	—	10,230	56,163	—	—
	01/31/11(3)	—	—	—	—	23,334	128,104	—	—
	01/31/11(4)	—	—	—	—	10,570	58,029	—	—
	12/21/11(5)	—	—	—	—	80,000	439,200	—	—
	03/19/12(6)	—	—	—	—	75,000	411,750	—	—
	03/28/12(7)	—	—	—	—	—	—	112,500	617,625
Marty T. Neese	07/02/08(9)	100,000	—	62.82	07/02/2018	—	—	—	—
	05/03/10(2)	—	—	—	—	13,334	73,204	—	—
	05/03/10(2)	—	—	—	—	16,368	89,860	—	—
	08/05/10(10)	—	—	—	—	—	—	60,000	329,400
	01/31/11(3)	—	—	—	—	20,000	109,800	—	—
	01/31/11(4)	—	—	—	—	9,060	49,739		
	12/21/11(5)	—	—	—	—	80,000	439,200	—	—
	03/19/12(6)	—	—	—	—	75,000	411,750	—	—
	03/28/12(7)	—	—	—	—	—	—	112,500	617,625
Douglas R. Richards	05/03/10(2)	—	—	—	—	6,667	36,602	—	—
	05/03/10(2)	—	—	—	—	8,184	44,930	—	—
	01/31/11(3)	—	—	—	—	20,000	109,800	—	—
	01/31/11(4)	—	—	—	—	9,060	49,739	—	—
	12/21/11(5)	—	—	—	—	66,667	366,002	—	—
	03/19/12(6)	—	—	—	—	62,500	343,125	—	—
	03/28/12(7)	—	—	—	—			93,750	514,688
Dennis V. Arriola	—	—	—	—	—	—	—	—	—

(1) The closing price of our common stock on December 28, 2012 (last business day of fiscal 2012) was $5.49.

(2) Each of these awards of restricted stock units vests in three equal installments on each of March 1, 2011, March 1, 2012 and March 1, 2013 subject to continued service to the Company.

(3) Each of these awards of restricted stock units vests in three equal installments on each of March 1, 2012, March 1, 2013 and March 1, 2014 subject to continued service to the Company.

(4) On January 31, 2011, the named executive officer was awarded a number of performance-based restricted stock units (PSUs) within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2012. The award earned vests ratably on March 1, 2012, March 1, 2013 and March 1, 2014 subject to continued service to the Company.
(5) Each of these awards of restricted stock units vests in three equal installments on each of June 1, 2012, June 1, 2013 and June 1, 2014 subject to continued service to the Company.
(6) Each of these awards of restricted stock units vests in three equal installments on each of March 1, 2013, March 1, 2014 and March 1, 2015 subject to continued service to the Company.
(7) On March 28, 2012, the named executive officer was awarded a number of performance-based restricted stock units (PSUs) within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. The actual award was determined in the first quarter of 2013 and is described in "*Equity Incentive Plan Compensation*" below. The award earned vests ratably on March 1, 2013, March 1, 2014 and March 1, 2015 subject to continued service to the Company.
(8) This award of restricted stock units vests in three equal installments on each of August 5, 2011, August 5, 2012 and August 5, 2013 subject to continued service to the Company.
(9) This option has a ten-year term and vested in equal annual installments over a four-year period on each of July 2, 2009, July 2, 2010, July 2, 2011 and July 2, 2012.
(10) On August 5, 2010, the named executive officer was awarded a number of performance-based restricted stock units (PSUs) within a pre-set range, with the actual number contingent on the achievement of certain performance criteria. Performance is measured in four tranches as of each fiscal year end from 2010 to 2013. If earned at target, each applicable tranche vests on each of March 1, 2011 (10,000 shares), March 1, 2012 (30,000 shares), March 1, 2013 (30,000 shares) and March 1, 2014 (30,000 shares). The actual award for the third tranche was determined in the first quarter of 2013 and described in "*Equity Incentive Plan Compensation*" above.

The following table sets forth the number of shares acquired pursuant to the exercise of options or the vesting of stock awards by our named executive officers during 2012 and the aggregate dollar amount realized by our named executive officers upon such events.

2012 Option Exercises and Stock Vested Table

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($) (1)**
Thomas H. Werner	—	—	239,350	1,518,491
Charles D. Boynton	—	—	20,118	101,017
Howard J. Wenger	—	—	100,514	633,580
Marty T. Neese	—	—	117,630	782,779
Douglas R. Richards	—	—	69,382	421,996
Dennis V. Arriola	—	—	54,911	409,404

(1) The aggregate dollar value realized upon the vesting of a stock award represents the fair market value of the underlying shares on the vesting date multiplied by the number of shares vested.

Potential Payments Upon Termination or Change of Control

Termination Payments Made in 2012. Mr. Arriola received the following compensation in accordance with the terms of his amended and restated employment agreement upon his departure: a lump-sum payment of $660,000, which is equivalent to 18 months of his base salary; a lump-sum payment equal to $396,000, which is his target bonus for 2011; and the continuation of his and his eligible dependents' coverage under our benefit plans for up to 12 months, which had a value of $6,465. In addition, Mr. Arriola will receive annual make-up payments for after-tax premium contributions made by him in connection with benefit plans' coverage with an estimated value of $5,055. Mr. Arriola also signed a release of claims in favor of the Company.

Tabular Disclosure of Termination Payments. The following tables summarize the estimated payments that would have been made on December 28, 2012 to our named executive officers upon certain termination events consisting of:

- termination with cause or voluntary resignation;
- involuntary termination without cause or voluntary resignation for good reason in connection with a change of control;
- involuntary termination without cause or voluntarily resignation for good reason not in connection with a change of control;
- retirement; or
- discontinued service due to death or disability,

as described in their respective employment agreements (as amended by any amendments or Retention Agreements), assuming each such event had occurred on December 28, 2012. The dollar value identified with respect to each type of equity award is based on each officer's holdings as of December 28, 2012 and the $5.49 per share closing price for our common stock on December 28, 2012, the last trading day of our fiscal year ended December 30, 2012. For more information on each officer's outstanding equity awards as of December 28, 2012, please see the Outstanding Equity Awards At 2012 Fiscal-Year End Table above. Such figures do not reflect unpaid regular salary, nor the impact of certain provisions of the employment agreements that provide that, in the event any payments under the employment agreements would constitute parachute payments under Section 280G of the Internal Revenue Code or be subject to the excise tax of Section 4999 of the Internal Revenue Code, then such payments should be either delivered in full or reduced to result in no portion being subject to such tax provisions and still yield the greatest payment to the individual on an after tax basis.

Termination Payments Table

Name	Termination Scenario	Continued Salary ($)	Bonus and Accelerated Non-Equity Incentive Plan ($)	Accelerated Restricted Stock Units ($) (1)	Continued Medical Benefits and Gross Up ($)	Outplacement Services ($)	Accrued Paid Time Off and Sabbatical ($)	Total ($)
T. Werner	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	90,000	90,000
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	1,800,000	2,700,000	5,125,563	126,300	15,000	90,000	9,856,863
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	—	—	3,272,688	—	—	90,000	3,362,688
	Retirement	—	—	—	—	—	90,000	90,000
	Death or disability	—	—	—	—	—	90,000	90,000
C. Boynton	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	17,074	17,074
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	405,000	283,500	166,029	43,703	15,000	17,074	930,306
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	—	—	—	—	—	17,074	17,074
	Retirement	—	—	—	—	—	17,074	17,074
	Death or disability	—	—	—	—	—	17,074	17,074
H. Wenger	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	900,000	810,000	1,838,975	85	15,000	—	3,564,060
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	—	—	—	—	—	—	—
	Retirement	—	—	—	—	—	—	—
	Death or disability	—	—	—	—	—	—	—

Name	Termination Scenario	Continued Salary ($)	Bonus and Accelerated Non-Equity Incentive Plan ($)	Accelerated Restricted Stock Units ($) (1)	Continued Medical Benefits and Gross Up ($)	Outplace-ment Services ($)	Accrued Paid Time Off and Sabbatical ($)	Total ($)
M. Neese	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	900,000	720,000	2,120,578	59,937	15,000	—	3,815,515
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	—	—	—	—	—	—	—
	Retirement	—	—	—	—	—	—	—
	Death or disability	—	—	—	—	—	—	—
D. Richards	Termination with cause or voluntary resignation without good reason	—	—	—	—	—	—	—
	Involuntary termination without cause or voluntary resignation for good reason in connection with change of control	700,000	490,000	1,464,886	67,500	15,000	—	2,737,386
	Involuntary termination without cause or voluntary resignation for good reason not in connection with change of control	—	—	—	—	—	—	—
	Retirement	—	—	—	—	—	—	—
	Death or disability	—	—	—	—	—	—	—

(1) In connection with a change of control, accelerated restricted stock units' calculation assumes that the change of control does not involve Total or one of its affiliates.

COMPENSATION COMMITTEE REPORT

The following report has been submitted by the Compensation Committee of the Board of Directors:

The Compensation Committee of the Board of Directors has reviewed and discussed our Compensation Discussion and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2012 (contained in Amendment No. 1 to the Annual Report on Form 10-K) and definitive proxy statement on Schedule 14A for our 2013 Annual Meeting, each as filed with the SEC. The foregoing report was submitted by the Compensation Committee of the Board and shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A promulgated by the SEC or Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any prior or subsequent filing by us under the Securities Act of 1933 or the Exchange Act.

COMPENSATION COMMITTEE OF
THE BOARD OF DIRECTORS

Thomas R. McDaniel
Jerome Schmitt
Humbert de Wendel
Pat Wood III, *Chair*

April 5, 2013

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding beneficial ownership of our common stock as of May 28, 2013 (except as described below) by:

- each of our directors;
- our Chief Executive Officer, Chief Financial Officer, former Chief Financial Officer, and each of the three other most highly compensated individuals who served as our executive officers at the end of our fiscal year 2012, whom we collectively refer to as our "named executive officers";
- our directors, director nominees and executive officers as a group; and
- each person (including any "group" as that term is used in Section 13(d)(3) of the Exchange Act) who is known by us to beneficially own more than 5% of any class of our common stock.

Applicable beneficial ownership percentages listed below are based on 120,930,524 shares of common stock outstanding as of May 28, 2013. The business address for each of our directors and executive officers is our corporate headquarters at 77 Rio Robles, San Jose, California 95134.

	Common Stock Beneficially Owned (1)	
	Shares	**%**
Directors and Named Executive Officers		
Dennis V. Arriola (2)	59,040	*
Charles D. Boynton (3)	36,715	*
Arnaud Chaperon	—	—
Bernard Clement	—	—
Denis Giorno	—	—
Catherine Lesjak	—	—
Thomas R. McDaniel (4)	88,830	*
Marty T. Neese (5)	288,401	*
Douglas R. Richards (6)	54,433	*
Jean-Marc Otero del Val	—	—
Humbert de Wendel	—	—
Howard J. Wenger (7)	188,137	*
Thomas H. Werner (8)	320,269	*
Pat Wood III (9)	59,948	*
All Directors and Executive Officers as a Group (15 persons) (10)	1,102,440	*
Other Persons		
Total S.A. Total Energies Nouvelles Activités USA, SAS (11) 2, place Jean Millier La Défense 6 92400 Courbevoie France	88,108,359	64.98%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares underlying restricted stock units and options held by that person that will vest and be exercisable within 60 days of May 28, 2013 are deemed to be outstanding. Such shares, however, are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) Includes 12,210 shares of common stock held in the Dennis V. Arriola and Janet A. Winnick Family Trust of which Mr. Arriola and his wife are co-trustees. Mr. Arriola's employment with the Company terminated on March 2012.

(3) Includes 6,667 RSUs vesting within 60 days of May 28, 2013.
(4) Includes 29,402 shares of common stock held indirectly in the McDaniel Trust dtd 7/26/2000 of which Mr. McDaniel and his spouse are co-trustees.
(5) Includes 148,401 shares of common stock, 40,000 RSUs vesting within 60 days of May 28, 2013, and 140,000 shares of common stock issuable upon exercise of options exercisable within 60 days of May 28, 2013.
(6) Includes 33,333 RSUs vesting within 60 days of May 28, 2013.
(7) Includes 25,085 shares of common stock held indirectly in the H&L Wenger 2002 Family Trust UAD 6-21-02. Also includes 40,000 RSUs vesting within 60 days of May 28, 2013.
(8) Includes (a) 609 shares of common stock held by The Thomas H. Werner 2010 Grantor Retained Annuity Trust, of which Mr. Werner and his wife are co-trustees and Mr. Werner is the beneficiary, and (b) 609 shares of common stock held by The Suzanne M. Werner 2010 Grantor Retained Annuity Trust, of which Mr. Werner and his wife are co-trustees and his wife is the beneficiary. Also includes 100,000 RSUs vesting within 60 days of May 28, 2013.
(9) Includes 11,948 shares of common stock and 48,000 shares of common stock issuable upon exercise of options exercisable within 60 days of May 28, 2013.
(10) Includes the shares described in footnotes 3-9 plus 6,667 shares of common stock held by two additional executive officers.
(11) The ownership information set forth in the table is based on information contained in a statement on Schedule 13D/A, filed with the SEC on March 1, 2012 by Total Energies Nouvelles Activités USA, SAS (formerly known as Total Gas & Power USA, SAS) and its parent Total S.A., which indicated that the parties have shared voting and shared dispositive power with respect to said shares. Includes 9,531,677 shares of common stock issuable pursuant to a warrant issued by the Company to Total Gas & Power USA, SAS on February 28, 2012.

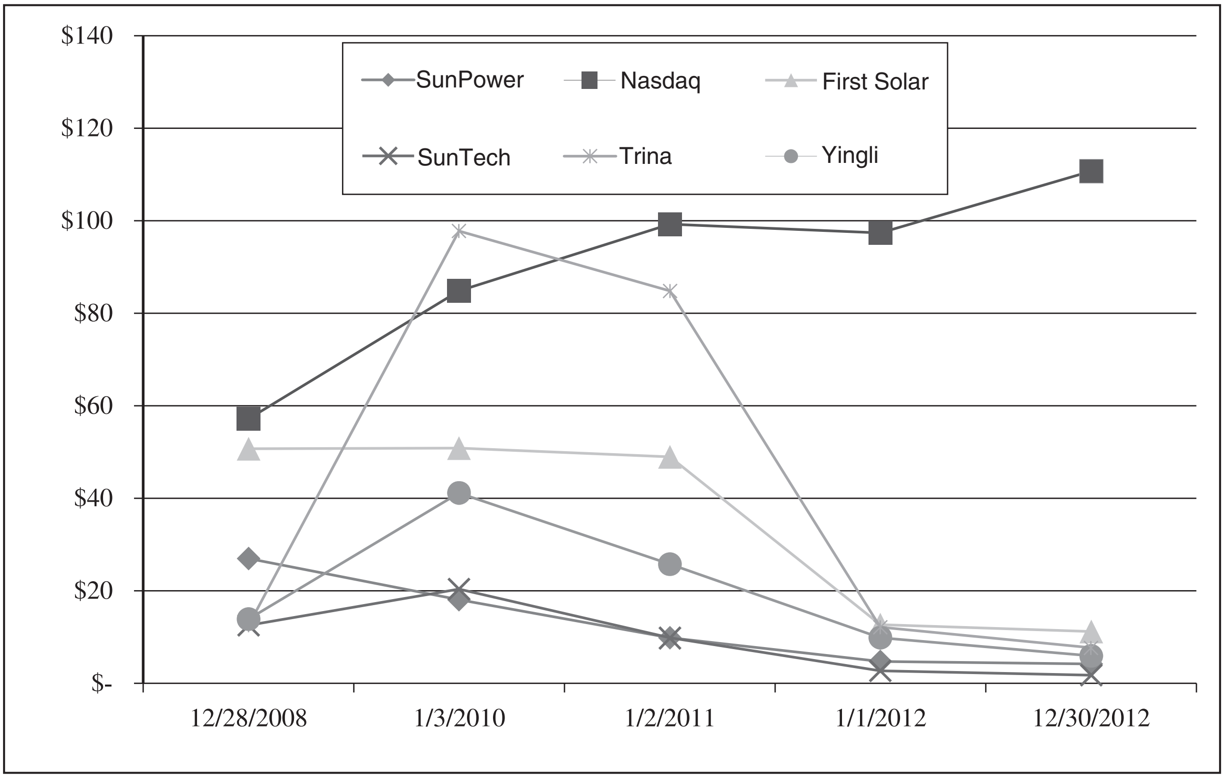
Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires certain of our executive officers and our directors, and persons who own more than 10% of a registered class of our equity securities, to file an initial report of ownership on Form 3 and reports of changes in ownership on Forms 4 or 5 with the SEC and the Nasdaq Global Select Market. Such executive officers, directors and greater than 10% stockholders are also required by SEC regulations to furnish us with copies of all Section 16 forms that they file. We periodically remind our directors and executive officers of their reporting obligations and assist in making the required disclosures once we have been notified that a reportable event has occurred. We are required to report in this proxy statement any failure by any of the above-mentioned persons to make timely Section 16 reports.

Based solely on our review of the copies of such forms received by us, and written representations from our directors and executive officers, we are unaware of any instances of noncompliance, or late compliance, with Section 16(a) filing requirements by our directors, executive officers or greater than 10% stockholders during fiscal 2012, except for one instance where a Form 4 filing (in connection with the vesting of 6,666 shares of common stock under a RSU grant) was one day late for Mr. Branderiz due to a calendaring error.

Company Stock Price Performance

The following graph compares the performance of an investment in our common stock from December 30, 2007 through December 30, 2012, with the NASDAQ Market Index and with four comparable issuers: First Solar, Inc., Suntech Power Holdings Co., Ltd., Trina Solar Ltd. and Yingli Green Energy Holding Co. Ltd. The graph assumes $100 was invested on December 30, 2007 in our former class A common stock at the closing price of $131.05 per share, at the closing prices of the common stock for First Solar, Inc., Suntech Power Holdings Co., Ltd., Trina Solar Ltd., Yingli Green Energy Holding Co. Ltd., and at the closing price for the NASDAQ Market Index. In addition, the graph also assumes that any dividends were reinvested on the date of payment without payment of any commissions. The performance shown in the graph represents past performance and should not be considered an indication of future performance. The following graph is not, and shall not be deemed to be, filed as part of our Annual Report on Form 10-K. Such graph should not be deemed filed or incorporated by reference into any filing of our Company under the Securities Act of 1933, or the Securities Exchange Act of 1934, except to the extent specifically incorporated by reference therein by our Company.



ASSUMES $100 INVESTED ON DECEMBER 30, 2007
(ASSUMES DIVIDEND REINVESTED)
UNTIL FISCAL YEAR ENDED DECEMBER 30, 2012

	December 28, 2008	January 3, 2010	January 2, 2011	January 1, 2012	December 30, 2012
SunPower Corporation	$27.00	$18.07	$ 9.79	$ 4.75	$ 4.19
Nasdaq Market Index	$57.22	$84.85	$99.19	$97.41	$110.69
First Solar, Inc.	$50.75	$50.89	$48.92	$12.69	$ 11.20
Suntech Power Holdings Co., Ltd.	$12.58	$20.33	$ 9.79	$ 2.70	$ 1.71
Trina Solar Ltd.	$12.60	$97.74	$84.82	$12.10	$ 7.64
Yingli Green Energy Holding Co. Ltd.	$13.86	$41.18	$25.74	$ 9.90	$ 5.91

EQUITY COMPENSATION PLAN INFORMATION

The following table provides certain information as of December 30, 2012 with respect to our equity compensation plans under which our equity securities are authorized for issuance (in thousands, except dollar figures).

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	326	$28.27	3,566
Total(1)	326	—	3,566

(1) Shares associated with our warrants outstanding in connection with our 4.50% debentures and the Liquidity Support Agreement are excluded from the above table as the exercise price exceeded our closing stock as of December 30, 2012. This table additionally excludes options to purchase an aggregate of approximately 68,000 shares of common stock, at a weighted average exercise price of $21.74 per share, that we assumed in connection with the acquisition of PowerLight Corporation, now known as SunPower Corporation, Systems, in January 2007. Under the terms of our three equity incentive plans, we may issue incentive or non-statutory stock options, restricted stock awards, restricted stock units, or stock purchase rights to directors, employees and consultants to purchase common stock. Our Third Amended and Restated SunPower Corporation 2005 Stock Incentive Plan includes an automatic share reserve increase feature effective for 2009 through 2015. This share reserve increase feature will cause an annual and automatic increase in the number of shares of our common stock reserved for issuance under the Stock Incentive Plan in an amount each year equal to the least of: 3% of the outstanding shares of our common stock measured on the last day of the immediately preceding fiscal year; 6,000,000 shares; and such other number of shares as determined by our Board.

PROPOSAL THREE

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2013

The Board of Directors, upon recommendation of the Audit Committee, has reappointed the firm of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 29, 2013, subject to ratification by our stockholders.

Ernst & Young LLP has served as our auditor since May 3, 2012. A representative of Ernst & Young LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so, and is expected to be available to respond to appropriate questions.

Stockholder ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm is not required by our By-Laws or other applicable legal requirements. However, the Board is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate governance.

If the stockholders fail to ratify the selection of our independent registered accounting firm, the Audit Committee and the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board, at its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our and our stockholders' best interests.

PricewaterhouseCoopers LLP

On May 3, 2012, we dismissed PricewaterhouseCoopers LLP as our independent registered public accounting firm effective upon the filing of our quarterly report on Form 10-Q for the three months ended April 1, 2012, which was filed on May 8, 2012. For further information related to the dismissal of PricewaterhouseCoopers LLP, please see the Current Report on Form 8-K filed with the SEC on May 9, 2012.

Fees billed to us by PricewaterhouseCoopers LLP during fiscal years 2011 and 2012 were as follows:

Services	2011 ($)	2012 ($)
Audit Fees	2,072,001	1,721,388
Audit-Related Fees	6,045	7,785
Tax Fees	1,612,799	2,273,705
All Other Fees	1,461,714	660,958
Total	5,152,559	4,663,836

- **Audit Fees:** Audit fees for 2011 and 2012 were for professional services rendered in connection with audits of our consolidated financial statements, statutory audits of our subsidiary companies, quarterly reviews and assistance with documents that we filed with the SEC (including our Forms 10-Q, 10-K and 8-K).
- **Audit-Related Fees:** Audit-related fees for 2011 and 2012 were for professional services rendered in connection with consultations with management on various accounting matters.
- **Tax Fees:** Tax fees for 2011 and 2012 were for tax return preparation assistance and expatriate tax services, general tax planning and international tax consulting.
- **All Other Fees:** Other fees in 2011 and 2012 were for accounting close acceleration assessment services and software license billed by PricewaterhouseCoopers LLP to SunPower.

Ernst & Young LLP

Immediately following the dismissal of PricewaterhouseCoopers LLP as our independent registered public accounting firm, we retained Ernst & Young LLP as our independent registered public accounting firm.

Fees billed to us by Ernst & Young LLP for fiscal years 2011 and 2012, subsequent to their appointment as our independent registered public accounting firm, were as follows:

Services	2011	2012 ($)
Audit Fees	—	2,449,560
Audit-Related Fees	—	87,850
Tax Fees	—	93,236
All Other Fees	—	35,260
Total	—	2,665,906

- **Audit Fees:** Audit fees for 2012 were for professional services rendered in connection with audits of our consolidated financial statements, statutory audits of our subsidiary companies, quarterly reviews and assistance with documents that we filed with the SEC (including our Forms 10-Q and 8-K) for periods covering fiscal 2012, 2011 and 2010.
- **Audit-Related Fees:** Audit-related fees for 2012 were for professional services rendered in connection with consultations with management on various accounting matters.
- **Tax Fees:** Tax fees for 2012 were for tax consulting services.
- **All Other Fees:** Other fees in 2012 included advice and recommendations on a financial model and permitted advisory services.

Audit Committee Pre-Approval

As required by Section 10A(i)(1) of the Exchange Act, our Audit Committee has adopted a pre-approval policy requiring that the Audit Committee pre-approve all audit and permissible non-audit services to be performed by our independent registered public accounting firm. Any proposed service that has received pre-approval but which will exceed pre-approved cost limits will require additional pre-approval by the Audit Committee. In addition, pursuant to Section 10A(i)(3) of the Exchange Act, the Audit Committee has established procedures by which the Audit Committee may from time to time delegate pre-approval authority to the Chairman of the Audit Committee. If the Chairman exercises this authority, he must report any pre-approval decisions to the full Audit Committee at its next meeting. The independent registered public accounting firm and our management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with the committee's pre-approval, and the fees for the services performed to date.

During fiscal years 2012 and 2011, all services provided to us by PricewaterhouseCoopers LLP and Ernst & Young LLP were pre-approved by the Audit Committee in accordance with the pre-approval policy described above; however, in fiscal 2012 we paid approximately $30,000 to EY Israel for services related to a model review in connection with a project financing in Israel. These services were not pre-approved by our Audit Committee. The scope and services was reviewed and approved by the Audit Committee after the services were rendered. Ernst & Young LLP and our Audit Committee have each concluded that Ernst & Young LLP's objectivity and ability to exercise impartial judgment on all issues encompassed with the audit engagement has not been impaired because (i) the services did not include prohibited non-audit related services; (ii) no members of the audit engagement team were aware of or involved with the provision of the services until after such services were provided; and (iii) the fees we paid were insignificant both to Ernst & Young LLP and to SunPower.

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EXECUTIVE OFFICERS

Thomas H. Werner
President, CEO and
Chairman of the Board

Lisa Bodensteiner
Executive Vice President
and General Counsel

Charles D. Boynton
Executive Vice President
and Chief Financial Officer

Eric Branderiz
Senior Vice President,
CAO, and Head of Global
Residential and Light Commercial
Operations and Finance

Marty T. Neese
Chief Operating Officer

Douglas J. Richards
Executive Vice President,
Administration

Howard Wenger
President, Regions

CURRENT BOARD OF DIRECTORS

Thomas H. Werner
Chairman of the Board

Arnaud Chaperon
Director

Bernard Clement
Director

Denis Giorno
Director

Catherine Lesjak
Director

Thomas R. McDaniel
Director

Jean-Marc Otero del Val
Director

Humbert de Wendel
Director

Pat Wood III
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