SUNPOWER CORP
Form 10-Q
April 30, 2014
Table of Contents

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

FORM 10-Q

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 30, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number 001-34166
SunPower Corporation
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

(Do not check if a smaller
reporting company)

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

The total number of outstanding shares of the registrant's common stock as of April 25, 2014 was 130,686,326.

d

1

Table of Contents

TABLE OF CONTENTS

		Page
Part 1. FINANCIAL INFORMATION		3
Item 1.	Financial Statements (unaudited)	3
	Consolidated Balance Sheets	3
	Consolidated Statements of Operations	4
	Consolidated Statements of Comprehensive Income (Loss)	5
	Consolidated Statement of Equity	6
	Consolidated Statements of Cash Flows	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	53
Item 4.	Controls and Procedures	55
Part II. OTHER INFORMATION		55
Item 1.	Legal Proceedings	55
Item 1A.	Risk Factors	55
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 6.	Exhibits	58
Signatures		59
Index to Exhibits		60

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 30, 2014	December 29, 2013
Assets		
Current assets:		
Cash and cash equivalents	$754,741	$762,511
Restricted cash and cash equivalents, current portion	14,140	13,926
Accounts receivable, net	265,402	360,594
Costs and estimated earnings in excess of billings	17,778	31,787
Inventories	234,380	245,575
Advances to suppliers, current portion	69,103	58,619
Project assets - plants and land, current portion	30,304	69,196
Prepaid expenses and other current assets[1]	648,979	646,270
Total current assets	2,034,827	2,188,478
Restricted cash and cash equivalents, net of current portion	19,652	17,573
Restricted long-term marketable securities	8,715	8,892
Property, plant and equipment, net	535,287	533,387
Solar power systems leased and to be leased, net	360,571	345,504
Project assets - plants and land, net of current portion	7,751	6,411
Advances to suppliers, net of current portion	321,474	324,695
Long-term financing receivables, net	207,606	175,273
Other long-term assets[1]	330,458	298,477
Total assets	$3,826,341	$3,898,690
Liabilities and Equity		
Current liabilities:		
Accounts payable[1]	$418,566	$443,969
Accrued liabilities	378,501	358,157
Billings in excess of costs and estimated earnings[1]	191,641	308,650
Short-term debt	17,157	56,912
Convertible debt, current portion	460,501	455,889
Customer advances, current portion[1]	38,752	36,883
Total current liabilities	1,505,118	1,660,460
Long-term debt	123,423	93,095
Convertible debt, net of current portion[1]	300,079	300,079
Customer advances, net of current portion[1]	162,686	167,282
Other long-term liabilities	544,646	523,991

Total liabilities	2,635,952	2,744,907
Commitments and contingencies (Note 7)		
Equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of both March 30, 2014 and December 29, 2013	—	—
Common stock, $0.001 par value, 367,500,000 shares authorized; 130,266,418 shares issued, and 123,542,147 outstanding as of March 30, 2014; 126,946,763 shares issued, and 121,535,913 outstanding as of December 29, 2013	124	122
Additional paid-in capital	1,987,870	1,980,778
Accumulated deficit	(741,448)	(806,492)
Accumulated other comprehensive loss	(3,769)	(4,318)
Treasury stock, at cost; 6,724,271 shares of common stock as of March 30, 2014; 5,410,850 shares of common stock as of December 29, 2013	(97,443)	(53,937)
Total stockholders' equity	1,145,334	1,116,153
Noncontrolling interests in subsidiaries	45,055	37,630
Total equity	1,190,389	1,153,783
Total liabilities and equity	$3,826,341	$3,898,690

1 The Company has related party balances in connection with transactions made with Total and its affiliates as well as 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," "Billings in excess of costs and estimated earnings," "Customer advances, current portion," "Convertible debt, net of current portion," and "Customer advances, net of current portion" financial statement line items in the Condensed Consolidated Balance Sheets (see Note 2, Note 3, Note 7, Note 8, and Note 9).

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

3

Table of Contents

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

	Three Months Ended	
	March 30, 2014	March 31, 2013
Revenue	$692,422	$635,433
Cost of revenue	529,433	576,120
Gross margin	162,989	59,313
Operating expenses:		
Research and development	16,746	13,170
Sales, general and administrative	73,928	70,092
Restructuring charges	(461)	(337)
Total operating expenses	90,213	82,925
Operating income (loss)	72,776	(23,612)
Other income (expense), net:		
Interest income	318	255
Interest expense	(19,592)	(27,034)
Other, net	1,369	(8,256)
Other expense, net	(17,905)	(35,035)
Income (loss) before income taxes and equity in earnings (loss) of unconsolidated investees	54,871	(58,647)
Provision for income taxes	(13,620)	(2,989)
Equity in earnings (loss) of unconsolidated investees	1,783	(333)
Net income (loss)	43,034	(61,969)
Net loss attributable to noncontrolling interests	22,010	7,273
Net income (loss) attributable to stockholders	$65,044	$(54,696)
Net income (loss) per share attributable to stockholders:		
Basic	$0.53	$(0.46)
Diluted	$0.42	$(0.46)
Weighted-average shares:		
Basic	122,196	119,553
Diluted	160,434	119,553

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

Table of Contents

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

	Three Months Ended	
(In thousands)	March 30, 2014	March 31, 2013
Net income (loss)	$43,034	$(61,969)
Components of comprehensive income (loss):		
Translation adjustment	274	(1,343)
Net unrealized gain on derivatives (Note 10)	385	2,835
Income taxes	(110)	(533)
Net change in accumulated other comprehensive income (loss)	549	959
Total comprehensive income (loss)	43,583	(61,010)
Comprehensive loss attributable to noncontrolling interests	22,010	7,273
Comprehensive income (loss) attributable to stockholders	$65,593	$(53,737)

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

Table of Contents

SunPower Corporation
Consolidated Statement of Equity
(In thousands)
(unaudited)

	Common Stock								
	Shares	Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 29, 2013	121,536	$122	$1,980,778	$(53,937)	$(4,318)	$(806,492)	$1,116,153	$37,630	$1,153,783
Net income (loss)	—	—	—	—	—	65,044	65,044	22,010	43,034
Other comprehensive income	—	—	—	—	549	—	549	—	549
Issuance of common stock upon exercise of options	18	—	68	—	—	—	68	—	68
Issuance of restricted stock to employees, net of cancellations	3,300	2	(2)	—	—	—	—	—	—
Conversion of 4.75% debentures	1	—	35	—	—	—	35	—	35
Settlement of the 4.75% Bond hedge	—	—	68,842	—	—	—	68,842	—	68,842
Settlement of the 4.75% Warrants	—	—	(81,077)	—	—	—	(81,077)	—	(81,077)
Stock-based compensation expense	—	—	14,876	—	—	—	14,876	—	14,876
Tax benefit from convertible debt interest deduction	—	—	3,589	—	—	—	3,589	—	3,589
Tax benefit from stock-based			761				761	—	761

compensation									
Contributions from noncontrolling interests	—	—	—	—	—	—	—	30,552	30,552
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(1,117)	(1,117)
Purchases of treasury stock	(1,313)	—	—	(43,506)	—	—	(43,506)	—	(43,506)
Balances at March 30, 2014	123,542	$124	$1,987,870	$(97,443)	$(3,769)	$(741,448)	$1,145,334	$45,055	$1,190,389

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

Table of Contents

SunPower Corporation
Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Three Months Ended	
	March 30, 2014	March 31, 2013
Cash flows from operating activities:		
Net income (loss)	$43,034	$(61,969)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	25,371	23,767
Stock-based compensation	14,867	8,516
Non-cash interest expense	5,170	11,890
Equity in (earnings) loss of unconsolidated investees	(1,783)	333
Deferred income taxes and other tax liabilities	17,985	4,724
Other, net	9	1,094
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	93,574	60,340
Costs and estimated earnings in excess of billings	14,009	(849)
Inventories	4,043	(5,606)
Project assets	22,491	(35,250)
Long-term financing receivables, net	(32,333)	(25,798)
Prepaid expenses and other assets	(11,994)	223,287
Advances to suppliers	(7,263)	(4,319)
Accounts payable and other accrued liabilities	(16,972)	(28,825)
Billings in excess of costs and estimated earnings	(117,009)	(2,697)
Customer advances	(2,727)	(1,775)
Net cash provided by operating activities	50,472	166,863
Cash flows from investing activities:		
Decrease (increase) in restricted cash and cash equivalents	(2,293)	17,797
Purchases of property, plant and equipment	(8,800)	(12,042)
Cash paid for solar power systems, leased and to be leased	(14,989)	(41,688)
Proceeds from sale of equipment to third-party	—	11
Cash paid for investments in unconsolidated investees	(5,013)	—
Net cash used in investing activities	(31,095)	(35,922)
Cash flows from financing activities:		
Proceeds from issuance of non-recourse debt financing, net of issuance costs	39,108	—
Proceeds from issuance of project loans, net of issuance costs	—	24,061
Proceeds from residential lease financing	—	39,090
Proceeds from sale-leaseback financing	16,685	33,850
Contributions from noncontrolling interests	30,552	12,315
Proceeds from exercise of stock options	68	25
Proceeds from settlement of 4.75% Bond Hedge	68,842	—
Payments to settle 4.75% Warrants	(81,077)	—
Repayment of bank loans, project loans and other debt	(7,850)	(180,501)
Assumption of project loan by customer	(40,672)	—
Repayment of residential lease financing	(7,213)	—

Repayment of sale-leaseback financing	(779)	—
Distributions to noncontrolling interests	(1,117)	—
Purchases of stock for tax withholding obligations on vested restricted stock	(43,506)	(10,739)
Cash paid for repurchase of convertible debt	(1)	—
Net cash used in financing activities	(26,960)	(81,899)
Effect of exchange rate changes on cash and cash equivalents	(187)	(942)
Net increase (decrease) in cash and cash equivalents	(7,770)	48,100
Cash and cash equivalents, beginning of period	762,511	457,487
Cash and cash equivalents, end of period	$754,741	$505,587
Non-cash transactions:		
Assignment of residential lease receivables to a third party financial institution	$1,496	$33,969
Costs of solar power systems, leased and to be leased, sourced from existing inventory	$7,120	$15,536
Costs of solar power systems, leased and to be leased, funded by liabilities	$1,634	$4,070
Costs of solar power systems under sale-leaseback financing arrangements, sourced from project assets	$15,269	$20,066
Property, plant and equipment acquisitions funded by liabilities	$5,544	$5,042

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

Table of Contents

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. SunPower Corporation is a majority owned subsidiary of Total Energies Nouvelles Activités USA ("Total"), a subsidiary of Total S.A. ("Total S.A.") (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 accumulated deficit.

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. Both fiscal 2014 and 2013 are 52-week fiscal years. The first quarter of fiscal 2014 ended on March 30, 2014, while the first quarter of fiscal 2013 ended on March 31, 2013. Both the first quarter of fiscal 2014 and fiscal 2013 were 13-week quarters.

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 and other long-term assets; the fair value and residual value of leased solar power systems; fair value of financial instruments; valuation of certain accrued liabilities such as accrued warranty; and income taxes and tax valuation allowances. Actual results could materially differ from those estimates.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") amended its guidance related to the presentation of unrecognized tax benefits. The amended guidance specifies when an unrecognized tax benefit or a portion of an unrecognized tax benefit should be presented as a liability versus an offset against a deferred tax asset when a net operating loss carryforward, a similar tax loss or tax credit carryforward exists. The amendment became effective for the Company in the first quarter of fiscal 2014 and did not have a material impact on its consolidated financial statements.

In March 2013, 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

Table of Contents

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 became effective retrospectively in the first quarter of the Company's fiscal year 2014 and did not have a material impact on its consolidated financial statements as it is disclosure only in nature.

In March 2013, the FASB amended its guidance related to foreign currency matters requiring the release of the cumulative translation adjustment into net income when an entity ceases to have a controlling financial interest in a subsidiary or a group of assets within a foreign entity. The amendment became effective for the Company in the first quarter of fiscal 2014 and did not have a material impact on its consolidated financial statements.

Other than as described above, there has been no issued accounting guidance not yet adopted by the Company that it believes is material or potentially material to its consolidated financial statements.

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

In June 2011, Total completed a cash tender offer to acquire 60% of the Company's then outstanding shares of common stock at a price of $23.25 per share, for a total cost of approximately $1.4 billion. In December 2011, the Company entered into a Private Placement Agreement with Total, under which Total purchased, and the Company issued and sold, 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.

Credit Support Agreement

In fiscal 2011, 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. Total S.A. will guarantee the Company's obligation to reimburse the applicable issuing bank 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. Under the Credit Support Agreement, the Company may also request that Total S.A. provide a Guaranty in support of the Company's payment obligations with respect to a letter of credit facility. The Company is required to pay Total S.A. a guarantee fee for each letter of credit that is the subject of a Guaranty under the Credit Support Agreement and was outstanding for all or part of the preceding calendar quarter.

The Credit Support Agreement will terminate following 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

The Company and Total have entered into an Affiliation Agreement that governs the relationship between Total and the Company (the "Affiliation Agreement"). Until the expiration of a standstill period (the "Standstill Period"), and subject to certain exceptions, 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 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.

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.

Research & Collaboration Agreement

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, with a focus on advancing the Company's technology position in the crystalline silicon domain, as well as ensuring the Company's industrial competitiveness. The R&D Agreement enables a joint committee to identify, plan and manage the R&D Collaboration.

Liquidity Support Agreement with Total S.A.

The Company was 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 was 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. In February 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. 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"). The Liquidity Support Facility was available until the completion of the solar park, which was completed in accordance with the terms of the relevant agreement in March 2014. Upon completion, the Liquidity Support Agreement was terminated. There were no outstanding guarantees or debt under the facility upon termination.

Compensation and Funding Agreement

In connection with the Liquidity Support Agreement, in February 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.

During the term of the Compensation and Funding Agreement, the Company is required to pay Total S.A. commitment and guarantee fees 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.

In July 2013, Total S.A. issued a guarantee for the Company's obligations under the July 2013 revolving credit facility with Credit Agricole (the "July 2013 revolving credit facility"), which reduced the capacity available under the Liquidity Support Facility from $600.0 million to $350.0 million. The Company was required to pay Total S.A. an annual guarantee fee of 2.75% of the outstanding amount under the July 2013 revolving credit facility through expiration of the guarantee on January 31, 2014 (see Note 9).

Upfront Warrant

In February 2012, as consideration for Total S.A.'s agreement to provide the Liquidity Support Facility, the Company issued a warrant ("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. The Upfront Warrant, governed by the Private Placement Agreement and the Compensation and Funding Agreement, 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.

0.75% Debentures Due 2018

In May 2013, the Company issued $300.0 million in principal amount of its 0.75% senior convertible debentures due 2018 (the "0.75% debentures due 2018"). $200.0 million in aggregate principal amount of the 0.75% debentures due 2018 were acquired by Total. The 0.75% debentures due 2018 are convertible into shares of the Company's common stock at any time

10

Table of Contents

based on an initial conversion price equal to $24.95 per share, which provides Total the right to acquire up to 8,017,420 shares of the Company's common stock. The applicable conversion rate may adjust in certain circumstances, including a fundamental change, as described in the indenture governing the 0.75% debentures due 2018 (see Note 9).

Joint Projects with Total and its Affiliates:

We enter into various engineering, procurement and construction ("EPC") and operations and maintenance ("O&M") agreements relating to solar projects, including EPC services and O&M agreements relating to projects owned or partially owned by Total and its affiliates. As of March 30, 2014, the Company had $9.1 million of "Billings in excess of costs and estimated earnings" on its Consolidated Balance Sheets related to projects in which Total has a direct or indirect interest.

Related Party Transactions with Total and its Affiliates:

	Three Months Ended	
(In thousands)	March 30, 2014	March 31, 2013
Revenue:		
EPC and O&M revenue under joint projects	$2,889	$—
Research and development expense:		
Offsetting contributions received under R&D Agreement	$260	$—
Interest expense:		
Guarantee fees incurred under Credit Support Agreement	$2,745	$1,811
Fees incurred under the Compensation and Funding Agreement	$1,200	$1,701
Interest expense incurred on the 0.75% debentures due 2018	$375	$—

Note 3. BALANCE SHEET COMPONENTS

	As of	
(In thousands)	March 30, 2014	December 29, 2013
Accounts receivable, net:		
Accounts receivable, gross[1,2]	$293,813	$389,152
Less: allowance for doubtful accounts	(26,474)	(26,463)
Less: allowance for sales returns	(1,937)	(2,095)
	$265,402	$360,594

1 Includes short-term financing receivables associated with solar power systems leased of $5.7 million and $4.4 million as of March 30, 2014 and December 29, 2013, respectively (see Note 4).

2 Includes short-term retainage of $4.4 million and $8.3 million as of March 30, 2014 and December 29, 2013, respectively. Retainage refers to the earned, but unbilled, portion of a construction and development project which is withheld for payment by the customer until certain milestones are met in accordance with the related contract.

	As of	
(In thousands)	March 30, 2014	December 29, 2013
Inventories:		
Raw materials	$45,027	$51,905
Work-in-process	63,553	52,756

Finished goods	125,800	140,914
	$234,380	$245,575

11

Table of Contents

(In thousands)	As of March 30, 2014	December 29, 2013
Prepaid expenses and other current assets:		
Deferred project costs	$285,387	$275,389
Bond hedge derivative	129,539	110,477
VAT receivables, current portion	16,116	21,481
Deferred costs for solar power systems to be leased	13,708	23,429
Foreign currency derivatives	1,677	4,642
Other receivables	86,399	112,062
Other prepaid expenses	50,134	28,629
Other current assets	66,019	70,161
	$648,979	$646,270

(In thousands)	As of March 30, 2014	December 29, 2013
Project assets - plants and land:		
Project assets — plants	$31,822	$64,564
Project assets — land	6,233	11,043
	$38,055	$75,607
Project assets - plants and land, current portion	$30,304	$69,196
Project assets - plants and land, net of current portion	$7,751	$6,411

(In thousands)	As of March 30, 2014	December 29, 2013
Property, plant and equipment, net:		
Manufacturing equipment[3]	$542,422	$538,616
Land and buildings	26,138	26,138
Leasehold improvements	230,503	229,846
Solar power systems[4]	97,127	82,036
Computer equipment	82,038	79,519
Furniture and fixtures	8,432	8,392
Construction-in-process	13,953	11,724
	1,000,613	976,271
Less: accumulated depreciation	(465,326)	(442,884)
	$535,287	$533,387

[3] The Company's mortgage loan agreement with International Finance Corporation ("IFC") is collateralized by certain manufacturing equipment with a net book value of $138.3 million and $145.9 million as of March 30, 2014 and December 29, 2013, respectively.

[4] Includes $67.9 million and $52.6 million of solar power systems associated with sale-leaseback transactions under the financing method as of March 30, 2014 and December 29, 2013 which are depreciated using the straight-line method to their estimated residual values over the lease terms of up to 20 years (see Note 4).

Table of Contents

(In thousands)	As of March 30, 2014	December 29, 2013
Property, plant and equipment, net by geography[5]:		
Philippines	$311,499	$321,410
United States	165,035	153,074
Mexico	32,948	32,705
Europe	24,769	25,293
Other	1,036	905
	$535,287	$533,387

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

(In thousands)	As of March 30, 2014	December 29, 2013
Other long-term assets:		
Equity method investments	$133,537	$131,739
Retainage[6]	114,335	88,934
Cost method investments	17,344	12,374
Long-term debt issuance costs	10,081	10,274
Other	55,161	55,156
	$330,458	$298,477

6 Retainage refers to the earned, but unbilled, portion of a construction and development project which is withheld for payment by the customer until certain milestones are met in accordance with the related contract. The Company's noncurrent retainage is expected to be collected in 2015 through 2016.

(In thousands)	As of March 30, 2014	December 29, 2013
Accrued liabilities:		
Bond hedge derivatives	$129,548	$110,477
Employee compensation and employee benefits	47,555	50,449
Deferred revenue	30,737	29,287
Short-term residential lease financing	7,379	14,436
Interest payable	9,730	10,971
Short-term warranty reserves	10,988	10,426
Restructuring reserve	4,095	7,134
VAT payables	6,605	7,089
Foreign currency derivatives	1,700	6,170
Other	130,164	111,718
	$378,501	$358,157

Table of Contents

(In thousands)	As of March 30, 2014	December 29, 2013
Other long-term liabilities:		
Deferred revenue	$177,976	$176,925
Long-term warranty reserves	140,427	138,946
Long-term sale-leaseback financing	82,008	65,944
Long-term residential lease financing	31,400	31,933
Unrecognized tax benefits	32,533	28,927
Other	80,302	81,316
	$544,646	$523,991

(In thousands)	As of March 30, 2014	December 29, 2013
Accumulated other comprehensive loss:		
Cumulative translation adjustment	$(3,492)	$(3,766)
Net unrealized loss on derivatives	(420)	(805)
Deferred taxes	143	253
	$(3,769)	$(4,318)

Note 4. LEASING

Residential Lease Program

The Company offers a solar lease program, in partnership with third-party financial institutions, which allows its residential customers to obtain SunPower systems under lease agreements for terms of up to 20 years. Leases are classified as either operating or sales-type leases in accordance with the relevant accounting guidelines.

Operating Leases

The following table summarizes "Solar power systems leased and to be leased" under operating leases on the Company's Consolidated Balance Sheets as of March 30, 2014 and December 29, 2013, respectively:

(In thousands)	As of March 30, 2014	December 29, 2013
Solar power systems leased and to be leased, net[1,2]:		
Solar power systems leased	$359,918	$324,202
Solar power systems to be leased	24,621	36,645
	384,539	360,847
Less: accumulated depreciation	(23,968)	(15,343)
	$360,571	$345,504

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

2 As of March 30, 2014 and December 29, 2013, the Company has pledged solar assets with an aggregate book value of $144.7 million and $147.7 million, respectively, to the third-party investors as security for its obligations under the contractual arrangements.

Table of Contents

The following table presents the Company's minimum future rental receipts on operating leases placed in service as of March 30, 2014:

(In thousands)	2014 (remaining nine months)	2015	2016	2017	2018	Thereafter	Total
Minimum future rentals on operating leases placed in service[1]	$9,419	9,552	9,588	9,626	9,666	143,501	$191,352

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

Sales-Type Leases

As of March 30, 2014 and December 29, 2013, the Company's net investment in sales-type leases presented in "Accounts receivable" and "Long-term financing receivables, net" on the Company's Consolidated Balance Sheets was as follows:

	As of	
(In thousands)	March 30, 2014	December 29, 2013
Financing receivables:		
Minimum lease payments receivable[1]	$252,487	$217,666
Unguaranteed residual value	26,144	23,366
Unearned income	(65,306)	(61,326)
Net financing receivables	$213,325	$179,706
Current	$5,719	$4,433
Long-term	$207,606	$175,273

[1] Net of allowance for doubtful accounts.

As of March 30, 2014, future maturities of net financing receivables for sales-type leases are as follows:

(In thousands)	2014 (remaining nine months)	2015	2016	2017	2018	Thereafter	Total
Scheduled maturities of minimum lease payments receivable[1]	$9,241	11,674	11,837	12,004	12,177	195,554	$252,487

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

Third-Party Financing Arrangements

The Company has entered into multiple facilities under which solar power systems are financed with third-party investors. Under the terms of certain programs the investors make upfront payments to the Company, 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 these arrangements with its residential lease customers in the consolidated financial statements. As of March 30, 2014, and December 29, 2013, 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 $38.8 million and $46.4 million, respectively (see Note 3).

The Company has entered into facilities with third-party investors under which the parties invest in entities that hold SunPower solar power systems and leases with residential customers. The Company was determined to hold controlling interests in these less-than-wholly-owned entities and has fully consolidated these entities as a result. The Company accounts for the portion of net assets in the consolidated entities attributable to the investors as "Noncontrolling interests" in its consolidated financial statements. As of March 30, 2014, the Company has entered into a total of six facilities with third-party investors. During the three months ended March 30, 2014 and March 31, 2013, the Company received $30.6 million and $12.3 million, respectively, in contributions from investors under the related facilities and attributed $22.0 million and $7.3 million, respectively, in losses to the third-party investors primarily as a result of allocating certain assets, including tax credits, to the investors.

Sale-Leaseback Arrangements

The Company enters into sale-leaseback arrangements under which solar power systems are sold to third parties and subsequently leased back over minimum lease terms of up to 20 years. Separately, the Company enters 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 durations of up to 20 years. At the end of the lease term, the Company has the option to purchase the systems at fair value or may be required to remove the systems and return them to the third parties.

The Company has classified its sale-leaseback arrangements of solar power systems not involving integral equipment as operating leases. The deferred profit on the sale of these systems is recognized over the term of the lease. As of March 30, 2014, future minimum lease obligations associated with these systems was $101.7 million, which will be recognized over the minimum lease terms. Future minimum payments to be received from customers under PPAs associated with the solar power systems under sale-leaseback arrangements classified as operating leases will be recognized over the lease terms of up to 20 years and are contingent upon the energy produced by the solar power systems.

The Company enters into sale-leaseback arrangements under which the systems under the sale-leaseback arrangements have been determined to be integral equipment as defined under the accounting guidance for such transactions. The Company was further determined to have continuing involvement with the solar power systems throughout the lease due to purchase option rights. As a result of such continuing involvement, the Company accounts for each transaction as a financing. Under the financing method, the proceeds received from the sale of the solar power systems are recorded by the Company as financing liabilities and presented within "Other long-term liabilities" in the Company's Consolidated Balance Sheets (see Note 3). The financing liabilities are subsequently reduced by the Company's payments to lease back the solar power systems, less interest expense calculated based on the Company's incremental borrowing rate adjusted to the rate required to prevent negative amortization. The solar power systems under the sale-leaseback arrangements remains on the Company's balance sheet and are classified within "Property, plant and equipment, net" (see Note 3). As of March 30, 2014, future minimum lease obligations for the sale-leaseback arrangements accounted for under the financing method were $78.0 million, which will be recognized over the lease terms of up to 20 years.

Note 5. 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 any presented period. The Company did not have any assets or liabilities measured at fair value on a recurring basis requiring Level 3 inputs as of March 30, 2014 or December 29, 2013.

Table of Contents

The following table summarizes the Company's assets and liabilities measured and recorded at fair value on a recurring basis as of March 30, 2014 and December 29, 2013, respectively:

	March 30, 2014			December 29, 2013		
(In thousands)	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Cash and cash equivalents:						
Money market funds[1]	$378,001	$378,001	$—	$358,001	$358,001	$—
Prepaid expenses and other current assets:						
Debt derivatives (Note 9)	129,539	—	129,539	110,477	—	110,477
Foreign currency derivatives (Note 10)	1,677	—	1,677	4,642	—	4,642
Other long-term assets:						
Foreign currency derivatives (Note 10)	237	—	237	588	—	588
Total assets	$509,454	$378,001	$131,453	$473,708	$358,001	$115,707
Liabilities						
Accrued liabilities:						
Debt derivatives (Note 9)	$129,548	$—	$129,548	$110,477	$—	$110,477
Foreign currency derivatives (Note 10)	1,700	—	1,700	6,170	—	6,170
Other long-term liabilities:						
Foreign currency derivatives (Note 10)	191	—	191	555	—	555
Total liabilities	$131,439	$—	$131,439	$117,202	$—	$117,202

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 9) and the embedded cash conversion option within the 4.50% debentures (as defined in Note 9) 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:

Table of Contents

	As of [1]			
	March 30, 2014		December 29, 2013	
Stock price	$31.85		$28.91	
Exercise price	$22.53		$22.53	
Interest rate	0.27	%	0.33	%
Stock volatility	58.1	%	57.7	%
Credit risk adjustment	0.73	%	0.71	%
Maturity date	February 18, 2015		February 18, 2015	

The valuation model utilizes these inputs to value the right but not the obligation to purchase one share at $22.53.

[1] 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.

Held-to-Maturity Debt Securities

The Company's debt securities, classified as held-to-maturity, consist of Philippine government bonds which are maintained as collateral for present and future business transactions within the country. These bonds have maturity dates of up to 5 years and are classified as "Restricted long-term marketable securities" on the Company's Consolidated Balance Sheets. As of March 30, 2014 and December 29, 2013, these bonds had a carrying value of $8.7 million and $8.9 million respectively. 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. No other-than-temporary impairment loss was incurred during any presented period. The held-to-maturity debt securities were categorized in Level 2 of the fair value hierarchy.

Equity and Cost Method Investments

The Company holds equity investments in non-consolidated entities which are accounted for under the both equity and cost method. 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 March 30, 2014 and December 29, 2013, the Company had $133.5 million and $131.7 million, respectively, in investments accounted for under the equity method (see Note 8). As of March 30, 2014 and December 29, 2013, the Company had $17.3 million and $12.4 million, respectively, in investments accounted for under the cost method.

Table of Contents

Related Party Transactions with Equity and Cost Method Investees:

	As of	
(In thousands)	March 30, 2014	December 29, 2013
Accounts receivable	$16,230	$11,780
Accounts payable	$53,940	$51,499
Other long-term assets:		
Long-term note receivable	$3,755	$3,688

	Three Months Ended	
(In thousands)	March 30, 2014	March 31, 2013
Payments made to investees for products/services	$112,039	$134,916

Note 6. RESTRUCTURING

October 2012 Restructuring Plan