

SUNPOWER CORP
Form 10-Q
May 12, 2011

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

FORM 10-Q

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

For the quarterly period ended April 3, 2011

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

(State or Other Jurisdiction of Incorporation or
Organization)

94-3008969

(I.R.S. Employer Identification No.)

77 Rio Robles Drive, San Jose, California 95134

(Address of Principal Executive Offices and Zip Code)

(408) 240-5500

(Registrant's Telephone Number, Including Area Code)

3939 North First Street, San Jose, California 95134

(Registrant's Former Address)

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 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 ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Edgar Filing: SUNPOWER CORP - Form 10-Q

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

The total number of outstanding shares of the registrant's class A common stock as of May 6, 2011 was 56,981,639.
The total number of outstanding shares of the registrant's class B common stock as of May 6, 2011 was 42,033,287.

SunPower Corporation

INDEX TO FORM 10-Q

	Page
<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
Item 1. <u>Financial Statements (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risks</u>	<u>46</u>
Item 4. <u>Controls and Procedures</u>	<u>49</u>
<u>PART II. OTHER INFORMATION</u>	<u>50</u>
Item 1. <u>Legal Proceedings</u>	<u>50</u>
Item 1A. <u>Risk Factors</u>	<u>51</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>56</u>
Item 6. <u>Exhibits</u>	<u>57</u>
<u>Signatures</u>	<u>59</u>
<u>Index to Exhibits</u>	<u>60</u>

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Index

SunPower Corporation

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(unaudited)

	April 3, 2011	January 2, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$367,860	\$605,420
Restricted cash and cash equivalents, current portion	141,617	117,462
Short-term investments	42,089	38,720
Accounts receivable, net	341,400	381,200
Costs and estimated earnings in excess of billings	136,267	89,190
Inventories	487,448	313,398
Advances to suppliers, current portion	33,673	31,657
Project assets - plants and land, current portion	46,377	23,868
Prepaid expenses and other current assets (1)	207,034	192,934
Total current assets	1,803,765	1,793,849
Restricted cash and cash equivalents, net of current portion	119,410	138,837
Property, plant and equipment, net	597,001	578,620
Project assets - plants and land, net of current portion	26,524	22,238
Goodwill	346,159	345,270
Other intangible assets, net	59,753	66,788
Advances to suppliers, net of current portion	266,276	255,435
Other long-term assets (1)	245,733	178,294
Total assets	\$3,464,621	\$3,379,331
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable (1)	\$365,404	\$382,884
Accrued liabilities	201,612	137,704
Billings in excess of costs and estimated earnings	70,841	48,715
Short-term debt	206,095	198,010
Convertible debt, current portion	185,572	—
Customer advances, current portion (1)	17,186	21,044
Total current liabilities	1,046,710	788,357
Long-term debt	50,000	50,000
Convertible debt, net of current portion	413,046	591,923
Customer advances, net of current portion (1)	157,133	160,485
Other long-term liabilities	170,694	131,132
Total liabilities	1,837,583	1,721,897
Commitments and contingencies (Note 5)		
Stockholders' equity:		

Edgar Filing: SUNPOWER CORP - Form 10-Q

Preferred stock, 10,042,490 shares authorized, \$0.001 par value; none issued and outstanding	—	—
Common stock, 217,500,000 shares of class A common stock authorized, \$0.001 par value; 57,966,210 and 56,664,413 shares of class A common stock issued; 56,893,750 and 56,073,083 shares of class A common stock outstanding, as of April 3, 2011 and January 2, 2011, respectively; 150,000,000 shares of class B common stock authorized, \$0.001 par value; 42,033,287 shares of class B common stock issued and outstanding as of both April 3, 2011 and January 2, 2011	99	98
Additional paid-in capital	1,619,640	1,606,697
Retained earnings	61,551	63,672
Accumulated other comprehensive income (loss)	(29,502)	) 3,640
Treasury stock, at cost; 1,072,460 and 591,330 shares of class A common stock as of April 3, 2011 and January 2, 2011, respectively	(24,750)	) (16,673)
Total stockholders' equity	1,627,038	1,657,434
Total liabilities and stockholders' equity	\$3,464,621	\$3,379,331

The Company has related party balances in connection with transactions made with its joint ventures which are recorded within the "Prepaid expenses and other current assets," "Other long-term assets," "Accounts payable," (1) "Customer advance, current portion" and "Customer advances, net of current portion" financial statement line items in the Condensed Consolidated Balance Sheets (see Note 5 and Note 6).

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

Index

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

	Three Months Ended	
	April 3, 2011	April 4, 2010
Revenue:		
Utility and power plants	\$245,909	\$144,094
Residential and commercial	205,509	203,180
Total revenue	451,418	347,274
Cost of revenue:		
Utility and power plants	203,011	111,428
Residential and commercial	159,885	164,103
Total cost of revenue	362,896	275,531
Gross margin	88,522	71,743
Operating expenses:		
Research and development	13,646	10,407
Sales, general and administrative	76,179	64,280
Total operating expenses	89,825	74,687
Operating loss	(1,303)	) (2,944)
Other expense, net:		
Interest income	743	273
Interest expense	(15,259)	) (10,940)
Loss on mark-to-market derivatives	(44)	) (2,218)
Other, net	(9,207)	) (5,591)
Other expense, net	(23,767)	) (18,476)
Loss before income taxes and equity in earnings of unconsolidated investees	(25,070)	) (21,420)
Benefit from income taxes	15,816	30,875
Equity in earnings of unconsolidated investees	7,133	3,118
Net income (loss)	\$(2,121)	) \$12,573
Net income (loss) per share of class A and class B common stock:		
Basic	\$(0.02)	) \$0.13
Diluted	\$(0.02)	) \$0.13
Weighted-average shares:		
Basic	96,453	95,154
Diluted	96,453	96,472

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

Index

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

	Three Months Ended	
	April 3, 2011	April 4, 2010
Cash flows from operating activities:		
Net income (loss)	\$(2,121)	) \$12,573
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock-based compensation	13,163	10,808
Depreciation	25,697	24,715
Amortization of other intangible assets	7,064	4,759
Gain on sale of investments	(128)	) (1,572)
Loss on mark-to-market derivatives	44	2,218
Non-cash interest expense	7,325	6,390
Amortization of debt issuance costs	1,256	699
Amortization of promissory notes	1,290	—
Equity in earnings of unconsolidated investees	(7,133)	) (3,118)
Deferred income taxes and other tax liabilities	(2,171)	) (35,720)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	52,274	30,511
Costs and estimated earnings in excess of billings	(40,638)	) (4,907)
Inventories	(163,199)	) (51,085)
Project assets	(27,644)	) (3,426)
Prepaid expenses and other assets	(14,233)	) (14,692)
Advances to suppliers	(12,820)	) 3,178
Accounts payable and other accrued liabilities	(26,368)	) 26,873
Billings in excess of costs and estimated earnings	21,271	11,615
Customer advances	(7,588)	) (918)
Net cash provided by (used in) operating activities	(174,659)	) 18,901
Cash flows from investing activities:		
Increase in restricted cash and cash equivalents	(4,728)	) (19,717)
Purchase of property, plant and equipment	(44,757)	) (43,658)
Proceeds from sale of equipment to third-party	209	2,875
Proceeds from sales or maturities of available-for-sale securities	300	1,572
Cash paid for acquisition, net of cash acquired	—	(272,699)
Cash paid for investments in joint ventures and other non-public companies	(20,000)	) (1,618)
Net cash used in investing activities	(68,976)	) (333,245)
Cash flows from financing activities:		
Proceeds from issuance of bank loans, net of issuance costs	164,221	1,539
Proceeds from issuance of convertible debt, net of issuance costs	—	214,921
Repayment of bank loans	(156,136)) —
Cash paid for bond hedge	—	(66,176)
Proceeds from warrant transactions	—	54,076
Proceeds from exercise of stock options	73	—
Purchases of stock for tax withholding obligations on vested restricted stock	(8,077)	) (1,180)
Net cash provided by financing activities	81	203,180
Effect of exchange rate changes on cash and cash equivalents	5,994	(5,561)

Edgar Filing: SUNPOWER CORP - Form 10-Q

Net decrease in cash and cash equivalents	(237,560	) (116,725)
Cash and cash equivalents at beginning of period	605,420	615,879	
Cash and cash equivalents at end of period	\$367,860	\$499,154	

Non-cash transactions:

Property, plant and equipment acquisitions funded by liabilities	\$6,159	\$31,831
Non-cash interest expense capitalized and added to the cost of qualified assets	499	535

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

Index

SunPower Corporation
Notes to Condensed Consolidated Financial Statements
(unaudited)

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 services company that designs, manufactures and delivers high-performance solar electric systems worldwide for residential, commercial and utility-scale power plant customers.

The Company's President and Chief Executive Officer, as the chief operating decision maker (“CODM”), has organized the Company and manages resource allocations and measures performance of the Company's activities between these two business segments: the Utility and Power Plants (“UPP”) Segment and the Residential and Commercial (“R&C”) Segment. The Company's UPP Segment refers to its large-scale solar products and systems business, which includes 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 sells components, including large volume sales of solar panels and mounting systems, to third parties, often on a multi-year, firm commitment basis. The Company's R&C Segment focuses 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 for rooftop and ground-mounted solar power systems for the new homes, commercial and public sectors.

Basis of Presentation and Preparation

Principles of Consolidation

The accompanying condensed consolidated interim financial statements have been prepared under the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting and include the accounts of the Company and all of its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation. The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2011 (the “fiscal 2010 Form 10-K”).

Fiscal Years

The Company reports on a fiscal-year basis and ends its quarters on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year, in which case the additional week falls into the fourth quarter of that fiscal year. Both fiscal year 2011 and 2010 consist of 52 weeks. The first quarter of fiscal 2011 ended on April 3, 2011 and the first quarter of fiscal 2010 ended on April 4, 2010.

Management Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates in these financial statements include percentage-of-completion for construction projects, allowances for doubtful accounts receivable and sales returns, inventory write-downs, stock-based compensation, estimates for future cash flows and economic

useful lives of property, plant and equipment, project assets, 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 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.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which the Company believes are necessary for a fair statement of the Company's financial position as of April 3, 2011 and its results of operations and cash flows for the three months ended April 3, 2011 and April 4, 2010. These condensed consolidated financial statements are not necessarily indicative of the results to be expected for the entire year.

Summary of Significant Accounting Policies

Index

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's annual consolidated financial statements and notes thereto contained in the fiscal 2010 Form 10-K.

There have been no significant changes in the Company's significant accounting policies for the three months ended April 3, 2011, as compared to the significant accounting policies described in the fiscal 2010 Form 10-K. Further, there has been no issued accounting guidance not yet adopted by the Company that it believes is material, or is potentially material to its condensed consolidated financial statements.

Note 2. 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)	UPP	R&C	Total
As of October 3, 2010	\$225,529	\$119,332	\$344,861
Goodwill arising from business combination	821	—	821
Translation adjustment	—	(412)	(412)
As of January 2, 2011	226,350	118,920	345,270
Translation adjustment	—	889	889
As of April 3, 2011	\$226,350	\$119,809	\$346,159

Intangible Assets

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

(In thousands)	Gross	Accumulated Amortization	Net
As of April 3, 2011			
Project assets	\$79,160	\$(28,130)	\$51,030
Patents, trade names and purchased technology	55,207	(54,867)	340
Purchased in-process research and development	1,000	(70)	930
Customer relationships and other	40,805	(33,352)	7,453
	\$176,172	\$(116,419)	\$59,753
As of January 2, 2011			
Project assets	\$79,160	\$(22,627)	\$56,533
Patents, trade names and purchased technology	55,144	(54,563)	581
Purchased in-process research and development	1,000	(28)	972
Customer relationships and other	40,525	(31,823)	8,702
	\$175,829	\$(109,041)	\$66,788

All of the Company's acquired other intangible assets are subject to amortization. Aggregate amortization expense for other intangible assets totaled \$7.1 million and \$4.8 million in the three months ended April 3, 2011 and April 4, 2010, respectively. As of April 3, 2011, the estimated future amortization expense related to other intangible assets is as follows:

Index

(In thousands)	Amount
Year	
2011 (remaining nine months)	\$20,128
2012	22,718
2013	16,330
2014	252
2015	186
Thereafter	139
	\$59,753

Index

Note 3. BALANCE SHEET COMPONENTS

(In thousands)	As of April 3, 2011	January 2, 2011
Accounts receivable, net:		
Accounts receivable, gross	\$351,170	\$389,554
Less: allowance for doubtful accounts	(7,531)	(5,967)
Less: allowance for sales returns	(2,239)	(2,387)
	\$341,400	\$381,200
Inventories:		
Raw materials	\$98,299	\$70,683
Work-in-process	46,518	35,658
Finished goods	342,631	207,057
	\$487,448	\$313,398
Prepaid expenses and other current assets:		
VAT receivables, current portion	\$38,876	\$26,500
Short-term deferred tax assets	855	3,605
Foreign currency derivatives	17,926	35,954
Income tax receivable	17,339	1,513
Deferred project costs	717	934
Note receivable (1)	10,000	10,000
Other receivables (2)	88,807	83,712
Other prepaid expenses	32,514	30,716
	\$207,034	\$192,934

(1) In June 2008, the Company loaned \$10.0 million to a third-party private company under a three-year note receivable that is convertible into equity at the Company's option.

(2) 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 5 and 6).

Project assets - plant and land:		
Project assets - plant	\$54,029	\$28,784
Project assets - land	18,872	17,322
	\$72,901	\$46,106
Project assets - plants and land, current portion	\$46,377	\$23,868
Project assets - plants and land, net of current portion	26,524	22,238

Edgar Filing: SUNPOWER CORP - Form 10-Q

(In thousands)	As of April 3, 2011	January 2, 2011
Property, plant and equipment, net:		
Land and buildings	\$13,912	\$13,912
Leasehold improvements	209,143	207,248
Manufacturing equipment (3)	556,010	551,815
Computer equipment	49,771	46,603
Solar power systems	10,954	10,614
Furniture and fixtures	5,704	5,555
Construction-in-process	64,531	28,308
	910,025	864,055
Less: accumulated depreciation (4)	(313,024)	(285,435)
	\$597,001	\$578,620

(3) Certain manufacturing equipment associated with solar cell manufacturing lines located at one of the Company's facilities in the Philippines is collateralized in favor of a third-party lender. The Company provided security for advance payments received from a third party in fiscal 2008 totaling \$40.0 million in the form of collateralized manufacturing equipment with a net book value of \$26.4 million and \$28.3 million as of April 3, 2011 and January 2, 2011, respectively.

(4) Total depreciation expense was \$25.7 million and \$24.7 million for the three months ended April 3, 2011 and April 4, 2010, respectively.

Property, plant and equipment, net by geography (5):

Philippines	\$494,455	\$502,131
United States	99,956	73,860
Europe	2,367	2,400
Australia	223	229
	\$597,001	\$578,620

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

(In thousands)	Three Months Ended	
	April 3, 2011	April 4, 2010
Interest expense:		
Interest cost incurred	\$16,451	\$11,871
Cash interest cost capitalized - property, plant and equipment	(330)	(396)
Non-cash interest cost capitalized - property, plant and equipment	(249)	(535)
Cash interest cost capitalized - project assets - plant and land	(364)	—
Non-cash interest cost capitalized - project assets - plant and land	(249)	—
Interest expense	\$15,259	\$10,940

(In thousands)	As of April 3, 2011	January 2, 2011
Other long-term assets:		
Investments in joint ventures	\$143,577	\$116,444
Bond hedge derivative	56,344	34,491
Investments in non-public companies	6,418	6,418
VAT receivables, net of current portion	7,580	7,002
Long-term debt issuance costs	10,436	12,241
Other	21,378	1,698

	\$245,733	\$178,294
Accrued liabilities:		
VAT payables	\$8,311	\$11,699
Foreign currency derivatives	89,811	10,264
Short-term warranty reserves	16,163	14,639
Interest payable	5,970	6,982
Deferred revenue	27,272	21,972
Employee compensation and employee benefits	21,087	33,227
Other	32,998	38,921
	\$201,612	\$137,704
Other long-term liabilities:		
Embedded conversion option derivatives	\$56,735	\$34,839
Long-term warranty reserves	53,956	48,923
Unrecognized tax benefits	25,987	24,894
Other	34,016	22,476
	\$170,694	\$131,132

Note 4. INVESTMENTS

The Company's investments in money market funds and debt securities are carried at fair value. Fair values are determined based on a hierarchy that prioritizes the inputs to valuation techniques by assigning the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). Level 2 measurements are inputs that are observable for assets or liabilities, either directly or indirectly, other than quoted prices included within Level 1.

The following tables present information about the Company's investments in money market funds and debt securities that are measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. Information about the Company's convertible debenture derivatives measured at fair value on a recurring basis is disclosed in Note 7. Information about the Company's foreign currency derivatives measured at fair value on a recurring basis is disclosed in Note 9. The Company does not have any nonfinancial assets or liabilities that are recognized or disclosed at fair value on a recurring basis in its condensed consolidated financial statements.

(In thousands)	April 3, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$401,085	\$—	\$—	\$401,085
Debt securities	—	42,089	—	42,089
	\$401,085	\$42,089	\$—	\$443,174

Index

(In thousands)	January 2, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$488,626	\$—	\$172	\$488,798
Debt securities	—	38,548	—	38,548
	\$488,626	\$38,548	\$172	\$527,346

There have been no transfers between Level 1, Level 2 and Level 3 measurements during the three months ended April 3, 2011.

Money Market Funds

The majority of the Company's money market fund instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices for identical instruments in active markets. Investments in money market funds utilizing Level 3 inputs consisted of the Company's investment in the Reserve International Liquidity Fund which amounted to \$0.2 million as of January 2, 2011. The Company had estimated the value of its investment in the Reserve International Liquidity Fund to be \$0.2 million based on information publicly disclosed by the Reserve International Liquidity Fund relative to its holdings and remaining obligations. On March 3, 2011, the Company recovered \$0.3 million from the Reserve International Liquidity Fund. The recovery was \$0.1 million in excess of the recorded fair value and was reflected as a gain within "Other, net" in the Condensed Consolidated Statement of Operations for the three months ended April 3, 2011. The Company had no remaining investments with Level 3 measurements as of April 3, 2011.

Debt Securities

Investments in debt securities utilizing Level 2 inputs consist of bonds purchased in the fourth quarter of fiscal 2010. The bonds are guaranteed by the Italian government. The Company bases its valuation of these bonds on movements of Italian sovereign bond rates since the time of purchase and incurred no other-than-temporary impairment loss in the three months ended April 3, 2011.

This valuation is corroborated by comparison to third-party financial institution valuations. The fair value of the Company's investments in bonds totaled \$42.1 million and \$38.5 million as of April 3, 2011 and January 2, 2011, respectively.

Available-for-Sale Securities

Available-for-sale securities are comprised of the fair value of the Company's debt securities, including any other-than temporary impairment loss incurred. The classification of available-for-sale securities and cash and cash equivalents is as follows:

(In thousands)	April 3, 2011			January 2, 2011		
	Available-For-Sale	Cash and Cash Equivalents (2)	Total	Available-For-Sale	Cash and Cash Equivalents (2)	Total
Cash and cash equivalents	\$—	\$367,860	\$367,860	\$—	\$605,420	\$605,420
Short-term restricted cash and cash equivalents (1)	—	141,617	141,617	—	117,462	117,462
Short-term investments	42,089	—	42,089	38,548	172	38,720

Edgar Filing: SUNPOWER CORP - Form 10-Q

Long-term restricted cash and cash equivalents (1)	—	119,410	119,410	—	138,837	138,837
	\$42,089	\$628,887	\$670,976	\$38,548	\$861,891	\$900,439

Details regarding the Company's cash in restricted accounts are contained in the Company's annual consolidated (1) financial statements and notes thereto for the year ended January 2, 2011 included in its fiscal 2010 Form 10-K filed with the SEC.

(2) Includes money market funds.

Index

The contractual maturities of available-for-sale securities are as follows:

(In thousands)	April 3, 2011	January 2, 2011
Due on November 30, 2028	\$42,089	\$38,548

Minority Investments in Joint Ventures and Other Non-Public Companies

The Company holds minority investments comprised of common and preferred stock in joint ventures and other non-public companies. The Company monitors these minority investments for impairment, which are included in "Other long-term assets" in its Condensed Consolidated Balance Sheets and records 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. As of April 3, 2011 and January 2, 2011, the Company had \$143.6 million and \$116.4 million, respectively, in investments in joint ventures accounted for under the equity method and \$6.4 million, as of both periods, in investments accounted for under the cost method (see Note 6).

On September 28, 2010, the Company entered into a \$0.2 million investment in a related party accounted for under the cost method. In connection with the investment the Company entered into licensing, lease and facility service agreements. Under the lease and facility service agreements the investee leases space from the Company for a period of five years. Facility services are provided by the Company over the term of the lease on a "cost-plus" basis. Payments received under the lease and facility service agreement totaled \$0.1 million in the three months ended April 3, 2011. As of April 3, 2011, \$0.8 million remained due and receivable from the investee related to capital purchases made by the Company on behalf of the investee.

Note 5. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leased its San Jose, California facility under a non-cancellable operating lease from Cypress Semiconductor Corporation ("Cypress") which expired in May 2011. In May 2011 the Company moved to new offices in San Jose, California under a non-cancellable operating lease from an unaffiliated third party through April 2021. In addition, the Company leases its Richmond, California facility under a non-cancellable operating lease from an unaffiliated third party, which expires in September 2018. The Company also has various lease arrangements, including for its European headquarters located in Geneva, Switzerland under a lease that expires in September 2012, as well as sales and support offices in Southern California, New Jersey, Oregon, Australia, England, France, Germany, Greece, Israel, Italy, Malta, Spain and South Korea, all of which are leased from unaffiliated third parties. In addition, in the first quarter of fiscal 2010 the Company acquired a lease arrangement in London, England, which is leased from a party affiliated with the Company.

The Company leases four solar power systems from Wells Fargo over minimum lease terms of up to 20 years that it had previously sold to Wells Fargo. Separately, the Company entered into power purchase agreements ("PPAs") with end customers, who host those 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 the lease term, the Company has the option to purchase the systems at fair value or remove the systems. The deferred profit on the sale of the systems to Wells Fargo is being recognized over the minimum term of the lease.

Future minimum obligations under all non-cancellable operating leases as of April 3, 2011 are as follows:

Edgar Filing: SUNPOWER CORP - Form 10-Q

(In thousands)	Amount
Year	
2011 (remaining nine months)	\$8,961
2012	10,599
2013	10,549
2014	9,490
2015	8,241
Thereafter	38,493
	\$86,333

Index

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 joint ventures, for the procurement of polysilicon, ingots, wafers, solar cells and solar panels 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 April 3, 2011, total obligations related to non-cancellable purchase orders totaled \$210.2 million and long-term supply agreements with suppliers totaled \$5.2 billion. Of the total future purchase commitments of \$5.4 billion as of April 3, 2011, \$2.6 billion are for commitments to its non-consolidated joint ventures. Future purchase obligations under non-cancellable purchase orders and long-term supply agreements as of April 3, 2011 are as follows:

(In thousands)	Amount
Year	
2011 (remaining nine months)	\$878,476
2012	576,384
2013	602,414
2014	816,569
2015	901,975
Thereafter	1,648,895
	\$5,424,713

Total future purchase commitments of \$5.4 billion as of April 3, 2011 included 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 price paid by the Company for silicon ingots and are not reduced by the price paid by suppliers for polysilicon. Total future purchase commitments as of April 3, 2011 would be reduced by \$1.3 billion to \$4.1 billion had the Company's obligations under such tolling 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 underperformance 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. Total 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. However, the terms of the long-term supply agreements are reviewed by management and the Company establishes

accruals for estimated losses on adverse purchase commitments as necessary, such as lower of cost or market value adjustments, forfeiture of advanced deposits and liquidated damages. Such accruals will be recorded when the Company determines the cost of purchasing the components is higher than the estimated current market value or when it believes it is probable such components will not be utilized in future operations.

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

Index

arrangements. Under certain agreements, the Company is required to make prepayments to the vendors over the terms of the arrangements. During the three months ended April 3, 2011, the Company paid advances totaling \$17.0 million in accordance with the terms of existing long-term supply agreements. As of April 3, 2011 and January 2, 2011, advances to suppliers totaled \$299.9 million and \$287.1 million, respectively, the current portion of which is \$33.7 million and \$31.7 million, respectively. Two suppliers accounted for 78% and 19% of total advances to suppliers as of April 3, 2011, and 83% and 13% as of January 2, 2011.

The Company's future prepayment obligations related to these agreements as of April 3, 2011 are as follows:

(In thousands)	Amount
Year	
2011 (remaining nine months)	\$120,162
2012	104,523
2013	7,750
	\$232,435

In January 2008, the Company entered into an Option Agreement with NorSun AS ("NorSun"), a manufacturer of silicon ingots and wafers, under which the Company would deliver cash advance payments to NorSun for the purchase of polysilicon under a long-term polysilicon supply agreement. The Company paid a cash advance of \$5.0 million to NorSun during the fourth quarter of fiscal 2009. The Option Agreement provided NorSun an option to sell a 23.3% equity interest in a joint venture to the Company equal to the \$5.0 million cash advance. On December 3, 2010, NorSun entered into an agreement with a third party to sell its equity interest in the joint venture at cost, including the Company's indirect equity interest of 23.3% at \$5.0 million. That agreement became effective in the first quarter of fiscal 2011 and the Option Agreement was terminated. In connection with the termination of the Option Agreement, on March 31, 2011, the \$5.0 million cash advance was returned to the Company.

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 ("OEM") 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 \$7.7 million and \$4.1 million during the three months ended April 3, 2011 and April 4, 2010, respectively. Activity within accrued warranty for the first quarter of fiscal 2011 and 2010 is summarized as follows:

(In thousands)	Three Months Ended	
	April 3, 2011	April 4, 2010
Balance at the beginning of the period	\$63,562	\$46,475
Accruals for warranties issued during the period	7,739	4,093
Settlements made during the period	(1,182)	(1,144)
Balance at the end of the period	\$70,119	\$49,424

System Put-Rights

Projects often require the Company to undertake customer 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; (iv) guarantees of certain

Index

minimum residual value of the system at specified future dates; and (v) 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. To date, no such repurchase obligations have been required.

Future Financing Commitments

As specified in the Company's joint venture agreement with AU Optronics Singapore Pte. Ltd. ("AUO"), both the Company and AUO contributed certain funding during fiscal 2010 and on March 16, 2011. The Company and AUO will each contribute additional amounts in fiscal 2011 to 2014 amounting to \$301 million, or such lesser amount as the parties may mutually agree. In addition, if the Company, AUO, or the joint venture requests additional equity financing to the joint venture, then both the Company and AUO will be required to make additional cash contributions of up to \$50 million in the aggregate.

On September 28, 2010, the Company invested \$0.2 million in a related party accounted for under the cost method. The Company will be required to provide additional financing of up to \$4.9 million, subject to certain conditions.

The Company's future financing obligations related to these agreements as of April 3, 2011 are as follows:

(In thousands)	Amount
Year	
2011 (remaining nine months)	\$31,900
2012	75,870
2013	101,400
2014	96,770
	\$305,940

Liabilities Associated with Uncertain Tax Positions

Total liabilities associated with uncertain tax positions were \$26.0 million and \$24.9 million as of April 3, 2011 and January 2, 2011, respectively, and are included in "Other long-term liabilities" in the Company's Condensed Consolidated Balance Sheets as they are not expected to be paid within the next twelve months. 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 will be made for its liabilities associated with uncertain tax positions in other long-term liabilities (see Note 10).

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 *Plichta v. SunPower Corp. et al.*, 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

Index

Securities Exchange Act of 1934, and Sections 11 and 15 of the Securities Act of 1933. The Company believes it has meritorious defenses to these allegations and will vigorously defend itself in these matters. 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 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.

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 after entry of an order deciding defendants' motion to dismiss the amended class action complaint. 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 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 are scheduled to file a consolidated complaint on May 13, 2011. The Company intends to oppose the derivative plaintiffs' efforts to pursue this litigation on the Company's behalf. 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 6. JOINT VENTURES

Joint Venture with Woongjin Energy Co., Ltd ("Woongjin Energy")

The Company and Woongjin Holdings Co., Ltd. ("Woongjin") formed Woongjin Energy in fiscal 2006, a joint venture to manufacture monocrystalline silicon ingots in Korea. On June 30, 2010, Woongjin Energy completed its initial public offering ("IPO") and the sale of 15.9 million new shares of common stock. The Company continues to hold 19.4 million shares, or a percentage equity interest of 31.3%, of Woongjin Energy's common stock with a market value of \$316.7 million on April 1, 2011. On October 29, 2010, the Company entered into a revolving credit facility with Union Bank, N.A. ("Union Bank"), and all shares of Woongjin Energy held by the Company have been pledged as security under the revolving credit facility.

The Company supplies polysilicon, services and technical support required for silicon ingot manufacturing to the joint venture. Once manufactured, the Company purchases the silicon ingots from the joint venture under a nine-year agreement through 2016. There is no obligation or expectation for the Company to provide additional funding to Woongjin Energy. In addition, as a result of Woongjin Energy completing its IPO and the sale of 15.9 million new shares of common stock on June 30, 2010, the Company has concluded that Woongjin Energy is no longer a variable interest entity ("VIE").

As of April 3, 2011 and January 2, 2011, the Company had an investment of \$81.1 million and \$76.6 million, respectively, in the joint venture in its Condensed Consolidated Balance Sheets. The Company accounts for its investment in Woongjin Energy using the equity method in which the investment is classified as "Other long-term

assets” in the Condensed Consolidated Balance Sheets and the Company's share of Woongjin Energy's income totaling \$4.5 million and \$3.1 million in the three months ended April 3, 2011 and April 4, 2010, respectively, is included in “Equity in earnings of unconsolidated investees” in the Condensed Consolidated Statements of Operations. As of April 3, 2011, the Company's maximum exposure to loss as a result of its involvement with Woongjin Energy is limited to the carrying value of its investment.

As of April 3, 2011 and January 2, 2011, \$18.8 million and \$18.4 million, respectively, remained due and receivable from Woongjin Energy related to the polysilicon the Company supplied to the joint venture for silicon ingot manufacturing. Payments to Woongjin Energy for manufactured silicon ingots totaled \$48.8 million and \$47.0 million in the three months ended April 3, 2011 and April 4, 2010, respectively. As of April 3, 2011 and January 2, 2011, \$33.5 million and \$32.6 million, respectively, remained due and payable to Woongjin Energy. In addition, the Company conducted other related-party transactions with Woongjin Energy in the first quarter of fiscal 2011. The Company recognized \$1.0 million and zero in revenue during the three months ended April 3, 2011 and April 4, 2010, respectively, related to the sale of solar panels to Woongjin Energy. As of April 3, 2011 and January 2, 2011, \$0.2 million and zero remained due and receivable from Woongjin

Index

Energy related to the sale of these solar panels.

Woongjin Energy qualified as a "significant investee" of the Company in fiscal 2009 as defined in SEC Regulation S-X Rule 10-01(b)(1). Summarized financial information adjusted to conform to U.S. GAAP for Woongjin Energy for the three months ended April 3, 2011 and April 4, 2010 is as follows:

Statement of Operations

(In thousands)	Three Months Ended	
	April 3, 2011	April 4, 2010
Revenue	\$67,272	\$27,591
Cost of revenue	55,747	13,468
Gross margin	11,525	14,123
Operating income	8,609	13,070
Net income	11,309	11,851

Joint Venture with First Philec Solar Corporation ("First Philec Solar")

The Company and First Philippine Electric Corporation ("First Philec") formed First Philec Solar in fiscal 2007, a joint venture to provide wafer slicing services of silicon ingots to the Company in the Philippines. The Company supplies to the joint venture silicon ingots and technology required for slicing silicon. Once manufactured, the Company purchases the completed silicon wafers from the joint venture under a five-year wafering supply and sales agreement through 2013. There is no obligation or expectation for the Company to provide additional funding to First Philec Solar.

As of April 3, 2011 and January 2, 2011, the Company had an investment of \$6.6 million and \$6.1 million, respectively, in the joint venture in its Condensed Consolidated Balance Sheets which represented a 15% equity investment in both periods. The Company accounts for its investment in First Philec Solar using the equity method since the Company is able to exercise significant influence over the joint venture due to its board positions. The Company's investment is classified as "Other long-term assets" in the Condensed Consolidated Balance Sheets and the Company's share of First Philec Solar's income of \$0.5 million and zero during the three months ended April 3, 2011 and April 4, 2010, respectively, is included in "Equity in earnings of unconsolidated investees" in the Condensed Consolidated Statements of Operations. As of April 3, 2011, the Company's maximum exposure to loss as a result of its involvement with First Philec Solar is limited to the carrying value of its investment.

As of April 3, 2011 and January 2, 2011, \$2.9 million and \$3.3 million, respectively, remained due and receivable from First Philec Solar related to the wafer slicing process of silicon ingots supplied by the Company to the joint venture. Payments to First Philec Solar for wafer slicing services of silicon ingots totaled \$28.4 million and \$15.5 million during the three months ended April 3, 2011 and April 4, 2010, respectively. As of April 3, 2011 and January 2, 2011, \$11.0 million and \$9.0 million, respectively, remained due and payable to First Philec Solar related to the purchase of silicon wafers.

The Company has concluded that it is not the primary beneficiary of the joint venture since, although the Company and First Philec are both obligated to absorb losses or have the right to receive benefits from First Philec Solar that are significant to 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.

Joint Venture with AUO SunPower Sdn. Bhd. ("AUOSP")

On May 27, 2010, the Company, through its subsidiaries SunPower Technology, Ltd. ("SPTL") and AUOSP, formerly SunPower Malaysia Manufacturing Sdn. Bhd. ("SPMY"), entered into a joint venture agreement with AUO and AU Optronics Corporation, the ultimate parent company of AUO ("AUO Taiwan"). The joint venture transaction closed on July 5, 2010. The Company, through SPTL, 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.

On July 5, 2010, the Company and AUO also entered into licensing and joint development, supply, and other ancillary transaction agreements. Through the licensing agreement, SPTL 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 SPTL), 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

Index

Company is committed to purchase, ranges 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, on November 5, 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 (see Note 5).

The Company and AUO will not be permitted to transfer any of AUOSP's shares held by them, except to each other and to their direct or indirect wholly-owned subsidiaries. During the second half of fiscal 2010, the Company, through SPTL, and AUO each contributed total initial funding of Malaysian Ringgit 88.6 million. On March 16, 2011, both the Company and AUO each contributed an additional \$20.0 million in funding and will each contribute additional amounts in fiscal 2011 to 2014 amounting to \$301 million, or such lesser amount as the parties may mutually agree. 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 million in the aggregate (See Note 5).

The Company has concluded that it is not the primary beneficiary of the joint venture 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 the joint venture 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. As a result of the shared power arrangement the Company deconsolidated AUOSP in the third quarter of fiscal 2010 and accounts for its investment in the joint venture under the equity method.

As of April 3, 2011 and January 2, 2011, the Company had an investment of \$55.9 million and \$33.7 million, respectively, in AUOSP in its Condensed Consolidated Balance Sheets which represents its 50% equity investment. The Company accounts for its investment in AUOSP using the equity method in which the investment is classified as "Other long-term assets" in the Condensed Consolidated Balance Sheets. The Company accounted for its share of AUOSP's net income of \$2.2 million for the three months ended January 2, 2011 in "Equity in earnings of unconsolidated investees" in the Condensed Consolidated Statement of Operations during the first quarter of fiscal 2011 due to a quarterly lag in reporting. As of April 3, 2011 and January 2, 2011, \$5.8 million and \$6.0 million, respectively, remained due and payable to AUOSP and \$32.9 million and \$7.5 million, respectively, remained due and receivable from AUOSP. Payments to AUOSP for solar cells totaled \$27.9 million during the three months ended April 3, 2011. As of April 3, 2011, the Company's maximum exposure to loss as a result of its involvement with AUOSP is limited to the carrying value of its investment.

Note 7. DEBT AND CREDIT SOURCES

The following table summarizes the Company's outstanding debt as of April 3, 2011 and their related maturity dates:

		Payments Due by Period					
(In thousands)	Face Value	2011 (remaining nine months)	2012	2013	2014	2015	Beyond 2015
Convertible debt:							
4.50% debentures	\$250,000	\$—	\$—	\$—	\$—	\$250,000	\$—
4.75% debentures	230,000	—	—	—	230,000	—	—
1.25% debentures	198,608	—	198,608	—	—	—	—
0.75% debentures	79	—	—	—	—	79	—
	50,000	—	—	10,000	10,000	10,000	20,000

IFC mortgage loan							
CEDA loan	30,000	30,000	—	—	—	—	—
Union Bank revolving credit facility	70,000	70,000	—	—	—	—	—
Société Générale revolving credit facility	106,095	106,095	—	—	—	—	—
	\$934,782	\$206,095	\$198,608	\$10,000	\$240,000	\$260,079	\$20,000

Index

Convertible Debt

The following table summarizes the Company's outstanding convertible debt (which is additionally reflected in the table above):

(In thousands)	April 3, 2011			January 2, 2011		
	Carrying Value	Face Value	Fair Value (1)	Carrying Value	Face Value	Fair Value (1)
4.50% debentures	\$182,967	\$250,000	\$260,483	\$179,821	\$250,000	\$230,172
4.75% debentures	230,000	230,000	240,638	230,000	230,000	215,050
1.25% debentures (2)	185,572	198,608	193,146	182,023	198,608	188,429
0.75% debentures	79	79	79	79	79	75
	\$598,618	\$678,687	\$694,346	\$591,923	\$678,687	\$633,726

(1) The fair value of the convertible debt was determined based on quoted market prices as reported by an independent pricing source.

(2) The carrying value of the 1.25% senior convertible debentures ("1.25% debentures") were reclassified from long-term liabilities to short-term liabilities within "Convertible debt, current portion" in the Condensed Consolidated Balance Sheet as of April 3, 2011 as the holders may require the Company to repurchase all of their 1.25% debentures on February 15, 2012.

4.50% Debentures

On April 1, 2010, the Company issued \$220.0 million in principal amount of its 4.50% senior cash convertible debentures ("4.50% debentures"). On April 5, 2010, the initial purchasers of the 4.50% debentures exercised the \$30.0 million over-allotment option in full. Interest is payable semi-annually, on March 15 and September 15 of each year, at a rate of 4.50% per annum. 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 class A common stock (or any other securities).

The embedded cash conversion option within the 4.50% debentures and the 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 Condensed Consolidated Statements of Operations until such transactions settle or expire. The over-allotment option was settled on April 5, 2010, however, the embedded cash conversion option continues to require mark-to-market accounting treatment. The initial fair value liabilities 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 Condensed Consolidated Balance Sheet.

In the three months ended April 3, 2011, the Company recognized a non-cash loss of \$21.9 million recorded in "Loss on mark-to-market derivatives" in the Company's Condensed Consolidated Statement of Operations related to the change in fair value of the embedded cash conversion option. In the three months ended April 4, 2010, the Company recognized a non-cash loss of \$0.3 million recorded in "Loss on mark-to-market derivatives" in the Company's Condensed Consolidated Statement of Operations related to the change in fair value of the embedded cash conversion option and over-allotment option. The fair value liability of the embedded cash conversion option as of April 3, 2011 and January 2, 2011 totaled \$56.7 million and \$34.8 million, respectively, and is classified within "Other long-term liabilities" in the Company's Condensed Consolidated Balance Sheets.

The embedded cash conversion option is fair valued utilizing Level 2 inputs consisting of the exercise price of the instrument, the Company's class A common stock price and volatility, the risk free interest rate and the contractual term. Such derivative instruments are not traded on an open market as the banks are the counterparties to the instruments.

Significant inputs for the valuation of the embedded cash conversion option are as follows:

Index

	As of (1)	
	April 3, 2011	January 2, 2011
Stock price	\$17.19	\$12.83
Exercise price	\$22.53	\$22.53
Interest rate	1.79 %	1.63 %
Stock volatility	47.50 %	49.80 %
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 embedded cash conversion option. The underlying input assumptions were determined as follows:

- (i) Stock price. The closing price of the Company's class A common stock on the last trading day of the quarter.
- (ii) Exercise price. The exercise price of the embedded conversion option.
- (iii) Interest rate. The Treasury Strip rate associated with the life of the embedded conversion option.
- (iv) Stock volatility. The volatility of the Company's class A common stock over the life of the embedded conversion option.

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 "Bond Hedge") and warrant transactions (collectively, the "Warrants" and together with the Bond Hedge, the "CSO2015"), with certain of the initial purchasers of the 4.50% cash convertible debentures or their affiliates. The CSO2015 transaction represents a call spread overlay with respect to the 4.50% debentures. Assuming full performance by the counterparties, 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 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 anti-dilution adjustments, cash in an amount equal to the market value of up to 11.1 million shares of the Company's class A common stock. Under the terms of the original 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, cash in an amount equal to the market value of up to 11.1 million shares of the Company's class A common stock. Each Bond Hedge and Warrant transaction is a separate transaction, entered into by the Company with each option counterparty, and is not part of the terms of the 4.50% debentures. On December 23, 2010, the Company amended and restated the original Warrants so that the holders would, upon exercise of the Warrants, no longer receive cash but instead would acquire up to 11.1 million shares of the Company's class A common stock.

The Bond Hedge, which is indexed to the Company's class A 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. Similarly, the original Warrants was a derivative instrument that required mark-to-market accounting treatment through December 23, 2010. The initial fair value of the Bond Hedge was classified as "Other long-term assets" in the Company's Condensed Consolidated Balance Sheet. As of April 3, 2011, the fair value of the Bond Hedge is \$56.3 million, an increase of \$21.8 million since January 2, 2011. The change in fair value of the Bond Hedge resulted in a mark-to-market non-cash gain of \$21.8 million in "Loss on mark-to-market derivatives" in the Company's Condensed Consolidated Statement of Operations during the first quarter of fiscal 2011. In the first quarter of fiscal 2010, the change in fair value of the original CSO2015 resulted in a mark-to-market non-cash loss of \$2.0 million in "Loss on mark-to-market derivatives" in the Company's Condensed Consolidated Statement of Operations.

The Bond Hedge derivative instruments are fair valued utilizing Level 2 inputs consisting of the exercise price of the instruments, the Company's class A stock price and volatility, the risk free interest rate and the contractual term. Such derivative instruments are not traded on an open market. Valuation techniques utilize the inputs described above in addition to liquidity and institutional credit risk inputs.

Significant inputs for the valuation of the Bond Hedge at the measurement date are as follows:

Index

	As of (1)			
	April 3, 2011		January 2, 2011	
Stock price	\$17.19		\$12.83	
Exercise price	\$22.53		\$22.53	
Interest rate	1.79	%	1.63	%
Stock volatility	47.50	%	49.80	%
Credit risk adjustment	1.03	%	1.25	%
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) for the Bond Hedge. The Company utilized a Black-Scholes valuation model to value the Bond Hedge. The underlying input assumptions were determined as follows:

- (i) Stock price. The closing price of the Company's class A common stock on the last trading day of the quarter.
- (ii) Exercise price. The exercise price of the Bond Hedge.
- (iii) Interest rate. The Treasury Strip rate associated with the life of the Bond Hedge.