SUNPOWER CORP
Form 10-Q
August 02, 2013

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 June 30, 2013

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 o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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 July 26, 2013 was 121,253,641.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2013	December 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$580,560	$457,487
Restricted cash and cash equivalents, current portion	12,199	15,568
Short-term marketable securities	99,921	—
Accounts receivable, net	459,373	398,150
Costs and estimated earnings in excess of billings	41,317	36,395
Inventories	235,156	291,386
Advances to suppliers, current portion	78,381	50,282
Project assets - plants and land, current portion	87,430	75,911
Prepaid expenses and other current assets (1)	513,108	613,053
Total current assets	2,107,445	1,938,232
Restricted cash and cash equivalents, net of current portion	16,939	31,396
Restricted long-term marketable securities	10,231	10,885
Property, plant and equipment, net	838,174	774,909
Project assets - plants and land, net of current portion	3,235	7,596
Other intangible assets, net	556	744
Advances to suppliers, net of current portion	280,829	301,123
Other long-term assets (1)	416,146	276,063
Total assets	$3,673,555	$3,340,948
Liabilities and Equity		
Current liabilities:		
Accounts payable (1)	$433,123	$414,335
Accrued liabilities	253,264	247,372
Billings in excess of costs and estimated earnings	334,929	225,550
Short-term debt	15,912	14,700
Convertible debt, current portion	230,000	—
Customer advances, current portion (1)	54,743	59,648
Total current liabilities	1,321,971	961,605
Long-term debt	149,212	375,661
Convertible debt, net of current portion (1)	517,017	438,629
Customer advances, net of current portion (1)	218,313	236,082
Other long-term liabilities	487,196	335,619
Total liabilities	2,693,709	2,347,596
Commitments and contingencies (Note 7)		

Equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of both June 30, 2013 and December 31, 2012	—	—
Common stock, $0.001 par value, 367,500,000 shares authorized; 126,527,592 shares issued, and 121,251,385 outstanding as of June 30, 2013; 123,315,990 shares issued, and 119,234,280 shares outstanding as of December 30, 2012	121	119
Additional paid-in capital	1,951,191	1,931,947
Accumulated deficit	(937,216)	(902,085)
Accumulated other comprehensive loss	(5,252)	(2,521)
Treasury stock, at cost; 5,276,207 shares of common stock as of June 30, 2013; 4,081,710 shares of common stock as of December 30, 2012	(50,291)	(34,108)
Total stockholders' equity	958,553	993,352
Noncontrolling interests in subsidiaries	21,293	—
Total equity	979,846	993,352
Total liabilities and equity	$3,673,555	$3,340,948

(1) The Company has related party balances in connection with transactions made with unconsolidated entities in which the Company has a direct equity investment. These related party balances are recorded within the "Prepaid expenses and other current assets," "Other long-term assets," "Accounts payable," "Customer advances, current portion," "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 4, Note 5, Note 7, and Note 8).

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Revenue	$576,516	$595,897	$1,211,949	$1,090,028
Cost of revenue	468,655	522,397	1,044,775	971,280
Gross margin	107,861	73,500	167,174	118,748
Operating expenses:				
Research and development	13,035	14,104	26,205	30,830
Sales, general and administrative	62,035	62,480	132,127	138,674
Restructuring charges	928	47,599	591	50,645
Total operating expenses	75,998	124,183	158,923	220,149
Operating income (loss)	31,863	(50,683)	8,251	(101,401)
Other income (expense), net:				
Interest income	326	326	581	668
Interest expense	(24,870)	(19,400)	(51,904)	(38,101)
Other, net	443	(4,906)	(7,813)	(5,578)
Other income (expense), net	(24,101)	(23,980)	(59,136)	(43,011)
Income (loss) before income taxes and equity in earnings (loss) of unconsolidated investees	7,762	(74,663)	(50,885)	(144,412)
Provision for income taxes	(4,506)	(10,593)	(7,495)	(11,949)
Equity in earnings (loss) of unconsolidated investees	1,009	1,075	676	(2,350)
Net income (loss)	$4,265	$(84,181)	$(57,704)	$(158,711)
Net loss attributable to noncontrolling interests	15,300	—	22,573	—
Net income (loss) attributable to stockholders	$19,565	$(84,181)	$(35,131)	$(158,711)
Net income (loss) per share attributable to stockholders:				
Basic	$0.16	$(0.71)	$(0.29)	$(1.38)
Diluted	$0.15	$(0.71)	$(0.29)	$(1.38)
Weighted-average shares:				
Basic	120,943	118,486	120,248	115,136
Diluted	133,973	118,486	120,248	115,136

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

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

	Three Months Ended		Six Months Ended	
(In thousands)	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Net income (loss)	$4,265	$(84,181)	$(57,704)	$(158,711)
Components of comprehensive income (loss):				
Translation adjustment	(2,583)	(7,948)	(3,926)	(1,950)
Net unrealized gain (loss) on derivatives (Note 10)	(1,354)	(2,377)	1,481	(8,127)
Unrealized loss on investments	(7)	—	(7)	—
Income taxes	254	446	(279)	1,526
Net change in accumulated other comprehensive income (loss)	(3,690)	(9,879)	(2,731)	(8,551)
Total comprehensive income (loss)	$575	$(94,060)	$(60,435)	$(167,262)
Comprehensive loss attributable to noncontrolling interests	15,300	—	22,573	—
Comprehensive income (loss) attributable to stockholders	$15,875	$(94,060)	$(37,862)	$(167,262)

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

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SunPower Corporation
Condensed Consolidated Statements Equity
(In thousands, except share data)
(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 30, 2012	119,234	$ 119	$ 1,931,947	$ (34,108)	$ (2,521)	$ (902,085)	$ 993,352	$ —	$ 993,352
Net loss	—	—	—	—	—	(35,131)	(35,131)	(22,573)	(57,704)
Other comprehensive loss	—	—	—	—	(2,731)	—	(2,731)	—	(2,731)
Issuance of common stock upon exercise of options	26	—	49	—	—	—	49	—	49
Issuance of restricted stock to employees, net of cancellations	3,185	2	(2)	—	—	—	—	—	—
Stock-based compensation expense	—	—	19,197	—	—	—	19,197	—	19,197
Purchases of treasury stock	(1,194)	—	—	(16,183)	—	—	(16,183)	—	(16,183)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	43,866	43,866
Balances at June 30, 2013	121,251	$ 121	$ 1,951,191	$ (50,291)	$ (5,252)	$ (937,216)	$ 958,553	$ 21,293	$ 979,846

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

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

	Six Months Ended	
	June 30, 2013	July 1, 2012 (1)
Cash flows from operating activities:		
Net loss	$(57,704)	$(158,711)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	19,021	23,908
Depreciation	48,171	58,362
Loss on retirement of property, plant and equipment	—	45,409
Amortization of other intangible assets	189	5,477
Gain (loss) on mark-to-market derivatives	27	(4)
Non-cash interest expense	24,071	15,346
Amortization of debt issuance costs	2,135	1,880
Equity in (earnings) loss of unconsolidated investees	(676)	2,350
Third-party inventories write-down	—	8,869
Deferred income taxes and other tax liabilities	7,147	2,663
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(107,454)	156,973
Costs and estimated earnings in excess of billings	(4,922)	(13,736)
Inventories	26,710	(54,567)
Project assets	(31,293)	(39,246)
Prepaid expenses and other assets	54,670	(81,677)
Advances to suppliers	(7,805)	(18,320)
Accounts payable and other accrued liabilities	41,692	(63,726)
Billings in excess of costs and estimated earnings	109,379	(25,167)
Customer advances	(22,674)	4,095
Net cash provided by (used in) operating activities	100,684	(129,822)
Cash flows from investing activities:		
Decrease in restricted cash and cash equivalents	17,826	51,621
Purchase of property, plant and equipment	(19,881)	(62,644)
Cash paid for solar power systems, leased and to be leased	(65,075)	(51,406)
Purchases of marketable securities	(99,928)	—
Proceeds from sale of equipment to third-party	17	419
Cash received for sale of investment in unconsolidated investees	—	17,403
Cash paid for investments in unconsolidated investees	(1,411)	(10,000)
Net cash used in investing activities	(168,452)	(54,607)
Cash flows from financing activities:		
Proceeds from issuance of convertible debt, net of issuance costs	296,283	—
Proceeds from issuance of bank loans, net of issuance costs	—	125,000
Proceeds from issuance of project loans, net of issuance costs	56,615	13,787
Proceeds from residential lease financing	56,548	8,247
Proceeds from sale-leaseback financing	40,757	—
Contributions from noncontrolling interests	43,866	—

Repayment of bank loans, project loans and other debt	(281,712)	(101,132)
Repayment of sale-leaseback financing	(5,124)	—
Cash paid for repurchase of convertible debt	—	(198,608)
Proceeds from private offering of common stock, net of issuance costs	—	163,681
Cash distributions to Parent in connection with the transfer of entities under common control	—	(178,290)
Proceeds from exercise of stock options	49	34
Purchases of stock for tax withholding obligations on vested restricted stock	(16,183)	(5,204)
Net cash provided by (used in) financing activities	191,099	(172,485)
Effect of exchange rate changes on cash and cash equivalents	(258)	(2,454)
Net increase (decrease) in cash and cash equivalents	123,073	(359,368)
Cash and cash equivalents, beginning of period	457,487	725,618
Cash and cash equivalents, end of period	$580,560	$366,250
Non-cash transactions:		
Assignment of residential lease receivables to a third party financial institution	$45,234	$2,523
Property, plant and equipment acquisitions funded by liabilities	$6,356	$12,124
Costs of solar power systems, leased and to be leased, sourced from existing inventory	$29,714	$41,476
Costs of solar power systems, leased and to be leased, funded by liabilities	$1,708	$5,064
Costs of solar power systems under sale-leaseback financing arrangements, sourced by project assets	$24,399	$—
Non-cash interest expense capitalized and added to the cost of qualified assets	$321	$750
Issuance of warrants in connection with the Liquidity Support Agreement	$—	$50,327

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

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

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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.

The Company's President and Chief Executive Officer, as the chief operating decision maker ("CODM"), has organized the Company, manages resource allocations and measures performance of the Company's activities among three regional segments: (i) the Americas Segment, (ii) the EMEA Segment, and (iii) the APAC Segment. The Americas Segment includes both North and South America. The EMEA Segment includes European countries, as well as the Middle East and Africa. The APAC segment includes all Asia-Pacific countries.

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

Basis of Presentation and Preparation

Principles of Consolidation

The condensed 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 condensed consolidated financial statements and the accompanying notes. Such reclassifications had no effect on previously reported results of operations or retained earnings. As reflected in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012 ("2012 Form 10-K"), in connection with the growth of its residential lease program, during the fourth quarter of fiscal 2012 the Company began to separately classify both the cost of the leased assets and related investing cash flows based upon the nature of the lease entered into. The Company has reclassified prior period interim balances to conform to the current period presentation, which resulted in an increase in operating cash flows of $51.4 million for the six months ended July 1, 2012.

Fiscal Years

The Company has a 52-to-53-week fiscal year that ends on the Sunday closest to December 31. Accordingly, every fifth or sixth year will be a 53-week fiscal year. Both fiscal 2013 and 2012 are 52-week fiscal years. The second quarter of fiscal 2013 ended on June 30, 2013, while the second quarter of fiscal 2012 ended on July 1, 2012. The first and second quarters in both fiscal 2013 and fiscal 2012 were 13-week quarters.

Management Estimates

The preparation of the condensed 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 condensed consolidated financial statements and accompanying notes. Significant estimates in these condensed 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; fair value of financial instruments; valuation of certain accrued liabilities including accrued warranty, restructuring, and termination of supply

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contracts reserves; valuation of debt without the conversion feature; and income taxes and tax valuation allowances. Actual results could materially differ from those estimates.

Summary of Significant Accounting Policies

Noncontrolling Interests

Noncontrolling interests represents the portion of net assets in consolidated subsidiaries that are not attributable, directly or indirectly, to the Company. Beginning in the first quarter of fiscal 2013, the Company has entered into facilities with third-party investors under which the investors are determined to hold noncontrolling interests in entities fully consolidated by the Company. The net assets of the shared entities are attributed to the controlling and noncontrolling interests based on the terms of the governing contractual arrangements. The Company further determined the hypothetical liquidation at book value method ("HLBV Method") to be the appropriate method for attributing net assets to the controlling and noncontrolling interests as this method most closely mirrors the economics of the governing contractual arrangements. Under the HLBV Method, the Company allocates recorded income (loss) to each investor based on the change, during the reporting period, of the amount of net assets each investor is entitled to under the governing contractual arrangements in a liquidation scenario.

Other than as described above, there have been no significant changes in the Company's significant accounting policies during the six months ended June 30, 2013, as compared to the significant accounting policies described in the 2012 Form 10-K.

Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") issued common disclosure requirements that are intended to enhance comparability between financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with International Financial Reporting Standards ("IFRS"). This new guidance is applicable to companies that have financial instruments or derivatives that are either offset in the balance sheet (presented on a net basis) or subject to an enforceable master netting arrangement or similar arrangement. The requirement does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. However, once this disclosure requirement becomes effective, companies will also be required to disclose information about financial instruments and derivatives instruments that have been offset and related arrangements and to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. The disclosure requirement becomes effective retrospectively in the first quarter of the Company's fiscal year 2014. The Company does not expect that the requirement will have a material impact on its condensed 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 will become effective for the Company in the first quarter of fiscal 2014. The Company does not expect that the requirement will have a material impact on its condensed consolidated financial statements.

In February 2013, the FASB amended its disclosure guidance related to the presentation of comprehensive income. The amendment requires reporting of the impact of significant reclassifications out of accumulated other comprehensive income or loss on the line items on the statement of operations, if a reclassification is required in its entirety in one reporting period. The amendment became effective for the Company in the first quarter of fiscal 2013 and did not have a significant impact on its condensed 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 condensed consolidated financial statements.

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

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

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of the Company's former class B common stock, representing 60% of each class of its outstanding common stock as of June 13, 2011, for a total cost of approximately $1.4 billion.

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

Credit Support Agreement

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

In consideration for the commitments of Total S.A., under the Credit Support Agreement, the Company is required to pay Total S.A. a guarantee fee for each letter of credit that is the subject of a Guaranty and was outstanding for all or part of the preceding calendar quarter. The Company is also required to reimburse Total S.A. for payments made under any Guaranty and certain expenses of Total S.A., plus interest on both. The Company incurred guaranty fees under the Credit Support Agreement of $1.7 million and $3.5 million in the three and six months ended June 30, 2013, respectively, and $1.8 million and $3.6 million in the three and six months ended July 1, 2012, respectively.

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

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

Affiliation Agreement

In connection with the Tender Offer, the Company and Total entered into an Affiliation Agreement that governs the relationship between Total and the Company following the close of the Tender Offer (the "Affiliation Agreement"). Until the expiration of a standstill period (the "Standstill Period"), 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 standstill provisions of the Affiliation Agreement do not apply to securities issued in connection with the Liquidity Support Agreement described below.

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

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

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

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

Affiliation Agreement Guaranty

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

Research & Collaboration Agreement

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

The R&D Agreement enables a joint committee (the "R&D Strategic Committee") to identify, plan and manage the R&D Collaboration. Due to the impracticability of anticipating and establishing all of the legal and business terms that are and will be applicable to the R&D Collaboration or to each R&D Project, the R&D Agreement sets forth broad principles applicable to the parties' potential R&D Collaboration, and the R&D Collaboration Committee establishes the particular terms governing each particular R&D Project consistent with the terms set forth in the R&D Agreement. In the three and six months ended June 30, 2013, the Company received $1.0 million from Total related to projects under the R&D Collaboration agreement. The Company records research and development expense net of funding under collaborative arrangements.

Registration Rights Agreement

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

Stockholder Rights Plan

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

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

By-laws Amendment

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

Liquidity Support Agreement with Total S.A.

The Company is party to an agreement with a customer to construct the California Valley Solar Ranch, a solar park. Part of the debt financing necessary for the customer to pay for the construction of this solar park is being provided by the Federal Financing Bank in reliance on a guarantee of repayment provided by the Department of Energy (the "DOE") under a loan guarantee program. On February 28, 2012, the Company entered into a Liquidity Support Agreement with Total S.A. and the DOE, and a series of related agreements with Total S.A. and Total, under which Total S.A. has agreed to provide the Company, or cause to be provided, additional liquidity under certain circumstances to a maximum amount of $600.0 million ("Liquidity Support Facility"). Total S.A. is required to provide liquidity support to the Company under the facility, and the Company is required to accept such liquidity support from Total S.A., if either the Company's actual or projected unrestricted cash, cash equivalents, and unused borrowing capacity are reduced below $100.0 million, or the Company fails to satisfy any financial covenant under its indebtedness. In either such event, subject to a $600.0 million aggregate limit, Total S.A. is required to provide the Company with sufficient liquidity support to increase the amount of its unrestricted cash, cash equivalents and unused borrowing capacity to above $100.0 million, and to restore compliance with its financial covenants. On December 24, 2012, Total S.A. agreed to guarantee the Company's revolving credit facility with Credit Agricole, which reduced the capacity available under the Liquidity Support Facility by $275.0 million. The Liquidity Support Facility is available until the completion of the solar park, expected to be completed before the end of fiscal 2013, and, under certain conditions, up to December 31, 2016, at which time all outstanding guarantees will expire (except for the Total S.A.

guarantee of the Credit Agricole facility which extends through maturity) and all outstanding debt under the facility will become due. The use of the Liquidity Support Facility is not limited to direct obligations related to the solar park, and is available for general corporate purposes, but the Company has agreed to conduct its operations, and use any proceeds from such facility, in ways that minimize the likelihood of Total S.A. being required to provide further support. In connection with the Liquidity Support Agreement, the Company also entered into a Compensation and Funding Agreement with Total S.A., and a Private Placement Agreement and a Revolving Credit and Convertible Loan Agreement with Total, which implement the terms of the Liquidity Support Agreement and Compensation Funding Agreement.

Compensation and Funding Agreement

In connection with the Liquidity Support Agreement, on February 28, 2012, the Company entered into a Compensation and Funding Agreement (the "Compensation and Funding Agreement") with Total S.A., pursuant to which, among other things, the Company and Total S.A. established the parameters for the terms of the Liquidity Support Facility and any liquidity injections that may be required to be provided by Total S.A. to the Company pursuant to the Liquidity Support Agreement. The

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

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

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

On December 24, 2012, Total S.A. issued a guarantee for the Company's obligations under the revolving credit facility with Credit Agricole. The issuance of the guarantee reduced the capacity available under the Liquidity Support Facility from $600.0 million to $325.0 million. The Company is required to pay Total S.A. an annual guarantee fee of 2.75% of the outstanding amount under the Credit Agricole facility. The guarantee reduced interest rates payable under, and removed certain financial and restrictive covenants in, the Credit Agricole facility (see Note 9).

The Company incurred fees under the Compensation and Funding Agreement of $0.8 million and $2.5 million in the three and six months ended June 30, 2013, respectively, and $1.5 million and $2.1 million in the three and six months ended July 1, 2012, respectively.

Master Agreement

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

0.75% Debentures Due 2018

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On May 29, 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 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).

Note 3. OTHER INTANGIBLE ASSETS

The Company's acquired other intangible assets consist of patents, trade names and purchased technology; customer relationships; and purchased in-process research and development. As of June 30, 2013 and December 30, 2012 the Company's other intangible assets, net of accumulated depreciation, totaled $0.6 million and $0.7 million, respectively. All of the Company's acquired other intangible assets are subject to amortization. Aggregate amortization expense for other intangible assets totaled zero and $0.2 million for the three and six months ended June 30, 2013, respectively, and $2.7 million and $5.5 million in the three and six months ended July 1, 2012, respectively.

Note 4. BALANCE SHEET COMPONENTS

(In thousands)	As of June 30, 2013	December 30, 2012
Accounts receivable, net:		
Accounts receivable, gross (1)	$492,704	$429,977
Less: allowance for doubtful accounts	(30,763)	(26,773)
Less: allowance for sales returns	(2,568)	(5,054)
	$459,373	$398,150

(1) Includes short-term finance receivables associated with solar power systems leased of $5.5 million and $4.5 million as of June 30, 2013 and December 30, 2012, respectively.

Inventories:		
Raw materials	$52,178	$89,331
Work-in-process	53,130	50,627
Finished goods	129,848	151,428
	$235,156	$291,386

Prepaid expenses and other current assets:		
VAT receivables, current portion	$98,080	$97,041
Foreign currency derivatives	3,314	1,275
Deferred project costs	187,938	305,980
Deferred costs for solar power systems to be leased	24,207	31,419
Other receivables (2)	92,291	104,640
Other prepaid expenses	39,395	25,230
Other current assets	67,883	47,468
	$513,108	$613,053

(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 7 and 8).

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(In thousands)	As of June 30, 2013	December 30, 2012
Project assets - plants and land:		
Project assets — plants	$77,259	$61,862
Project assets — land	13,406	21,645
	$90,665	$83,507
Project assets - plants and land, current portion	$87,430	$75,911
Project assets - plants and land, net of current portion	$3,235	$7,596
Property, plant and equipment, net:		
Land and buildings	$26,004	$20,109
Leasehold improvements	228,525	221,378
Manufacturing equipment (3)	546,092	531,289
Computer equipment	77,226	75,438
Furniture and fixtures	8,470	8,178
Solar power systems (4)	51,517	12,501
Solar power systems leased	254,515	163,003
Solar power systems to be leased	57,760	89,423
Construction-in-process	10,363	34,110
	1,260,472	1,155,429
Less: accumulated depreciation (5)	(422,298)	(380,520)
	$838,174	$774,909

(3) The Company's mortgage loan agreement with International Finance Corporation ("IFC") is collateralized by certain manufacturing equipment with a net book value of $161.1 million and $152.9 million as of June 30, 2013 and December 30, 2012, respectively. The Company also provided security for advance payments received from a third party in the form of collateralized manufacturing equipment with a net book value of $18.1 million and $16.5 million as of June 30, 2013 and December 30, 2012, respectively.

(4) Includes $24.4 million of solar power systems associated with sale-leaseback transactions under the financing method (see Note 7).

(5) Total depreciation expense was $24.6 million and $48.2 million for the three and six months ended June 30, 2013, respectively and $29.3 million and $58.4 million for the three and six months ended July 1, 2012, respectively.

Property, plant and equipment, net by geography (6):		
Philippines	$347,407	$367,708
United States	431,249	343,710
Mexico	32,994	32,409
Europe	26,057	29,292
Other	467	1,790
	$838,174	$774,909

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

The below table presents the cash and non-cash interest expense capitalized to property, plant and equipment and project assets during the three and six months ended June 30, 2013 and July 1, 2012, respectively.

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(In thousands)	Three Months Ended June 30, 2013	July 1, 2012	Six Months Ended June 30, 2013	July 1, 2012
Interest expense:				
Interest cost incurred	$(25,208)	$(20,356)	$(52,752)	$(39,987)
Cash interest cost capitalized - property, plant and equipment	—	299	228	587
Non-cash interest cost capitalized - property, plant and equipment	—	169	57	302
Cash interest cost capitalized - project assets - plant and land	176	271	299	549
Non-cash interest cost capitalized - project assets - plant and land	162	217	264	448
Interest expense	$(24,870)	$(19,400)	$(51,904)	$(38,101)

(In thousands)	As of June 30, 2013	December 30, 2012
Other long-term assets:		
Equity method investments	$112,193	$111,516
Bond hedge derivative	60,627	2,327
Cost method investments	12,651	14,918
Long-term financing receivables	117,234	67,742
Long-term debt issuance costs	25,380	38,185
Other	88,061	41,375
	$416,146	$276,063
Accrued liabilities:		
VAT payables	$3,442	$2,049
Foreign currency derivatives	5,115	4,891
Short-term warranty reserves	9,183	9,054
Interest payable	9,587	9,672
Deferred revenue	23,796	32,507
Employee compensation and employee benefits	41,282	40,750
Restructuring reserve	17,356	29,477
Short-term residential lease financing	28,758	25,153
Short-term sale-leaseback financing (Note 7)	2,530	—
Other	112,215	93,819
	$253,264	$247,372

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(In thousands)	As of June 30, 2013	December 30, 2012
Other long-term liabilities:		
Embedded conversion option derivatives	$60,655	$2,327
Long-term warranty reserves	117,110	107,803
Deferred revenue	155,929	128,936
Unrecognized tax benefits	32,975	35,022
Long-term residential lease financing	21,966	11,411
Long-term sale-leaseback financing (Note 7)	33,106	—
Other	65,455	50,120
	$487,196	$335,619
Accumulated other comprehensive loss:		
Cumulative translation adjustment	$(6,245)	$(2,319)
Net unrealized gain on derivatives	1,238	(243)
Unrealized loss on investments	(7)	—
Deferred taxes	(238)	41
	$(5,252)	$(2,521)

Solar Power Systems Leased and to be Leased

The Company leases solar systems to residential customers under both operating and sales-type leases. As of June 30, 2013 and December 30, 2012, solar power systems leased out under operating leases, presented in "Property, plant and equipment, net" in the Company's Condensed Consolidated Balance Sheets was $254.5 million and $163.0 million, respectively, and solar power systems to be leased under operating leases, presented in "Property, plant and equipment, net" in the Company's Condensed Consolidated Balance Sheets was $57.8 million and $89.4 million, respectively. As of June 30, 2013, financing receivables for sales-type leases, presented in "Accounts receivable, net" and "Other long-term assets" in the Company's Condensed Consolidated Balance Sheets was $5.5 million and $117.2 million, respectively. As of December 30, 2012, financing receivables for sales-type leases, presented in "Accounts receivable, net" and "Other long-term assets" in the Company's Condensed Consolidated Balance Sheets was $4.5 million and $67.7 million, respectively. Amounts recognized in the Company's Condensed Consolidated Statement of Operations are not significant in any period presented.

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 condensed consolidated financial statements.

As of June 30, 2013 and December 30, 2012, the remaining liability to the third-party investors, presented in Accrued liabilities and Other long-term liabilities on the Company's Condensed Consolidated Balance Sheets, was $50.7 million and $36.6 million, respectively. As of June 30, 2013 and December 30, 2012, the Company has pledged solar assets with an aggregate book value of $249.0 million and $280.8 million, respectively, to the third-party investors as security for its obligations under the contractual arrangements.

Beginning in the first quarter of fiscal 2013, the Company has entered into facilities with third-party investors under which the parties will invest in entities which holds 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 condensed consolidated financial statements (see Note 1).

Note 5. FAIR VALUE MEASUREMENTS

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company measures certain assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during the three and six months ended June 30, 2013 or July 1, 2012. The Company did not have any assets or liabilities measured at fair value on a recurring basis requiring Level 3 inputs as of June 30, 2013 or December 30, 2012.

The following table summarizes the Company's assets and liabilities measured and recorded at fair value on a recurring basis as of June 30, 2013 and December 30, 2012, respectively:

	June 30, 2013			December 30, 2012		
(In thousands)	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Cash and cash equivalents:						
Money market funds (1)	$313,001	$313,001	$—	$117,254	$117,254	$—
Short-term marketable securities:						
U.S. government bonds	99,921	—	99,921	—	—	—
Prepaid expenses and other current assets:						
Foreign currency derivatives (Note 10)	3,314	—	3,314	1,275	—	1,275
Other long-term assets:						
Debt derivatives (Note 9)	60,627	—	60,627	2,327	—	2,327
Total assets	$476,863	$313,001	$163,862	$120,856	$117,254	$3,602
Liabilities						
Accrued liabilities:						
Foreign currency derivatives (Note 10)	$5,115	$—	$5,115	$4,891	$—	$4,891
Other long-term liabilities:						
Debt derivatives (Note 9)	60,655	—	60,655	2,327	—	2,327
Total liabilities	$65,770	$—	$65,770	$7,218	$—	$7,218

(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.

Available-for-Sale Debt Securities

The Company's debt securities, classified as available-for-sale, consist of U.S. government bonds which were purchased in the second quarter of fiscal 2013. These bonds have maturity dates of less than 1 year and are classified as "Short-term marketable securities" on the Company's Condensed Consolidated Balance Sheets. As of June 30, 2013, these bonds had a fair value of $99.9 million. The Company based its valuation of these bonds on movements of U.S. Treasury bond rates, which are

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observable at commonly quoted intervals, since the time of purchase. Accordingly, the available-for-sale debt securities were categorized in Level 2 of the fair value hierarchy. No other-than-temporary impairment loss was incurred during the three and six months ended June 30, 2013.

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 Condensed Consolidated Statements of Operations. The fair values of these derivative instruments were determined utilizing the following Level 1 and Level 2 inputs:

	As of (1)			
	June 30, 2013		December 30, 2012	
Stock price	$20.70		$5.49	
Exercise price	$22.53		$22.53	
Interest rate	0.46	%	0.40	%
Stock volatility	58.2	%	59.9	%
Credit risk adjustment	1.28	%	1.07	%
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. Information regarding the Company's other intangible asset balances are disclosed in Note 3.

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 Condensed Consolidated Balance Sheets. As of June 30, 2013 and December 30, 2012, these bonds had a carrying value of $10.2 million and $10.9 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 the three and six months ended

June 30, 2013 or July 1, 2012. The held-to-maturity debt securities were categorized in Level 2 of the fair value hierarchy.

Equity and Cost Method Investments

The Company's equity and cost method investments in non-consolidated entities are comprised of convertible promissory notes, common and preferred stock. The Company monitors these investments, which are included in "Other long-term assets" in its Condensed Consolidated Balance Sheets, for impairment and records reductions in the carrying values when