SUNPOWER CORP
Form 10-Q
October 31, 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 September 29, 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 October 25, 2013 was 121,395,743.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 29, 2013	December 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$743,575	$457,487
Restricted cash and cash equivalents, current portion	14,600	15,568
Accounts receivable, net	377,824	398,150
Costs and estimated earnings in excess of billings	42,563	36,395
Inventories	288,049	291,386
Advances to suppliers, current portion	75,680	50,282
Project assets - plants and land, current portion	98,005	75,911
Prepaid expenses and other current assets[1]	453,595	613,053
Total current assets	2,093,891	1,938,232
Restricted cash and cash equivalents, net of current portion	17,420	31,396
Restricted long-term marketable securities	9,179	10,885
Property, plant and equipment, net	851,344	774,909
Project assets - plants and land, net of current portion	3,559	7,596
Other intangible assets, net	514	744
Advances to suppliers, net of current portion	289,460	301,123
Other long-term assets[1]	493,725	276,063
Total assets	$3,759,092	$3,340,948
Liabilities and Equity		
Current liabilities:		
Accounts payable[1]	$483,059	$414,335
Accrued liabilities	256,454	247,372
Billings in excess of costs and estimated earnings	253,329	225,550
Short-term debt	76,845	14,700
Convertible debt, current portion	230,000	—
Customer advances, current portion[1]	44,977	59,648
Total current liabilities	1,344,664	961,605
Long-term debt	93,154	375,661
Convertible debt, net of current portion[1]	521,372	438,629
Customer advances, net of current portion[1]	170,798	236,082
Other long-term liabilities	520,260	335,619
Total liabilities	2,650,248	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 September 29, 2013 and December 31, 2012	—	—
Common stock, $0.001 par value, 367,500,000 shares authorized; 126,730,119 shares issued, and 121,390,170 outstanding as of September 29, 2013; 123,315,990 shares issued, and 119,234,280 shares outstanding as of December 30, 2012	121	119
Additional paid-in capital	1,964,369	1,931,947
Accumulated deficit	(828,830)	(902,085)
Accumulated other comprehensive loss	(4,948)	(2,521)
Treasury stock, at cost; 5,339,949 shares of common stock as of September 29, 2013; 4,081,710 shares of common stock as of December 30, 2012	(51,692)	(34,108)
Total stockholders' equity	1,079,020	993,352
Noncontrolling interests in subsidiaries	29,824	—
Total equity	1,108,844	993,352
Total liabilities and equity	$3,759,092	$3,340,948

1 The Company has related party balances in connection with transactions made with Total and its affiliates as well as unconsolidated entities in which the Company has a direct equity investment. These related party balances are recorded within the "Prepaid expenses and other current assets," "Other long-term assets," "Accounts payable," "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		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Revenue	$657,120	$648,948	$1,869,069	$1,738,976
Cost of revenue	463,890	568,175	1,508,665	1,539,455
Gross margin	193,230	80,773	360,404	199,521
Operating expenses:				
Research and development	14,903	14,956	41,108	45,786
Sales, general and administrative	63,229	69,714	195,356	208,388
Restructuring charges	1,114	10,544	1,705	61,189
Goodwill and other intangible asset impairment	—	59,581	—	59,581
Total operating expenses	79,246	154,795	238,169	374,944
Operating income (loss)	113,984	(74,022)	122,235	(175,423)
Other income (expense), net:				
Interest income	258	94	839	762
Interest expense	(28,861)	(25,834)	(80,765)	(63,935)
Gain on share lending arrangement	—	50,645	—	50,645
Other, net	(4,159)	594	(11,972)	(4,984)
Other income (expense), net	(32,762)	25,499	(91,898)	(17,512)
Income (loss) before income taxes and equity in earnings (loss) of unconsolidated investees	81,222	(48,523)	30,337	(192,935)
Benefit from (provision for) income taxes	4,575	(593)	(2,920)	(12,542)
Equity in earnings (loss) of unconsolidated investees	1,585	578	2,261	(1,772)
Net income (loss)	87,382	(48,538)	29,678	(207,249)
Net loss attributable to noncontrolling interests	21,004	—	43,577	—
Net income (loss) attributable to stockholders	$108,386	$(48,538)	$73,255	$(207,249)
Net income (loss) per share attributable to stockholders:				
Basic	$0.89	$(0.41)	$0.61	$(1.78)
Diluted	$0.73	$(0.41)	$0.55	$(1.78)
Weighted-average shares:				
Basic	121,314	118,952	120,604	116,408
Diluted	153,876	118,952	134,859	116,408

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)

(In thousands)	Three Months Ended September 29, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 29, 2013	Nine Months Ended September 30, 2012
Net income (loss)	$87,382	$(48,538)	$29,678	$(207,249)
Components of comprehensive income (loss):				
Translation adjustment	1,923	148	(2,003)	(1,802)
Net unrealized loss on derivatives (Note 10)	(2,005)	(2,611)	(524)	(10,738)
Unrealized gain on investments	7	—	—	—
Income taxes	379	490	100	2,016
Net change in accumulated other comprehensive income (loss)	304	(1,973)	(2,427)	(10,524)
Total comprehensive income (loss)	87,686	(50,511)	27,251	(217,773)
Comprehensive loss attributable to noncontrolling interests	21,004	—	43,577	—
Comprehensive income (loss) attributable to stockholders	$108,690	$(50,511)	$70,828	$(217,773)

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

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

	Common Stock								
	Shares	Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	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 income (loss)	—	—	—	—	—	73,255	73,255	(43,577)	29,678
Other comprehensive loss	—	—	—	—	(2,427)	—	(2,427)	—	(2,427)
Issuance of common stock upon exercise of options	41	—	97	—	—	—	97	—	97
Issuance of restricted stock to employees, net of cancellations	3,373	2	(2)	—	—	—	—	—	—
Stock-based compensation expense	—	—	31,599	—	—	—	31,599	—	31,599
Purchases of treasury stock	(1,258)	—	—	(17,584)	—	—	(17,584)	—	(17,584)
Tax benefit from convertible debt interest deduction	—	—	728	—	—	—	728	—	728
Contributions from noncontrolling interests	—	—	—	—	—	—	—	73,401	73,401
Balances at September 29, 2013	121,390	$121	$1,964,369	$(51,692)	$(4,948)	$(828,830)	$1,079,020	$29,824	$1,108,844

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)

	Nine Months Ended	
	September 29, 2013	September 30, 2012[1]
Cash flows from operating activities:		
Net income (loss)	$29,678	$(207,249)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock-based compensation	31,103	33,179
Depreciation	72,893	82,747
Loss on retirement of property, plant and equipment	—	56,399
Amortization of other intangible assets	231	8,099
Goodwill impairment	—	46,734
Other intangible asset impairment	—	12,847
Gain on sale of investments	(51)	—
(Gain) loss on mark-to-market derivatives	30	(4)
Non-cash interest expense	36,382	29,336
Amortization of debt issuance costs	3,762	2,899
Equity in (earnings) loss of unconsolidated investees	(2,261)	1,772
Gain on equity interest in unconsolidated investee	(529)	—
Third-party inventories write-down	—	8,869
Gain on share lending arrangement	—	(50,645)
Gain on contract termination	(51,988)	—
Deferred income taxes and other tax liabilities	2,317	110
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(46,391)	124,865
Costs and estimated earnings in excess of billings	(6,168)	(10,709)
Inventories	(38,543)	(50,076)
Project assets	(42,113)	(101,917)
Prepaid expenses and other assets	48,355	(35,401)
Advances to suppliers	(13,735)	(29,993)
Accounts payable and other accrued liabilities	106,769	(43,008)
Billings in excess of costs and estimated earnings	27,779	(31,203)
Customer advances	(27,967)	40,048
Net cash provided by (used in) operating activities	129,553	(112,301)
Cash flows from investing activities:		
Decrease in restricted cash and cash equivalents	14,944	54,341
Purchases of property, plant and equipment	(25,460)	(79,033)
Cash paid for solar power systems, leased and to be leased	(83,619)	(100,655)
Purchases of marketable securities	(99,928)	(1,436)
Proceeds from sales or maturities of marketable securities	100,947	—
Proceeds from sale of equipment to third-party	645	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	(93,882)	(118,961)

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	68,225	27,617
Proceeds from recovery of claim in connection with share lending arrangement	—	50,645
Proceeds from residential lease financing	83,365	26,809
Proceeds from sale-leaseback financing	40,757	—
Contributions from noncontrolling interests	73,401	—
Repayment of bank loans, project loans and other debt	(290,098)	(126,427)
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	—	163,616
Cash distributions to Parent in connection with the transfer of entities under common control	—	(178,290)
Proceeds from exercise of stock options	98	51
Purchases of stock for tax withholding obligations on vested restricted stock	(17,584)	(5,430)
Net cash provided by (used in) financing activities	249,323	(115,017)
Effect of exchange rate changes on cash and cash equivalents	1,094	(2,213)
Net increase (decrease) in cash and cash equivalents	286,088	(348,492)
Cash and cash equivalents, beginning of period	457,487	725,618
Cash and cash equivalents, end of period	$743,575	$377,126
Non-cash transactions:		
Assignment of residential lease receivables to a third party financial institution	$67,400	$10,259
Property, plant and equipment acquisitions funded by liabilities	$5,628	$13,243
Costs of solar power systems, leased and to be leased, sourced from existing inventory	$43,341	$80,068
Costs of solar power systems, leased and to be leased, funded by liabilities	$2,315	$6,712
Costs of solar power systems under sale-leaseback financing arrangements, sourced from project assets	$24,399	$—
Non-cash interest expense capitalized and added to the cost of qualified assets	$400	$1,161
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 $100.7 million for the nine months ended September 30, 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 third quarter of fiscal 2013 ended on September 29, 2013, while the third quarter of fiscal 2012 ended on September 30, 2012. All quarters in 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; the fair value and residual value of leased solar power systems; fair value of financial instruments; valuation of certain accrued liabilities including accrued warranty, restructuring, and termination of supply 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

Revenue Recognition

Residential Leases

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

For those systems classified as sales-type leases, the net present value of the minimum lease payments, net of executory costs, is recognized as revenue when the lease is placed in service. This net present value as well as the net present value of the residual value of the lease at termination are recorded as receivables in the Condensed Consolidated Balance Sheets. The difference between the initial net amounts and the gross amounts are amortized to revenue over the lease term using the interest method. The residual values of our solar systems are determined at the inception of the lease applying an estimated system fair value at the end of the lease term.

For those systems classified as operating leases, rental revenue is recognized, net of executory costs, on a straight-line basis over the term of the lease.

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 nine months ended September 29, 2013, as compared with the significant accounting policies described in the 2012 Form 10-K.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") amended its guidance related to the presentation of unrecognized tax benefits. The amended guidance specifies when an unrecognized tax benefit or a portion of an unrecognized tax benefit should be presented as a liability versus an offset against a deferred tax asset when a net operating loss carryforward, a similar tax loss or tax credit carryforward exists. The amendment 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 March 2013, the FASB and International Accounting Standards Board ("IASB") issued common disclosure requirements that are intended to enhance comparability between financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with International Financial Reporting Standards ("IFRS"). This new guidance is applicable to companies that have financial instruments or derivatives that are either offset in the balance sheet (presented on a net basis) or subject to an enforceable master netting arrangement or similar arrangement. The requirement does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. However, once this disclosure requirement becomes effective, companies will also be required to disclose information about 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 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 $2.7 million and $6.2 million in the three and nine months ended September 29, 2013, respectively, and $1.7 million and $5.2 million in the three and nine months ended September 30, 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

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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.

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.

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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 nine months ended September 29, 2013, Total contributed $0.3 million and $1.3 million, respectively, to projects under the R&D Agreement. The Company records research and development expense net of contributions 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

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. Total S.A.'s current guarantee of the Company's July 2013 revolving credit facility with Credit Agricole, as further described below, reduces the capacity available under the Liquidity Support Facility by $250.0 million. The Liquidity Support Facility is available until the completion of the solar park, expected to be completed in the beginning of fiscal 2014, 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 will expire on or about January 31, 2014) 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 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 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.

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On December 24, 2012, Total S.A. issued a guarantee for the Company's obligations under the September 2011 revolving credit facility with Credit Agricole (the "September 2011 revolving credit facility"). The issuance of the guarantee reduced the capacity available under the Liquidity Support Facility from $600.0 million to $325.0 million. The Company was required to pay Total S.A. an annual guarantee fee of 2.75% of the outstanding amount under the September 2012 revolving credit facility with Credit Agricole. The guarantee reduced related interest rates and removed certain financial and restrictive covenants under the facility. On July 3, 2013, the Company terminated the September 2011 revolving credit facility after establishing a new revolving credit facility with Credit Agricole (the "July 2013 revolving credit facility"). Total S.A. has issued a guarantee for the Company's obligations under the July 2013 revolving credit facility. The issuance of the guarantee, together with the termination of the similar $275.0 million guaranty of the September 2011 revolving credit facility, as described above, increased the capacity available under the Liquidity Support Facility by $25.0 million. The Company is required to pay Total S.A. an annual guarantee fee of 2.75% of the outstanding amount under the July 2013 revolving credit facility (see Note 9).

The Company incurred fees under the Compensation and Funding Agreement of $1.5 million and $4.0 million in the three and nine months ended September 29, 2013, respectively, and $1.4 million and $3.5 million in the three and nine months ended September 30, 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

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. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

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

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Based on the impairment test as of September 30, 2012, the Company determined that the carrying value of the Americas and EMEA reporting units exceeded their fair value. As a result, the Company performed the second step of the impairment analysis for the two reporting units discussed above. The Company's calculation of the implied fair value of goodwill included significant assumptions for, among others, the fair values of recognized assets and liabilities and of unrecognized intangible assets, all of which require significant judgment by management. The Company calculated that the implied fair value of goodwill for the two reporting units was zero and therefore recorded a goodwill impairment loss of $46.7 million, representing all of the goodwill associated with these reporting units. As of September 29, 2013 and December 30, 2012, the Company had no remaining goodwill balance.

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 September 29, 2013 and December 30, 2012, the Company's other intangible assets, net of accumulated depreciation, totaled $0.5 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 less than $0.1 million and $0.2 million for the three and nine months ended September 29, 2013, respectively, and $2.6 million and $8.1 million in the three and nine months ended September 30, 2012, respectively.

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

Note 4. BALANCE SHEET COMPONENTS

(In thousands)	As of September 29, 2013	December 30, 2012
Accounts receivable, net:		
Accounts receivable, gross[1]	$407,680	$429,977
Less: allowance for doubtful accounts	(27,476)	(26,773)
Less: allowance for sales returns	(2,380)	(5,054)
	$377,824	$398,150

[1] Includes short-term finance receivables associated with solar power systems leased of $6.0 million and $4.5 million as of September 29, 2013 and December 30, 2012, respectively.

Inventories:		
Raw materials	$79,272	$89,331
Work-in-process	47,212	50,627
Finished goods	161,565	151,428
	$288,049	$291,386

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(In thousands)	As of September 29, 2013	December 30, 2012
Prepaid expenses and other current assets:		
VAT receivables, current portion	$99,899	$97,041
Foreign currency derivatives	2,198	1,275
Deferred project costs	172,679	305,980
Deferred costs for solar power systems to be leased	25,264	31,419
Other receivables	78,336	104,640
Other prepaid expenses	28,905	25,230
Other current assets	46,314	47,468
	$453,595	$613,053
Project assets - plants and land:		
Project assets — plants	$91,911	$61,862
Project assets — land	9,653	21,645
	$101,564	$83,507
Project assets - plants and land, current portion	$98,005	$75,911
Project assets - plants and land, net of current portion	$3,559	$7,596
Property, plant and equipment, net:		
Land and buildings	$26,080	$20,109
Leasehold improvements	229,817	221,378
Manufacturing equipment[2]	545,174	531,289
Computer equipment	77,087	75,438
Furniture and fixtures	8,262	8,178
Solar power systems[3]	54,585	12,501
Solar power systems leased	290,388	163,003
Solar power systems to be leased	52,936	89,423
Construction-in-process	9,001	34,110
	1,293,330	1,155,429
Less: accumulated depreciation	(441,986)	(380,520)
	$851,344	$774,909

2 The Company's mortgage loan agreement with International Finance Corporation ("IFC") is collateralized by certain manufacturing equipment with a net book value of $153.5 million and $152.9 million as of September 29, 2013 and December 30, 2012, respectively. The Company also provided security for advance payments received from a third-party supplier in the form of collateralized manufacturing equipment with a net book value of $16.5 million as of December 30, 2012.

3 Includes $25.3 million of solar power systems associated with sale-leaseback transactions under the financing method as of September 29, 2013 (see Note 7).

Property, plant and equipment, net by geography[4]:		
Philippines	$333,959	$367,708
United States	458,825	343,710
Mexico	32,377	32,409
Europe	25,681	29,292
Other	502	1,790
	$851,344	$774,909

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4 Property, plant and equipment, net are based on the physical location of the assets.

The table below presents the cash and non-cash interest expense capitalized to property, plant and equipment and project assets during the three and nine months ended September 29, 2013 and September 30, 2012, respectively.

(In thousands)	Three Months Ended September 29, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 29, 2013	Nine Months Ended September 30, 2012
Interest expense:				
Interest cost incurred	$(29,075)	$(26,912)	$(81,827)	$(66,899)
Cash interest cost capitalized - property, plant and equipment	39	272	267	859
Non-cash interest cost capitalized - property, plant and equipment	—	142	57	444
Cash interest cost capitalized - project assets - plant and land	96	395	395	944
Non-cash interest cost capitalized - project assets - plant and land	79	269	343	717
Interest expense	$(28,861)	$(25,834)	$(80,765)	$(63,935)

(In thousands)	As of September 29, 2013	December 30, 2012
Other long-term assets:		
Equity method investments	$113,778	$111,516
Bond hedge derivative	96,635	2,327
Cost method investments	12,374	14,918
Long-term financing receivables	139,177	67,742
Long-term debt issuance costs	18,153	38,185
Other	113,608	41,375
	$493,725	$276,063
Accrued liabilities:		
VAT payables	$5,456	$2,049
Foreign currency derivatives	7,250	4,891
Short-term warranty reserves	9,468	9,054
Interest payable	10,840	9,672
Deferred revenue	25,521	32,507
Employee compensation and employee benefits	48,024	40,750
Restructuring reserve	11,935	29,477
Short-term residential lease financing	28,471	25,153
Other	109,489	93,819
	$256,454	$247,372

(In thousands)	As of September 29, 2013	December 30, 2012
Other long-term liabilities:		
Embedded conversion option derivatives	$96,665	$2,327
Long-term warranty reserves	125,307	107,803
Deferred revenue	157,395	128,936
Unrecognized tax benefits	25,193	35,022
Long-term residential lease financing	28,788	11,411
Long-term sale-leaseback financing (Note 7)	36,575	—
Other	50,337	50,120
	$520,260	$335,619
Accumulated other comprehensive loss:		
Cumulative translation adjustment	$(4,322)	$(2,319)
Net unrealized loss on derivatives	(767)	(243)
Deferred taxes	141	41
	$(4,948)	$(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 September 29, 2013 and December 30, 2012, solar power systems leased under operating leases, presented in "Property, plant and equipment, net" in the Company's Condensed Consolidated Balance Sheets was $290.4 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 $52.9 million and $89.4 million, respectively. As of September 29, 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 $6.0 million and $139.2 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 September 29, 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 $57.3 million and $36.6 million, respectively. As of September 29, 2013 and December 30, 2012, the Company has pledged solar assets with an aggregate book value of $228.3 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 hold SunPower solar power systems and leases with residential customers. The Company was determined to hold controlling interests in these less than wholly owned entities and has fully consolidated these entities as a result. The Company accounts for the portion of net assets in the consolidated entities attributable to the investors as "Noncontrolling interests" in its 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 nine months ended September 29, 2013 or September 30, 2012. The Company did not have any assets or liabilities measured at fair value on a recurring basis requiring Level 3 inputs as of September 29, 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 September 29, 2013 and December 30, 2012, respectively:

	September 29, 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]	$308,001	$308,001	$—	$117,254	$117,254	$—
Prepaid expenses and other current assets:						
Foreign currency derivatives (Note 10)	2,198	—	2,198	1,275	—	1,275
Other long-term assets:						
Debt derivatives (Note 9)	96,635	—	96,635	2,327	—	2,327
Foreign currency derivatives (Note 10)	384	—	384	—	—	—
Total assets	$407,218	$308,001	$99,217	$120,856	$117,254	$3,602
Liabilities						
Accrued liabilities:						
Foreign currency derivatives (Note 10)	$7,250	$—	$7,250	$4,891	$—	$4,891
Other long-term liabilities:						
Debt derivatives (Note 9)	96,665	—	96,665	2,327	—	2,327
Foreign currency derivatives (Note 10)	495	—	495	—	—	—
Total liabilities	$104,410	$—	$104,410	$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

In the second quarter of fiscal 2013, the Company purchased $99.9 million in U.S. government bonds, classified as available-for-sale. The Company valued these bonds based on movements of U.S. Treasury bond rates, which are observable at commonly quoted market intervals, since the time of purchase. Accordingly, the available-for-sale debt securities were categorized in Level 2 of the fair value hierarchy. During the third quarter of fiscal 2013, the Company sold all the bonds held

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for proceeds totaling $100.0 million.

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	
	September 29, 2013[1]	December 30, 2012[1]
Stock price	$26.17	