SUNPOWER CORP
Form 10-Q
August 09, 2012

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 July 1, 2012

OR

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

For the transition period from ______________ to ______________

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

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

77 Rio Robles, San Jose, California 95134
(Address of Principal Executive Offices and Zip Code)

(408) 240-5500
(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (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 August 3, 2012 was 118,881,154.

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SunPower Corporation

INDEX TO FORM 10-Q

		Page
PART I. FINANCIAL INFORMATION		3
Item 1.	Financial Statements (unaudited)	3
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Operations	4
	Condensed Consolidated Statements of Comprehensive Loss	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3.	Quantitative and Qualitative Disclosure About Market Risks	57
Item 4.	Controls and Procedures	59
PART II. OTHER INFORMATION		60
Item 1.	Legal Proceedings	60
Item 1A.	Risk Factors	61
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	62
Item 6.	Exhibits	63
Signatures		64
Index to Exhibits		65

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

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

	July 1, 2012	January 1, 2012 (1)
Assets		
Current assets:		
Cash and cash equivalents	$366,250	$725,618
Restricted cash and cash equivalents, current portion	9,596	52,279
Accounts receivable, net	272,972	438,633
Costs and estimated earnings in excess of billings	68,590	54,854
Inventories	449,950	445,501
Advances to suppliers, current portion	73,756	43,143
Project assets - plants and land, current portion	82,929	24,243
Prepaid expenses and other current assets (2)	596,258	502,879
Total current assets	1,920,301	2,287,150
Restricted cash and cash equivalents, net of current portion	18,338	27,276
Restricted long-term marketable securities	9,383	9,145
Property, plant and equipment, net	650,280	628,769
Project assets - plants and land, net of current portion	15,623	34,614
Goodwill	46,879	47,077
Other intangible assets, net	17,423	23,900
Advances to suppliers, net of current portion	272,086	284,378
Other long-term assets (2)	235,169	176,821
Total assets	$3,185,482	$3,519,130
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable (2)	$416,187	$441,655
Accrued liabilities	166,842	249,404
Billings in excess of costs and estimated earnings	145,661	170,828
Short-term debt	20,767	2,122
Convertible debt, current portion	—	196,710
Customer advances, current portion (2)	29,427	48,073
Total current liabilities	778,884	1,108,792
Long-term debt	383,585	364,273
Convertible debt, net of current portion	430,633	423,268
Customer advances, net of current portion (2)	204,687	181,946
Other long-term liabilities	225,636	166,126
Total liabilities	2,023,425	2,244,405

Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of both July 1, 2012 and January 1, 2012	—	—
Common stock, $0.001 par value, 367,500,000 shares authorized; 122,843,742 shares issued, and 118,878,064 outstanding as of July 1, 2012; 101,851,290 shares issued, and 100,475,533 shares outstanding as of January 1, 2012	119	100
Additional paid-in capital	1,905,742	1,845,964
Accumulated deficit	(708,775)	(550,064)
Accumulated other comprehensive income	(1,409)	7,142
Treasury stock, at cost; 3,965,678 shares of common stock as of July 1, 2012; 1,375,757 shares of common stock as of January 1, 2012	(33,620)	(28,417)
Total stockholders' equity	1,162,057	1,274,725
Total liabilities and stockholders' equity	$3,185,482	$3,519,130

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

(2) Company has related party balances in connection with transactions made with its joint ventures which are recorded within the "Prepaid expenses and other current assets," "Other long-term assets," "Accounts payable," "Customer advance, current portion," and "Customer advances, net of current portion" financial statement line items in the Condensed Consolidated Balance Sheets (see Note 5, Note 8, and Note 9).

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

Table of Contents

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

	Three Months Ended		Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Revenue	$595,897	$592,255	$1,090,028	$1,043,673
Cost of revenue	522,397	572,961	971,280	935,857
Gross margin	73,500	19,294	118,748	107,816
Operating expenses:				
Research and development	14,104	15,255	30,830	28,901
Sales, general and administrative	62,480	90,856	138,674	167,035
Restructuring charges	47,599	13,308	50,645	13,308
Total operating expenses	124,183	119,419	220,149	209,244
Operating loss	(50,683)	(100,125)	(101,401)	(101,428)
Other income (expense), net:				
Interest income	326	488	668	1,231
Interest expense	(19,400)	(16,059)	(38,101)	(31,318)
Gain on change in equity interest in unconsolidated investee	—	322	—	322
Gain (loss) on mark-to-market derivatives	(9)	(97)	4	(141)
Other, net	(4,897)	(9,527)	(5,582)	(18,734)
Other expense, net	(23,980)	(24,873)	(43,011)	(48,640)
Loss before income taxes and equity in earnings (loss) of unconsolidated investees	(74,663)	(124,998)	(144,412)	(150,068)
Provision for income taxes	(10,593)	(22,702)	(11,949)	(6,886)
Equity in earnings (loss) of unconsolidated investees	1,075	(172)	(2,350)	6,961
Net loss	$(84,181)	$(147,872)	$(158,711)	$(149,993)
Net loss per share of common stock:				
Basic and diluted	$(0.71)	$(1.51)	$(1.38)	$(1.55)
Weighted-average shares:				
Basic and diluted	118,486	97,656	115,136	97,054

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

Table of Contents

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

	Three Months Ended		Six Months Ended	
(In thousands)	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Net loss	$(84,181)	$(147,872)	$(158,711)	$(149,993)
Components of comprehensive loss:				
Translation adjustment	(7,948)	(954)	(1,950)	(1,144)
Net unrealized gain (loss) on derivatives (Note 11)	(2,377)	54	(8,127)	(40,995)
Unrealized loss on investments	—	(355)	—	—
Income taxes	446	(8)	1,526	7,734
Net change in accumulated other comprehensive loss	(9,879)	(1,263)	(8,551)	(34,405)
Total comprehensive loss	$(94,060)	$(149,135)	$(167,262)	$(184,398)

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

Table of Contents

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

	Six Months Ended	
	July 1, 2012	July 3, 2011
Cash flows from operating activities:		
Net loss	$(158,711)	$(149,993)
Adjustments to reconcile net income to net cash used in operating activities:		
Stock-based compensation	23,908	25,980
Depreciation	58,362	53,664
Loss on retirement of property, plant and equipment	45,409	—
Amortization of other intangible assets	5,477	13,932
Loss on sale of investments	—	191
Loss (gain) on mark-to-market derivatives	(4)	141
Non-cash interest expense	15,346	14,332
Amortization of debt issuance costs	1,880	2,734
Amortization of promissory notes	—	3,352
Gain on change in equity interest in unconsolidated investee	—	(322)
Third-party inventories write-down	8,869	16,399
Project assets write-down related to change in European government incentives	—	16,053
Equity in (earnings) loss of unconsolidated investees	2,350	(6,961)
Deferred income taxes and other tax liabilities	2,663	(2,084)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	156,973	3,109
Costs and estimated earnings in excess of billings	(13,736)	(47,114)
Inventories	(13,090)	(102,997)
Project assets	(39,246)	(83,842)
Prepaid expenses and other assets	(177,857)	(9,328)
Advances to suppliers	(18,320)	(17,470)
Accounts payable and other accrued liabilities	(60,429)	(16)
Billings in excess of costs and estimated earnings	(25,167)	(2,480)
Customer advances	4,095	(7,812)
Net cash used in operating activities	(181,228)	(280,532)
Cash flows from investing activities:		
Decrease in restricted cash and cash equivalents	51,621	30,693
Purchase of property, plant and equipment	(62,644)	(68,164)
Proceeds from sale of equipment to third-party	419	499
Proceeds from sales or maturities of available-for-sale securities	—	43,759
Cash received for sale of investment in joint ventures	17,403	—
Cash paid for investments in unconsolidated investees	(10,000)	(50,000)
Net cash used in investing activities	(3,201)	(43,213)
Cash flows from financing activities:		
Proceeds from issuance of bank loans, net of issuance costs	125,000	189,221
Proceeds from issuance of project loans, net of issuance costs	13,787	—
Proceeds from residential lease financing	8,247	—
Repayment of bank loans and other debt	(101,132)	(226,136)
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	34	3,926
Purchases of stock for tax withholding obligations on vested restricted stock	(5,204)	(9,396)
Net cash used in financing activities	(172,485)	(42,385)
Effect of exchange rate changes on cash and cash equivalents	(2,454)	6,500
Net decrease in cash and cash equivalents	(359,368)	(359,630)
Cash and cash equivalents at beginning of period	725,618	605,420
Cash and cash equivalents, end of period	$366,250	$245,790
Non-cash transactions:		
Assignment of residential lease receivables to a third party financial institution	$2,523	$—
Property, plant and equipment acquisitions funded by liabilities	12,124	6,494
Non-cash interest expense capitalized and added to the cost of qualified assets	750	1,294
Issuance of warrants in connection with the Liquidity Support Agreement	50,327	—

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

6

Table of Contents

Note 1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

SunPower Corporation (together with its subsidiaries, the "Company" or "SunPower") is a vertically integrated solar products and services company that designs, manufactures and delivers high-performance solar electric systems worldwide for residential, commercial, and utility-scale power plant customers.

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

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

On June 21, 2011, the Company became a majority owned subsidiary of Total Gas & Power USA, SAS, a French société par actions simplifiée ("Total"), a subsidiary of Total S.A., a French société anonyme ("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 accumulated deficit.

Fiscal Years

The Company reports on a fiscal-year basis and ends its quarters on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year, in which case the additional week falls into the fourth quarter of that fiscal year. Both fiscal 2012 and 2011 consist of 52 weeks. The second quarter of fiscal 2012 ended on July 1, 2012, while the second quarter in fiscal 2011 ended on July 3, 2011.

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, goodwill, valuations for business combinations, other intangible assets and other long-term assets, asset impairments, fair value of financial instruments, certain accrued liabilities including accrued warranty, restructuring, and termination of supply contracts reserves, valuation of debt without the conversion feature, valuation of share lending arrangements, income taxes, and tax valuation allowances. Actual results could materially differ from those estimates.

Summary of Significant Accounting Policies

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

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

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

There have been no significant changes in the Company's significant accounting policies for the three and six months ended July 1, 2012, as compared to the significant accounting policies described in the Annual Report on Form 10-K for the fiscal year ended January 1, 2012 ("2011 Form 10-K"). Further, there has been no issued accounting guidance not yet adopted by the Company that it believes is material, or is potentially material to its condensed consolidated financial statements.

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

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

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

Table of Contents

share, thereby increasing Total's ownership to approximately 66% of the Company's outstanding common stock as of that date. The sale was completed contemporaneously with the closing of the Tenesol acquisition.

Credit Support Agreement

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

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

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

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

Affiliation Agreement

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

Table of Contents

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 reduced as set forth in the Affiliation Agreement.

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

Affiliation Agreement Guaranty

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

Research & Collaboration Agreement

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

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

Registration Rights Agreement

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

Stockholder Rights Plan

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

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

Table of Contents

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 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. The Liquidity Support Facility is available until the completion of the solar park, expected to be operational in 2013 and completed before the end of fiscal 2014, and, under certain conditions, up to December 31, 2016, at which time all outstanding guarantees will expire and all outstanding debt under the facility will become due. 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 an amount 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, because “any person” becoming such “beneficial owner” would trigger the repurchase or conversion of the Company's existing convertible debt. On February 28, 2012, the Company issued to Total the Upfront

Table of Contents

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 follow: (i) quarterly payment of a commitment fee in an amount equal to 0.25% of the unused portion of the $600.0 million Liquidity Support Facility as of the end of such quarter; and (ii) quarterly payment of a guarantee fee in an amount equal to 2.75% per annum of the average amount of the Company's indebtedness that is guaranteed by Total S.A. pursuant to any guaranty issued in accordance with the terms of the Compensation and Funding Agreement during such quarter. Any payment obligations of the Company to Total S.A. under the Compensation and Funding Agreement that are not paid when due shall accrue interest until paid in full at a rate equal to 6-month U.S. LIBOR as in effect from time to time plus 5.00% per annum. In the three and six months ended July 1, 2012, the Company incurred commitment fees of $1.5 million and $2.1 million, respectively, to Total S.A.

The Liquidity Support Agreement, the Compensation and Funding Agreement, the Private Placement Agreement, and the Revolving Credit and Convertible Loan Agreement are further described in the fiscal 2011 Form 10-K.

Note 3. TRANSFER OF ENTITIES UNDER COMMON CONTROL

Tenesol

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

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

Table of Contents

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

	As of January 1, 2012	
	As Adjusted for the Change in Reporting Entity	As Previously Reported in the 2011 Annual Report on Form 10-K
Assets		
Current assets:		
Cash and cash equivalents	$725,618	$657,934
Restricted cash and cash equivalents, current portion	52,279	52,279
Accounts receivable, net	438,633	390,262
Costs and estimated earnings in excess of billings	54,854	54,854
Inventories	445,501	397,262
Advances to suppliers, current portion	43,143	43,143
Project assets - plants and land, current portion	24,243	24,243
Prepaid expenses and other current assets	502,879	482,691
Total current assets	2,287,150	2,102,668
Restricted cash and cash equivalents, net of current portion	27,276	27,276
Restricted long-term marketable securities	9,145	9,145
Property, plant and equipment, net	628,769	607,456
Project assets - plants and land, net of current portion	34,614	34,614
Goodwill	47,077	35,990
Other intangible assets, net	23,900	4,848
Advances to suppliers, net of current portion	284,378	278,996
Other long-term assets	176,821	174,204
Total assets	$3,519,130	$3,275,197
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$441,655	$416,615
Accrued liabilities	249,404	234,688
Billings in excess of costs and estimated earnings	170,828	170,828
Short-term debt	2,122	—
Convertible debt, current portion	196,710	196,710
Customer advances, current portion	48,073	46,139
Total current liabilities	1,108,792	1,064,980
Long-term debt	364,273	355,000
Convertible debt, net of current portion	423,268	423,268
Customer advances, net of current portion	181,946	181,947
Other long-term liabilities	166,126	152,492
Total liabilities	2,244,405	2,177,687

Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of January 1, 2012	—	—
Common stock, $0.001 par value, 367,500,000 shares authorized; 101,851,290 shares issued, and 100,475,533 shares outstanding as of January 1, 2012	100	100
Additional paid-in capital	1,845,964	1,657,474
Accumulated deficit	(550,064)	(540,187)
Accumulated other comprehensive income	7,142	8,540
Treasury stock, at cost; 1,375,757 shares of common stock as of January 1, 2012	(28,417)	(28,417)
Total stockholders' equity	1,274,725	1,097,510
Total liabilities and stockholders' equity	$3,519,130	$3,275,197

13

Table of Contents

	Year Ended January 1, 2012	
	As Adjusted for the Change in Reporting Entity	As Previously Reported in the 2011 Annual Report on Form 10-K
Revenue	$2,374,376	$2,312,494
Cost of revenue	2,148,157	2,084,290
Gross margin	226,219	228,204
Operating expenses:		
Research and development	57,775	57,775
Sales, general and administrative	331,380	319,719
Goodwill impairment	309,457	309,457
Other intangible asset impairment	40,301	40,301
Restructuring charges	21,403	21,403
Total operating expenses	760,316	748,655
Operating loss	(534,098)	(520,451)
Other expense, net:		
Interest income	2,337	2,054
Interest expense	(67,253)	(67,022)
Gain on change in equity interest in unconsolidated investee	322	322
Gain on sale of equity interest in unconsolidated investee	5,937	5,937
Gain on mark-to-market derivatives	343	343
Other, net	(10,120)	(8,946)
Other expense, net	(68,434)	(67,312)
Loss before income taxes and equity in earnings of unconsolidated investees	(602,532)	(587,763)
Provision for income taxes	(17,208)	(22,099)
Equity in losses of unconsolidated investees	6,003	6,003
Net loss	$(613,737)	$(603,859)
Net loss per share of common stock:		
Basic and diluted	$(6.28)	$(6.18)
Weighted-average shares:		
Basic and diluted	97,724	97,724

Note 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

(In thousands)	Americas	EMEA	APAC	Total
As of January 1, 2012 (1)	$35,990	$11,087	$—	$47,077
Translation adjustment	—	(198)	—	(198)
As of July 1, 2012	$35,990	$10,889	$—	$46,879

Table of Contents

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

Intangible Assets

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

(In thousands)	Gross	Accumulated Amortization	Net
As of July 1, 2012			
Patents, trade names and purchased technology	$52,937	$(51,034)	$1,903
Purchased in-process research and development	1,000	(278)	722
Customer relationships and other	44,794	(29,996)	14,798
	$98,731	$(81,308)	$17,423
As of January 1, 2012 (1)			
Patents, trade names and purchased technology	$52,992	$(50,280)	$2,712
Purchased in-process research and development	1,000	(195)	805
Customer relationships and other	45,910	(25,527)	20,383
	$99,902	$(76,002)	$23,900

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

As of July 1, 2012, the estimated future amortization expense related to other intangible assets is as follows:

(In thousands)	Amount
Year	
2012 (remaining six months)	$5,032
2013	5,327
2014	3,890
2015	2,978
2016	196
	$17,423

Table of Contents

Note 5. BALANCE SHEET COMPONENTS

(In thousands)	As of July 1, 2012	January 1, 2012
Accounts receivable, net:		
Accounts receivable, gross	$296,934	$468,320
Less: allowance for doubtful accounts	(20,052)	(21,039)
Less: allowance for sales returns	(3,910)	(8,648)
	$272,972	$438,633
Inventories:		
Raw materials	$77,000	$78,050
Work-in-process	105,271	79,397
Finished goods	267,679	288,054
	$449,950	$445,501
Prepaid expenses and other current assets:		
VAT receivables, current portion	$98,096	$68,993
Foreign currency derivatives	13,095	34,422
Income tax receivable	3,647	19,541
Deferred project costs	324,378	183,789
Other current assets	24,985	20,006
Other receivables (1)	98,258	146,135
Other prepaid expenses	33,799	29,993
	$596,258	$502,879

(1) 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 8 and 9).

Project assets - plants and land:		
Project assets — plants	$61,850	$31,469
Project assets — land	36,702	27,388
	$98,552	$58,857
Project assets - plants and land, current portion	$82,929	$24,243
Project assets - plants and land, net of current portion	$15,623	$34,614
Property, plant and equipment, net:		
Land and buildings	$18,979	$13,912
Leasehold improvements	219,882	244,913
Manufacturing equipment (2)	557,770	625,019
Computer equipment	73,010	69,694
Solar power systems	97,274	18,631
Furniture and fixtures	7,270	7,172
Construction-in-process	39,843	46,762
	1,014,028	1,026,103
Less: accumulated depreciation (3)	(363,748)	(397,334)
	$650,280	$628,769

(2) The Company's mortgage loan agreement with International Finance Corporation ("IFC") is collateralized by certain manufacturing equipment with a net book value of $176.9 million and $196.6 million as of July 1, 2012 and January 1, 2012, respectively. The Company also provided security for advance payments received from a third party in fiscal 2008 in the form of collateralized manufacturing equipment with a net book value of $18.6 million

and $21.1 million as of July 1, 2012 and January 1, 2012, respectively.

Table of Contents

(3) Total depreciation expense was $29.3 million and $58.4 million for the three and six months ended July 1, 2012, respectively and $28.0 million and $53.7 million for the three and six months ended July 3, 2011, respectively.

	As of	
(In thousands)	July 1, 2012	January 1, 2012
Property, plant and equipment, net by geography (4):		
Philippines	$410,099	$490,074
United States	176,208	93,436
Mexico	32,065	21,686
Europe	29,440	20,830
Other	2,468	2,743
	$650,280	$628,769

(4) 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 July 1, 2012 and July 3, 2011, respectively.

	Three Months Ended		Six Months Ended	
(In thousands)	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Interest expense:				
Interest cost incurred	$(20,356)	$(17,652)	$(39,987)	$(34,103)
Cash interest cost capitalized - property, plant and equipment	299	555	587	885
Non-cash interest cost capitalized - property, plant and equipment	169	472	302	721
Cash interest cost capitalized - project assets - plant and land	271	242	549	606
Non-cash interest cost capitalized - project assets - plant and land	217	324	448	573
Interest expense	$(19,400)	$(16,059)	$(38,101)	$(31,318)

	As of	
(In thousands)	July 1, 2012	January 1, 2012
Other long-term assets:		
Investments in joint ventures	$106,702	$129,929
Bond hedge derivative	2,467	840
Investments in non-public companies	14,918	4,918
VAT receivables, net of current portion	—	6,020
Long-term debt issuance costs	54,846	10,734
Other	56,236	24,380
	$235,169	$176,821

Table of Contents

	As of	
(In thousands)	July 1, 2012	January 1, 2012
Accrued liabilities:		
VAT payables	$4,344	$47,034
Foreign currency derivatives	2,770	14,935
Short-term warranty reserves	12,085	15,034
Interest payable	8,406	7,288
Deferred revenue	14,514	48,115
Employee compensation and employee benefits	31,670	35,375
Other	93,053	81,623
	$166,842	$249,404
Other long-term liabilities:		
Embedded conversion option derivatives	$2,467	$844
Long-term warranty reserves	92,354	79,289
Unrecognized tax benefits	32,043	29,256
Other	98,772	56,737
	$225,636	$166,126
Accumulated other comprehensive income (loss):		
Cumulative translation adjustment	$(3,310)	$(1,360)
Net unrealized gain on derivatives	2,346	10,473
Deferred taxes	(445)	(1,971)
	$(1,409)	$7,142

Note 6. INVESTMENTS

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.

The Company's investments in money market funds, classified as available-for-sale, are carried at fair value. Debt securities that are classified as held-to-maturity are carried at amortized costs. Information about the Company's convertible debenture derivatives measured at fair value on a recurring basis is disclosed in Note 10. Information about the Company's foreign currency derivatives measured at fair value on a recurring basis is disclosed in Note 11. The Company did not have any nonfinancial assets or liabilities that were recognized or disclosed at fair value on a recurring basis in its consolidated financial statements.

Money Market Funds

All of the Company's money market fund instruments are classified as available-for-sale and within Level 1 of the fair value hierarchy because they are valued using quoted prices for identical instruments in active markets. As of July 1, 2012 and January 1, 2012, the Company's investments in money market funds totaled $165.0 million and $187.5

million, respectively, and are classified as "Cash and cash equivalents" on the Company's Condensed Consolidated Balance Sheets. There were no transfers between Level 1, Level 2, and Level 3 measurements during the three and six months ended July 1, 2012 and July 3, 2011.

Debt Securities

Investments in debt securities classified as held-to-maturity as of July 1, 2012 and January 1, 2012, consist of Philippine government bonds purchased in the third quarter of fiscal 2011 which are maintained as collateral for present and future business transactions within the country. These bonds have maturity dates of up to 5 years with a carrying value of $9.4 million as of July 1, 2012 and $9.1 million as of January 1, 2012, which are classified as "Restricted long-term marketable securities" on the Company's Condensed Consolidated Balance Sheets. The Company records such held-to-maturity investments at amortized cost based on its ability and intent to hold the securities until maturity. The Company monitors for changes in circumstances and events which would impact its ability and intent to hold such securities until the recorded amortized cost is recovered. The Company incurred no other-than-temporary impairment loss in the three and six months ended July 1, 2012.

Minority Investments in Joint Ventures and Other Non-Public Companies

The Company holds minority investments in joint ventures and other non-public companies comprised of convertible promissory notes, common and preferred stock. The Company monitors these minority investments for impairment, which are included in "Other long-term assets" in its Condensed Consolidated Balance Sheets, and records reductions in the carrying values when necessary. Circumstances that indicate an other-than-temporary decline include the valuation ascribed to the issuing company in subsequent financing rounds, decreases in quoted market prices, and declines in operations of the issuer. As of July 1, 2012 and January 1, 2012, the Company had $106.7 million and $129.9 million, respectively, in investments in joint ventures accounted for under the equity method and $14.9 million and $4.9 million, respectively, in investments accounted for under the cost method (see Note 9).

Note 7. RESTRUCTURING

April 2012 Restructuring Plan

As a result of the Company's continued cost reduction progress at its Fab 2 and its joint venture Fab 3 manufacturing facilities, on April 13, 2012, the Company's Board of Directors approved a restructuring plan (the "April 2012 Plan") to consolidate the Company's Philippine manufacturing operations into Fab 2 and begin repurposing Fab 1 in the second quarter of 2012. The Company expects to recognize restructuring charges up to $69.0 million, related to all segments, in the twelve months following the approval and implementation of the April 2012 Plan. Total restructuring charges are expected to primarily be composed of non-cash charges of up to $54.0 million, and other cash-based associated costs of up to $15.0 million, for the closure of Fab 1.

Restructuring charges recognized in connection with the April 2012 Plan during both the three and six months ended July 1, 2012 in the Company's Condensed Consolidated Statements of Operations totaled $44.6 million, which consisted of $43.4 million of non-cash impairment charges and $1.2 million of other cash-based charges primarily associated with the decommissioning of Fab 1 assets. As of July 1, 2012, $0.3 million associated with the April 2012 Plan was recorded in "Accrued liabilities" on the Company's Condensed Consolidated Balance Sheet.

December 2011 Restructuring Plan

To accelerate operating cost reduction and improve overall operating efficiency, in December 2011, the Company implemented a company-wide restructuring program (the "December 2011 Plan"). The December 2011 Plan eliminated approximately 2% of the Company's global workforce. The Company expects to recognize restructuring charges up to $17.0 million, related to all segments, in the twelve months following the approval and implementation of the December 2011 Plan. The Company expects greater than 80% of these charges to be cash.

The cumulative amount of restructuring charges recognized in connection with the December 2011 Plan to date totals $13.5 million and consists of $8.9 million of employee severance and benefits and accelerated vesting of previously granted restricted stock units, $4.1 million of lease and related termination costs, and $0.5 million of legal and other related charges. Restructuring charges recognized in connection with the December 2011 Plan during the three and six months ended July 1, 2012 in the Company's Condensed Consolidated Statements of Operations totaled $3.1 million and $6.0 million, respectively, which consisted of $0.6 million and $1.6 million, respectively, of employee severance and benefits, $2.3 million and $4.1 million, respectively, of lease and related termination costs, and $0.2 million and $0.3 million, respectively, of legal and other related charges. As of July 1, 2012, $4.6 million associated with the December 2011 Plan was recorded in "Accrued liabilities" on the Company's Condensed Consolidated Balance Sheet.

June 2011 Restructuring Plan

In response to reductions in European government incentives, which had a significant impact on the global solar market,

Table of Contents

on June 13, 2011, the Company's Board of Directors approved a restructuring plan (the "June 2011 Plan") to realign the Company's resources. The June 2011 Plan eliminated approximately 2% of the Company's global workforce, in addition to the consolidation or closure of certain facilities in Europe. Restructuring activities associated with the June 2011 Plan were substantially completed as of July 1, 2012.

The cumulative amount of restructuring charges recognized in connection with to the June 2011 Plan to date totals $14.0 million related to the EMEA Segment and consists of $11.0 million of employee severance, benefits and accelerated vesting of promissory notes, $0.9 million of lease and related termination costs, and $2.0 million of legal and other related charges. In connection with the June 2011 Plan during the three and six months ended July 1, 2012 the Company recognized restructuring charges of zero and $0.1 million, respectively, in the Company's Condensed Consolidated Statements of Operations which consisted of net benefits totaling $0.1 million and $0.2 million, respectively, of employee severance and benefits, net charges of $0.3 million, in both periods respectively, of lease and related termination costs, and net benefits of $0.2 million and zero, respectively, of legal and other related charges. Restructuring charges recognized in connection with the June 2011 Plan during both the three and six months ended July 3, 2011 totaled $13.3 million in the Company's Condensed Consolidated Statements of Operations, which consisted of $12.3 million of employee severance, benefits and accelerated vesting of promissory notes, $0.7 million of lease and related termination costs, and $0.3 million of legal and other related charges.

As of July 1, 2012, $0.8 million associated with the June 2011 Plan was recorded in "Accrued liabilities" on the Company's Condensed Consolidated Balance Sheet.

The following table summarizes the restructuring reserve activity during the six months ended July 1, 2012:

	Six Months Ended			
(In thousands)	January 1, 2012	Charges (Benefits)	Payments	July 1, 2012
April 2012 Plan:				
Other costs (1) (2)	$—	$1,166	$(878)	$288
December 2011 Plan:				
Severance and benefits	3,344	1,615	(4,243)	716
Lease and related termination costs	—	4,073	(270)	3,803
Other costs (2)	24	299	(208)	115
June 2011 Plan:				
Severance and benefits (3)	2,204	(160)	(2,044)	—
Lease and related termination costs	688	257	(157)	788
Other costs (2)	64	(11)	(53)	—
Total restructuring liabilities	$6,324	$7,239	$(7,853)	$5,710

(1) The April 2012 Plan includes non-cash impairment charges of $43.4 million recognized in connection with the April 2012 Plan during the three and six months ended July 1, 2012 are excluded from the above table.

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

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

Note 8. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases its corporate headquarters in San Jose, California and its Richmond, California facility under non-cancellable operating leases from unaffiliated third parties. The Company also has various other lease arrangements, including its European headquarters located in Geneva, Switzerland as well as sales and support offices throughout the United States and

Table of Contents

Europe. In August 2011, the Company entered into a non-cancellable operating lease agreement for its solar module facility in Mexicali, Mexico from an unaffiliated third party.

In fiscal 2009, the Company signed a commercial project financing agreement with Wells Fargo to fund up to $100 million of commercial-scale solar power system projects through December 31, 2010. On July 16, 2011, the Company and Wells Fargo amended the agreement to extend through June 30, 2012. As of July 1, 2012, the Company leases seven solar power systems from Wells Fargo over minimum lease terms of up to 20 years that it had previously sold to Wells Fargo, of which three of these sales occurred during fiscal 2011. Separately, the Company entered into power purchase agreements ("PPAs") with end customers, who host the leased solar power systems and buy the electricity directly from the Company under PPAs with a duration of up to 20 years. At the end of each lease term, the Company has the option to purchase the systems at fair value or remove the systems. The deferred profit on the sale of the systems to Wells Fargo is recognized over the minimum term of the lease. In the fourth quarter of fiscal 2011, the Company also entered into similar lease arrangements with an unaffiliated third party whereby it leases solar power systems over minimum lease terms of up to 15 years that it previously sold to such third party.

The Company additionally leases certain buildings, machinery and equipment under capital leases for terms up to 12 years. Future minimum obligations under all non-cancellable leases as of July 1, 2012 are as follows:

(In thousands)	Capital Lease Amount	Operating Lease Amount
Year		
2012 (remaining six months)	$1,038	$8,445
2013	1,782	15,709
2014	1,260	13,239
2015	1,068	12,143
2016	949	11,486
Thereafter	3,336	57,017
	$9,433	$118,039

Purchase Commitments

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

The Company also has agreements with several suppliers, including some of its non-consolidated joint ventures, for the procurement of polysilicon, ingots, wafers, solar cells, solar panels, and Solar Renewable Energy Credits ("SRECs") which specify future quantities and pricing of products to be supplied by the vendors for periods up to 10 years and provide for certain consequences, such as forfeiture of advanced deposits and liquidated damages relating to previous purchases, in the event that the Company terminates the arrangements. Where pricing is specified for future periods, with two of our ingot/wafer suppliers, the Company may reduce its purchase commitment under the contract if the Company obtains a bona fide third party offer at a price that is a certain percentage lower than the applicable purchase price in the existing contract. With one wafer supplier, the Company may reduce its purchase commitments under the contract if the supplier's pricing is higher than at least three other wafer suppliers for three quarters. If market prices decrease, the Company intends to use such provisions to either move its purchasing to another supplier or to seek to force the initial supplier to reduce its price to remain competitive with market pricing. These three contracts constitute approximately 5% of the aggregate purchase commitments shown.

As of July 1, 2012, total obligations related to non-cancellable purchase orders totaled $0.2 billion and long-term supply agreements with suppliers totaled $2.6 billion. Of the total future purchase commitments of $2.8 billion as of July 1, 2012, $115.4 million are for commitments to non-consolidated joint ventures. Future purchase obligations under non-cancellable purchase orders and long-term supply agreements as of July 1, 2012 are as follows:

Table of Contents

(In thousands)	Amount
Year	
2012 (remaining six months)	$643,823
2013	327,259
2014	444,778
2015	376,855
2016	324,996
Thereafter	711,116
	$2,828,827

The Company has tolling agreements with suppliers in which the Company provides polysilicon required for silicon ingot manufacturing and procures the manufactured silicon ingots from the supplier. Annual future purchase commitments in the table above are calculated using the gross future purchase obligations of the Company and are not reduced by tolling agreements and non-cancellable SREC sales arrangements. Total future purchase commitments as of July 1, 2012 would be reduced by $45.6 million had the Company's obligations under such agreements been disclosed using net cash outflows.

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

Advances to Suppliers

As noted above, the Company has entered into agreements with various polysilicon, ingot, wafer, solar cell, and solar panel vendors that specify future quantities and pricing of products to be supplied by the vendors for periods up to 10 years. Certain agreements also provide for penalties or forfeiture of advanced deposits in the event the Company terminates the arrangements. Under certain agreements, the Company is required to make prepayments to the vendors over the terms of the arrangements. During the three and six months ended July 1, 2012, the Company paid advances totaling $17.2 million and $27.2 million, respectively, in accordance with the terms of existing long-term supply agreements. As of July 1, 2012 and January 1, 2012, advances to suppliers totaled $345.8 million and $327.5 million, respectively, the current portion of which is $73.8 million and $43.1 million, respectively. Two suppliers accounted for 75% and 23% of total advances to suppliers as of July 1, 2012, and 74% and 20% as of January 1, 2012.

The Company's future prepayment obligations related to these agreements as of July 1, 2012 are as follows:

(In thousands)	Amount
Year	
2012 (remaining six months)	$53,353
2013	58,438
2014	51,489
	$163,280

Product Warranties

The Company generally warrants or guarantees the performance of the solar panels that it manufactures at certain levels of power output for 25 years. In addition, the Company passes through to customers long-term warranties from OEMs of certain system components, such as inverters. Warranties of 25 years from solar panels suppliers are standard in the solar industry, while inverters typically carry warranty periods ranging from 5 to 10 years. In addition, the Company generally

Table of Contents

warrants its workmanship on installed systems for periods ranging up to 10 years. The Company maintains reserves to cover the expected costs that could result from these warranties. The Company's expected costs are generally in the form of product replacement or repair. Warranty reserves are based on the Company's best estimate of such costs and are recognized as a cost of revenue. The Company continuously monitors product returns for warranty failures and maintains a reserve for the related warranty expenses based on various factors including historical warranty claims, results of accelerated lab testing, field monitoring, vendor reliability estimates, and data on industry averages for similar products. Historically, warranty costs have been within management's expectations.

Provisions for warranty reserves charged to cost of revenue were $3.9 million and $13.3 million in the three and six months ended July 1, 2012, respectively, and $10.6 million and $18.4 million in the three and six months ended July 3, 2011, respectively:

	Three Months Ended		Six Months Ended	
(In thousands)	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Balance at the beginning of the period (1)	$102,839	$70,119	$94,323	$63,562
Accruals for warranties issued during the period	3,857	10,629	13,305	18,368
Settlements made during the period	(2,257)	(1,487)	(3,189)	(2,669)
Balance at the end of the period	$104,439	$79,261	$104,439	$79,261

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

Contingent Obligations

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

Future Financing Commitments

The Company is required to provide certain fundings under the joint venture agreement with AU Optronics Singapore Pte. Ltd. ("AUO") and another financing agreement with a third party, subject to certain conditions (see Note 9).

The Company's future financing obligations related to these agreements as of July 1, 2012 are as follows:

(In thousands)	Amount
Year	
2012 (remaining six months)	$47,770
2013	101,400
2014	96,770
	$245,940

Liabilities Associated with Uncertain Tax Positions

Total liabilities associated with uncertain tax positions were $32.0 million and $29.3 million as of July 1, 2012 and January 1, 2012, respectively, and are included in "Other long-term liabilities" in the Company's Condensed Consolidated Balance Sheets as they are not expected to be paid within the next twelve months. Due to the complexity and uncertainty associated with its tax positions, the Company cannot make a reasonably reliable estimate of the period in which cash settlement, if any, would be made for its liabilities associated with uncertain tax positions in other long-term liabilities (see Note 12).

Indemnifications

Table of Contents

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

Legal Matters

Three securities class action lawsuits were filed against the Company and certain of its current and former officers and directors in the United States District Court for the Northern District of California on behalf of a class consisting of those who acquired the Company's securities from April 17, 2008 through November 16, 2009. The cases were consolidated as In re SunPower Securities Litigation, Case No. CV-09-5473-RS (N.D. Cal.), and lead plaintiffs and lead counsel were appointed on March 5, 2010. Lead plaintiffs filed a consolidated complaint on May 28, 2010. The actions arise from the Audit Committee's investigation announcement on November 16, 2009 regarding certain unsubstantiated accounting entries. The consolidated complaint alleges that the defendants made material misstatements and omissions concerning the Company's financial results for 2008 and 2009, seeks an unspecified amount of damages, and alleges violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and sections 11 and 15 of the Securities Act of 1933. The Company believes it has meritorious defenses to these allegations and will vigorously defend itself in these matters. The court held a hearing on the defendants' motions to dismiss the consolidated complaint on November 4, 2010. The court dismissed the consolidated complaint with leave to amend on March 1, 2011. An amended complaint was filed on April 18, 2011. The amended complaint added two former employees as defendants. Defendants filed motions to dismiss the amended complaint on May 23, 2011. The motions to dismiss the amended complaint were heard by the court on August 11, 2011. On December 19, 2011, the court granted in part and denied in part the motions to dismiss, dismissing the claims brought pursuant to sections 11 and 15 of the Securities Act of 1933 and the claims brought against the two newly added former employees. The Company is currently unable to determine if the resolution of these matters will have an adverse effect on the Company's financial position, liquidity or results of operations.

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

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

Note 9. JOINT VENTURES

Table of Contents

The Company accounts for its equity investments in the below joint ventures under the equity method of accounting as it has the ability to exercise significant influence, but does not own a majority equity interest or otherwise control. As of July 1, 2012 and January 1, 2012, the Company's carrying value of its equity method investments totaled $106.7 million and $129.9 million, respectively, and is classified as “Other long-term assets” in its Condensed Consolidated Balance Sheets. The Company's share of the investees' results totaled earnings of $1.1 million and losses of $2.4 million in the three and six months ended July 1, 2012, respectively, and losses of $0.2 million and earnings of $7.0 million in the three and six months ended July 3, 2011, respectively, which are included in “Equity in earnings (loss) of unconsolidated investees” in its Condensed Consolidated Statements of Operations.

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

The Company recorded a non-cash gain of $0.3 million during the second quarter of fiscal 2011 in "Gain on change in equity interest in unconsolidated investee" in the Company's Condensed Consolidated Statement of Operations due to its equity interest in one investee being diluted as a result of the issuance of additional equity to other investors.

Related Party Transactions with Equity Method Investees:

	As of	
(In thousands)	July 1, 2012	January 1, 2012
Accounts receivable	$30,010	$74,396
Accounts payable	62,422	109,700

	Three Months Ended		Six Months Ended	
(In thousands)	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Payments made to joint ventures for products/services	$149,279	$78,809	$329,267	$135,126

Joint Venture with AUOSP

The Company, through its subsidiary SunPower Technology, Ltd. ("SPTL") formed the joint venture AUOSP with AUO and AU Optronics Corporation, the ultimate parent company of AUO ("AUO Taiwan") in the third quarter of fiscal 2010. The Company and AUO each own 50% of the joint venture AUOSP. AUOSP owns a solar cell manufacturing facility ("FAB 3") in Malaysia and manufactures solar cells and sells them on a "cost-plus" basis to the Company and AUO.

In connection with the joint venture agreement, the Company and AUO also entered into licensing and joint development, supply, and other ancillary transaction agreements. Through the licensing agreement, SPTL and AUO licensed to AUOSP, on a non-exclusive, royalty-free basis, certain background intellectual property related to solar cell manufacturing (in the case of SPTL), and manufacturing processes (in the case of AUO). Under the seven-year supply agreement with AUOSP, renewable by the Company for one-year periods thereafter, the percentage of AUOSP's total annual output allocated on a monthly basis to the Company, which the Company is committed to purchase, ranges from 95% in the fourth quarter of fiscal 2010 to 80% in fiscal year 2013 and thereafter. The Company and AUO have the right to reallocate supplies from time to time under a written agreement. As required under the joint venture agreement, in fiscal 2010, the Company and AUOSP entered into an agreement under which the Company will resell to AUOSP polysilicon purchased from a third-party supplier and AUOSP will provide prepayments to the Company related to such polysilicon, which prepayment will then be made by the Company to the third-party supplier.

The Company and AUO are not permitted to transfer any of AUOSP's shares held by them, except to each other and to their direct or indirect wholly-owned subsidiaries. The Company and AUO will each contribute additional amounts through 2014 amounting to $241.0 million, or such lesser amount as the parties may mutually agree. In addition, if AUOSP, SPTL or AUO requests additional equity financing to AUOSP, then SPTL and AUO will each be required to make additional cash contributions of up to $50.0 million in the aggregate (See Note 8).

The Company has concluded that it is not the primary beneficiary of AUOSP since, although the Company and AUO are

Table of Contents

both obligated to absorb losses or have the right to receive benefits, the Company alone does not have the power to direct the activities of AUOSP that most significantly impact its economic performance. In making this determination the Company considered the shared power arrangement, including equal board governance for significant decisions, elective appointment, and the fact that both parties contribute to the activities that most significantly impact the joint venture's economic performance. The Company accounts for its investment in AUOSP using the equity method as a result of the shared power arrangement. As of July 1, 2012, the Company's maximum exposure to loss as a result of its involvement with AUOSP is limited to the carrying value of its investment.

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

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

The Company has concluded that it is not the primary beneficiary of First Philec Solar since, although the Company and First Philec are both obligated to absorb losses or have the right to receive benefits from First Philec Solar, such variable interests held by the Company do not empower it to direct the activities that most significantly impact First Philec Solar's economic performance. In reaching this determination, the Company considered the significant control exercised by First Philec over the joint venture's Board of Directors, management and daily operations. The Company accounts for its investment in First Philec Solar using the equity method since the Company is able to exercise significant influence over First Philec Solar due to its board positions.

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

The Company and Woongjin Holdings Co., Ltd. ("Woongjin") formed Woongjin Energy in fiscal 2006, a joint venture to manufacture monocrystalline silicon ingots in Korea. The Company supplies polysilicon, services, and technical support required for silicon ingot manufacturing to Woongjin Energy. Once manufactured, the Company purchases the silicon ingots from Woongjin Energy under a nine-year agreement through 2016. There is no obligation or expectation for the Company to provide additional funding to Woongjin Energy.

On June 30, 2010, Woongjin Energy completed its initial public offering ("IPO") and the sale of 15.9 million new shares of common stock. As a result of the completion of the IPO, the Company concluded that Woongjin Energy is no longer a variable interest entity ("VIE"). During the second half of fiscal 2011, the Company sold 15.5 million shares of Woongjin Energy on the open market subsequently reducing the Company's percentage equity ownership in Woongjin Energy from 31% to 6%. As of January 1, 2012, the Company held 3.9 million shares of Woongjin Energy. During the first quarter of fiscal 2012, the Company sold its remaining shares of Woongjin Energy on the open market for total proceeds, net of tax, amounting to $14.0 million, which equaled the remaining investment carrying balance. As a result, the Company's percentage equity ownership and investment carrying balance was reduced to zero. During the first quarter of fiscal 2012, the Company collected $3.4 million of net proceeds associated with fiscal 2011 sales, the balance of which was included in "Prepaid expenses and other current assets" on the Company's Condensed Consolidated Balance Sheet as of January 1, 2012 due to timing of cash settlement for trades executed near year end.

The Company accounted for its former investment in Woongjin Energy using the equity method as the Company was able to exercise significant influence over Woongjin Energy due to its board position and its consumption of a significant portion of their output.

Note 10. DEBT AND CREDIT SOURCES

The following table summarizes the Company's outstanding debt as of July 1, 2012 and the related maturity dates:

Table of Contents

(In thousands)	Face Value	Payments Due by Period 2012 (remaining six months)	2013	2014	2015	2016	Beyond 2016
Convertible debt:							
4.50% debentures	$250,000	$—	$—	$—	$250,000	$—	$—
4.75% debentures	230,000	—	—	230,000	—	—	—
0.75% debentures	79	—	—	—	79	—	—
IFC mortgage loan	75,000	—	12,500	15,000	15,000	15,000	17,500
CEDA loan	30,000	—	—	—	—	—	30,000
Credit Agricole revolving credit facility	275,000	—	275,000	—	—	—	—
Other debt (1) (2)	14,919	13,861	—	—	—	—	1,058
	$874,998	$13,861	$287,500	$245,000	$266,147	$15,000	$48,558

(1) As of July 1, 2012, Other debt included a non-recourse project loan of $13.9 million taken in the second quarter of fiscal 2012 for a utility and power plant project under construction, classified as "Short-term debt" and $1.1 million of project loans related to Tenesol, classified as "Long-term debt" on the Company's Condensed Consolidated Balance Sheets. On January 31, 2012, the Company completed its acquisition of Tenesol. In fiscal 2003 and fiscal 2008 Tenesol entered into three non-recourse project loans which are scheduled to mature through 2028. As of January 1, 2012 the other debt balance consisted of outstanding borrowings of $1.2 million which is classified as "Long-term debt" in the Company's Condensed Consolidated Balance Sheets.

(2) The balance of Other long-term debt excludes payments related to capital leases which are disclosed in Note 8. "Commitments and Contingencies" to these condensed consolidated financial statements.

Convertible Debt

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

(In thousands)	July 1, 2012 Carrying Value	Face Value	Fair Value (1)	January 1, 2012 Carrying Value	Face Value	Fair Value (1)
4.50% debentures	$200,554	$250,000	$207,803	$193,189	$250,000	$205,905
4.75% debentures	230,000	230,000	205,850	230,000	230,000	200,967
1.25% debentures (2)	—	—	—	196,710	198,608	197,615
0.75% debentures	79	79	79	79	79	79
	$430,633	$480,079	$413,732	$619,978	$678,687	$604,566

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

(2) On February 16, 2012, the Company repurchased 100% of the outstanding principal amount of the 1.25% debentures plus accrued and unpaid interest.

4.50% Debentures

On April 1, 2010, the Company issued $220.0 million in principal amount of its 4.50% senior cash convertible debentures ("4.50% debentures"). On April 5, 2010, the initial purchasers of the 4.50% debentures exercised the $30.0

million over-allotment option in full. Interest is payable semi-annually, on March 15 and September 15 of each year, at a rate of 4.50% per annum which commenced on September 15, 2010. The 4.50% debentures mature on March 15, 2015 unless repurchased or converted in accordance with their terms prior to such date. The 4.50% debentures are convertible only into cash, and not into shares of the Company's common stock (or any other securities).

Table of Contents

The embedded cash conversion option within the 4.50% debentures and the over-allotment option related to the 4.50% debentures are derivative instruments that are required to be separated from the 4.50% debentures and accounted for separately as derivative instruments (derivative liabilities) with changes in fair value reported in the Company's Condensed Consolidated Statements of Operations until such transactions settle or expire. The over-allotment option was settled on April 5, 2010, however, the embedded cash conversion option continues to require mark-to-market treatment. The initial fair value liabilities of the embedded cash conversion option and over-allotment option were classified within "Other long-term liabilities" and simultaneously reduced the carrying value of "Convertible debt, net of current portion" in the Company's Condensed Consolidated Balance Sheet.

During the three and six months ended July 1, 2012, the Company recognized a non-cash loss of $0.1 million and $1.7 million, respectively, recorded in "Gain (loss) on mark-to-market derivatives" in the Company's Condensed Consolidated Statement of Operations related to the change in fair value of the embedded cash conversion option. In the three and six months ended July 3, 2011, the Company recognized a non-cash loss of $9.7 million and $31.6 million, respectively, recorded in "Gain (loss) on mark-to-market derivatives" in the Company's Condensed Consolidated Statement of Operations related to the change in fair value of the embedded cash conversion option. The fair value liability of the embedded cash conversion option as of July 1, 2012 and January 1, 2012 totaled $2.5 million and $0.8 million, respectively, and is classified within "Other long-term liabilities" in the Company's Condensed Consolidated Balance Sheets.

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

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

	As of (1)			
	July 1, 2012		January 1, 2012	
Stock price	$4.80		$6.23	
Exercise price	$22.53		$22.53	
Interest rate	0.59	%	0.84	%
Stock volatility	59.60	%	44.00	%
Maturity date	February 18, 2015		February 18, 2015	

(1) The valuation model utilizes these inputs to value the right but not the obligation to purchase one share at $22.53. The Company utilized a Black-Scholes valuation model to value the 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 embedded conversion option.

(iii) Interest rate. The Treasury Strip rate associated with the life of the embedded conversion option.

(iv) Stock volatility. The volatility of the Company's common stock over the life of the embedded conversion option.

Call Spread Overlay with Respect to 4.50% Debentures ("CSO2015")

Concurrent with the issuance of the 4.50% debentures, the Company entered into privately negotiated convertible debenture hedge transactions (collectively, the "4.50% Bond Hedge") and warrant transactions (collectively, the "4.50% Warrants" and together with the 4.50% Bond Hedge, the “CSO2015”), with certain of the initial purchasers of the 4.50% cash convertible debentures or their affiliates. The CSO2015 transactions represent a call spread overlay with respect to the 4.50% debentures, whereby the cost of the 4.50% Bond Hedge purchased by the Company to cover the cash outlay upon conversion of the debentures is reduced by the sales prices of the 4.50% Warrants. Assuming full performance by the counterparties (and 4.50% Warrants strike prices in excess of the conversion price of the 4.50% debentures), the transactions effectively reduce the Company's potential payout over the principal amount on the 4.50% debentures upon conversion of the 4.50% debentures.

Under the terms of the 4.50% Bond Hedge, the Company bought from affiliates of certain of the initial purchasers options to acquire, at an exercise price of $22.53 per share, subject to customary adjustments for anti-dilution and other events, cash in an amount equal to the market value of up to 11.1 million shares of the Company's common stock. Under the terms of

Table of Contents

the original 4.50% Warrants, as amended and restated on December 23, 2010, the Company sold to affiliates of certain of the initial purchasers of the 4.50% cash convertible debentures warrants to acquire, at an exercise price of $27.03 per share, subject to customary adjustments for anti-dilution and other events, up to 11.1 million shares of the Company's common stock. Each 4.50% Bond Hedge and 4.50% Warrant transaction is a separate transaction, entered into by the Company with each counterparty, and is not part of the terms of the 4.50% debentures. According to the counterparties to the warrants, the consummation of the Total Tender Offer triggered their rights to make a downward adjustment to the strike price of the warrants. In the third quarter of fiscal 2011, the Company and the counter parties to the 4.50% Warrants agreed to reduce the exercise price of the 4.50% Warrants from $27.03 to $24.00.

The 4.50% Bond Hedge, which is indexed to the Company's common stock, is a derivative instrument that requires mark-to-market accounting treatment due to the cash settlement features until such transactions settle or expire. The initial fair value of the 4.50% Bond Hedge was classified as "Other long-term assets" in the Company's Condensed Consolidated Balance Sheets.

During the three and six months ended July 1, 2012, the Company recognized a non-cash gain of $0.1 million and $1.7 million, respectively, in "Gain (loss) on mark-to-market derivatives" in the Company's Condensed Consolidated Statement of Operations related to the change in fair value of the 4.50% Bond Hedge. In the three and six months ended July 3, 2011, the Company recognized a non-cash gain of $9.6 million and $31.5 million, respectively, in "Gain (loss) on mark-to-market derivatives" in the Company's Condensed Consolidated Statement of Operations related to the change in fair value of the 4.50% Bond Hedge. The fair value of the 4.50% Bond Hedge as of July 1, 2012 and January 1, 2012 totaled $2.5 million and $0.8 million, respectively, and is classified within "Other long-term assets" in the Company's Condensed Consolidated Balance Sheets.

The 4.50% Bond Hedge derivative instruments are fair valued utilizing Level 2 inputs consisting of the exercise price of the instruments, the Company's common stock price and volatility, the risk free interest rate and the contractual term. Such derivative instruments are not traded on an open market. Valuation techniques utilize the inputs described above in addition to liquidity and institutional credit risk inputs.

Significant inputs for the valuation of the 4.50% Bond Hedge are as follows:

	As of (1)			
	July 1, 2012		January 1, 2012	
Stock price	$4.80		$6.23	
Exercise price	$22.53		$22.53	
Interest rate	0.59	%	0.84	%
Stock volatility	59.60	%	44.00	%
Credit risk adjustment	2.06	%	1.93	%
Maturity date	February 18, 2015		February 18, 2015	

(1) The valuation model utilizes these inputs to value the right but not the obligation to purchase one share at $22.53 for the 4.50% Bond Hedge. The Company utilized a Black-Scholes valuation model to value the 4.50% Bond Hedge. 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.

(iii) Interest rate. The Treasury Strip rate associated with the life of the 4.50% Bond Hedge.

(iv) Stock volatility. The volatility of the Company's common stock over the life of the 4.50% Bond Hedge.

(v) Credit risk adjustment. Represents the weighted average of the credit default swap rate of the counterparties.

1.25% Debentures

In February 2007, the Company issued $200.0 million in principal amount of its 1.25% senior convertible debentures and received net proceeds of $194.0 million. During the fourth quarter of fiscal 2008, the Company received notices for the conversion of $1.4 million in principal amount of the 1.25% debentures which it settled for $1.2 million in cash and 1,000 shares of common stock. As of January 1, 2012, an aggregate principal amount of $198.6 million of the 1.25% debentures remained issued and outstanding. The 1.25% debentures had a maturity date of February 15, 2027 unless repurchased or converted in accordance with their terms prior to such date. Holders had the option to require the Company to repurchase all or a portion of their 1.25% debentures on each of February 15, 2012, February 15, 2017 and February 15, 2022, or if the Company experiences certain types of corporate transactions constituting a fundamental change, as defined in the indenture governing the 1.25% debentures. In addition, the Company could redeem some or all of the 1.25% debentures on or after February 15, 2012. Accordingly, the Company classified the 1.25% debentures as short-term liabilities in the Condensed Consolidated Balance Sheets as of January 1, 2012. On February 16, 2012, based upon the exercise of the holders' put rights, the Company repurchased $198.6 million in principal amount of the 1.25% debentures at a cash price of $199.8 million, representing 100% of the principal amount of the 1.25% debentures plus accrued and unpaid interest. None of the 1.25% debentures remained issued and outstanding after the repurchase.

Mortgage Loan Agreement with IFC

On May 6, 2010, SunPower Philippines Manufacturing Ltd. ("SPML") and SPML Land, Inc. ("SPML Land"), both subsidiaries of the Company, entered into a mortgage loan agreement with IFC. Under the loan agreement, SPML may borrow up to $75.0 million from IFC, after satisfying certain conditions to disbursement, and SPML and SPML Land pledged certain assets as collateral supporting SPML's repayment obligations. The Company guaranteed SPML's obligations to IFC.

Under the loan agreement, SPML may borrow up to $75.0 million during the first two years, and SPML shall repay the amount borrowed, starting 2 years after the date of borrowing, in 10 semiannual installments over the following 5 years. SPML shall pay interest of LIBOR plus 3% per annum on outstanding borrowings, and a front-end fee of 1% on the principal amount of borrowings at the time of borrowing, and a commitment fee of 0.5% per annum on funds available for borrowing and not borrowed. SPML may prepay all or a part of the outstanding principal, subject to a 1% prepayment premium. The loan agreement includes conditions to disbursements, representations, covenants, and events of default customary for financing transactions of this type. Covenants in the loan agreement include, but are not limited to, requirements that the Company maintain certain financial ratios including defined current ratios, restrictions on SPML's ability to issue dividends, incur indebtedness, create or incur liens on assets, and make loans to or investments in third parties. Additionally, in accordance with the terms of the mortgage loan agreement, the Company is required to establish a debt service reserve account which shall contain the amount, as determined by IFC, equal to the aggregate principal and interest due on the next succeeding interest payment date after such date. As of July 1, 2012 and January 1, 2012, the Company had restricted cash and cash equivalents of $1.4 million and $1.3 million, respectively, related to the IFC debt service reserve.

As of July 1, 2012, SPML had $75.0 million outstanding under the mortgage loan agreement, of which $5.0 million is classified as "Short-term debt" as it is due in the next twelve months and $70.0 million is classified as "Long-term debt" in the Company's Condensed Consolidated Balance Sheets. As of January 1, 2012, the $75.0 million outstanding under this loan agreement is classified as "Long-term debt" in the Company's Condensed Consolidated Balance Sheets.

August 2011 Letter of Credit Facility with Deutsche Bank

On August 9, 2011, the Company entered into a letter of credit facility agreement with Deutsche Bank, as issuing bank and as administrative agent, and certain financial institutions, which was amended on December 20, 2011. Payment of obligations under the letter of credit facility is guaranteed by Total S.A. pursuant to the Credit Support Agreement. The letter of credit facility provides for the issuance, upon request by the Company, of letters of credit by the issuing banks thereunder in order to support certain obligations of the Company, in an aggregate amount not to exceed (a) $725.0 million until December 31, 2012; and (b) $771.0 million for the period from January 1, 2013 through December 31, 2013. Aggregate letter of credit amounts may be increased upon the agreement of the parties but, otherwise, may not exceed (i) $878.0 million for the period from January 1, 2014 through December 31, 2014; (ii) $936.0 million for the period from January 1, 2015 through December 31, 2015; and (iii) $1.0 billion for the period from January 1, 2016 through June 28, 2016.

As of July 1, 2012, letters of credit issued under the August 2011 letter of credit facility with Deutsche Bank totaled $699.0 million.

September 2011 Letter of Credit Facility with Deutsche Bank Trust

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

As of July 1, 2012 letters of credit issued under the Deutsche Bank Trust facility amounted to $1.4 million which were fully collateralized with restricted cash on the Condensed Consolidated Balance Sheets.

September 2011 Revolving Credit Facility with Credit Agricole

On September 27, 2011, the Company entered into a revolving credit agreement with Credit Agricole, as administrative agent, and certain financial institutions, under which the Company may borrow up to $275.0 million until September 27, 2013. Amounts borrowed may be repaid and reborrowed until September 27, 2013.

The Company is required to pay interest on outstanding borrowings of (a) with respect to any LIBOR loan, 1.5% plus the LIBOR divided by a percentage equal to one minus the stated maximum rate of all reserves required to be maintained against "Eurocurrency liabilities" as specified in Regulation D; (b) with respect to any alternative base loan, 0.5% plus the greater of (1) the prime rate, (2) the Federal Funds rate plus 0.5%, and (3) the one month LIBOR plus 1%; (c) a commitment fee equal to 0.25% per annum on funds available for borrowing and not borrowed; (d) an upfront fee of 0.125% of the revolving loan commitment; and (e) arrangement fee customary for a transaction of this type.

As of January 1, 2012, $250.0 million was outstanding under the revolving credit facility with Credit Agricole which amount is classified as "Long-term debt" on the Company's Condensed Consolidated Balance Sheets. In the first quarter of fiscal 2012, the Company repaid $100.0 million of outstanding borrowings plus fees. On April 9, 2012, the Company drew down $125.0 million.

As of July 1, 2012, $275.0 million was outstanding under the revolving credit facility with Credit Agricole which amount is classified as "Long-term debt" on the Company's Condensed Consolidated Balance Sheets.

Liquidity Support Agreement with Total S.A.

On February 28, 2012, the Company entered into a Liquidity Support Agreement with Total S.A. and the DOE, and a series of related agreements with Total S.A. and Total, under which Total S.A. has agreed to provide the Company, or cause to be provided, additional liquidity under certain circumstances to a maximum amount of $600.0 million. In return for Total S.A.'s agreement to provide the Liquidity Support Facility, on February 28, 2012, the Company issued to Total a seven-year warrant to purchase 9,531,677 shares of the Company's common stock at an exercise price of $7.8685 per share. The fair value of the warrants upon issuance was $50.3 million, which is recorded as capitalized financing costs on the Condensed Consolidated Balance Sheet and amortized as interest expense over the expected life of the agreement. 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 (see Note 2). As of July 1, 2012, there was no amount outstanding under this facility.

Other Debt and Credit Sources

There has been no significant change in the Company's remaining debt balance, composition or terms since the end of the most recently completed fiscal year end other than as described above. Additional details regarding the Company's debt arrangements may be referenced from the Company's annual consolidated financial statements and notes thereto for the year ended January 1, 2012 included in the fiscal 2011 Form 10-K and its Form 8-Ks subsequently filed with the SEC.

Note 11. FOREIGN CURRENCY DERIVATIVES

The Company has non-U.S. subsidiaries that operate and sell the Company's products in various global markets, primarily in Europe. As a result, the Company is exposed to risks associated with changes in foreign currency exchange rates. It is the Company's policy to use various techniques, including entering into foreign currency derivative instruments, to manage the exposures associated with forecasted revenues, purchases of foreign sourced equipment and non-U.S. dollar denominated monetary assets and liabilities. The Company does not enter into foreign currency derivative financial instruments for speculative or trading purposes.

The Company is required to recognize derivative instruments as either assets or liabilities at fair value in its Balance Sheets. The Company utilizes mid-market pricing to calculate the fair value of its option and forward contracts based on market volatilities, spot and forward rates, interest rates, and credit default swaps rates from published sources. The following table presents information about the Company's hedge instruments measured at fair value on a recurring basis as of July 1, 2012 and January 1, 2012, all of which utilize Level 2 inputs under the fair value hierarchy:

Table of Contents

(In thousands)	Balance Sheet Classification	July 1, 2012	January 1, 2012
Assets	Prepaid expenses and other current assets		
Derivatives designated as hedging instruments:			
Foreign currency option contracts		$2,376	$5,550
Foreign currency forward exchange contracts		—	47
		$2,376	$5,597
Derivatives not designated as hedging instruments:			
Foreign currency option contracts		$—	$5,080
Foreign currency forward exchange contracts		10,719	23,745
		$10,719	$28,825
Liabilities	Accrued liabilities		
Derivatives designated as hedging instruments:			
Foreign currency forward exchange contracts		$9	$105
Derivatives not designated as hedging instruments:			
Foreign currency forward exchange contracts		$2,761	$14,830

Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. The selection of a particular technique to value an over-the-counter ("OTC") foreign currency derivative depends upon the contractual term of, and specific risks inherent with, the instrument as well as the availability of pricing information in the market. The Company generally uses similar techniques to value similar instruments. Valuation techniques utilize a variety of inputs, including contractual terms, market prices, yield curves, credit curves and measures of volatility. For OTC foreign currency derivatives that trade in liquid markets, such as generic forward and option contracts, inputs can generally be verified and selections do not involve significant management judgment.

The following table summarizes the amount of unrealized gain or loss recognized in "Accumulated other comprehensive income" ("OCI") in "Stockholders' equity" in the Condensed Consolidated Balance Sheets:

	Three Months Ended		Six Months Ended	
(In thousands)	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Derivatives designated as cash flow hedges:				
Unrealized loss (gain) recognized in OCI (effective portion)	$1,292	$(12,210)	$(1,133)	$(60,203)
Less: Loss (gain) reclassified from OCI to revenue (effective portion)	(3,669)	12,264	(6,994)	15,319
Less: Loss reclassified from OCI to other, net (1)	—	—	—	3,889
Net loss (gain) on derivatives	$(2,377)	$54	$(8,127)	$(40,995)

(1) During the six months ended July 3, 2011, the Company reclassified from OCI to "Other, net" a net gain totaled $0.8 million relating to transactions previously designated as effective cash flow hedges as the related forecasted transactions did not occur in the hedge period or within an additional two months time period thereafter. In addition, during the six months ended July 3, 2011, the Company reclassified from OCI to "Other, net" a net loss totaled $4.7 million relating to transactions previously designated as effective cash flow hedges as the Company concluded that the related forecasted transactions are probable not to occur in the hedge period or within the

additional two month time period thereafter.

The following table summarizes the amount of gain or loss recognized in "Other, net" in the Condensed Consolidated Statements of Operations in the three and six months ended July 1, 2012 and July 3, 2011:

Table of Contents

(In thousands)	Three Months Ended July 1, 2012	Three Months Ended July 3, 2011	Six Months Ended July 1, 2012	Six Months Ended July 3, 2011
Derivatives designated as cash flow hedges:				
Loss recognized in "Other, net" on derivatives (ineffective portion and amount excluded from effectiveness testing) (1)	$(62)	$(9,944)	$(427)	$(22,636)
Derivatives not designated as hedging instruments:				
Gain (loss) recognized in "Other, net"	$7,594	$(6,403)	$6,304	$(44,598)

(1) The amount of loss recognized related to the ineffective portion of derivatives was insignificant. This amount also includes a net $3.9 million loss reclassified from OCI to "Other, net" in the six months ended July 3, 2011 relating to transactions previously designated as effective cash flow hedges which did not occur or were now probable not to occur in the hedge period or within an additional two month time period thereafter.

Foreign Currency Exchange Risk

Designated Derivatives Hedging Cash Flow Exposure

The Company's subsidiaries have had and will continue to have material cash flows, including revenues and expenses, which are denominated in currencies other than their functional currencies. The Company's cash flow exposure primarily relates to anticipated third party foreign currency revenues and expenses. Changes in exchange rates between the Company's subsidiaries' functional currencies and other currencies in which it transacts will cause fluctuations in margin, cash flows expectations, and cash flows realized or settled. Accordingly, the Company enters into derivative contracts to hedge the value of a portion of these forecasted cash flows and to protect financial performance.

As of July 1, 2012, the Company had designated outstanding cash flow hedge option contracts and forward contracts with an aggregate notional value of $25.2 million and $82.9 million, respectively. The maturity dates of the outstanding contracts as of July 1, 2012 range from July to October 2012. As of January 1, 2012, the Company had designated outstanding hedge option contracts and forward contracts with an aggregate notional value of $67.2 million and $38.8 million, respectively. The Company designates either gross external or intercompany revenue up to its net economic exposure. These derivatives have a maturity of one year or less and consist of foreign currency option and forward contracts. The effective portion of these cash flow hedges are reclassified into revenue when third party revenue is recognized in the Condensed Consolidated Statements of Operations.

The Company expects to reclassify the majority of its net gains related to these option and forward contracts that are included in accumulated other comprehensive gain as of July 1, 2012 to revenue in the next 12 months. The Company uses the spot method to measure the effectiveness of its cash flow hedges. Under this method for each reporting period, the change in fair value of the forward contracts attributable to the changes in spot exchange rates (the effective portion) is reported in accumulated other comprehensive income on its consolidated balance sheet and the remaining change in fair value of the forward contract (the ineffective portion, if any) is recognized in other income (expense), net, in its Condensed Consolidated Statement of Operations. The premium paid or time value of an option whose strike price is equal to or greater than the market price on the date of purchase is recorded as an asset in the Condensed Consolidated Balance Sheets. Thereafter, any change to this time value and the forward points is included in "Other, net" in the Condensed Consolidated Statements of Operations.

Under hedge accounting rules for foreign currency derivatives, the Company reflects mark-to-market gains and losses on its hedged transactions in accumulated other comprehensive income (loss) rather than current earnings until the hedged transactions occur. However, if the Company determines that the anticipated hedged transactions are probable not to occur, it must immediately reclassify any cumulative market gains and losses into its Condensed Consolidated Statement of Operations. During the three and six months ended July 1, 2012, the Company determined that all its anticipated hedged transactions were probable to occur.

Non-Designated Derivatives Hedging Transaction Exposure

Other derivatives not designated as hedging instruments consist of forward contracts used to hedge re-measurement of foreign currency denominated monetary assets and liabilities primarily for intercompany transactions, receivables from customers, and payables to third parties. Changes in exchange rates between the Company's subsidiaries' functional currencies and the currencies in which these assets and liabilities are denominated can create fluctuations in the Company's reported consolidated financial position, results of operations and cash flows. The Company enters into forward contracts, which are originally designated as cash flow hedges, and de-designates them upon recognition of the anticipated transaction to protect resulting non-functional currency monetary assets. These forward contracts as well as additional forward contracts are entered into to hedge foreign currency denominated monetary assets and liabilities against the short-term effects of currency exchange rate fluctuations. The Company records its derivative contracts that are not designated as hedging instruments at fair value with the related gains or losses recorded in "Other, net" in the Condensed Consolidated Statements of Operations. The gains or losses on these contracts are substantially offset by transaction gains or losses on the underlying balances being hedged. As of July 1, 2012, the Company held option contracts and forward contracts with an aggregate notional value of zero and $13.0 million, respectively, to hedge balance sheet exposure. These forward contracts have maturities of three month or less. The Company held option and forward contracts with an aggregate notional value of $63.2 million and $162.0 million, respectively, as of January 1, 2012, to hedge balance sheet exposure.

Credit Risk

The Company's option and forward contracts do not contain any credit-risk-related contingent features. The Company is exposed to credit losses in the event of nonperformance by the counterparties of its option and forward contracts. The Company enters into derivative contracts with high-quality financial institutions and limits the amount of credit exposure to any single counterparty. In addition, the derivative contracts are limited to a time period of less than one year and the Company continuously evaluates the credit standing of its counterparties.

Note 12. INCOME TAXES

In the three and six months ended July 1, 2012, the Company's income tax provision of $10.6 million and $11.9 million, respectively, on a loss before income taxes and equity in losses of unconsolidated investees of $74.7 million and $144.4 million, respectively, was primarily due to projected tax expense in profitable foreign jurisdictions and a change in the valuation allowance on deferred tax assets. In the three and six months ended July 3, 2011, the Company's income tax provision was $22.7 million and $6.9 million, respectively, on a loss before income taxes and equity in earnings of unconsolidated investees of $125.0 million and $150.1 million, respectively, was primarily due to domestic and foreign losses in certain jurisdictions, nondeductible amortization of purchased intangible assets, nondeductible equity compensation, amortization of debt discount from convertible debentures, mark-to-market fair value adjustments, changes in the valuation allowance on deferred tax assets and discrete stock option deductions. The Company determines its interim tax provision using an estimated annual effective tax rate methodology except in jurisdictions where the Company anticipates or has a year-to-date ordinary loss for which no tax benefit can be recognized. In these jurisdictions, tax expense is computed based on an actual or discrete method.

Note 13. NET LOSS PER SHARE OF COMMON STOCK

The Company calculates net income (loss) per share by dividing earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. The Company's outstanding unvested restricted stock awards are considered participating securities as they may participate in dividends, if declared, even though the awards are not vested. As participating securities, the unvested restricted stock awards are allocated a proportionate share of net income, but excluded from the basic weighted average shares. No allocation is generally made to other participating securities in the case of a net loss per share.

Prior to the November 15, 2011 reclassification, the Company had two classes of outstanding stock, class A and class B common stock. The Company therefore calculated its net income (loss) per share in the second quarter of fiscal 2011 under the two-class method. In applying the two-class method, earnings are allocated to both classes of common stock and other participating securities based on their respective weighted average shares outstanding during the period. Under the two class method, basic weighted average shares was computed using the weighted average of the combined former class A and former class B common stock outstanding. Class A and class B common stock were considered equivalent securities for purposes of the earnings per share calculation because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

Diluted weighted average shares is computed using basic weighted average shares plus any potentially dilutive securities outstanding during the period using the if-converted method and treasury-stock-type method, except when their effect is anti-dilutive. Potentially dilutive securities include stock options, restricted stock units, senior convertible debentures, amended warrants associated with the CSO2015, and the Upfront Warrants held by Total. As a result of the net loss from continuing operations for each of the three and six months ended July 1, 2012 and July 3, 2011 there is no dilutive impact to the net loss

Table of Contents

per share calculation for the period.

The following table presents the calculation of basic and diluted net loss per share:

	Three Months Ended		Six Months Ended	
(In thousands, except per share amounts)	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Basic and Diluted net loss per share:				
Numerator: Net loss available to common stockholders	$(84,181)	$(147,872)	$(158,711)	$(149,993)
Denominator: Basic and diluted weighted-average common shares	118,486	97,656	115,136	97,054