SUNPOWER CORP
Form 10-Q
October 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 28, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number 001-34166

SunPower Corporation
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

The total number of outstanding shares of the registrant's common stock as of October 24, 2014 was 131,330,619.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 28, 2014	December 29, 2013
Assets		
Current assets:		
Cash and cash equivalents	$922,729	$762,511
Restricted cash and cash equivalents, current portion	17,156	13,926
Accounts receivable, net[1]	520,166	360,594
Costs and estimated earnings in excess of billings[1]	46,256	31,787
Inventories	195,342	245,575
Advances to suppliers, current portion	87,837	58,619
Project assets - plants and land, current portion	25,244	69,196
Prepaid expenses and other current assets[1]	795,119	646,270
Total current assets	2,609,849	2,188,478
Restricted cash and cash equivalents, net of current portion	23,894	17,573
Restricted long-term marketable securities	7,182	8,892
Property, plant and equipment, net	538,321	533,387
Solar power systems leased and to be leased, net	361,727	345,504
Project assets - plants and land, net of current portion	67,152	6,411
Advances to suppliers, net of current portion	314,054	324,695
Long-term financing receivables, net	252,382	175,273
Other long-term assets[1]	233,977	298,477
Total assets	$4,408,538	$3,898,690
Liabilities and Equity		
Current liabilities:		
Accounts payable[1]	$440,613	$443,969
Accrued liabilities	352,724	358,157
Billings in excess of costs and estimated earnings	349,090	308,650
Short-term debt	17,728	56,912
Convertible debt, current portion	240,213	455,889
Customer advances, current portion[1]	37,274	36,883
Total current liabilities	1,437,642	1,660,460
Long-term debt	149,848	93,095
Convertible debt, net of current portion[1]	700,079	300,079
Customer advances, net of current portion[1]	153,493	167,282
Other long-term liabilities	520,116	523,991

Total liabilities	2,961,178	2,744,907
Commitments and contingencies (Note 7)		
Redeemable noncontrolling interests in subsidiaries	28,588	—
Equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of both September 28, 2014 and December 29, 2013	—	—
Common stock, $0.001 par value, 367,500,000 shares authorized; 138,398,641 shares issued, and 131,304,479 outstanding as of September 28, 2014; 126,946,763 shares issued, and 121,535,913 outstanding as of December 29, 2013	131	122
Additional paid-in capital	2,197,790	1,980,778
Accumulated deficit	(695,313)	(806,492)
Accumulated other comprehensive loss	(5,752)	(4,318)
Treasury stock, at cost; 7,094,162 shares of common stock as of September 28, 2014; 5,410,850 shares of common stock as of December 29, 2013	(109,937)	(53,937)
Total stockholders' equity	1,386,919	1,116,153
Noncontrolling interests in subsidiaries	31,853	37,630
Total equity	1,418,772	1,153,783
Total liabilities and equity	$4,408,538	$3,898,690

[1] The Company has related-party balancesfor transactions made with Total and its affiliates as well as unconsolidated entities in which the Company has a direct equity investment. These related-party balances are recorded within the "Accounts Receivable,net," "Costs and estimated earnings in excess of billings," "Prepaid expenses and other current assets," "Other long-term assets," "Accounts payable," "Customer advances, current portion," "Convertible debt, net of current portion," and "Customer advances, net of current portion" financial statement line items in the Consolidated Balance Sheets (see Note 2, Note 4, Note 7, Note 8, and Note 9).

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

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

	Three Months Ended		Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Revenue	$662,734	$657,120	$1,863,027	$1,869,069
Cost of revenue	554,220	463,890	1,497,379	1,508,665
Gross margin	108,514	193,230	365,648	360,404
Operating expenses:				
Research and development	17,291	14,903	50,618	41,108
Sales, general and administrative	68,394	63,229	213,821	195,356
Restructuring charges	188	1,114	(990)	1,705
Total operating expenses	85,873	79,246	263,449	238,169
Operating income	22,641	113,984	102,199	122,235
Other income (expense), net:				
Interest income	922	258	1,908	839
Interest expense	(17,170)	(28,861)	(53,072)	(80,765)
Other, net	882	(4,159)	2,175	(11,972)
Other expense, net	(15,366)	(32,762)	(48,989)	(91,898)
Income before income taxes and equity in earnings of unconsolidated investees	7,275	81,222	53,210	30,337
Benefit from (provision for) income taxes	8,320	4,575	2,868	(2,920)
Equity in earnings of unconsolidated investees	1,689	1,585	5,408	2,261
Net income	17,284	87,382	61,486	29,678
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	14,749	21,004	49,693	43,577
Net income attributable to stockholders	$32,033	$108,386	$111,179	$73,255
Net income per share attributable to stockholders:				
Basic	$0.24	$0.89	$0.87	$0.61
Diluted	$0.20	$0.73	$0.72	$0.55
Weighted-average shares:				
Basic	131,204	121,314	127,716	120,604
Diluted	167,117	153,876	158,962	134,859

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

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

	Three Months Ended		Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net income	$17,284	$87,382	$61,486	$29,678
Components of comprehensive income:				
Translation adjustment	(3,777)	1,923	(3,435)	(2,003)
Net unrealized gain (loss) on derivatives (Note 10)	2,148	(2,005)	2,505	(524)
Unrealized loss on investments	—	7	—	—
Income taxes	(425)	379	(504)	100
Net change in accumulated other comprehensive income (loss)	(2,054)	304	(1,434)	(2,427)
Total comprehensive income	15,230	87,686	60,052	27,251
Comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interests	14,749	21,004	49,693	43,577
Comprehensive income attributable to stockholders	$29,979	$108,690	$109,745	$70,828

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

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

		Common Stock								
	Redeemable Noncontrolling Interests	Shares	Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity	Noncontrolling Interests	Total Equi
Balances at December 29, 2013	$—	121,536	$122	$1,980,778	$(53,937)	$(4,318)	$(806,492)	$1,116,153	$37,630	$1,153,78
Net income (loss)	(27,058)	—	—	—	—	—	111,179	111,179	(22,635)	88,544
Other comprehensive income (loss)	—	—	—	—	—	(1,434)	—	(1,434)	—	(1,434
Issuance of common stock upon exercise of options	—	75	—	939	—	—	—	939	—	939
Issuance of restricted stock to employees, net of cancellations	—	4,245	2	(2)	—	—	—	—	—	—
Issuance of common stock upon conversion of convertible debt	—	7,131	7	188,256	—	—	—	188,263	—	188,263
Settlement of the 4.75% Bond hedge	—	—	—	68,842	—	—	—	68,842	—	68,842
Settlement of the 4.75% Warrants	—	—	—	(81,077)	—	—	—	(81,077)	—	(81,077
Stock-based compensation expense	—	—	—	41,725	—	—	—	41,725	—	41,725
Tax benefit from convertible debt interest deduction	—	—	—	(1,378)	—	—	—	(1,378)		(1,378

Tax benefit from stock-based compensation	—	—	—	(293)	—	—	—	(293)	—	(293
Contributions from noncontrolling interests and redeemable noncontrolling interests	33,521	—	—	—	—	—	—	—	41,790	41,790
Distributions to noncontrolling interests and redeemable noncontrolling interests	(1,866)	—	—	—	—	—	—	—	(941)	(941
Purchases of treasury stock	—	(1,683)	—	—	(56,000)	—	—	(56,000)	—	(56,000
Transfer of redeemable noncontrolling interests	23,991	—	—	—	—	—	—	—	(23,991)	(23,991
Balances at September 28, 2014	$28,588	131,304	$131	$2,197,790	$(109,937)	$(5,752)	$(695,313)	$1,386,919	$31,853	$1,418,77

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

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

	Nine Months Ended	
	September 28, 2014	September 29, 2013
Cash flows from operating activities:		
Net income	$61,486	$29,678
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	75,124	73,124
Stock-based compensation	41,940	31,103
Non-cash interest expense	15,991	36,382
Gain from contract termination	—	(51,988)
Equity in earnings of unconsolidated investees	(5,408)	(2,261)
Deferred income taxes and other tax liabilities	(1,893)	2,317
Other, net	25	3,212
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(45,934)	(46,391)
Costs and estimated earnings in excess of billings	(14,469)	(6,168)
Inventories	23,860	(38,543)
Project assets	(33,338)	(42,113)
Prepaid expenses and other assets	(147,351)	119,790
Long-term financing receivables, net	(77,109)	(71,435)
Advances to suppliers	(18,578)	(13,735)
Accounts payable and other accrued liabilities	(15,376)	106,769
Billings in excess of costs and estimated earnings	40,440	27,779
Customer advances	(13,399)	(27,967)
Net cash provided by (used in) operating activities	(113,989)	129,553
Cash flows from investing activities:		
Decrease (increase) in restricted cash and cash equivalents	(9,550)	14,944
Purchases of property, plant and equipment	(45,508)	(25,460)
Cash paid for solar power systems, leased and to be leased	(35,559)	(83,619)
Cash paid for solar power systems	(4,917)	—
Proceeds from sales or maturities of marketable securities	1,380	100,947
Proceeds from sale of equipment to third parties	—	645
Purchases of marketable securities	(30)	(99,928)
Cash paid for acquisitions, net of cash acquired	(6,894)	—
Cash paid for investments in unconsolidated investees	(5,013)	(1,411)
Net cash used in investing activities	(106,091)	(93,882)
Cash flows from financing activities:		
Proceeds from issuance of convertible debt, net of issuance costs	395,275	296,283
Cash paid for repurchase of convertible debt	(42,153)	—
Proceeds from settlement of 4.75% Bond Hedge	68,842	—
Payments to settle 4.75% Warrants	(81,077)	—
Proceeds from settlement of 4.50% Bond Hedge	114	—

Proceeds from issuance of non-recourse debt financing, net of issuance costs	74,840	—
Proceeds from issuance of project loans, net of issuance costs	—	68,225
Assumption of project loan by customer	(40,672)	—
Proceeds from residential lease financing	—	83,365
Repayment of residential lease financing	(15,686)	—
Proceeds from sale-leaseback financing	23,578	40,757
Repayment of sale-leaseback financing	(1,360)	(5,124)
Contributions from noncontrolling interests and redeemable noncontrolling interests	75,312	73,401
Distributions to noncontrolling interests and redeemable noncontrolling interests	(2,808)	—
Proceeds from exercise of stock options	939	98
Purchases of stock for tax withholding obligations on vested restricted stock	(56,000)	(17,584)
Repayment of bank loans, project loans and other debt	(16,540)	(290,098)
Net cash provided by financing activities	382,604	249,323
Effect of exchange rate changes on cash and cash equivalents	(2,306)	1,094
Net increase in cash and cash equivalents	160,218	286,088
Cash and cash equivalents, beginning of period	762,511	457,487
Cash and cash equivalents, end of period	$922,729	$743,575
Non-cash transactions:		
Assignment of residential lease receivables to a third-party financial institution	$6,419	$67,400
Costs of solar power systems, leased and to be leased, sourced from existing inventory	$25,808	$43,341
Costs of solar power systems, leased and to be leased, funded by liabilities	$2,389	$2,315
Costs of solar power systems under sale-leaseback financing arrangements, sourced from project assets	$17,333	$24,399
Property, plant and equipment acquisitions funded by liabilities	$12,146	$5,628
Issuance of common stock upon conversion of convertible debt	$188,263	$—

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

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Note 1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

SunPower Corporation (together with its subsidiaries, the "Company" or "SunPower") is a vertically integrated solar products and solutions company that designs, manufactures and delivers high-performance solar systems worldwide, serving as a one-stop shop for residential, commercial, and utility-scale power plant customers. SunPower Corporation is a majority owned subsidiary of Total Energies Nouvelles Activités USA ("Total"), a subsidiary of Total S.A. ("Total S.A.") (see Note 2).

Basis of Presentation and Preparation

Principles of Consolidation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("United States" or "U.S.") and include the accounts of the Company, all of its subsidiaries and special purpose entities, as appropriate under consolidation accounting guidelines. Intercompany transactions and balances have been eliminated in consolidation. The assets of the special purpose entities that the Company sets up related to project financing for customers are not designed to be available to service the general liabilities and obligations of the Company in certain circumstances.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation in the Company's consolidated financial statements and the accompanying notes. Such reclassifications had no effect on previously reported results of operations or accumulated deficit.

Fiscal Years

The Company has a 52-to-53-week fiscal year that ends on the Sunday closest to December 31. Accordingly, every fifth or sixth year will be a 53-week fiscal year. Both fiscal 2014 and 2013 are 52-week fiscal years. The third quarter of fiscal 2014 ended on September 28, 2014, while the third quarter of fiscal 2013 ended on September 29, 2013. The third quarters of fiscal 2014 and fiscal 2013 were both 13-week quarters.

Management Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates in these consolidated financial statements include percentage-of-completion for construction projects; allowances for doubtful accounts receivable and sales returns; inventory and project asset write-downs; stock-based compensation; estimates for future cash flows and economic useful lives of property, plant and equipment and other long-term assets; the fair value and residual value of leased solar power systems; fair value of financial instruments; valuation of certain accrued liabilities such as accrued warranty; and income taxes and tax valuation allowances. Actual results could materially differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new revenue recognition standard based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new revenue recognition standard becomes effective for the Company in the first quarter of fiscal 2017 and is to be applied retrospectively using one of two prescribed methods. The Company is evaluating the application method and impact on its consolidated financial statements and disclosures.

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

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

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

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

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

In June 2011, Total completed a cash tender offer to acquire 60% of the Company's then outstanding shares of common stock at a price of $23.25 per share, for a total cost of approximately $1.4 billion. In December 2011, the Company entered into a Private Placement Agreement with Total, under which Total purchased, and the Company issued and sold, 18.6 million shares of the Company's common stock for a purchase price of $8.80 per share, thereby increasing Total's ownership to approximately 66% of the Company's outstanding common stock as of that date.

Credit Support Agreement

In fiscal 2011, the Company and Total S.A. entered into a Credit Support Agreement (the "Credit Support Agreement") under which Total S.A. agreed to enter into one or more guarantee agreements (each a "Guaranty") with banks providing letter of credit facilities to the Company. Total S.A. will guarantee the Company's obligation to reimburse the applicable issuing bank a draw on a letter of credit and pay interest thereon in accordance with the letter of credit facility between such bank and the Company. Under the Credit Support Agreement, the Company may also request that Total S.A. provide a Guaranty in support of the Company's payment obligations with respect to a letter of credit facility. The Company is required to pay Total S.A. a guarantee fee for each letter of credit that is the subject of a Guaranty under the Credit Support Agreement and was outstanding for all or part of the preceding calendar quarter.

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

Affiliation Agreement

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

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

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

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

Research & Collaboration Agreement

Total and the Company have entered into a Research & Collaboration Agreement (the "R&D Agreement") that establishes a framework under which the parties engage in long-term research and development collaboration ("R&D Collaboration"). The R&D Collaboration encompasses a number of different projects, with a focus on advancing the Company's technology position in the crystalline silicon domain, as well as ensuring the Company's industrial competitiveness. The R&D Agreement enables a joint committee to identify, plan and manage the R&D Collaboration.

Liquidity Support Agreement with Total S.A.

The Company was party to an agreement with a customer to construct the California Valley Solar Ranch, a solar park. Part of the debt financing necessary for the customer to pay for the construction of this solar park was provided by the Federal Financing Bank in reliance on a guarantee of repayment provided by the Department of Energy (the "DOE") under a loan guarantee program. In February 2012, the Company entered into a Liquidity Support Agreement with Total S.A. and the DOE, and a series of related agreements with Total S.A. and Total, under which Total S.A. agreed to provide the Company, or cause to be provided, additional liquidity under certain circumstances to a maximum amount of $600.0 million ("Liquidity Support Facility"). The Liquidity Support Facility was available until the completion of the solar park, which was completed in accordance with the terms of the relevant agreement in March 2014. Upon completion, the Liquidity Support Agreement was terminated. There were no outstanding guarantees or debt under the facility upon termination.

Compensation and Funding Agreement

In February 2012, the Company entered into a Compensation and Funding Agreement (the "Compensation and Funding Agreement") with Total S.A. which established the parameters for the terms of liquidity injections that may be required to be provided by Total S.A. to the Company from time to time. During the term of the Compensation and Funding Agreement, the Company is required to pay Total S.A. 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 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.

Upfront Warrant

In February 2012, the Company issued a warrant (the "Upfront Warrant") to Total S.A. to purchase 9,531,677 shares of the Company's common stock with an exercise price of $7.8685, subject to adjustment for customary anti-dilution and other events. The Upfront Warrant, governed by the Private Placement Agreement and the Compensation and Funding Agreement, is exercisable at any time for seven years after its issuance, provided that, so long as at least

$25.0 million in aggregate of the Company's convertible debt remains outstanding, such exercise will not cause "any person," including Total S.A., to, directly or indirectly, including through one or more wholly-owned subsidiaries, become the "beneficial owner" (as such terms are defined in Rule 13d-3 and Rule 13d-5 under the Securities and Exchange Act of 1934, as amended), of more than 74.99% of the voting power of the Company's common stock at such time, a circumstance which would trigger the repurchase or conversion of the Company's existing convertible debt.

0.75% Debentures Due 2018

In May 2013, the Company issued $300.0 million in principal amount of its 0.75% senior convertible debentures due 2018 (the "0.75% debentures due 2018"). $200.0 million in aggregate principal amount of the 0.75% debentures due 2018 were acquired by Total. The 0.75% debentures due 2018 are convertible into shares of the Company's common stock at any time based on an initial conversion price equal to $24.95 per share, which provides Total the right to acquire up to 8,017,420 shares of the Company's common stock. The applicable conversion rate may adjust in certain circumstances, including a fundamental change, as described in the indenture governing the 0.75% debentures due 2018 (see Note 9).

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0.875% Debentures Due 2021

In June 2014, the Company issued $400.0 million in principal amount of its 0.875% senior convertible debentures due 2021 (the "0.875% debentures due 2021"). An aggregate principal amount of $250.0 million of the 0.875% debentures due 2021 were acquired by Total. The 0.875% debentures due 2021 are convertible into shares of the Company's common stock at any time based on an initial conversion price equal to $48.76 per share, which provides Total the right to acquire up to 5,126,775 shares of the Company's common stock. The applicable conversion rate may adjust in certain circumstances, including a fundamental change, as described in the indenture governing the 0.875% debentures due 2021 (see Note 9).

Joint Projects with Total and its Affiliates:

The Company enters into various engineering, procurement and construction ("EPC") and operations and maintenance ("O&M") agreements relating to solar projects, including EPC and O&M services agreements relating to projects owned or partially owned by Total and its affiliates. As of September 28, 2014, the Company had $34.3 million of "Costs and estimated earnings in excess of billings" and $38.8 million of "Accounts receivable, net" on its Consolidated Balance Sheets related to projects in which Total and its affiliates have a direct or indirect material interest.

Related-Party Transactions with Total and its Affiliates:

	Three Months Ended		Nine Months Ended	
(In thousands)	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Revenue:				
EPC and O&M revenue under joint projects	$107,289	$—	$142,790	$—
Research and development expense:				
Offsetting contributions received under R&D Agreement	$(724)	$(270)	$(1,277)	$(1,225)
Interest expense:				
Guarantee fees incurred under Credit Support Agreement	$3,358	$2,665	$8,704	$6,198
Fees incurred under the Compensation and Funding Agreement	$—	$1,496	$1,200	$4,037
Interest expense incurred on the 0.75% debentures due 2018	$375	$375	$1,203	$500
Interest expense incurred on the 0.875% debentures due 2021	$547	$—	$662	$—

Note 3. BALANCE SHEET COMPONENTS

	As of	
(In thousands)	September 28, 2014	December 29, 2013
Accounts receivable, net:		
Accounts receivable, gross[1,2]	$541,024	$389,152
Less: allowance for doubtful accounts	(18,695)	(26,463)
Less: allowance for sales returns	(2,163)	(2,095)

	$520,166	$360,594

1 Includes short-term financing receivables associated with solar power systems leased of $8.8 million and $4.4 million as of September 28, 2014 and December 29, 2013, respectively (see Note 4).

2 Includes short-term retainage of $173.1 million and $8.3 million as of September 28, 2014 and December 29, 2013, respectively. Retainage refers to the earned, but unbilled, portion of a construction and development project for which payment is deferred by the customer until certain contractual milestones are met.

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(In thousands)	As of September 28, 2014	December 29, 2013
Inventories:		
Raw materials	$42,559	$51,905
Work-in-process	49,308	52,756
Finished goods	103,475	140,914
	$195,342	$245,575

(In thousands)	As of September 28, 2014	December 29, 2013
Prepaid expenses and other current assets:		
Deferred project costs	$423,441	$275,389
Bond hedge derivative	155,069	110,477
VAT receivables, current portion	15,929	21,481
Deferred costs for solar power systems to be leased	21,881	23,429
Foreign currency derivatives	7,921	4,642
Other receivables	81,440	112,062
Other prepaid expenses	36,584	28,629
Other current assets	52,854	70,161
	$795,119	$646,270

(In thousands)	As of September 28, 2014	December 29, 2013
Project assets - plants and land:		
Project assets — plants	$79,969	$64,564
Project assets — land	12,426	11,043
	$92,395	$75,607
Project assets - plants and land, current portion	$25,244	$69,196
Project assets - plants and land, net of current portion	$67,152	$6,411

(In thousands)	As of September 28, 2014	December 29, 2013
Property, plant and equipment, net:		
Manufacturing equipment[3]	$552,212	$538,616
Land and buildings	26,138	26,138
Leasehold improvements	235,212	229,846
Solar power systems[4]	105,138	82,036
Computer equipment	84,973	79,519
Furniture and fixtures	9,288	8,392
Construction-in-process	32,308	11,724
	1,045,269	976,271
Less: accumulated depreciation	(506,948)	(442,884)
	$538,321	$533,387

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3 The Company's mortgage loan agreement with International Finance Corporation ("IFC") is collateralized by certain manufacturing equipment with a net book value of $123.2 million and $145.9 million as of September 28, 2014 and December 29, 2013, respectively.

4 Includes $74.9 million and $52.6 million of solar power systems associated with sale-leaseback transactions under the financing method as of September 28, 2014 and December 29, 2013, respectively, which are depreciated using the straight-line method to their estimated residual values over the lease terms of up to 20 years (see Note 4).

(In thousands)	As of September 28, 2014	December 29, 2013
Property, plant and equipment, net by geography[5]:		
Philippines	$308,913	$321,410
United States	168,831	153,074
Mexico	35,472	32,705
Europe	23,965	25,293
Other	1,140	905
	$538,321	$533,387

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

(In thousands)	As of September 28, 2014	December 29, 2013
Other long-term assets:		
Equity method investments	$137,064	$131,739
Retainage[6]	—	88,934
Cost method investments	17,319	12,374
Long-term debt issuance costs	12,688	10,274
Other	66,906	55,156
	$233,977	$298,477

6 Retainage refers to the earned, but unbilled, portion of a construction and development project for which payment is deferred by the customer until certain contractual milestones are met.

(In thousands)	As of September 28, 2014	December 29, 2013
Accrued liabilities:		
Bond hedge derivatives	$155,075	$110,477
Employee compensation and employee benefits	56,326	50,449
Deferred revenue	24,791	29,287
Short-term residential lease financing	1,364	14,436
Interest payable	5,958	10,971
Short-term warranty reserves	11,073	10,426
Restructuring reserve	1,490	7,134
VAT payables	10,236	7,089
Foreign currency derivatives	2,244	6,170
Other	84,167	111,718

	$352,724	$358,157

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(In thousands)	As of September 28, 2014	December 29, 2013
Other long-term liabilities:		
Deferred revenue	$177,806	$176,925
Long-term warranty reserves	143,670	138,946
Long-term sale-leaseback financing	87,253	65,944
Long-term residential lease financing	27,669	31,933
Unrecognized tax benefits	27,098	28,927
Other	56,620	81,316
	$520,116	$523,991

(In thousands)	As of September 28, 2014	December 29, 2013
Accumulated other comprehensive loss:		
Cumulative translation adjustment	$(7,201)	$(3,766)
Net unrealized income (loss) on derivatives	1,700	(805)
Deferred taxes	(251)	253
	$(5,752)	$(4,318)

Note 4. LEASING

Residential Lease Program

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

Operating Leases

The following table summarizes "Solar power systems leased and to be leased, net" under operating leases on the Company's Consolidated Balance Sheets as of September 28, 2014 and December 29, 2013, respectively:

(In thousands)	As of September 28, 2014	December 29, 2013
Solar power systems leased and to be leased, net[1,2]:		
Solar power systems leased	$369,759	$324,202
Solar power systems to be leased	15,073	36,645
	384,832	360,847
Less: accumulated depreciation	(23,105)	(15,343)
	$361,727	$345,504

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

[2] As of September 28, 2014 and December 29, 2013, the Company has pledged solar assets with an aggregate book value of $141.7 million and $147.7 million, respectively, to third-party investors as security for the Company's contractual obligations.

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The following table presents the Company's minimum future rental receipts on operating leases placed in service as of September 28, 2014:

(In thousands)	2014 (remaining three months)	2015	2016	2017	2018	Thereafter	Total
Minimum future rentals on operating leases placed in service[1]	$3,442	11,782	11,802	11,837	11,880	178,366	$229,109

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

Sales-Type Leases

As of September 28, 2014 and December 29, 2013, respectively, the Company's net investment in sales-type leases presented in "Accounts receivable, net" and "Long-term financing receivables, net" on the Company's Consolidated Balance Sheets was as follows:

(In thousands)	As of September 28, 2014	December 29, 2013
Financing receivables:		
Minimum lease payments receivable[1]	$301,392	$217,666
Unguaranteed residual value	31,518	23,366
Unearned income	(71,737)	(61,326)
Net financing receivables	$261,173	$179,706
Current	$8,791	$4,433
Long-term	$252,382	$175,273

[1] Net of allowance for doubtful accounts.

As of September 28, 2014, future maturities of net financing receivables for sales-type leases are as follows:

(In thousands)	2014 (remaining three months)	2015	2016	2017	2018	Thereafter	Total
Scheduled maturities of minimum lease payments receivable[1]	$3,804	14,287	14,458	14,642	14,832	239,369	$301,392

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

Third-Party Financing Arrangements

The Company has entered into multiple facilities under which solar power systems are financed by third-party investors. Under the terms of certain programs the investors make an upfront payment to the Company, which the Company recognizes as a non-recourse liability that will be reduced over the specified term of the program as customer receivables and government incentives are received by the third-party investors. As the non-recourse liability is reduced over time, the Company makes a corresponding reduction in customer and government incentive receivables on its balance sheet. Under this approach, for both operating and sales-type leases the Company continues to account for these arrangements with its residential lease customers in the consolidated financial statements. As of September 28, 2014, and December 29, 2013, the remaining liability to the third-party investors, presented in "Accrued liabilities" and "Other long-term liabilities" on the Company's Consolidated Balance Sheets, was $29.0 million and $46.4 million, respectively (see Note 3).

The Company has entered into a total of seven facilities with third-party investors under which the parties invest in entities that hold SunPower solar power systems and leases with residential customers. The Company holds controlling interests in these less-than-wholly-owned entities and has therefore fully consolidated these entities. The Company accounts

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for the portion of net assets in the consolidated entities attributable to the investors as "Redeemable noncontrolling interests" and "Noncontrolling interests" in its consolidated financial statements. Noncontrolling interests in subsidiaries that are redeemable at the option of the noncontrolling interest holder are classified as "Redeemable noncontrolling interests in subsidiaries," between liabilities and equity on the Company's Consolidated Balance Sheets. During the three and nine months ended September 28, 2014, the Company received $22.5 million and $75.3 million, respectively, in contributions from investors under the related facilities and attributed $14.7 million and $49.7 million, respectively, in losses to the third-party investors primarily as a result of allocating certain assets, including tax credits, to the investors. By comparison, during the three and nine months ended September 29, 2013, the Company received $29.5 million and $73.4 million, respectively, in contributions from investors under these facilities and attributed $21.0 million and $43.6 million, respectively, in losses to the third-party investors primarily as a result of allocating certain assets, including tax credits, to the investors.

Sale-Leaseback Arrangements

The Company enters into sale-leaseback arrangements under which solar power systems are sold to third parties and subsequently leased back by the Company over minimum lease terms of up to 20 years. Separately, the Company enters into power purchase agreements ("PPAs") with end customers, who host the leased solar power systems and buy the electricity directly from the Company under PPAs with durations of up to 20 years. At the end of the lease term, the Company has the option to purchase the systems at fair value or may be required to remove the systems and return them to the third parties.

The Company has classified its sale-leaseback arrangements of solar power systems not involving integral equipment as operating leases. The deferred profit on the sale of these systems is recognized over the term of the lease. As of September 28, 2014, future minimum lease obligations associated with these systems was $97.5 million, which will be recognized over the minimum lease terms. Future minimum payments to be received from customers under PPAs associated with the solar power systems under sale-leaseback arrangements classified as operating leases will be recognized over the lease terms of up to 20 years and are contingent upon the amounts of energy produced by the solar power systems.

The Company enters into sale-leaseback arrangements under which the systems under the sale-leaseback arrangements have been determined to be integral equipment as defined under the accounting guidance for such transactions. The Company was further determined to have continuing involvement with the solar power systems throughout the lease due to purchase option rights. As a result of such continuing involvement, the Company accounts for each transaction as a financing. Under the financing method, the proceeds received from the sale of the solar power systems are recorded by the Company as financing liabilities and presented within "Other long-term liabilities" in the Company's Consolidated Balance Sheets (see Note 3). The financing liabilities are subsequently reduced by the Company's payments to lease back the solar power systems, less interest expense calculated based on the Company's incremental borrowing rate adjusted to the rate required to prevent negative amortization. The solar power systems under the sale-leaseback arrangements remain on the Company's balance sheet and are classified within "Property, plant and equipment, net" (see Note 3). As of September 28, 2014, future minimum lease obligations for the sale-leaseback arrangements accounted for under the financing method were $80.3 million, which will be recognized over the lease terms of up to 20 years.

Note 5. FAIR VALUE MEASUREMENTS

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company measures certain assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during any presented period. The Company did not have any assets or liabilities measured at fair value on a recurring basis requiring Level 3 inputs as of September 28, 2014 or December 29, 2013.

The following table summarizes the Company's assets and liabilities measured and recorded at fair value on a recurring basis as of September 28, 2014 and December 29, 2013, respectively:

	September 28, 2014			December 29, 2013		
(In thousands)	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Cash and cash equivalents[1]:						
Money market funds	$463,001	$463,001	$—	$358,001	$358,001	$—
Prepaid expenses and other current assets:						
Debt derivatives (Note 9)	155,069	—	155,069	110,477	—	110,477
Foreign currency derivatives (Note 10)	7,921	—	7,921	4,642	—	4,642
Other long-term assets:						
Foreign currency derivatives (Note 10)	—	—	—	588	—	588
Total assets	$625,991	$463,001	$162,990	$473,708	$358,001	$115,707
Liabilities						
Accrued liabilities:						
Debt derivatives (Note 9)	$155,075	$—	$155,075	$110,477	$—	$110,477
Foreign currency derivatives (Note 10)	2,244	—	2,244	6,170	—	6,170
Other long-term liabilities:						
Foreign currency derivatives (Note 10)	—	—	—	555	—	555
Total liabilities	$157,319	$—	$157,319	$117,202	$—	$117,202

1 The Company's cash equivalents consist of money market fund instruments and commercial paper that are classified as available-for-sale and are highly liquid investments with original maturities of 90 days or less. The Company's money market fund instruments are categorized within Level 1 of the fair value hierarchy because they are valued using quoted market prices for identical instruments in active markets.

Other financial instruments, including the Company's accounts receivable, accounts payable and accrued liabilities, are carried at cost, which generally approximates fair value due to the short-term nature of these instruments.

Debt Derivatives

The 4.50% Bond Hedge (as defined in Note 9) and the embedded cash conversion option within the 4.50% debentures due 2015 (as defined in Note 9) are classified as derivative instruments that require mark-to-market treatment with changes in fair value reported in the Company's Consolidated Statements of Operations. The fair values of these derivative instruments were determined utilizing the following Level 1 and Level 2 inputs:

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	As of [1] September 28, 2014		December 29, 2013	
Stock price	$36.11		$28.91	
Exercise price	$22.53		$22.53	
Interest rate	0.29	%	0.33	%
Stock volatility	54.9	%	57.7	%
Credit risk adjustment	0.21	%	0.71	%
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 of the Company's common stock at $22.53. The Company utilized a Black-Scholes valuation model to value the 4.50% Bond Hedge and embedded cash conversion option. The underlying input assumptions were determined as follows:

(i) Stock price. The closing price of the Company's common stock on the last trading day of the quarter.

(ii) Exercise price. The exercise price of the 4.50% Bond Hedge and the embedded cash conversion option.

(iii) Interest rate. The Treasury Strip rate associated with the life of the 4.50% Bond Hedge and the embedded cash conversion option.

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

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

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company measures certain investments and non-financial assets (including project assets, property, plant and equipment, and other intangible assets) at fair value on a non-recurring basis in periods after initial measurement in circumstances when the fair value of such asset is impaired below its recorded cost.

Held-to-Maturity Debt Securities

The Company's debt securities, classified as held-to-maturity, consist of Philippine government bonds that are maintained as collateral for present and future business transactions within the country. These bonds have maturity dates of up to five years and are classified as "Restricted long-term marketable securities" on the Company's Consolidated Balance Sheets. As of September 28, 2014 and December 29, 2013, these bonds had a carrying value of $7.2 million and $8.9 million respectively. The Company records such held-to-maturity investments at amortized cost based on its ability and intent to hold the securities until maturity. The Company monitors for changes in circumstances and events that would affect its ability and intent to hold such securities until the recorded amortized costs are recovered. No other-than-temporary impairment loss was incurred during any presented period. The held-to-maturity debt securities were categorized in Level 2 of the fair value hierarchy.

Equity and Cost Method Investments

The Company holds equity investments in non-consolidated entities that are accounted for under the both equity and cost method. The Company monitors these investments, which are included in "Other long-term assets" in its Consolidated Balance Sheets, for impairment and records reductions in the carrying values when necessary. Circumstances that indicate an other-than-temporary decline include Level 2 and Level 3 measurements such as the valuation ascribed to the issuing company in subsequent financing rounds, decreases in quoted market prices, and declines in operations of the issuer.

As of September 28, 2014 and December 29, 2013, the Company had $137.1 million and $131.7 million, respectively, in investments accounted for under the equity method (see Note 8). As of September 28, 2014 and December 29, 2013, the Company had $17.3 million and $12.4 million, respectively, in investments accounted for under the cost method.

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Related-Party Transactions with Equity and Cost Method Investees:

(In thousands)	As of September 28, 2014	December 29, 2013
Accounts receivable	$23,689	$11,780
Accounts payable	$37,355	$51,499
Other long-term assets:		
Long-term note receivable	$3,279	$3,688

(In thousands)	Three Months Ended September 28, 2014	Three Months Ended September 29, 2013	Nine Months Ended September 28, 2014	Nine Months Ended September 29, 2013
Payments made to investees for products/services	$118,890	$117,872	$363,209	$364,703

Note 6. RESTRUCTURING

During fiscal 2012 and 2011, the Company implemented approved restructuring plans, related to all segments, to align with changes in the global solar market, which included the consolidation of the Company's Philippine manufacturing operations as well as actions to accelerate operating cost reduction and improve overall operating efficiency. These restructuring activities were substantially complete as of September 28, 2014. The Company expects to continue to incur costs as it finalizes previous estimates and actions in connection with these plans, primarily due to other costs, such as legal services.

The following table summarizes the restructuring reserve activity during the nine months ended September 28, 2014:

	Nine Months Ended			
(In thousands)	December 29, 2013	Charges (Benefits)	Payments	September 28, 2014
Severance and benefits	3,961	(1,657)	(1,875)	429
Lease and related termination costs	1,609	382	(1,587)	404
Other costs[1]	1,564	285	(1,192)	657
Total restructuring liabilities	$7,134	$(990)	$(4,654)	$1,490

[1] Other costs primarily represent associated legal services.

Note 7. COMMITMENTS AND CONTINGENCIES

Facility and Equipment Lease Commitments

The Company leases certain facilities under non-cancellable operating leases from unaffiliated third parties. As of September 28, 2014, future minimum lease payments for facilities under operating leases was $57.5 million, to be paid over the remaining contractual terms of up to 10 years. The Company also leases certain buildings, machinery and equipment under non-cancellable capital leases. As of September 28, 2014, future minimum lease payments for assets under capital leases was $5.3 million, to be paid over the remaining contractual terms of up to 10 years.

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.

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The Company also has agreements with several suppliers, including some of its non-consolidated investees, for the procurement of polysilicon, ingots, wafers, and Solar Renewable Energy Credits, among others, 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.

Future purchase obligations under non-cancellable purchase orders and long-term supply agreements as of September 28, 2014 are as follows:

(In thousands)	2014 (remaining three months)	2015	2016	2017	2018	Thereafter	Total[1,2]
Future purchase obligations	$557,109	358,634	324,968	292,181	182,517	341,541	$2,056,950

[1] Total future purchase obligations as of September 28, 2014 include $91.8 million to related parties.

[2] Total future purchase obligations was composed of $230.7 million related to non-cancellable purchase orders and $1.8 billion related to long-term supply agreements.

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 under-performance 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. 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 vendors that specify future quantities and pricing of products to be supplied. 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 nine months ended September 28, 2014, the Company made additional advance payments totaling $16.4 million and $49.3 million, respectively, in accordance with the terms of existing long-term supply agreements. As of September 28, 2014 and December 29, 2013, advances to suppliers totaled $401.9 million and $383.3 million, respectively, of which $87.8 million and $58.6 million, respectively, is classified as short-term in the Company's Consolidated Balance Sheets. Two suppliers accounted for 82% and 18% of total advances to suppliers as of September 28, 2014, and 77% and 22% as of December 29, 2013. As of September 28, 2014, the Company has remaining future prepayment obligations totaling $16.4 million through the end of fiscal 2014 .

Advances from Customers

The Company has entered into other agreements with customers who have made advance payments for solar power products and systems. These advances will be applied as shipments of product occur or upon completion of certain project milestones. The estimated utilization of advances from customers as of September 28, 2014 is as follows:

(In thousands)	2014 (remaining three months)	2015	2016	2017	2018	Thereafter	Total
Estimated utilization of advances from customers	$7,020	34,850	22,713	27,039	27,039	72,106	$190,767

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In fiscal 2010, the Company and its joint venture, AUO SunPower Sdn. Bhd. ("AUOSP"), entered into an agreement under which the Company resells to AUOSP polysilicon purchased from a third-party supplier. Advance payments provided by AUOSP related to such polysilicon are then made by the Company to the third-party supplier. These advance payments are applied as a credit against AUOSP's polysilicon purchases from the Company. Such polysilicon is used by AUOSP to manufacture solar cells which are sold to the Company on a "cost-plus" basis. As of September 28, 2014 and December 29, 2013, outstanding advance payments received from AUOSP totaled $170.8 million and $181.3 million, respectively, of which $17.3 million and $14.0 million, respectively, is classified as short-term in the Company's Consolidated Balance Sheets, based on projected product shipment dates.

Product Warranties

The following table summarizes accrued warranty activity for the three and nine months ended September 28, 2014 and September 29, 2013, respectively:

	Three Months Ended		Nine Months Ended	
(In thousands)	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Balance at the beginning of the period	$150,793	$126,293	$149,372	$117,172
Accruals for warranties issued during the period	9,112	9,643	18,613	21,995
Settlements made during the period	(5,162)	(1,161)	(13,242)	(4,392)
Balance at the end of the period	$154,743	$134,775	$154,743	$134,775

Contingent Obligations

Project agreements often require the Company to undertake 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; and (iv) 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 Company's systems have performed significantly above the performance guarantee thresholds, and there have been no cases in which the Company has had to buy back a system.

Future Financing Commitments

The Company is required to provide certain funding under the joint venture agreement with AU Optronics Singapore Pte. Ltd. ("AUO") and another unconsolidated investee, subject to certain conditions (see Note 8). As of September 28, 2014, the Company has future financing obligations through 2014 totaling $243.9 million.

Liabilities Associated with Uncertain Tax Positions

Total liabilities associated with uncertain tax positions were $27.1 million and $28.9 million as of September 28, 2014 and December 29, 2013, respectively, and are included in "Other long-term liabilities" in the Company's Consolidated Balance Sheets as they are not expected to be paid within the next 12 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.

Indemnifications

The Company is a party to a variety of agreements under which it may be obligated to indemnify the counterparty 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 including indemnification to customers under §48(c) solar commercial investment tax credit ("ITC") and Treasury Grant payments under Section 1603 of the American Recovery and Reinvestment Act ("Cash Grant"). In each of these circumstances, payment by the Company is typically subject to the other party making a claim to the Company that is contemplated by and valid under the indemnification provisions of the particular contract, which provisions are typically contract-specific, as well as bringing the claim 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.

In certain limited circumstances the Company has provided indemnification to customers and investors under which the Company is contractually obligated to compensate these parties for losses they may suffer as a result of reductions in benefits received under ITC and Treasury Cash Grant programs. The Company applies for ITC and Cash Grant incentives based on guidance provided by IRS and the Treasury Department, which include assumptions regarding the fair value of the qualified solar power systems, among others. Certain of the Company’s development agreements, sales-leaseback arrangements, and financing arrangements with investors of its residential lease program, incorporate assumptions regarding the future level of incentives to be received, which in some instances may be claimed directly by its customers and investors. Since the Company cannot determine future revisions to the U.S. Treasury guidelines governing system values or how the IRS will evaluate system values used in claiming ITCs, the Company is unable to reliably estimate the maximum potential future payments that it could have to make under the Company’s contractual investor obligation as of each reporting date.

Legal Matters

Derivative Litigation

Derivative actions purporting to be brought on the Company's behalf have been filed in state and federal courts against several of the Company's current and former officers and directors. The actions arise from the Audit Committee's investigation announcement on November 16, 2009 regarding certain unsubstantiated accounting entries. 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 asserted state-law claims for breach of fiduciary duty and contribution and indemnification, and sought an unspecified amount of damages. On December 19, 2013, the parties executed a stipulated settlement agreement, providing that all claims against all defendants would be released and dismissed with prejudice, and that the Company would not oppose a request by the plaintiffs' counsel for an award of attorneys' fees up to $1 million, one half of which would be paid from the proceeds of directors and officers liability insurance. At a hearing on August 22, 2014, the Superior Court of California for Santa Clara County entered an order providing for final approval of the stipulated settlement and dismissing that action with prejudice. On September 9, 2014, the court in the consolidated federal derivative action dismissed that action with prejudice. Those dismissals are now final. On October 22, 2014, the Delaware Chancery Court entered an order dismissing the Delaware derivative action with prejudice.

Tax Benefit Indemnification Litigation

On March 19, 2014, the Company received notice that a lawsuit had been filed by NRG Solar LLC (“NRG”) against SunPower Corporation, Systems, a wholly-owned subsidiary of the Company (“SunPower Systems”), in the Superior Court of Contra Costa County, California. The complaint asserts that, according to the indemnification provisions in the contract pertaining to SunPower Systems’ sale of a large California solar project to NRG, SunPower Systems owes NRG $75 million in connection with certain tax benefits associated with the project that were approved by the Treasury Department for an amount that was less than expected. The Company does not believe that the facts support NRG’s claim under the operative indemnification provisions and intends to vigorously contest the claim. On May 5, 2014, SunPower Systems filed a demurrer to NRG’s complaint, which remains pending. The Court sustained the demurrer with leave to amend. NRG filed its amended complaint on September 3, 2014. The Company filed a demurrer to NRG's amended complaint on September 22, 2014, and that demurrer is scheduled to be heard on November 18, 2014. The Court has not yet set a trial date or case schedule. The company is currently unable to determine if the resolution of this matter will have an adverse effect on the company's financial position, liquidity or results of operations.

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Other Litigation

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 8. EQUITY METHOD INVESTMENTS

As of September 28, 2014 and December 29, 2013, the Company's carrying value of its equity method investments totaled $137.1 million and $131.7 million, respectively, and is classified as “Other long-term assets” in its Consolidated Balance Sheets. The Company's share of its earnings (loss) from equity method investments is reflected as "Equity in earnings of unconsolidated investees" in its Consolidated Statement of Operations.

Equity Investment and Joint Venture with AUOSP

In fiscal 2010, the Company, AUO and AU Optronics Corporation, the ultimate parent company of AUO ("AUO Taiwan"), formed the joint venture AUOSP. The Company and AUO each own 50% of the joint venture AUOSP. AUOSP owns a solar cell manufacturing facility 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, the Company 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 the Company), 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 Company is committed to purchase 80% of AUOSP's total annual output allocated on a monthly basis to the Company. The Company and AUO have the right to reallocate supplies from time to time under a written 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. In the joint venture agreement, the Company and AUO agreed to 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, the Company or AUO requests additional equity financing to AUOSP, then the Company and AUO will each be required to make additional cash contributions of up to $50.0 million in the aggregate.

The Company has concluded that it is not the primary beneficiary of AUOSP since, although the Company and AUO are both obligated to absorb losses or have the right to receive benefits, the Company alone does not have the power to direct the activities of 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 September 28, 2014, the Company's maximum exposure to loss as a result of its equity investment in AUOSP is limited to the carrying value of the investment.

Equity Investment in Huaxia CPV (Inner Mongolia) Power Co., Ltd. ("CCPV")

In December 2012, the Company entered into an agreement with Tianjin Zhonghuan Semiconductor Co. Ltd., Inner Mongolia Power Group Co. Ltd. and Hohhot Jinqiao City Development Company Co., Ltd. to form CCPV, a jointly owned entity to manufacture and deploy the Company's C-7 Tracker concentrator technology in Inner Mongolia and other regions in China. CCPV is based in Hohhot, Inner Mongolia. The establishment of the entity was subject to approval of the Chinese government, which was received in the fourth quarter of fiscal 2013. In December 2013, the Company made a $16.4 million equity investment in CCPV, for a 25% equity ownership.

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The Company has concluded that it is not the primary beneficiary of CCPV since, although the Company is obligated to absorb losses and has the right to receive benefits, the Company alone does not have the power to direct the activities of CCPV that most significantly impact its economic performance. The Company accounts for its investment in CCPV using the equity method since the Company is able to exercise significant influence over CCPV due to its board position.

Equity Investment in Diamond Energy Pty Ltd. ("Diamond Energy")

In October 2012, the Company made a $3.0 million equity investment in Diamond Energy, an alternative energy project developer and clean electricity retailer headquartered in Melbourne, Australia, in exchange for a 25% equity ownership.

The Company has concluded that it is not the primary beneficiary of Diamond Energy since, although the Company is obligated to absorb losses and has the right to receive benefits, the Company alone does not have the power to direct the activities of Diamond that most significantly impact its economic performance. The Company accounts for its investment in Diamond using the equity method since the Company is able to exercise significant influence over Diamond due to its board position.

Note 9. DEBT AND CREDIT SOURCES

The following table summarizes the Company's outstanding debt on its Consolidated Balance Sheets:

	September 28, 2014				December 29, 2013			
(In thousands)	Face Value	Short-term	Long-term	Total	Face Value	Short-term	Long-term	Total
Convertible debt:								
0.875% debentures due 2021	$400,000	$—	$400,000	$400,000	$—	$—	$—	$—
0.75% debentures due 2018	300,000	—	300,000	300,000	300,000	—	300,000	300,000
4.50% debentures due 2015	249,716	240,213	—	240,213	250,000	225,889	—	225,889
4.75% debentures due 2014	—	—	—	—	230,000	230,000	—	230,000
0.75% debentures due 2015	79	—	79	79	79	—	79	79
IFC mortgage loan	47,500	15,000	32,500	47,500	62,500	15,000	47,500	62,500
CEDA loan	30,000	—	30,000	30,000	30,000			