SUNPOWER CORP
Form 10-Q/A
May 03, 2010

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

FORM 10-Q/A
(Amendment No. 2)

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

For the quarterly period ended March 29, 2009

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

3939 North First Street, 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 ¨

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

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

Large Accelerated Filer T	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 class A common stock as of April 23, 2010 was 55,387,562.
The total number of outstanding shares of the registrant’s class B common stock as of April 23, 2010 was 42,033,287.

Explanatory Note

On March 19, 2010, SunPower Corporation (the “Company”) filed its Annual Report on Form 10-K for the fiscal year ended January 3, 2010 (the “2009 Form 10-K”). In the 2009 Form 10-K, the Company restated (a) its consolidated financial statements as of and for the year ended December 28, 2008 and consolidated financial data for each of the quarterly periods for the year then ended as well as for the first three quarterly periods in the year ended January 3, 2010, and (b) the Selected Financial Data in Item 6 as of and for the year ended December 28, 2008. These restatements corrected misstatements identified through an independent investigation into certain unsubstantiated accounting entries on the books of our Company’s Philippines operations, as well as other errors identified by the Audit Committee’s investigation and by management and out-of-period adjustments. For a more detailed explanation of the investigation and these restatements, please see Part I — “Item 1: Financial Statements and Supplementary Data — Note 2 of Notes to Condensed Consolidated Financial Statements” and “Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations — Restatement of Previously Issued Condensed Consolidated Financial Statements” in this report and Part II — “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations — Restatement of Previously Issued Consolidated Financial Statements” and “Item 8: Financial Statements and Supplementary Data — Note 2 of Notes to Consolidated Financial Statements” in the 2009 Form 10-K.

The Company initially filed its Quarterly Report on Form 10-Q for the period ended March 29, 2009 on May 8, 2009 (“March 2009 Form 10-Q”). An amendment to the March 2009 Form 10-Q was filed on June 25, 2009 for the sole purpose of refiling Exhibit 10.1 in connection with a confidential treatment request. In this amendment to the March 2009 Form 10-Q (this “Amendment”), the Company is presenting restated condensed consolidated financial statements for the first quarter ended March 29, 2009 and March 30, 2008 (the “Restated Periods”). These restated financial statements reflect corrections of misstatements identified through the independent investigation referred to above, other errors identified by the investigation and by management and out-of-period adjustments. The following items of the March 2009 Form 10-Q are being amended in this Amendment:

- Part I – “Item 1: Financial Statements”
- Part I – “Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations”
- Part I – “Item 4: Controls and Procedures”
- Part II – “Item 6: Exhibits”

In accordance with SEC regulations, new certifications of the Company’s Chief Executive Officer and Chief Financial Officer were executed in connection with this Amendment and have been filed as exhibits to this Amendment. No other items included in the March 2009 Form 10-Q have been amended in this Amendment, and such items remain in effect as of May 8, 2009.

The Company believes that presenting this information regarding the Restated Periods in this Amendment allows investors to review the restated financial statements and related information for the Restated Periods in more detail. The Company has not filed an amendment to its Quarterly Report on Form 10-Q for the quarter ended March 30, 2008. Accordingly, investors should not rely on the financial information and other disclosures in the Quarterly Report on Form 10-Q for the period ended March 30, 2008, but should refer to the condensed consolidated financial statements for the quarter ended March 30, 2008 included in this Amendment.

This Amendment should be read in conjunction with the 2009 Form 10-K and the other filings made by the Company with the Securities and Exchange Commission (“SEC”) subsequent to the filing of the 2009 Form 10-K.

2

SunPower Corporation

INDEX TO FORM 10-Q/A

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SunPower Corporation

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

	March 29, 2009 (As Restated)	December 28, 2008 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 149,110	$ 202,331
Restricted cash and cash equivalents, current portion	12,663	13,240
Short-term investments	2,297	17,179
Accounts receivable, net	149,179	194,222
Costs and estimated earnings in excess of billings	32,969	29,750
Inventories	330,061	248,255
Advances to suppliers, current portion	39,647	43,190
Prepaid expenses and other current assets	78,842	101,735
Total current assets	794,768	849,902
Restricted cash and cash equivalents, net of current portion	171,799	162,037
Long-term investments	18,971	23,577
Property, plant and equipment, net	676,604	622,484
Goodwill	196,224	196,720
Intangible assets, net	35,385	39,490
Advances to suppliers, net of current portion	114,879	119,420
Other long-term assets	70,681	69,116
Total assets	$ 2,079,311	$ 2,082,746
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 265,848	$ 259,429
Accrued liabilities	71,631	136,116
Billings in excess of costs and estimated earnings	15,432	15,634
Customer advances, current portion	14,084	19,035
Total current liabilities	366,995	430,214
Long-term debt	103,850	54,598
Convertible debt	363,768	357,173
Long-term deferred tax liability	9,315	6,493
Customer advances, net of current portion	85,668	91,359
Other long-term liabilities	45,478	44,222
Total liabilities	975,074	984,059
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,042,490 shares authorized; none issued and outstanding	—	—

Common stock, $0.001 par value, 150,000,000 shares of class B common stock authorized; 42,033,287 shares of class B common stock issued and outstanding; $0.001 par value, 217,500,000 shares of class A common stock authorized; 44,274,852 and 44,055,644 shares of class A common stock issued; 43,999,060 and 43,849,566 shares of class A common stock outstanding, at March 29, 2009 and December 28, 2008, respectively	86	86
Additional paid-in capital	1,076,594	1,064,916
Accumulated other comprehensive loss	(19,677)	(25,611)
Retained earnings	58,250	67,953
	1,115,253	1,107,344
Less: shares of class A common stock held in treasury, at cost; 275,792 and 206,078 shares at March 29, 2009 and December 28, 2008, respectively	(11,016)	(8,657)
Total stockholders' equity	1,104,237	1,098,687
Total liabilities and stockholders' equity	$ 2,079,311	$ 2,082,746

(1) As adjusted to reflect the adoption of new accounting guidance for convertible debt instruments that may be settled in cash upon conversion (see Note 1).

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

Index

SunPower Corporation

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

	Three Months Ended March 29, 2009	Three Months Ended March 30, 2008 (1) (As Restated)
Revenue:		
Systems	$ 103,953	$ 179,423
Components	107,690	94,850
Total revenue	211,643	274,273
Costs and expenses:		
Cost of systems revenue	95,324	143,928
Cost of components revenue	84,084	78,849
Research and development	7,880	4,642
Sales, general and administrative	42,404	33,858
Total costs and expenses	229,692	261,277
Operating income (loss)	(18,049)	12,996
Other income (expense):		
Interest income	1,184	4,147
Interest expense	(6,121)	(6,017)
Other, net	(7,157)	715
Other income (expense), net	(12,094)	(1,155)
Income (loss) before income taxes and equity in earnings of unconsolidated investees	(30,143)	11,841
Income tax provision (benefit)	(19,196)	1,280
Income (loss) before equity in earnings of unconsolidated investees	(10,947)	10,561
Equity in earnings of unconsolidated investees, net of taxes	1,245	582
Net income (loss)	$ (9,702)	$ 11,143
Net income (loss) per share of class A and class B common stock:		
Basic	$ (0.12)	$ 0.14
Diluted	$ (0.12)	$ 0.13
Weighted-average shares:		
Basic	83,749	78,965
Diluted	83,749	83,002

(1) As adjusted to reflect the adoption of new accounting guidance for both convertible debt instruments that may be settled in cash upon conversion and unvested share-based payment awards that contain rights to nonforfeitable dividends that are participating securities (see Note 1).

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

Index

SunPower Corporation

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

	Three Months Ended	
	March 29, 2009	March 30, 2008 (1) (As Restated)
Cash flows from operating activities:		
Net income (loss)	$ (9,702)	$ 11,143
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation	9,054	14,508
Depreciation	18,365	10,139
Amortization of intangible assets	4,052	4,317
Impairment of long-lived assets	1,318	5,489
Non-cash interest expense	5,021	4,384
Amortization of debt issuance costs	537	537
Equity in earnings of unconsolidated investees	(1,245)	(582)
Excess tax benefits from stock-based award activity	—	(3,994)
Deferred income taxes and other tax liabilities	(17,003)	(981)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	40,931	(17,162)
Costs and estimated earnings in excess of billings	(3,178)	(20,709)
Inventories	(86,049)	(43,131)
Prepaid expenses and other assets	11,671	(11,200)
Advances to suppliers	7,993	(2,559)
Accounts payable and other accrued liabilities	(24,798)	25,536
Billings in excess of costs and estimated earnings	88	(43,663)
Customer advances	(10,180)	(786)
Net cash used in operating activities	(53,125)	(68,714)
Cash flows from investing activities:		
Increase in restricted cash and cash equivalents	(9,185)	(55,550)
Purchase of property, plant and equipment	(52,101)	(51,070)
Purchase of available-for-sale securities	—	(50,970)
Proceeds from sales or maturities of available-for-sale securities	18,177	84,106
Cash paid for acquisition, net of cash acquired	—	(13,484)
Cash paid for investments in joint ventures and other non-public companies	—	(5,625)
Net cash used in investing activities	(43,109)	(92,593)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	51,232	—
Proceeds from exercise of stock options	396	1,138
Excess tax benefits from stock-based award activity	—	3,994
Purchases of stock for tax withholding obligations on vested restricted stock	(2,359)	(3,334)
Net cash provided by financing activities	49,269	1,798
Effect of exchange rate changes on cash and cash equivalents	(6,256)	6,817
Net decrease in cash and cash equivalents	(53,221)	(152,692)
Cash and cash equivalents at beginning of period	202,331	285,214

Cash and cash equivalents at end of period	$	149,110	$	132,522
Non-cash transactions:				
Additions to property, plant and equipment acquired under accounts payable and other accrued liabilities	$	18,780	$	4,446
Non-cash interest expense capitalized and added to the cost of qualified assets		2,073		1,784
Change in goodwill relating to adjustments to acquired net assets		—		231

(1) As adjusted to reflect the adoption of new accounting guidance for convertible debt instruments that may be settled in cash upon conversion (see Note 1).

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

6

SunPower Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

SunPower Corporation (together with its subsidiaries, the "Company" or "SunPower") designs, manufactures and markets high-performance solar electric power technologies. The Company's solar cells and solar panels are manufactured using proprietary processes, and our technologies are based on more than 15 years of research and development. The Company operates in two business segments: systems and components. The Systems Segment generally represents sales directly to systems owners of engineering, procurement, construction and other services relating to solar electric power systems that integrate the Company's solar panels and balance of systems components, as well as materials sourced from other manufacturers. The Components Segment primarily represents sales of the Company's solar cells, solar panels and inverters to solar systems installers and other resellers, including the Company's global dealer network.

The Company was a majority-owned subsidiary of Cypress Semiconductor Corporation ("Cypress") through September 29, 2008. After the close of trading on September 29, 2008, Cypress completed a spin-off of all of its shares of the Company's class B common stock in the form of a pro rata dividend to the holders of record of Cypress common stock as of September 17, 2008. As a result, the Company's class B common stock now trades publicly and is listed on the Nasdaq Global Select Market, along with the Company's class A common stock.

Recently Adopted Accounting Pronouncements

Convertible Debt

On December 29, 2008, the Company adopted Financial Accounting Standards Board ("FASB") Staff Position ("FSP") Accounting Principles Board ("APB") 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"), which requires recognition of both the liability and equity components of convertible debt instruments with cash settlement features. The debt component is required to be recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the convertible debt and the fair value of the liability, after adjusting for the deferred tax impact. FSP APB 14-1 also requires an accretion of the resulting debt discount over the expected life of the convertible debt. FSP APB 14-1 is required to be applied retrospectively to prior periods, and accordingly, financial statements for prior periods have been adjusted to reflect its adoption.

In February 2007, the Company issued $200.0 million in principal amount of its 1.25% senior convertible debentures, or the 1.25% debentures. In the fourth quarter of fiscal 2008, the Company received notices for the conversion of approximately $1.4 million of the 1.25% debentures. In July 2007, the Company issued $225.0 million in principal amount of its 0.75% senior convertible debentures, or the 0.75% debentures. The 1.25% debentures and the 0.75% debentures contain partial cash settlement features and are therefore subject to FSP APB 14-1. As of December 28, 2008, the carrying value of the equity component was $61.8 million and the principal amount of the outstanding debentures, the unamortized discount and the net carrying value was $423.6 million, $66.4 million and $357.2 million, respectively (see Note 11). On a cumulative basis from the respective issuance dates of the 1.25% debentures and the 0.75% debentures through December 28, 2008, the Company has retrospectively recognized $24.4 million in non-cash interest expense related to the adoption of FSP APB 14-1 excluding the related tax effects.

As a result of the Company's adoption of FSP APB 14-1, the Company's Condensed Consolidated Balance Sheet as of December 28, 2008 has been adjusted. The impact of the Company's adoption of the new accounting guidance on its Condensed Consolidated Balance Sheet as of December 28, 2008 is shown in its Annual Report on Form 10-K for the year ended January 3, 2010 (the "2009 Form 10-K").

As a result of the Company's adoption of FSP APB 14-1, the Company's Condensed Consolidated Statement of Operations for the three months ended March 30, 2008 has been adjusted as follows:

(In thousands)	As Adjusted in this Quarterly Report on Form 10-Q/A	Prior to Retrospective Application of New Accounting Guidance
Cost of systems revenue	$ 143,928	$ 143,877
Cost of components revenue	78,849	78,775
Operating income	12,996	13,121
Interest expense	(6,017)	(1,184)
Other, net	715	(257)
Income before income taxes and equity in earnings of unconsolidated investees	11,841	15,827
Income tax provision	1,280	4,508
Income before equity in earnings of unconsolidated investees	10,561	11,319
Net income	11,143	11,901

Index

As a result of the Company's adoption of FSP APB 14-1, the Company's Condensed Consolidated Statement of Cash Flows for the three months ended March 30, 2008 has been adjusted as follows:

(In thousands)	As Adjusted in this Quarterly Report on Form 10-Q/A	Prior to Retrospective Application of New Accounting Guidance
Cash flows from operating activities:		
Net income	$ 11,143	$ 11,901
Depreciation	10,139	10,102
Non-cash interest expense	4,384	—
Amortization of debt issuance costs	537	972
Deferred income taxes and other tax liabilities	(981)	2,247
Net cash used in operating activities	(68,714)	(68,714)

Earnings Per Share

On December 29, 2008, the Company adopted FSP Emerging Issues Task Force Issue ("EITF") 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"), which clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. In fiscal 2007, the Company granted restricted stock awards with the same dividend rights as its other stockholders, therefore, unvested restricted stock awards are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied (see Note 15). The new guidance was applied retrospectively to the Company's historical results of operations, and as a result, the Company's Condensed Consolidated Statement of Operations for the three months ended March 30, 2008 has been adjusted as follows:

(In thousands, except per share data)	As Adjusted in this Quarterly Report on Form 10-Q/A	Prior to Retrospective Application of New Accounting Guidance
Net income	$ 11,143	$ 11,901
Net income per share of class A and class B common stock:		
Basic	$ 0.14	$ 0.15
Diluted	$ 0.13	$ 0.14
Weighted-average shares:		
Basic	78,965	78,965
Diluted	83,002	83,661

Disclosures about Derivative Instruments and Hedging Activities

On December 29, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of SFAS No. 133" ("SFAS No. 161"), which had no financial impact on the Company's condensed consolidated financial statements and only required additional financial statement disclosures as set forth in Note 12. SFAS No. 161 specifically requires entities to provide enhanced disclosures addressing the following: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

8

Index

Fair Value of Nonfinancial Assets and Nonfinancial Liabilities

In February 2008, the FASB issued FSP SFAS No. 157-2, “Effective Date of FASB Statement No. 157” (“FSP SFAS No. 157-2”), which delayed the effective date of SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal 2009. Therefore, in the first quarter of fiscal 2009, the Company adopted SFAS No. 157 for nonfinancial assets and nonfinancial liabilities. The adoption of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are not measured and recorded at fair value on a recurring basis did not have a significant impact on the Company’s condensed consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In April 2009, the FASB issued three Staff Positions: (i) FSP SFAS No. 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly” (“FSP SFAS No. 157-4”), (ii) SFAS No. 115-2 and SFAS No. 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (“FSP SFAS No. 115-2 and FSP SFAS No. 124-2”), and (iii) SFAS No. 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP SFAS No. 107 and APB 28-1”), which will be effective for interim and annual periods ending after June 15, 2009. FSP SFAS No. 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS No. 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If the Company were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and the Company may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP SFAS No. 115-2 and FSP SFAS No. 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP SFAS No. 107 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS No. 157 for both interim and annual periods. The Company is currently evaluating the potential impact, if any, of the adoption of these Staff Positions on its financial position, results of operations and disclosures.

In April 2009, the FASB issued FSP SFAS No. 141(R)-1 which amends the provisions in SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141(R)”), for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP SFAS No. 141(R)-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS No. 141(R) and instead carries forward most of the provisions in SFAS No. 141, "Business Combinations" ("SFAS No. 141"), for acquired contingencies. FSP SFAS No. 141(R)-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company expects FSP SFAS No. 141(R)-1 will have an impact in its condensed consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquired contingencies.

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. Fiscal year 2009 consists of 53 weeks while fiscal year 2008 consists of 52 weeks. The first quarter of fiscal 2009 ended on March 29, 2009 and the first quarter of fiscal 2008 ended on March 30, 2008.

Basis of Presentation

The accompanying condensed consolidated interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting and include the accounts of the Company and all of its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation. The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements adjusted for the retrospective application of FSP APB 14-1 discussed above. Accordingly, these financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 28, 2008.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("United States" or "U.S.") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates in these financial statements include percentage-of-completion for construction projects, allowances for doubtful accounts receivable and sales returns, inventory write-downs, estimates for future cash flows and economic useful lives of property, plant and equipment, goodwill, intangible assets and other long-term assets, asset impairments, valuation of auction rate securities, investments in joint ventures, certain accrued liabilities including accrued warranty reserves, valuation of debt without the conversion feature, and income taxes and tax valuation allowances. Actual results could materially differ from those estimates.

Index

In the opinion of management, the accompanying condensed consolidated interim financial statements contain all adjustments, consisting only of normal recurring adjustments, which the Company believes are necessary for a fair statement of the Company's financial position as of March 29, 2009 and its results of operations for the three months ended March 29, 2009 and March 30, 2008 and its cash flows for the three months ended March 29, 2009 and March 30, 2008. These condensed consolidated interim financial statements are not necessarily indicative of the results to be expected for the entire year.

Note 2. RESTATEMENT OF PREVIOUSLY ISSUED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On November 16, 2009, the Company announced that its Audit Committee commenced an independent investigation into certain accounting and financial reporting matters at the Company's Philippines operations ("SPML"). The Audit Committee retained independent counsel, forensic accountants and other experts to assist it in conducting the investigation.

As a result of the investigation, the Audit Committee concluded that certain unsubstantiated accounting entries were made at the direction of the Philippines-based finance personnel in order to report results for manufacturing operations that would be consistent with internal expense projections. The entries generally resulted in an understatement of the Company's cost of goods sold (referred to as "cost of revenue" in the Condensed Consolidated Statement of Operations). The Audit Committee concluded that the efforts were not directed at achieving the Company's overall financial results or financial analysts' projections of the Company's financial results. The Audit Committee also determined that these accounting issues were confined to the accounting function in the Philippines. Finally, the Audit Committee concluded that executive management neither directed nor encouraged, nor was aware of, these activities and was not provided with accurate information concerning the unsubstantiated entries. In addition to the unsubstantiated entries, during the Audit Committee investigation various accounting errors were discovered by the investigation and by management. See Part I — "Item 4: Controls and Procedures" of this report.

The nature of the restatement adjustments and the impact of the adjustments for the three months ended March 29, 2009 and March 30, 2008 are shown in the following table (in thousands):

	March 29, 2009	March 30, 2008 (1)
Investigation related adjustments	$ (4,040)	$ (4,364)
Errors identified during course of investigation	(8,468)	2,342
	(12,508)	(2,022)
Out-of-period adjustments	(3,042)	641
Total adjustments	(15,550)	(1,381)
Income tax effect of adjustments	10,634	525
Decrease in net income (loss)	$ (4,916)	$ (856)

(1) Includes the correction of errors identified that occurred in fiscal 2007 and 2006 that were determined to be immaterial both individually and in the aggregate to those years. Consequently, a total of approximately $0.6 million and $0.5 million of pre-tax expense and after tax expense, respectively, identified in fiscal 2007 were recorded in the three months ended March 30, 2008 as well as a total of approximately $0.4 million of both pre-tax income and after tax income identified in fiscal 2006 were recorded in the three months ended March 30, 2008.

Investigation Related Adjustments:

As noted above, the Audit Committee's investigation found that unsubstantiated entries (a) were made at the direction of the Philippines-based finance personnel in order to report results for manufacturing operations that would be consistent with internal expense projections, (b) generally resulted in an understatement of the Company's cost of goods sold, and (c) were not directed or encouraged by, or done with the knowledge of, executive management. During the course of the investigation, various accounting errors which required adjustments were also identified. Adjustments for these unsubstantiated entries and errors affected cost of goods sold and the following balance sheet accounts:

Accounts payable and accrued liabilities: The investigation found that certain expenses were understated by (a) not sufficiently accruing expenses or (b) reversing previously recorded expenses through manual journal entries that were not based on actual transactions or reasonable estimates of expenses. The accounts primarily affected were accruals for manufacturing expenses such as subcontracted wafering costs, electricity, and freight and other accrued expenses. Unsubstantiated entries were also recorded to reduce uninvoiced receipts liability accounts, with an offsetting reduction to cost of goods sold.

Index

Inventories: The investigation found that unsubstantiated entries were made to increase inventory and decrease cost of goods sold by adjusting variance capitalization amounts. In addition, inventory obsolescence was understated for materials used in-house by wafering services of silicon ingots.

Errors Identified during Course of Investigation:

Through the investigation, errors were also found in the Philippines relating to inventories, prepaid expenses and other current assets, property, plant and equipment, and accounts payable and accrued liabilities. The primary categories of these adjustments are discussed below:

Inventories: The Company recorded corrections related to accounting for inventories in-transit and scrap, as well as the methodology used to calculate the capitalization of inventory variances.

Prepaid expenses and other current assets: Certain foreign individual income tax filings prepared for employees on foreign assignments contained omissions of taxable income. The amount of the estimated tax understatement plus interest and penalties less any employee receivables generated by the filing of amended returns has been included in the restated financials.

Property plant and equipment: In some instances, depreciation expense was not recorded in the proper period.

Accounts payable and accrued liabilities: Vendor credits were not properly applied and certain employee bonuses were not correctly accrued.

Out-Of-Period Adjustments:

The Company also recorded out-of-period adjustments during the restatement periods that were previously considered to be immaterial. These adjustments related to systems revenue, inventories, accounts payable and accruals and stock-based compensation. As part of the restatement these adjustments have now been reflected in the quarterly period in which a substantial portion of the errors arose. The primary categories of these adjustments are discussed below:

Systems revenue: The Company determined it had improperly deferred revenue earned in 2008 due to the improper application of multiple element accounting. In addition, the Company recorded revenue adjustments for several solar system contracts in 2008 for which costs to complete had not been properly estimated. Also, the Company incorrectly recorded a materials-only sale using the percentage-of-completion method.

Inventories: Various inventory adjustments were the result of the improper accounting for consigned inventory, in-transit inventories, and standard costing.

Accounts payable and accruals: The Company noted several under and over accruals of operating expenses.

Stock based compensation: The Company determined it had recorded excess stock based compensation expense due to a spreadsheet error.

The Company has also made some minor revisions to disclosures in connection with this Amendment.

Index

The table below summarizes: (i) the adjustments related to the investigation; (ii) errors identified during the course of the investigation; and (iii) out-of-period adjustments on the Condensed Consolidated Balance Sheet as of March 29, 2009.

	March 29, 2009		
	As Previously Reported (1)	Restatement Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	$ 149,110	$ -	$ 149,110
Restricted cash and cash equivalents, current portion	12,663	-	12,663
Short-term investments	2,297	-	2,297
Accounts receivable, net	149,179	-	149,179
Costs and estimated earnings in excess of billings	34,164	(1,195)	32,969
Inventories	343,169	(13,108)	330,061
Advances to suppliers, current portion	39,647	-	39,647
Prepaid expenses and other current assets	75,119	3,723	78,842
Total current assets	805,348	(10,580)	794,768
Restricted cash and cash equivalents, net of current portion	171,799	-	171,799
Long-term investments	18,971	-	18,971
Property, plant and equipment, net	687,159	(10,555)	676,604
Goodwill	196,224	-	196,224
Other intangible assets, net	35,385	-	35,385
Advances to suppliers, net of current portion	114,879	-	114,879
Other long-term assets	78,316	(7,635)	70,681
Total assets	$ 2,108,081	$ (28,770)	$ 2,079,311
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$ 272,600	$ (6,752)	$ 265,848
Accrued liabilities	82,836	(11,205)	71,631
Billings in excess of costs and estimated earnings	6,904	8,528	15,432
Customer advances, current portion	15,404	(1,320)	14,084
Total current liabilities	377,744	(10,749)	366,995
Long-term debt	103,850	-	103,850
Convertible debt	363,768	-	363,768
Customer advances, net of current portion	85,668	-	85,668
Long-term deferred tax liability	10,963	(1,648)	9,315
Other long-term liabilities	46,019	(541)	45,478
Total liabilities	988,012	(12,938)	975,074
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, $0.001 par value, 10,042,490 shares authorized; none issued and outstanding	-	-	-
	86	-	86

Common stock, $0.001 par value, 150,000,000 shares of class B common stock authorized; 42,033,287 shares of class B common stock issued and outstanding; $0.001 par value, 217,500,000 shares of class A common stock authorized; 44,274,852 shares of class A common stock issued; 43,999,060 shares of class A common stock outstanding			
Additional paid-in capital	1,077,851	(1,257)	1,076,594
Accumulated other comprehensive loss	(19,677)	-	(19,677)
Retained earnings	72,825	(14,575)	58,250
	1,131,085	(15,832)	1,115,253
Less: 275,792 shares of class A common stock held in treasury, at cost	(11,016)	-	(11,016)
Total stockholders' equity	1,120,069	(15,832)	1,104,237
Total liabilities and stockholders' equity	$ 2,108,081	$ (28,770)	$ 2,079,311

(1) Certain short-term warranty reserves have been revised to long-term warranty reserves to conform to the presentation in the Company's Condensed Consolidated Balance Sheets in the 2009 Form 10-K.

Index

The table below summarizes: (i) the adjustments related to the investigation; (ii) errors identified during the course of the investigation; and (iii) out-of-period adjustments on the Condensed Consolidated Statement of Operations for the three months ended March 29, 2009.

	Three Months Ended March 29, 2009		
	As Previously Reported	Restatement Adjustments	As Restated
Revenue:			
Systems	$ 106,097	$ (2,144)	$ 103,953
Components	107,690	-	107,690
Total revenue	213,787	(2,144)	211,643
Operating costs and expenses:			