As filed with the Securities and Exchange Commission on August 25, 2005

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1
REGISTRATION STATEMENT

Under
THE SECURITIES ACT OF 1933

SunPower Corporation

(Exact name of registrant as specified in its charter)

California (prior to reincorporation) Delaware (after reincorporation)	3674	94-3008969
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

430 Indio Way
Sunnyvale, California 94085
(408) 991-0900

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Thomas H. Werner
Chief Executive Officer
SunPower Corporation
430 Indio Way
Sunnyvale, California 94085
(408) 991-0900

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price[(1)(2)]	Amount of registration fee
Class A Common Stock, par value $0.001 per share	$ 115,000,000	$ 13,536

(1) Includes shares of class A common stock to be sold upon exercise of the underwriters' over-allotment option, if any.
(2) Estimate solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Index to Financial Statements

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST , 2005

Shares

Class A Common Stock

We are selling shares of class A common stock. Prior to this offering, there has been no public market for our class A common stock. The initial public offering price of our class A common stock is expected to be between $ and $ per share. We have applied to list our class A common stock on The Nasdaq National Market under the symbol "SPWR."

Following this offering, we will have two classes of authorized common stock: class A common stock and class B common stock. Only Cypress Semiconductor Corporation, or Cypress, its successors in interest and its subsidiaries may hold shares of our class B common stock unless Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution. The rights of the holders of class A and class B common stock are substantially similar, except with respect to voting, conversion and other protective provisions as set forth in this prospectus. The holders of class B common stock shall be entitled to eight votes per share and the holders of class A common stock shall be entitled to one vote per share. Each share of class B common stock is convertible into one share of class A common stock at any time and will so convert automatically on any transfer unless Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution. In the event that Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress has not effected a tax-free distribution of our class B common stock to its stockholders prior to such time, each outstanding share of class B common stock will automatically convert into one share of class A common stock.

The underwriters have an over-allotment option to purchase a maximum of additional shares of class A common stock from us and certain selling stockholders on the same terms and conditions as set forth below if the underwriters sell more than shares in this offering.

Investing in our class A common stock involves risks. See " Risk Factors" beginning on page 9.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to SunPower
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of class A common stock will be made on or about , 2005.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **Lehman Brothers**

SG Cowen & Co. **First Albany Capital**

The date of this prospectus is , 2005

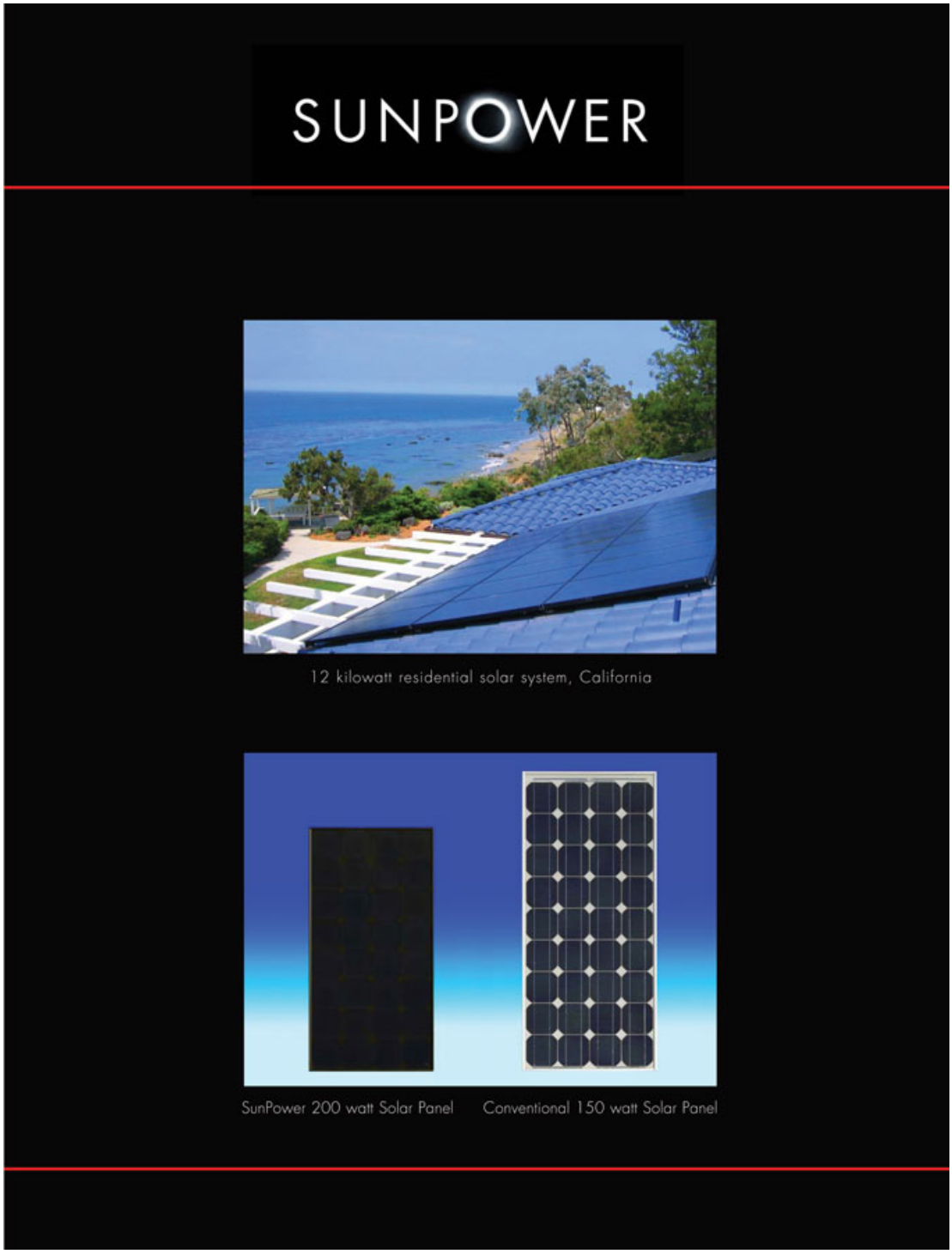

SUNPOWER
12 kilowatt residential solar system, California
SunPower 200 watt Solar Panel
Conventional 150 watt Solar Panel

TABLE OF CONTENTS

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Dealer Prospectus Delivery Obligation

Until , 2005 (25 days after commencement of the offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

PROSPECTUS SUMMARY

You should read the following summary together with the entire prospectus, including the more detailed information regarding us and the class A common stock being sold in this offering and our consolidated financial statements and the related notes appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in the section entitled "Risk Factors."

Our Company

We design, manufacture and sell solar electric power products, or solar power products, based on our proprietary processes and technologies. We have spent more than 15 years developing high performance solar cells, which are semiconductor devices that directly convert sunlight into electricity. We believe our solar cells have the highest conversion efficiency, a measurement of the amount of sunlight converted by the solar cell into electricity, available for the mass market. We believe our solar cells provide the following benefits compared with conventional solar cells:

- Superior performance, including the ability to generate up to 50% more power per unit area;
- Superior aesthetics with our uniformly black surface design which eliminates highly visible reflective grid lines and metal interconnect ribbons; and
- Efficient use of silicon, a key raw material used in the manufacture of solar cells.

We offer solar power products including solar cells, solar panels and inverters which convert sunlight to electricity compatible with the utility network. Our initial solar sales efforts have been focused on residential and commercial applications where the high performance and superior aesthetics of our solar power products provide compelling customer benefits. We sell our solar power products in many countries, principally in regions where government incentives have accelerated solar power adoption. In addition, we offer high performance imaging detectors based on our solar power technology, primarily for medical imaging applications. We also offer infrared detectors based on our high performance all back contact technology, primarily for use in computing and mobile phone applications.

Market Opportunity

The electric power industry is one of the world's largest industrial segments, with annual revenue of approximately $1.06 trillion in 2004, according to Datamonitor, an industry consulting firm. Global electricity demand has shown consistent growth over the past decade and is expected to increase from 14.3 trillion kilowatt hours in 2003 to 26.0 trillion kilowatt hours by 2025, according to the United States Department of Energy's International Energy Outlook 2005. Investments in generation, transmission and distribution to meet growth in electricity demand, excluding investments in fuel supply, are expected to be roughly $10 trillion by 2030, according to the International Energy Agency, or IEA. However, fossil fuel supply constraints, infrastructure limitations, the desire for energy security and environmental concerns pose a challenge to meeting this growing worldwide electricity demand. The use of renewable resources, which include solar, biomass, geothermal, hydroelectric and wind power generation, has grown significantly in response to the challenges associated with growing global electricity production. As opposed to fossil fuels which draw on finite resources that may eventually become too expensive to retrieve, renewable resources are generally unlimited in availability.

Solar power has emerged as one of the most rapidly growing renewable energy sources primarily due to multiple advantages it offers over other renewable energy sources, including negligible impact on the environment, no fuel price or delivery risk, point-of-use power generation, price competitiveness with peak retail electric rates, maximum generation during peak energy demand periods, modularity and reliability. Since 1985, the market for solar power, as defined by worldwide shipments of solar power systems, has grown at a compound annual growth rate of over 20%, according to Strategies Unlimited, a research firm. Since 2000, the growth of the global solar power market, as defined by solar power system installations, has accelerated to an average rate of 38%, according

to SolarBuzz, an industry consulting firm. The global solar power market had an estimated $6.5 billion in revenue in 2004 and is expected to grow to $18.5 billion by 2010, according to SolarBuzz.

Our Strengths

Solar power is an emerging high-growth power generation technology. Adoption of solar power is accelerating, driven partially by government programs, although solar power's cost competitiveness versus other electricity generation alternatives and aesthetics are challenges to widespread acceptance of solar power. We believe we are a leader in producing high performance solar cells and believe our competitive advantages include:

- *Superior Conversion Efficiency*. We believe our solar cells have the highest conversion efficiency available for the mass market. Our proprietary all back contact design results in conversion efficiencies of up to 50% more power per unit area than conventional solar cells.
- *Superior Aesthetics*. Because all electrical contacts are located on the back, our solar cells have a uniformly black appearance that allows our solar panels to blend into customers' rooftops, which we believe appeals to customers seeking a solution which is more aesthetically appealing.
- *Efficient Silicon Utilization*. Unlike conventional solar cells, which generally lose efficiency with thinner silicon wafers, our proprietary technology allows our solar cells to maintain high efficiency levels with thinner silicon wafers. This provides our solar cells with more efficient utilization of silicon, the primary raw material used in solar cells, as defined by grams of silicon per watt, than that of conventional solar cells.
- *Ease of Assembly*. Our proprietary solar cell architecture simplifies panel assembly, allowing for backside connections, versus the traditional interconnect weaving process. We believe our architecture reduces the complexity and cost of assembling solar panels.
- *Manufacturing Advantages*. We manufacture our solar cells at our facility in the Philippines, a low-cost production region. In addition, we believe our background and expertise in the semiconductor industry enable us to improve our manufacturing yields, cost, quality and product ramp predictability.
- *Strong Management Team*. Our management team has a diverse set of industry skills and global operating experience, including backgrounds spanning the solar, semiconductor and optical media industries, as well as expertise running complex organizations and managing rapid growth. Our executive officers have an average of over 25 years of experience in the solar or high technology industries.

Our Strategy

Our principal objective is to be the leader in high performance solar power products. We plan to achieve this objective by pursuing the following strategies:

- *Maintain our Technology Advantage and Reduce Manufacturing Costs*. We intend to maintain our technology advantage by continuing to invest in research and development to improve solar cell efficiency and lower manufacturing costs.
- *Continue to Expand Manufacturing Capacity*. Since late 2004, we have been operating a single 25 megawatts per year solar cell production line. To meet the ongoing demand for our products, we have ordered manufacturing equipment for the second and third 25 megawatts per year production lines, which are expected to increase our manufacturing capacity to 75 megawatts per year in 2006. We are evaluating the timing of a fourth line in our existing facility and of a second production facility.
- *Reduce our Dependence on Market Incentives*. Most of our current customers operate in markets that depend on a variety of government incentives to reduce the cost of solar power systems to end customers.

In the short term, we intend to diversify our customer and market base to include non-incentivized markets. Over the long term, we plan to reduce our solar power system cost to reduce or eliminate the need for these market incentives.

- *Build a Leading Brand*. We believe establishing strong brand name recognition is important to increase product awareness and to address the mass market. We intend to differentiate our brand by emphasizing our combination of high performance and superior product appearance.
- *Drive Efficiency Improvements Through Relationships with Suppliers and Customers*. We intend to pursue relationships with, and investments in, our suppliers and customers to increase overall channel efficiency and reduce the cost of our products delivered to end customers.

Our Corporate History

We were incorporated in California in April 1985. We intend to reincorporate in Delaware prior to completion of this offering. Our headquarters are located at 430 Indio Way, Sunnyvale, CA 94085 and our telephone number is (408) 991-0900. Our website is www.sunpowercorp.com. Information contained on, or that can be accessed through, our website does not constitute part of this prospectus. In this prospectus, "SunPower," "we," "us" and "our" refer to SunPower Corporation and its subsidiaries and not to the underwriters or Cypress.

SunPower is our registered trademark. The SunPower logo is our trademark. This prospectus also includes trade names, trademarks and service marks of other companies and organizations.

Our Relationship with Cypress Semiconductor Corporation

Cypress made a significant investment in us in 2002. On November 9, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our then outstanding shares of capital stock but leaving our unexercised warrants and options outstanding.

After this offering, Cypress will hold in the aggregate 104,066,575 shares of class B common stock, representing approximately % of our total outstanding shares of common stock. At that time, Cypress is expected to hold % of the voting power of our outstanding capital stock. Cypress has advised us that it does not have any current plans to distribute to its stockholders the shares of our class B common stock that it beneficially owns, although it may elect to effect such a distribution in the future.

We design, manufacture and sell solar power products based on our proprietary processes and technologies. We intend to enter into various agreements with Cypress for administrative and other services, including a master separation agreement, an employee matters agreement, a tax sharing agreement, a master transition services agreement, a wafer supply agreement, an investor rights agreement, and an indemnification and insurance matters agreement. We have reached an agreement in principle with Cypress to extend our lease in the Philippines for an additional 15 years with a right to purchase the facility. See "Related Party Transactions."

Cypress designs, develops, manufactures and markets a broad line of high-performance digital and mixed-signal integrated circuits for a broad range of markets, including networking, wireless infrastructure and handsets, computation, consumer, automotive and industrial. Cypress' product portfolio includes a selection of wired and wireless USB devices, CMOS image sensors, timing solutions, network search engines, specialty memories, high-bandwidth synchronous and micropower memory products, optical solutions and reconfigurable mixed-signal arrays. Cypress stock is traded on the New York Stock Exchange under the symbol "CY."

THE OFFERING

Class A common stock offered by us	shares
Class A common stock to be outstanding after this offering	shares
Class B common stock to be outstanding after this offering	104,066,575[(1)] shares
Total common stock to be outstanding after this offering	shares
Voting rights	Following this offering, we will have two classes of authorized common stock: class A common stock and class B common stock. Only Cypress, its successors in interest and its subsidiaries may hold shares of class B common stock unless Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution. The rights of the holders of class A and class B common stock are substantially similar, except with respect to voting, conversion and other protective provisions as set forth in this prospectus. The holders of class B common stock shall be entitled to eight votes per share and the holders of class A common stock shall be entitled to one vote per share. Each share of class B common stock is convertible into one share of class A common stock at any time. In the event that Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress has not effected a tax-free distribution of our class B common stock to its stockholders prior to such time, each outstanding share of class B common stock will automatically convert into one share of class A common stock. See “Description of Capital Stock.”
Use of proceeds	We intend to use the net proceeds from this offering for the expansion of our manufacturing capacity and for general corporate purposes, including working capital. We may also use a portion of the net proceeds to acquire complementary technologies or businesses. We are not currently engaged in any negotiations for any acquisitions. See “Use of Proceeds.”
Proposed Nasdaq National Market symbol	“SPWR”

(1) Only Cypress, its successors in interest and its subsidiaries may hold shares of our class B common stock unless Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution.

The number of shares of class A and class B common stock to be outstanding immediately after this offering is based upon 82,020 shares of class A common stock and 80,066,575 shares of class B common stock outstanding as of June 30, 2005 and excludes:

- 12,304,869 shares of class A common stock issuable upon the exercise of options outstanding as of June 30, 2005, at a weighted average exercise price of $1.33 per share;
- 793,470 shares of class A common stock reserved for future issuance as of August 12, 2005 under our 2005 stock incentive plan; and

- 7,642,859 shares of class A common stock issuable upon the exercise of warrants outstanding as of June 30, 2005, which were terminated in connection with the purchase of 24,000,000 shares of our class A common stock by Cypress in July 2005, which shares will be exchanged for an equal number of shares of class B common stock prior to completion of this offering.

As of June 30, 2005, 1,349,070 shares of class A common stock remained available for future issuance under our 1996 Stock Plan. Upon the completion of this offering, the 1996 Stock Plan will be terminated. No shares of our class A common stock will remain available under the 1996 Stock Plan or our 1988 Stock Incentive Plan other than for satisfying exercises of stock options granted under this plan prior to its termination.

Unless otherwise stated, all information in this prospectus assumes:

- the exchange of all outstanding shares of class A common stock held by Cypress for 59,151,515 shares of class B common stock prior to completion of this offering;
- the automatic conversion of all outstanding shares of our series one convertible preferred stock into 12,915,060 shares of class B common stock and all outstanding shares of our series two convertible preferred stock into 32,000,000 shares of class B common stock upon completion of this offering; and
- no exercise of the over-allotment option granted to the underwriters.

Upon completion of this offering, each share of series one convertible preferred stock will convert into one share of class B common stock and each share of series two convertible preferred stock will convert into one share of class B common stock.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables present our summary consolidated historical financial information. You should read this information together with the consolidated financial statements and related notes and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

On November 9, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our then outstanding shares of capital stock but leaving our unexercised warrants and options outstanding. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting. See note 2 of the notes to our consolidated financial statements. The consolidated balance sheet and statements of operations data in this prospectus prior and up to November 8, 2004 refer to the Predecessor Company and this period is referred to as the pre-merger period, while the consolidated balance sheet and statements of operations data subsequent to November 8, 2004 refer to the Successor Company and this period is referred to as the post-merger period. A black line has been drawn between the accompanying financial statements to distinguish between the pre-merger and post-merger periods.

The summary consolidated balance sheet data at June 30, 2005 and the consolidated statements of operations data for the fiscal years ended December 31, 2002 and 2003, the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004 and the six months ended June 30, 2005, have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statement of operations data for the six months ended June 30, 2004 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In 2002, we reported our results of operations on a calendar year-end basis. In fiscal 2003, we began to report our results of operations on the basis of 52 or 53 week periods, ending on the Sunday closest to December 31. Fiscal 2003 ended on December 28, 2003 and included 52 weeks. The combined periods of fiscal 2004 ended on January 2, 2005 and included 53 weeks. Our fiscal quarters end on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year in which the additional week falls into the fourth quarter of that fiscal year. For presentation purposes only, the consolidated financial statements and notes refer to the calendar year-end and month-end of each respective period.

Our consolidated financial statements include allocations of certain Cypress expenses, including centralized legal, tax, treasury, information technology, employee benefits and other Cypress corporate services and infrastructure costs. The expense allocations have been determined on bases that we and Cypress considered to be reasonable reflections of the utilization of services provided or the benefit received by us. The financial information included in this discussion and in our consolidated financial statements may not be indicative of our consolidated financial position, operating results, changes in equity and cash flows in the future, or what they would have been had we been a separate stand-alone entity during the periods presented. See note 3 of the notes to our consolidated financial statements for additional information on our relationship with Cypress.

	Predecessor Company				Successor Company	
	Years Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
Consolidated Statements of Operations Data	($ in thousands, except per share data)					
Revenue:						
Product revenue	$ 3,722	$ 4,245	$ 3,644	$ 6,708	$ 3,881	$ 27,342
Other	333	760	—	122	174	150
Total revenue	4,055	5,005	3,644	6,830	4,055	27,492
Costs and expenses:						
Cost of revenue	3,198	4,987	3,459	9,397	5,410	28,318
Research and development	2,532	9,816	7,425	12,095	1,124	2,935
Sales, general and administrative	1,396	3,238	2,420	4,706	850	3,918
Stock-based compensation*	—	—	55	131	650	184
Amortization of intangible assets	—	—	—	—	573	2,353
Total costs and expenses	7,126	18,041	13,359	26,329	8,607	37,708
Operating loss	(3,071)	(13,036)	(9,715)	(19,499)	(4,552)	(10,216)
Interest expense	(493)	(1,509)	(1,417)	(3,759)	(1,072)	(3,184)
Other income (expense), net	31	—	3	(44)	15	(173)
Net loss	$(3,533)	$(14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Net loss per share:						
Basic and diluted[1]	$ (0.55)	$ (1.75)	$ (1.33)	$ (2.75)	$ (5.31)	$ (0.74)
Pro forma basic and diluted[2]				$ (1.02)	$ (0.40)	$ (0.24)
Weighted-average shares:						
Basic and diluted[1]	6,376	8,313	8,397	8,461	1,056	18,307
Pro forma basic and diluted[2]				22,769	14,135	57,305
* Stock-based compensation consists of:						
Cost of revenue			$ 55	$ 101	$ 96	$ 92
Research and development			—	23	293	69
Sales, general and administrative			—	7	261	23
			$ 55	131	$ 650	$ 184

(1) The basic and diluted net loss per share computation excludes potential shares of common stock issuable upon conversion of convertible preferred stock and exercise of options and warrants to purchase common stock as their effect would be antidilutive. See note 1 of the notes to our consolidated financial statements for a detailed explanation of the determination of the shares used in computing basic and diluted loss per share.

(2) For information regarding the computation of per share amounts, refer to note 1 of our consolidated financial statements included elsewhere in this prospectus. Pro forma basic and diluted net loss per share is presented for the period from January 1, 2004 through November 8, 2004, the period from November 9, 2004 through December 31, 2004 and the six months ended June 30, 2005 to reflect per share data assuming the conversion of all our preferred stock into shares of class B common stock, which will occur upon completion of this offering, as if the conversion had taken place at the beginning of fiscal 2004.

The following table presents a summary of our consolidated balance sheet data as of June 30, 2005.

- on an actual basis;
- on a pro forma basis to give effect to (a) the issuance of 24,000,000 shares of our class A common stock to Cypress, the payment of $20.2 million in cash by Cypress, the termination of warrants held by Cypress to purchase 7,642,859 shares of our class A common stock and the cancellation of $39.8 million of debt and payables owed to Cypress in July 2005, (b) the exchange of all outstanding shares of class A common stock held by Cypress into 59,151,515 shares of class B common stock prior to completion of this offering, (c) the automatic conversion of all outstanding shares of our series one convertible preferred stock into 12,915,060 shares of class B common stock and all outstanding shares of our series two convertible preferred stock into 32,000,000 shares of class B common stock and (d) the filing of our restated certificate of incorporation upon completion of this offering; and
- on the pro forma basis described above, as adjusted to reflect the sale of shares of class A common stock by us in this offering at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, as described under "Use of Proceeds."

	As of June 30, 2005		
	Actual	Pro Forma	Pro Forma As Adjusted
	($ in thousands)		
Consolidated Balance Sheet Data			
Cash and cash equivalents	$ 8,091		$
Working capital (deficiency)	(2,238)		
Total assets	122,916		
Notes payable to Cypress, net of current portion	21,553		
Customer advances, net of current portion	10,706		
Convertible preferred stock	24,552		
Total shareholders' equity	32,057		

RISK FACTORS

You should carefully consider the risks described below before making a decision to buy our class A common stock. If any of the following risks actually occur, our business, financial condition and results of operations could be harmed. In that case, the trading price of our class A common stock could decline and you might lose all or part of your investment in our class A common stock. You should also refer to the other information set forth in this prospectus, including "Special Note Regarding Forward-Looking Statements" and our consolidated financial statements and the related notes.

Risks Related to Our Business

We are currently experiencing an industry-wide shortage of polysilicon. The prices that we pay for polysilicon have increased recently and we expect these price increases to continue, which may constrain our revenue growth and decrease our gross margins and profitability.

Polysilicon is an essential raw material in our production of photovoltaic, or solar, cells. Polysilicon is created by refining quartz or sand. Polysilicon is melted and grown into crystalline ingots by companies specializing in ingot growth. We procure silicon ingots from these suppliers on a contractual basis and then slice these ingots into wafers. We also purchase wafers from third-party vendors. The ingots are sliced and the wafers are processed into solar cells in our Philippines manufacturing facility.

There is currently an industry-wide shortage of polysilicon, which has resulted in significant price increases. For example, according to SolarBuzz, an industry consulting firm, the average price of polysilicon increased from $25 per kilogram in 2004 to between $35 and $45 per kilogram for the first quarter of 2005. Increases in polysilicon prices have in the past increased our manufacturing costs and may impact our manufacturing costs and net income in the future. As demand for solar cells has increased, many of our principal competitors have announced plans to add additional manufacturing capacity. As this manufacturing capacity becomes operational, it will increase the demand for polysilicon and further exacerbate the current shortage. Polysilicon is also used in the semiconductor industry generally and any increase in demand from that sector could compound the shortage. The production of polysilicon is capital intensive and adding additional capacity requires significant lead time. While we are aware that several new facilities for the manufacture of polysilicon are under construction, we do not believe that the supply imbalance will be remedied in the near term. It is also possible that polysilicon demand may continue to outstrip supply for the foreseeable future.

Although we have made arrangements for what we believe will be an adequate supply of silicon ingots for the remainder of 2005, our estimates regarding our supply needs may not be correct and our purchase orders may be cancelled by our suppliers. If our manufacturing yields decrease significantly, our second manufacturing line becomes available earlier than anticipated or our suppliers cancel or fail to deliver, we may not have made adequate provision for our polysilicon needs for the balance of the year.

There are a limited number of polysilicon suppliers. Many of our competitors also purchase polysilicon from our suppliers. Since we have only been purchasing polysilicon in bulk for less than a year, these other competitors have longer and perhaps stronger relationships with our suppliers than we do. Many of them also have greater buying power than we do. Some of our competitors also have inter-locking board members with their polysilicon suppliers. Since we have committed to significantly increase our manufacturing output, an inadequate allocation of polysilicon would harm us more than it would harm our competitors.

The inability to obtain sufficient polysilicon at commercially reasonable prices or at all would adversely affect our ability to meet existing and future customer demand for our products and could cause us to make fewer shipments, lose customers and market share and generate lower than anticipated revenue, thereby seriously harming our business, financial condition and results of operations.

We currently depend on four customers for a high percentage of our total revenue and the loss of, or a significant reduction in orders from, any of these customers, if not immediately replaced, would significantly reduce our revenue and harm our operating results.

Conergy AG, or Conergy, accounted for approximately 7.6% of our total combined revenue in fiscal 2004 and 52.6% of our total revenue in the six months ended June 30, 2005. Solon AG, or Solon, accounted for

approximately 19.3% of our total combined revenue in fiscal 2004 and 18.0% of our total revenue in the six months ended June 30, 2005. General Electric Company, or GE, and its subcontracting partner, Plexus Corp., or Plexus, accounted for approximately 9.3% of our total combined revenue in fiscal 2004, and accounted for approximately 12.2% of our total revenue in the six months ended June 30, 2005. Integration Associates accounted for 31.9% of our total combined revenue in fiscal 2004 and 6.7% of our total revenue in the six months ended June 30, 2005. Currently, our largest customers for our solar power products are Conergy and Solon, our largest customers for our imaging detector products are GE and Plexus and our largest customer for our infrared detector products is Integration Associates. The loss of sales to any of these customers would have a significant negative impact on our business. Our agreements with these customers may be cancelled if we fail to meet certain product specifications or materially breach the agreement or in the event of bankruptcy, and our customers may seek to renegotiate the terms of current agreements or renewals. Most of the solar panels we sell to the European market are sold through our agreement with Conergy and we may enter into similar agreements in the future.

We currently sell to a relatively small number of customers, and we expect our operating results will likely continue to depend on sales to a relatively small number of customers for the foreseeable future, as well as the ability of these customers to sell solar power products that incorporate our solar cells. Our customer relationships have been developed over a short period of time and are generally in their preliminary stages. We cannot be certain that these customers will generate significant revenue for us in the future or if these customer relationships will continue to develop. If our relationships with our other customers do not continue to develop, we may not be able to expand our customer base or maintain or increase our revenue. This is exacerbated by our current manufacturing constraints for solar cells which limit our ability to sell to other customers and our contractual arrangements which require us to sell part of our future output to Conergy and Solon. In addition, our business is affected by competition in the market for the end products that each of Solon, Conergy and Plexus sell, and any decline in their business could harm our business and cause our revenue to decline.

The reduction or elimination of government and economic incentives could cause our revenue to decline.

We believe that the near-term growth of the market for “on-grid” applications, where solar power is used to supplement a customer’s electricity purchased from the utility network, depends in large part on the availability and size of government and economic incentives. Because a majority of our sales are in the on-grid market, the reduction or elimination of government and economic incentives may adversely affect the growth of this market or result in increased price competition, which could cause our revenue to decline.

Today, the cost of solar power exceeds the cost of power furnished by the electric utility grid in many locations. As a result, federal, state and local government bodies in many countries, most notably Germany, Japan and the United States, have provided incentives in the form of rebates, tax credits and other incentives to end users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependency on other forms of energy. These government economic incentives could be reduced or eliminated altogether. For example, Germany has been a strong supporter of solar power products and systems, and political changes in Germany could result in significant reductions or eliminations of incentives, including the reduction of feed-in tariffs over time. In addition, the federal incentive program in Japan is scheduled to expire at the end of 2005. Some solar program incentives expire, decline over time, are limited in total funding or require renewal of authority. For example, in California, the Emerging Renewables Program has finite funds that may not last through the current program period and the incentive levels are scheduled to decline on January 1, 2006 from $2.80 to $2.60 per alternating current, or AC, watt. Net metering policies in Japan and California could limit the amount of solar power installed in these locations. Reductions in, or eliminations or expirations of, incentives could result in decreased demand for our products and lower revenue.

Our quarterly revenue and operating results are difficult to predict, and if we do not meet quarterly financial expectations, our stock price will likely decline.

Our quarterly revenue and operating results are difficult to predict and have in the past, and may in the future, fluctuate from quarter to quarter. It is possible that our operating results in some quarters will be below market expectations. Our quarterly operating results are affected by a number of factors, including:

- the availability and pricing of raw materials, particularly polysilicon;

- the rate and cost at which we are able to expand our manufacturing capacity to meet customer demand, including costs and timing of adding personnel;
- timing, availability and changes in government incentive programs;
- unplanned additional expenses such as manufacturing failures, defects or downtime;
- unpredictable volume and timing of customer orders, some of which are not fixed by contract but vary on a purchase order basis;
- the loss of one or more key customers or the significant reduction or postponement of orders from these customers;
- foreign currency fluctuations, particularly in the Euro or Philippine peso;
- our currency hedging activities;
- our ability to establish and expand customer relationships;
- changes in our manufacturing costs;
- changes in the relative sales mix of our solar cells, solar panels and imaging detectors;
- the availability, pricing and timeliness of delivery of other products, such as inverters, necessary for our solar power products to function;
- our ability to successfully develop, introduce and sell new or enhanced solar power products in a timely manner, and the amount and timing of related research and development costs;
- the timing of new product or technology announcements or introductions by our competitors and other developments in the competitive environment;
- decreases in the overall average selling prices of our solar power products and imaging detectors;
- increases or decreases in electric rates due to fossil fuel prices; and
- shipping delays.

We base our planned operating expenses in part on our expectations of future revenue, and a significant portion of our expenses is relatively fixed in the short term. If revenue for a particular quarter is lower than we expect, we likely will be unable to proportionately reduce our operating expenses for that quarter, which would harm our operating results for that quarter. This may cause us to miss analysts' guidance or any future guidance announced by us. If we fail to meet or exceed analyst or investor expectations or our own future guidance, even by a small amount, our stock price could decline, perhaps substantially.

We have incurred losses since inception and may not be able to generate sufficient revenue in the future to achieve or sustain profitability.

We have incurred net losses since inception and, at June 30, 2005, we had an accumulated deficit of approximately $56.3 million. To achieve profitability, we will need to generate and sustain higher revenue while maintaining reasonable cost and expense levels. We do not know if our revenue will grow, or if so whether it will grow sufficiently to outpace our expenses, which we expect to increase as we expand our manufacturing capacity. We may not be able to achieve or increase profitability on a quarterly or an annual basis. If we do not achieve or sustain profitability or otherwise meet the expectations of securities analysts or investors, the market price of our common stock will likely decline.

Our dependence on a limited number of third-party suppliers for key components for our solar power products could prevent us from delivering our products to our customers within required timeframes, which could result in order cancellations and loss of market share.

In North America, where we intend to increase our sales and marketing efforts, systems incorporating our solar cells and solar panels currently require a specialized inverter. We currently obtain the inverters we sell with

our solar panels from a single supplier and expect to continue to obtain inverters from a single supplier for at least the next six months. We believe there are only a few suppliers of inverters which are compatible with our solar cells and solar panels, and our supplier is the only one that is currently in commercial production. We have no long-term commitments regarding supply or price from our supplier, which leaves us vulnerable to the risk that our supplier may stop supplying inverters to us for any reason, including its financial viability. If we or our customers cannot obtain substitute sources of inverters on a timely basis or on acceptable terms, these supply problems may cause our revenue to decline, increase our costs, delay solar power system installations, result in loss of market share or otherwise harm our business.

We manufacture all of our solar power products using components procured from a limited number of third-party suppliers. For example, we currently purchase glass from two suppliers and aluminum frames and plastic backsheet materials which we use in our products from a limited number of suppliers. If we fail to develop or maintain our relationships with these or our other suppliers, we may be unable to manufacture our products or our products may be available only at a higher cost or after a long delay, which could prevent us from delivering our products to our customers within required timeframes and we may experience order cancellation and loss of market share. To the extent the processes that our suppliers use to manufacture components are proprietary, we may be unable to obtain comparable components from alternative suppliers. The failure of a supplier to supply components in a timely manner, or to supply components that meet our quality, quantity and cost requirements, could impair our ability to manufacture our products or decrease their costs, particularly if we are unable to obtain substitute sources of these components on a timely basis or on terms acceptable to us.

The steps we have taken to increase the efficiency of our polysilicon utilization are unproven at volume production levels and may not enable us to realize the cost reductions we anticipate.

Given the polysilicon shortage, we believe the efficient use of polysilicon will be critical to our ability to reduce our manufacturing costs. We are considering several measures to increase the efficient use of polysilicon in our manufacturing process. For example, we are considering the use of thinner wafers which requires less polysilicon and improved wafer-slicing technology to reduce the amount of material lost while slicing wafers, otherwise known as kerf loss. Although we have tested some of these measures in laboratory conditions, we have not implemented them at commercial production levels. These methods may have unforeseen negative consequences on our yields or our solar cell efficiency or reliability once they are put into commercial production or they may not enable us to realize the cost reductions we hope to achieve.

We depend on a combination of our own wafer-slicing operations and those of other vendors for the wafer-slicing stage of our manufacturing, and any technical problems, breakdowns, delays or cost increases could significantly delay our manufacturing operations, decrease our output and increase our costs.

We have historically depended on the wafer-slicing operations of third-party vendors to slice ingots into wafers. We recently established our own wafer-slicing operations, and in the second quarter of 2005, we sliced approximately 62% of our wafers. If our third-party vendors increase their prices or decrease or discontinue their shipments to us, as a result of equipment malfunctions, competing purchasers or otherwise, and we are unable to obtain substitute wafer-slicing from another vendor on acceptable terms, or increase our own wafer-slicing operations on a timely basis, our sales will decrease, our costs may increase or our business will otherwise be harmed.

We obtain capital equipment used in our manufacturing process from sole suppliers and if this equipment is damaged or otherwise unavailable, our ability to deliver products on time will suffer, which in turn could result in order cancellations and loss of revenue.

Some of the capital equipment used in the manufacture of our solar power products and in our wafer-slicing operations has been developed and made specifically for us, is not readily available from multiple vendors and would be difficult to repair or replace if it were to become damaged or stop working. In addition, we currently obtain the equipment for many of our manufacturing processes from sole suppliers and we obtain our wafer-slicing equipment from one supplier. If any of these suppliers were to experience financial difficulties or go out

of business, or if there was any damage to or a breakdown of our manufacturing or wafer-slicing equipment at a time we are manufacturing commercial quantities of our products, our business would suffer. In addition, a supplier's failure to supply this equipment in a timely manner, with adequate quality and on terms acceptable to us, could delay our capacity expansion of our manufacturing facility and otherwise disrupt our production schedule or increase our costs of production.

We have one solar cell production line which is located in our manufacturing facility in the Philippines and if we experience interruptions in the operation of this production line or are unable to add additional production lines, it would likely result in lower revenue and earnings than anticipated.

We currently have only one solar cell production line in operation, which is located at our manufacturing facility in the Philippines. If our current production line were to experience any problems or downtime, we would be unable to meet our production targets and our business would suffer. If any piece of equipment were to break down or experience down-time, it would cause our entire production line to go down. We have ordered equipment for a second and third 25 megawatts per year production line to decrease per unit operating costs and increase production output, and are evaluating the timing for a fourth line in our existing facility and for a second production facility. This expansion has required and will continue to require significant management attention and a significant investment of capital and substantial engineering expenditures and is subject to significant risks including:

- we may experience cost overruns, delays, equipment problems and other operating difficulties;
- we may experience difficulties expanding our processes to larger production capacity;
- our custom-built equipment may take longer and cost more to engineer than planned and may never operate as designed; and
- we are incorporating first-time equipment designs and technology improvements, which we expect to lower unit capital and operating costs, but this new technology may not be successful.

If we experience any of these or similar difficulties, we may be unable to complete the addition of new production lines or expand our manufacturing facility and our manufacturing capacity could be substantially constrained. If this were to occur, our per unit manufacturing costs would increase, we would be unable to increase sales as planned and our earnings would likely be materially impaired.

We expect to continue to make significant capital expenditures, particularly in our manufacturing facility, and if adequate funds are not available or if the covenants in our credit agreements impair our ability to raise capital when needed, our ability to expand our manufacturing capacity and our business will suffer.

We expect to continue to make significant capital expenditures, particularly in our manufacturing facility, and anticipate that our expenses will increase substantially in the foreseeable future as we expand our manufacturing operations, hire additional personnel, pay more for raw material, especially polysilicon, increase our sales and marketing efforts and continue our research and development efforts with respect to our products and manufacturing technologies. We expect capital expenditures of approximately $50.0 million for the remainder of 2005 and approximately $55.0 million in 2006 as we continue to increase our manufacturing capacity. We believe that our current cash and cash equivalents and funds available under our credit facility with Cypress will be sufficient to fund our capital and operating expenditures over the next 12 months. We have retained the capacity to borrow up to $30.0 million from Cypress, which capacity will terminate upon the earlier of the completion of this offering or December 31, 2006. We are in negotiations with unrelated third parties regarding a new credit facility to be effective upon completion of this offering. However, if our financial results or operating plans change from our current assumptions, we may not have sufficient resources to support our business plan. If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain other debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased expenses and could require us to abide by covenants that would restrict our operations. The terms of our credit agreement with Cypress contain covenants which may restrict our ability to raise capital when we need it and may restrict our ability to pay dividends. If adequate funds are not available or not available

on acceptable terms or terms consistent with our credit agreement with Cypress, our ability to fund our operations, develop and expand our manufacturing operations and distribution network, maintain our research and development efforts or otherwise respond to competitive pressures would be significantly impaired.

Because we have fixed-price agreements with two of our largest customers and operate on a purchase order basis with our third largest customer, our financial results, including gross margin, may suffer if our manufacturing costs were to increase or purchase orders were changed or cancelled.

Our agreements with Conergy and Solon provide that they will purchase our products from us on a fixed-price basis. Our agreement with Conergy expires at the end of this year and we are currently in negotiations with them regarding a new agreement. Our agreement with Solon provides for a fixed-price basis for the first two years of the agreement, which expires in 2010. However, our manufacturing costs, including the cost of polysilicon, are variable. If our manufacturing costs increase, we would be unable to raise our prices to these customers, which in turn would negatively impact our margins and profits.

We do not have a long-term agreement with Plexus but instead operate on a purchase order basis. Although we believe that cancellations to date have been insignificant, our customers may cancel or reschedule purchase orders with us on relatively short notice. Cancellations or rescheduling of customer orders could result in the delay or loss of anticipated sales without allowing us sufficient time to reduce, or delay the incurrence of, our corresponding inventory and operating expenses. In addition, changes in forecasts or the timing of orders from these or other customers expose us to the risks of inventory shortages or excess inventory. This in turn could cause our operating results to fluctuate.

Technological changes in the solar power industry could render our solar power products uncompetitive or obsolete, which could reduce our market share and cause our sales to decline.

The solar power markets are characterized by continually changing technology requiring improved features, such as more efficient and higher power output, improved aesthetics and smaller size. This requires us to continuously develop new solar power products and enhancements for existing solar power products to keep pace with evolving industry standards and changing customer requirements. Technologies developed by others may prove more advantageous than ours for the commercialization of solar power products and may render our technology obsolete. Our failure to further refine our technology and develop and introduce new solar power products could cause our products to become uncompetitive or obsolete, which could reduce our market share and cause our sales to decline. Our research and development expense was $2.5 million in fiscal 2002, $9.8 million in fiscal 2003, $13.2 million combined in fiscal 2004 and $2.9 million for the six months ended June 30, 2005. We will need to invest significant financial resources in research and development to maintain our market position, keep pace with technological advances in the solar power industry and to effectively compete in the future.

If our future innovations fail to enable us to maintain or improve our competitive position, especially with respect to solar cell efficiency, we may lose market share. Some solar cells designed by our competitors in laboratory conditions have demonstrated higher efficiency than our solar cells which are currently available for the mass market, and other companies have competing products in development. If we are unable to successfully design, develop and introduce or bring to market competitive new solar cells or other products, or enhance our existing solar cells, we may not be able to compete successfully. Competing solar power technologies may result in lower manufacturing costs or higher product performance than those expected from our solar cells. In addition, if we, or our customers, are unable to manage product transitions, our business and results of operations would be negatively affected.

Evaluating our business and future prospects may be difficult due to our limited history in producing and shipping solar cells and solar panels in commercial volumes.

There is limited historical information available about our company upon which you can base your evaluation of our business and prospects. Although we began to develop and commercialize high-efficiency solar cell technology for use in solar concentrators in 1988 and began shipping product from our pilot manufacturing facility in 2003, we shipped our first commercial A-300 solar cells from our Philippines manufacturing facility in

late 2004. Relative to the entire solar industry, we have shipped only a limited number of solar cells and solar panels and have recognized limited revenue. Our future success will require us to continue to scale our manufacturing capacity in our Philippines facility significantly beyond its current capacity. In addition, our business model, technology and ability to achieve satisfactory manufacturing yields at higher volumes are unproven at significant scale. As a result, you should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture new products in a rapidly growing market.

Our reliance on government contracts to partially fund our research and development programs could impair our ability to develop and incorporate new technologies into our solar power products and could decrease our revenue.

Our government contracts enable us to develop new technologies more rapidly than we would have pursued otherwise. Funding from government contracts is recorded as an offset to our research and development expense. We recently entered into a cost-sharing research and development project with the National Renewable Energy Laboratory to fund the design of our next generation solar panels. Payments received under this contract help offset our research and development expense. This contract is expected to fund approximately $1.0 million per year of our research and development expense through May 2008. In the six months ended June 30, 2005, funding from government contracts offset our research and development expense by approximately 4.0%. A reduction or discontinuance of these programs or of our participation in these programs would increase our expenses, which could affect our profitability and impair our ability to develop our solar power technologies.

In addition, contracts involving government agencies may be terminated or modified at the convenience of the agency. Other risks include potential disclosure of our confidential information to third parties and the exercise of “march-in” rights by the government. March-in rights refer to the right of the United States government or government agency to require us to grant a license to the technology to a responsible applicant or, if we refuse, the government may grant the license itself. The government can exercise its march-in rights if it determines that action is necessary because we fail to achieve practical application of the technology or because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations or to give the United States industry preference. Our government-sponsored research contracts are subject to audit and require that we provide regular written technical updates on a monthly, quarterly or annual basis, and, at the conclusion of the research contract, a final report on the results of our technical research. Because these reports are generally available to the public, third parties may obtain some aspects of our sensitive confidential information. Moreover, the failure to provide these reports or to provide inaccurate or incomplete reports may provide the government with rights to any intellectual property arising from the related research. Funding from government contracts also may limit when and how we can deploy our technology developed under those contracts.

Problems with product quality or product performance, including defects, in our solar cells could result in a decrease in customers and revenue, unexpected expenses and loss of market share.

Our solar cells are complex and must meet stringent quality requirements. Products as complex as ours may contain undetected errors or defects, especially when first introduced. For example, our solar cells and solar panels may contain defects that are not detected until after they are shipped or are installed because we cannot test for all possible scenarios. These defects could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from product development efforts and significantly affect our customer relations and business reputation. If we deliver solar cells or solar panels with errors or defects, or if there is a perception that our solar cells or solar panels contain errors or defects, our credibility and the market acceptance and sales of our solar power products could be harmed.

The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. Furthermore, widespread product failures may damage our market reputation and reduce our market share and cause sales to decline. We have agreed to indemnify our customers and our distributors in some circumstances against liability from defects in our solar cells. A successful indemnification claim against us could require us to make significant damage payments, which would negatively affect our financial results.

Product liability claims against us could result in adverse publicity and potentially significant monetary damages.

Like other retailers, distributors and manufacturers of products that are used by consumers, we face an inherent risk of exposure to product liability claims in the event that the use of the solar power products into which our solar cells and solar panels are incorporated results in injury. Since our solar power products are electricity producing devices, it is possible that our products could result in injury, whether by product malfunctions, defects, improper installation or other causes. In addition, since we only began selling our solar cells and solar panels in late 2004 and the products we are developing incorporate new technologies and use new installation methods, we cannot predict whether or not product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. Moreover, we may not have adequate resources in the event of a successful claim against us. We have evaluated the potential risks we face and believe that we have appropriate levels of insurance for product liability claims. We rely on our general liability insurance to cover product liability claims and have not obtained separate product liability insurance. The successful assertion of product liability claims against us could result in potentially significant monetary damages and if our insurance protection is inadequate to cover these claims, they could require us to make significant payments.

Since we cannot test our solar panels for the duration of our standard 25-year warranty period, we may be subject to unexpected warranty expense.

Our current standard product warranty for our solar panels includes a 10-year warranty period for defects in material and workmanship and a 25-year warranty period for declines in power performance as well as a one-year warranty on the functionality of our solar cells. We believe our warranty periods are consistent with industry practice. Due to the long warranty period and our proprietary technology, we bear the risk of extensive warranty claims long after we have shipped product and recognized revenue. We have sold solar cells only since late 2004. Any increase in the defect rate of our products would cause us to increase the amount of warranty reserves and have a corresponding negative impact on our financial statement. Although we conduct accelerated testing of our solar cells and have several years of experience with our all back contact cell architecture, our solar panels have not and cannot be tested in an environment simulating the 25-year warranty period. As a result, we may be subject to unexpected warranty expense, which in turn would harm our financial results.

Existing regulations and policies and changes to these regulations and policies may present technical, regulatory and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products.

The market for electricity generation products is heavily influenced by foreign, federal, state and local government regulations and policies concerning the electric utility industry, as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In the United States and in a number of other countries, these regulations and policies are being modified and may continue to be modified. Customer purchases of, or further investment in the research and development of, alternative energy sources, including solar power technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our solar power products. For example, without a regulatory mandated exception for solar power systems, utility customers are often charged interconnection or standby fees for putting distributed power generation on the electric utility grid. These fees could increase the cost to our customers of using our solar power products and make them less desirable, thereby harming our business, prospects, results of operations and financial condition.

We anticipate that our solar power products and their installation will be subject to oversight and regulation in accordance with national and local ordinances relating to building codes, safety, environmental protection, utility interconnection and metering and related matters. It is difficult to track the requirements of individual states and design equipment to comply with the varying standards. Any new government regulations or utility policies pertaining to our solar power products may result in significant additional expenses to us and our resellers and their customers and, as a result, could cause a significant reduction in demand for our solar power products.

Because the markets in which we compete are highly competitive and many of our competitors have greater resources than us, we may not be able to compete successfully and we may lose or be unable to gain market share.

We compete with a large number of competitors in the solar power market, including BP Solar International Inc., Evergreen Solar, Inc., Mitsubishi Electric Corporation, Q-Cells AG, Sanyo Corporation and Sharp Corporation. In addition, universities, research institutions and other companies are developing alternative technologies such as thin films and concentrators, which may compete with our technology. We expect to face increased competition in the future. Further, many of our competitors are developing and are currently producing products based on new solar power technologies that may ultimately have costs similar to, or lower than, our projected costs.

Many of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than us. As a result, they may be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sales of their products than we can. Our business relies on sales of our solar power products and our competitors with more diversified product offerings may be better positioned to withstand a decline in the demand for solar power products. Some of our competitors own, partner with, have longer term or stronger relationships with polysilicon providers which could result in them being able to obtain raw materials on a more favorable basis than us. It is possible that new competitors or alliances among existing competitors could emerge and rapidly acquire significant market share, which would harm our business. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

In addition, the solar power market in general competes with other sources of renewable energy and conventional power generation. If prices for conventional and other renewable energy resources decline, or if these resources enjoy greater policy support than solar power, the solar power market could suffer.

We face competition in the market for our imaging detectors and infrared detectors, and if we fail to compete effectively, we will lose or fail to gain market share.

We compete with companies such as Hamamatsu Photonics K.K. and UDT Sensors, Inc. in the market for high performance imaging detectors. In addition we compete with companies such as Vishay Intertechnology, Inc., Rohm Co., Ltd. and Agilent Technologies, Inc. in the market for infrared detectors. We may face competition in the future from other manufacturers of high performance imaging detectors, infrared detectors or alternative devices. The use of alternative devices, including low power, high data rate wireless protocols, may replace existing detectors and limit our market opportunity. Our current and future competitors may have longer operating histories, greater name recognition and greater financial, sales and marketing, technical and other resources than us or may develop technologies superior to those incorporated in our imaging detectors and infrared detectors. If we fail to compete successfully, we may be unable to expand our customer base for our imaging detectors and our business would suffer.

The demand for products requiring significant initial capital expenditures such as our solar power products is affected by general economic conditions.

The United States and international economies have recently experienced a period of slow economic growth. A sustained economic recovery is uncertain. In particular, terrorist acts and similar events, continued turmoil in the Middle East or war in general could contribute to a slowdown of the market demand for products that require significant initial capital expenditures, including demand for solar cells and solar power systems and new residential and commercial buildings. In addition, increases in interest rates may increase financing costs to customers, which in turn may decrease demand for our solar power products. If the economic recovery slows down as a result of the recent economic, political and social turmoil, or if there are further terrorist attacks in the United States or elsewhere, we may experience decreases in the demand for our solar power products, which may harm our operating results.

Because of the lengthy sales cycles for our imaging detectors and the relatively fixed nature of a significant portion of our expenses, we may incur substantial expenses before we earn associated revenue and may not ultimately achieve our forecasted sales for our imaging detectors.

Our sales cycles from design to manufacture of our imaging detectors can typically take 12 to 18 months. Sales cycles for our imaging detectors are lengthy for a number of reasons, including:

- our customers usually complete an in-depth technical evaluation of our imaging detectors before they place a purchase order;
- the commercial adoption of our imaging detectors is typically limited during the initial release of their products to evaluate performance and consumer demand;
- failure to deliver a product in a timely manner can seriously delay or cancel introduction; and
- the development and commercial introduction of products incorporating complex technology frequently are delayed or canceled.

As a result of our lengthy sales cycles, we may incur substantial expenses before we earn associated revenue because a significant portion of our operating expenses is relatively fixed and based on expected revenue. If customer cancellations or product changes occur, this could result in the loss of anticipated sales without allowing us sufficient time to reduce our operating expenses.

We depend on third-party subcontractors in China to assemble our solar cells into solar panels and any failure to obtain sufficient assembly and test capacity could significantly delay our ability to ship our solar panels and damage our customer relationships.

We rely on Jiawei SolarChina and Jumao Photonic, Co., Ltd., third-party subcontractors in China, to assemble our solar cells into solar panels and perform panel testing and to manage test, packaging, warehousing and shipping of our solar panels. We do not have a long-term agreement with our subcontractors. We typically obtain services from these suppliers on a purchase order basis, and we place our orders on the basis of our customers' purchase orders and sales forecasts. If the operations of our subcontractors were disrupted or their financial stability impaired, or if they should choose not to devote capacity to our solar panels in a timely manner, our business would suffer as we would be unable to produce finished solar panels on a timely basis. In addition, we supply inventory to our third-party subcontractors, and we bear the risk of loss, theft or damage to our inventory while it is held at their facilities.

As a result of outsourcing this final step in our production, we face several significant risks, including:

- lack of assembly and testing capacity and higher prices;
- limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs; and
- delays resulting from an inability to move production to an alternate provider.

The ability of our subcontractors to perform assembly and test is limited by their available capacity. We do not have a guaranteed level of production capacity with our subcontractors, and it is difficult to accurately forecast our capacity needs because of the shifting mix between sales of solar cells and solar panels and the timing of expanding our manufacturing capacity. Other customers of our subcontractors that are larger and better financed than we are, or that have long-term agreements with these subcontractors, may induce these subcontractors to reallocate capacity to them. Any reallocation could impair our ability to secure the supply of solar panels that we need for our customers. In addition, interruptions to the panel manufacturing processes caused by a natural or man-made disaster could result in partial or complete disruption in supply until we are able to shift manufacturing to another facility. It may not be possible to obtain sufficient capacity or comparable production costs at another facility. Migrating our design methodology to a new third-party subcontractor could involve increased costs, resources and development time and expose us to further risk of losing control over our intellectual property and the quality of our solar panels. Any reduction in the supply of solar panels could significantly delay our ability to ship and potentially damage our relationships with existing customers.

If we do not achieve satisfactory yields or quality in manufacturing our solar cells, our sales could decrease and our relationships with our customers and our reputation may be harmed.

The manufacture of solar cells is a highly complex process. Minor deviations in the manufacturing process can cause substantial decreases in yield and in some cases, cause production to be suspended or yield no output. We have from time to time experienced lower than anticipated manufacturing yields. This often occurs during the production of new products or the installation and start-up of new process technologies or equipment. For example, we have ordered equipment for the second and third 25 megawatts per year production lines and are evaluating the timing for both a fourth line and a second production facility. As we expand our manufacturing capacity and bring additional lines or facilities into production, we may experience lower yields initially as is typical with any new equipment or process. We also expect to experience lower yields initially as we migrate our manufacturing processes to thinner wafers. If we do not achieve planned yields, our product costs could increase, and product availability would decrease.

Our ability to continue to manufacture our imaging detectors and our solar cells in our current facilities with our current and planned manufacturing capacities, and therefore to maintain and increase revenue and achieve profitability, depends to a large extent upon the success of our continued relationship with Cypress.

Our imaging detectors are manufactured for us by Cypress and are processed and tested in our Sunnyvale facility. We do not have a long-term agreement with Cypress for the manufacturing of our imaging detectors, but instead operate on a purchase order basis. The processes for manufacturing our imaging detectors are highly complex, specialized and proprietary. If Cypress determines to cancel its arrangement with us, our manufacturing output would be interrupted and delayed, and we would incur increased expenses in establishing relationships with alternative manufacturers at market prices. We may not be able to find alternative manufacturers on terms acceptable to us, and we may be unable to establish our own operations in a timely or cost-effective manner, if at all.

We manufacture our solar cells in our Philippines manufacturing facility which we lease from Cypress. This lease expires on July 15, 2006 and we have reached an agreement in principle with Cypress to extend this lease for an additional 15 years with a right to buy the facility. If we are unable to expand in our current facility or are required to move our manufacturing facility, we would incur significant expenses as well as lost sales. Furthermore, we may not be able to locate a facility that meets our needs on terms acceptable to us. Any of these circumstances would increase our expenses and decrease our total revenue and could prevent us from achieving profitability.

We have significant international activities and customers, and plan to continue these efforts, which subject us to additional business risks, including logistical complexity, political instability and currency fluctuations.

For the six months ended June 30, 2005, approximately 75% of our sales have been made to customers outside of the United States. We currently have only one solar cell production line in operation, which is located at our manufacturing facility in the Philippines. In addition, our assembly functions are conducted by third-party subcontractors in China. Risks we face in conducting business internationally include:

- multiple, conflicting and changing laws and regulations, export and import restrictions, employment laws, regulatory requirements and other government approvals, permits and licenses;
- difficulties and costs in staffing and managing foreign operations such as our manufacturing facility in the Philippines, as well as cultural differences;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- increased costs associated with maintaining international marketing efforts;
- potentially adverse tax consequences;
- inadequate local infrastructure;

- financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable; and
- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions.

Specifically, we face risks associated with political and economic instability and civil unrest in the Philippines. In addition, in the Asia/Pacific region generally, we face risks associated with a recurrence of SARS, tensions between countries in that region, such as political tensions between China and Taiwan, the ongoing discussions with North Korea regarding its nuclear weapons program, potentially reduced protection for intellectual property rights, government-fixed foreign exchange rates, relatively uncertain legal systems and developing telecommunications infrastructures. In addition, some countries in this region, such as China, have adopted laws, regulations and policies which impose additional restrictions on the ability of foreign companies to conduct business in that country or otherwise place them at a competitive disadvantage in relation to domestic companies.

In addition, although base wages are lower in the Philippines, wages for our employees in the Philippines are increasing, which could result in increased costs to employ our manufacturing engineers. As of June 30, 2005, approximately 83% of our employees were located in the Philippines. We also are faced with competition in the Philippines for employees, and we expect this competition to increase as additional solar companies enter the market and expand their operations. In particular, there may be limited availability of qualified manufacturing engineers. We have benefited from an excess of supply over demand for college graduates in the field of engineering in the Philippines. If this favorable imbalance changes due to increased competition, it could affect the availability or cost of qualified employees, who are critical to our performance. This could increase our costs and turnover rates.

Currency fluctuations in the Euro or the Philippine peso relative to the U.S. dollar could decrease our revenue or increase our expenses.

In fiscal 2004, on a combined basis, and the six months ended June 30, 2005, approximately 44% and 75%, respectively, of our total revenue was generated outside the United States. We presently have currency exposure arising from both sales and purchases denominated in foreign currencies. A majority of our total revenue is denominated in Euros, including our fixed price agreements with Conergy and Solon, and a significant portion is denominated in U.S. dollars while a portion of our costs are incurred and paid in Euros and a smaller portion of our expenses are paid in Philippine pesos and Japanese yen.

We are exposed to the risk of a decrease in the value of the Euro relative to the U.S. dollar, which would decrease our total revenue. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, if these foreign currencies appreciate against the U.S. dollar, it will make it more expensive in terms of U.S. dollars to purchase inventory or pay expenses with foreign currencies. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency as well as make our products, which are usually purchased with U.S. dollars, relatively more expensive than products manufactured locally. An increase in the value of the U.S. dollar relative to foreign currencies could make our solar cells more expensive for our international customers, thus potentially leading to a reduction in our sales and profitability. Furthermore, many of our competitors are foreign companies that could benefit from such a currency fluctuation, making it more difficult for us to compete with those companies. We currently conduct hedging activities, which involve the use of currency forward contracts. We cannot predict the impact of future exchange rate fluctuations on our business and operating results. In the past, we have experienced an adverse impact on our total revenue and profitability as a result of foreign currency fluctuations.

We may not be able to prevent others from using the SunPower name or similar mark in connection with their solar power products which could adversely affect the market recognition of our name and our revenue.

“SunPower” is our registered trademark in the United States for use with solar cells and solar panels. We are seeking similar registration of the “SunPower” trademark in foreign countries but we may not be successful in

some of these jurisdictions. For example, we have received initial rejection of our application to register the "SunPower" trademark in Canada and Japan based on prior registration by other people. In the foreign jurisdictions where we are unable to obtain this registration or have not tried, others may be able to sell their products using the SunPower trademark which could lead to customer confusion. In addition, if there are jurisdictions where someone else has already established trademark rights in the SunPower name, we may face trademark disputes and may have to market our products with other trademarks, which also could hurt our marketing efforts. We may encounter trademark disputes with companies using marks which are confusingly similar to SunPower which if not resolved favorably could cause our branding efforts to suffer. For example, on August 9, 2005, we filed a lawsuit in the United States District Court for the Northern District of California alleging trademark infringement, unfair competition and related claims against Sun Power & Geothermal Energy Company, Inc. for its use of the name "Sun Power" in connection with its photovoltaic products and services and seeking an injunction and damages. Trademark litigation carries an inherent risk and we cannot guarantee that we will be successful in this litigation. In addition, we may have difficulty in establishing strong brand recognition with consumers if others use similar marks for similar products.

We rely primarily upon copyright and trade secret laws and contractual restrictions to protect our proprietary rights, and, if these rights are not sufficiently protected, our ability to compete and generate revenue could suffer.

We seek to protect our proprietary manufacturing processes, documentation and other written materials primarily under trade secret and copyright laws. We also typically require employees and consultants with access to our proprietary information to execute confidentiality agreements. The steps taken by us to protect our proprietary information may not be adequate to prevent misappropriation of our technology. In addition, our proprietary rights may not be adequately protected because:

- people may not be deterred from misappropriating our technologies despite the existence of laws or contracts prohibiting it;
- policing unauthorized use of our intellectual property may be difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use; and
- the laws of other countries in which we market our solar cells, such as some countries in the Asia/Pacific region, may offer little or no protection for our proprietary technologies.

Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without paying us for doing so. Any inability to adequately protect our proprietary rights could harm our ability to compete, to generate revenue and to grow our business.

We may not obtain sufficient patent protection on the technology embodied in the solar cells we currently manufacture and market, which could harm our competitive position and increase our expenses.

Although we rely primarily on trade secret laws and contractual restrictions to protect the technology in the solar cells we currently manufacture and market, our success and ability to compete in the future may also depend to a significant degree upon obtaining patent protection for our proprietary technology. As of June 30, 2005, we had 11 patent applications pending in the United States and seven applications pending in foreign jurisdictions which cover aspects of the technology in the solar cells we currently manufacture and market. Patents that we currently own or license-in do not cover the solar cells that we presently manufacture and market. Our patent applications may not result in issued patents, and even if they result in issued patents, the patents may not have claims of the scope we seek. In addition, any issued patents may be challenged, invalidated or declared unenforceable. The term of any issued patents would be 20 years from their filing date and if our applications are pending for a long time period, we may have a correspondingly shorter term for any patent that may issue. Our present and future patents may provide only limited protection for our technology and may not be sufficient to provide competitive advantages to us. For example, competitors could be successful in challenging any issued patents or, alternatively, could develop similar or more advantageous technologies on their own or design around our patents. Also, patent protection in certain foreign countries may not be available or may be limited in scope

and any patents obtained may not be as readily enforceable as in the United States, making it difficult for us to effectively protect our intellectual property from misuse or infringement by other companies in these countries. Our inability to obtain and enforce our intellectual property rights in some countries may harm our business. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important.

If the effective term of our patents is decreased due to changes in patent laws or if we need to refile some of our patent applications, the value of our patent portfolio and the revenue we derive from products protected by the patents may be decreased.

The value of our patents depends in part on their duration. A shorter period of patent protection means less value of a patent. For example, the United States patent laws were amended in 1995 to change the term of patent protection from 17 years after the date of the patent's issuance to 20 years after the earliest effective filing date of the application for a patent, unless the application was pending on June 8, 1995, in which case the term of a patent's protection expires either 17 years after its issuance or 20 years after its filing, whichever is later. Because the time required from the filing of patent application to issuance of a patent is often longer than three years, a 20-year patent term from the filing date may result in substantially shorter patent protection. Also, we may need to refile some of our patent applications and, in these situations, the patent term will be measured from the date of the earliest priority application to which benefit is claimed in such a patent application. This would also shorten our period of patent exclusivity. A shortened period of patent exclusivity may negatively impact our revenue protected by our patents.

Our intellectual property indemnification practices may adversely impact our business.

We are required by contract to indemnify some of our customers and our third-party intellectual property providers for certain costs and damages of patent infringement in circumstances where our solar cells are a factor creating the customer's or these third-party providers' infringement liability. This practice may subject us to significant indemnification claims by our customers and our third-party providers. We cannot assure you that indemnification claims will not be made or that these claims will not harm our business, operating results or financial condition.

We may face intellectual property infringement claims that could be time-consuming and costly to defend and could result in our loss of significant rights.

From time to time, we, our customers or third-parties with whom we work may receive letters, including letters from various industry participants, alleging infringement of their patents. Although we are not currently aware of any parties pursuing or intending to pursue infringement claims against us, we cannot assure you that we will not be subject to such claims in the future. Also, because patent applications in the United States and many other jurisdictions are kept confidential for 18 months before they are published, we may be unaware of pending patent applications that relate to our solar cells. Our third-party suppliers may also become subject to infringement claims, which in turn could negatively impact our business. We may also initiate claims to defend our intellectual property. We are in the process of terminating a license as to which we have not paid royalties since the second quarter of 2004 because our current products do not use the licensed technology. However, the licensor could challenge our actions and litigate against us. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business and could have a material adverse effect on our business, operating results or financial condition. If there is a successful claim of infringement against us, our customers or our third-party intellectual property providers, we may be required to pay substantial damages to the party claiming infringement, stop selling products or using technology that contains the allegedly infringing intellectual property, or enter into royalty or license agreements that may not be available on acceptable terms, if at all. Parties making infringement claims may also be able to bring an action before the International Trade Commission that could result in an order stopping the importation into the United States of our solar cells. All these judgments could materially damage our business. We may have to develop non-infringing technology, and our failure in doing so or obtaining licenses to the proprietary rights on a timely basis could have a material adverse effect on our business.

We may file claims against other parties for infringing our intellectual property that may be very costly and may not be resolved in our favor.

Although we are not aware of infringement of our intellectual property by other parties except potential trademark infringement, we cannot guarantee that such infringement does not exist now or that it will not occur in the future. To protect our intellectual property rights and to maintain our competitive advantage, we may file suits against parties who we believe infringe our intellectual property. For example, on August 9, 2005 we filed a lawsuit in the United States District Court for the Northern District of California alleging trademark infringement, unfair competition and related claims against Sun Power & Geothermal Energy Company, Inc. for its use of the name "Sun Power" in connection with its photovoltaic products and services. Intellectual property litigation is expensive and time consuming and could divert management's attention from our business and could have a material adverse effect on our business, operating results or financial condition, and our enforcement effort may not be successful. In certain situations, we may have to bring such suit in foreign jurisdictions, in which case we are subject to additional risk as to the result of the proceedings and the amount of damage that we can recover. Certain foreign jurisdictions may not provide protection to intellectual property comparable to that in the United States. Our engagement in intellectual property enforcement actions may negatively impact our financial results.

The current tax holidays in the Philippines will expire within the next several years.

We currently benefit from income tax holiday incentives in the Philippines pursuant to our Philippine subsidiary's registrations with the Board of Investments and Philippine Economic Zone Authority, which provide that we pay no income tax in the Philippines for four years pursuant to our Board of Investments non-pioneer status and Philippine Economic Zone Authority registrations, and six years pursuant to our Board of Investments pioneer status registration. Our current income tax holidays expire in 2010, and we intend to apply for extensions. However, these tax holidays may or may not be extended. We believe that as our Philippine tax holidays expire, (a) gross income attributable to activities covered by our Philippine Economic Zone Authority registrations will be taxed at a 5% preferential rate, and (b) our Philippine net income attributable to all other activities will be taxed at the statutory Philippine corporate income tax rate of 32%.

Future transactions may limit our ability to use our net operating loss carryforwards.

As of June 30, 2005, we had U.S. federal tax net operating loss carryforwards of $32.0 million. These net operating loss carryforwards may be used to offset future taxable income and thereby reduce our U.S. federal income taxes otherwise payable. Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, imposes an annual limit on the ability of a corporation that undergoes an "ownership change" to use its net operating loss carry forwards to reduce its tax liability. Due in part to equity financings, we experienced "ownership changes" as defined in Section 382 of the Code. Accordingly, our use of the net operating loss carryforwards and credit carryforwards may be limited by the annual limitations described in Sections 382 and 383 of the Code.

We may not be able to increase or sustain our recent growth rate, and we may not be able to manage our future growth effectively.

We may be unable to continue to expand our business or manage future growth. Our recent expansion has placed, and our planned expansion and any other future expansion will continue to place, a significant strain on our management, personnel, systems and resources. We plan to purchase additional equipment to significantly expand our manufacturing capacity and to hire additional employees to support an increase in manufacturing, research and development and our sales and marketing efforts. To successfully manage our growth and handle the responsibilities of being a public company, we believe we must effectively:

- hire, train, integrate and manage additional qualified engineers for research and development activities, sales and marketing personnel, and financial and information technology personnel;
- retain key management and augment our management team, particularly if we lose key members;

- continue to enhance our customer resource management and manufacturing management systems;
- implement and improve additional and existing administrative, financial and operations systems, procedures and controls, including the need to integrate our financial internal control systems in our Philippines facility with those of our Sunnyvale, California headquarters;
- expand and upgrade our technological capabilities; and
- manage multiple relationships with our customers, suppliers and other third parties.

We may encounter difficulties in effectively managing the budgeting, forecasting and other process control issues presented by rapid growth. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, develop new solar cells and other products, satisfy customer requirements, execute our business plan or respond to competitive pressures.

We had approximately 416 full-time employees as of June 30, 2005, and we anticipate that we will need to hire a significant number of highly skilled technical, manufacturing, sales and marketing administrative and accounting personnel if we are to successfully develop and market our products and expand and operate our expanded manufacturing facility. The competition for qualified personnel is intense in our industry. We may not be successful in attracting and retaining sufficient numbers of qualified personnel to support our anticipated growth. We may have more difficulty attracting personnel after we become a public company because of the perception that the stock option component of our compensation package may not be as valuable.

The success of our business depends on the continuing contributions of our key personnel.

We rely heavily on the services of our key executive officers, including Thomas H. Werner, our Chief Executive Officer, Emmanuel T. Hernandez, our Chief Financial Officer, Dr. Richard Swanson, our President and Chief Technology Officer, and PM Pai, our Chief Operating Officer. The loss of services of any principal member of our management team, particularly Thomas H. Werner, Emmanuel T. Hernandez, Dr. Richard Swanson and PM Pai, could adversely impact our operations. In addition, our technical personnel represent a significant asset and serve as the source of our technological and product innovations. We believe our future success will depend upon our ability to retain these key employees and our ability to attract and retain other skilled managerial, engineering and sales and marketing personnel. However, we cannot guarantee that any employee will remain employed at the Company for any definite period of time since all of our employees, including Messrs. Werner, Hernandez, Swanson and Pai, serve at-will and may terminate their employment at any time for any reason.

Our headquarters, research and development and manufacturing facilities, the facilities of our subcontractors upon which we rely to assemble and test our solar panels and facilities of our suppliers of silicon ingots, are located in regions that are subject to earthquakes and other natural disasters.

Our headquarters, including research and development operations, our manufacturing facility and the subcontractor upon which we rely to assemble and test our solar panels are located in countries that are subject to earthquakes and other natural disasters. Our headquarters and research and development operations are located in the United States, our manufacturing facility is located in the Philippines, and our subcontractor for assembly and test of solar panels is located in China. Since we do not have redundant facilities, any earthquake, tsunami or other natural disaster in these countries could materially disrupt our production capabilities and could result in our experiencing a significant delay in delivery, or substantial shortage, of our solar cells.

Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, accounting policies affecting many aspects of our business, including rules relating to employee stock option

grants, have recently been revised. The Financial Accounting Standards Board, or the FASB, and other agencies have made changes to U.S. generally accepted accounting principles, or GAAP, that will require us, starting in our first quarter of fiscal 2006, to record a charge to earnings for employee stock option grants and other equity incentives. We may have significant and ongoing accounting charges resulting from option grant and other equity incentive expensing that could reduce our overall net income. In addition, since we historically have used equity-related compensation as a component of our total employee compensation program, the accounting change could make the use of equity-related compensation less attractive to us and therefore make it more difficult to attract and retain employees.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent registered public accounting firm annually attest to our evaluation, as well as issue their own opinion on our internal control over financial reporting, which will be required for the first time in connection with our Annual Report on Form 10-K for the fiscal year ending December 31, 2006. Although Cypress completed its Section 404 compliance for its Annual Report on Form 10-K for the fiscal year-ended December 31, 2004, the review of our internal controls as part of this process was limited in scope and you should not conclude from this Cypress process that our internal controls were adequate to the extent required of an independent public company at that time. We are preparing for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our report. However, the continuous process of strengthening our internal controls and complying with Section 404 is expensive and time consuming, and requires significant management attention. We cannot be certain that these measures will ensure that we will maintain adequate control over our financial processes and reporting. Furthermore, as we rapidly grow our business, our internal controls will become more complex and will require significantly more resources to ensure our internal controls overall remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price. In addition, future non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from The Nasdaq National Market and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines.

We are required to comply with all foreign, federal, state and local laws and regulations regarding pollution control and protection of the environment. In addition, under some statutes and regulations, a government agency, or other parties, may seek recovery and response costs from operators of property where releases of hazardous substances have occurred or are ongoing, even if the operator was not responsible for such release or otherwise at fault. We use, generate and discharge toxic, volatile and otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations. In addition, if more stringent laws and regulations are adopted in the future, the costs of compliance with these new laws and regulations could be substantial. To date such laws and regulations have not had a significant impact on our business and we believe that we have all necessary permits to conduct our business as it is presently conducted. If we fail to comply with present or future environmental laws and regulations, however, we may be required to pay substantial fines, suspend production or cease operations. We also expect to indemnify Cypress from any environmental liabilities associated with our facilities.

We may engage in acquisitions that could adversely affect our operating results, dilute our stockholders' equity, or cause us to incur additional debt or assume contingent liabilities.

To increase our business and maintain our competitive position, we may acquire other companies. Acquisitions involve a number of risks that could harm our business and result in the acquired business not performing as expected, including:

- insufficient experience with technologies and markets in which the acquired business is involved, which may be necessary to successfully operate and integrate the business;
- problems integrating the acquired operations, personnel, technologies or products with the existing business and products;
- diversion of management time and attention from our core business to the acquired business;
- potential failure to retain key technical, management, sales and other personnel of the acquired business;
- difficulties in retaining relationships with suppliers and customers of the acquired business; and
- subsequent impairment of the acquired assets, including intangible assets.

In addition, acquisitions could require investment of significant financial resources and may require us to obtain additional equity financing, which may dilute our stockholders' equity, or to incur additional indebtedness.

Risks Related to Our Relationship with Cypress Semiconductor Corporation

As long as Cypress controls us, your ability to influence matters requiring stockholder approval will be limited.

After this offering, Cypress will own all 104,066,575 shares of class B common stock, representing approximately % of the total outstanding shares of common stock. The holders of our class A common stock and our class B common stock have substantially similar rights, preferences, and privileges except with respect to voting and conversion rights and other protective provisions as set forth in this prospectus. Holders of our class B common stock will be entitled to eight votes per share of class B common stock, and the holders of our class A common stock will be entitled to one vote per share of class A common stock. If Cypress transfers shares of our class B common stock to any party other than a successor in interest or a subsidiary of Cypress prior to a tax-free distribution to its stockholders, those shares would automatically convert into class A common stock. Other than through such transfers or voluntary conversions by Cypress of class B common stock to class A common stock, only at such time, if at all, as Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress has not effected a tax-free distribution of our class B common stock to its stockholders prior to such time will all shares of our class B common stock automatically convert into shares of our class A common stock on a one-for-one basis. For so long as Cypress, its successors in interest and its subsidiaries hold shares of our class B common stock, Cypress will be able to elect all of the members of our board of directors.

In addition, until such time as Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes, Cypress will have the ability to take stockholder action without the vote of any other stockholder, and investors in this offering will not be able to affect the outcome of any stockholder vote during this period. As a result, Cypress will have the ability to control all matters affecting us, including:

- the composition of our board of directors and, through our board of directors, any determination with respect to our business plans and policies, including the appointment and removal of our officers;
- any determinations with respect to mergers and other business combinations;
- our acquisition or disposition of assets;

- our financing activities;
- changes to the agreements providing for our separation from Cypress;
- the allocation of business opportunities that may be suitable for us and Cypress;
- the payment of dividends on our common stock; and
- the number of shares available for issuance under our stock plans.

Cypress' voting control may discourage transactions involving a change of control of us, including transactions in which you as a holder of our class A common stock might otherwise receive a premium for your shares over the then current market price. Cypress is not prohibited from selling a controlling interest in us to a third party and may do so without your approval and without providing for a purchase of your shares of class A common stock. Accordingly, your shares of class A common stock may be worth less than they would be if Cypress did not maintain voting control over us.

Our historical financial information as a business segment of Cypress may not be representative of our results as an independent public company.

The historical financial information we have included in this prospectus does not necessarily reflect what our financial position, results of operations or cash flows would have been had we been an independent entity during the historical periods presented. The historical costs and expenses reflected in our consolidated financial statements include an allocation for certain corporate functions historically provided by Cypress, including centralized legal, tax, treasury, information technology, employee benefits and other Cypress corporate services and infrastructure costs. These expense allocations were based on what we and Cypress considered to be reasonable reflections of the utilization of services provided or the benefit received by us. The historical financial information is not necessarily indicative of what our results of operations, financial position, cash flows or costs and expenses will be in the future. We have not made adjustments to reflect many significant changes that will occur in our cost structure, funding and operations as a result of our separation from Cypress, including changes in our employee base, changes in our tax structure, potential increased costs associated with reduced economies of scale and increased costs associated with being a publicly traded, stand-alone company. For additional information, see "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and notes thereto.

Our ability to operate our business effectively may suffer if we are unable to cost-effectively establish our own administrative and other support functions in order to operate as a stand-alone company after the expiration of our services agreements with Cypress.

As a subsidiary of Cypress, we have relied on administrative and other resources of Cypress to operate our business. In connection with our separation from Cypress, we intend to enter into various service agreements to retain the ability for specified periods to use these Cypress resources. See "Related Party Transactions." Thereafter, we will need to create our own administrative and other support systems or contract with third parties to replace Cypress' systems. In addition, we must also establish disclosure controls and procedures and internal controls over financial reporting as part of our becoming a separate public company. These services may not be provided at the same level as when we were a wholly owned subsidiary of Cypress, and we may not be able to obtain the same benefits that we received prior to the separation. These services may not be sufficient to meet our needs, and after our proposed agreement with Cypress expires, we may not be able to replace these services at all or obtain these services at prices and on terms as favorable as we currently have with Cypress. Any failure or significant downtime in our own administrative systems or in Cypress' administrative systems during the transitional period could result in unexpected costs, impact our results and/or prevent us from paying our suppliers and employees and performing other administrative services on a timely basis. See "Related Party Transactions—Relationship with Cypress Semiconductor Corporation—Services Agreements" for a description of these services.

After this offering, we may experience increased costs resulting from a decrease in our purchasing power and we may have difficulty obtaining new customers due to our relatively small size after our separation from Cypress.

Prior to this offering, we were able to take advantage of Cypress' size and purchasing power in procuring goods, technology and services, including insurance, employee benefit support and audit services. As a result of this offering and the transactions described in "Related Party Transactions—Relationship with Cypress Semiconductor Corporation," we will be a smaller company than Cypress, and we cannot assure you that we will have access to financial and other resources comparable to those available to us prior to the offering. As an independent company, we may be unable to obtain goods, technology and services at prices and on terms as favorable as those available to us prior to the separation, which could increase our costs and reduce our profitability. In addition, as a smaller, separate, stand-alone company, we may encounter more customer concerns about our viability as a separate entity, which could harm our business, financial condition and results of operations. Our future success depends on our ability to maintain our current relationships with existing customers, and we may have difficulty attracting new customers.

Our proposed agreements with Cypress may require us to indemnify Cypress for certain tax liabilities, including liabilities that may arise in connection with actions we take after a distribution of our class B common stock by Cypress. These indemnification obligations may limit our ability to obtain additional financing or participate in future acquisitions.

We intend to enter into a tax sharing agreement with Cypress, under which we and Cypress will agree to indemnify one another for certain taxes and similar obligations that the other party could incur under certain circumstances. In general, we will be responsible for taxes relating to our business. Furthermore, we may be held jointly and severally liable for taxes determined on a consolidated basis even though Cypress is required to indemnify us for its taxes pursuant to the tax sharing agreement. For a more complete description of the tax sharing agreement, please see "Related Party Transactions—Relationship with Cypress Semiconductor Corporation—Tax Sharing Agreement."

If Cypress distributes our class B common stock to Cypress stockholders in a transaction intended to qualify as a tax-free distribution under Section 355 of the Code, Cypress intends to obtain an opinion of counsel and/or a ruling from the Internal Revenue Service to the effect that such distribution qualifies under Section 355 of the Code. Despite such an opinion or ruling, however, the distribution may nonetheless be taxable to Cypress under Section 355(e) of the Code if 50% or more of our voting power or economic value is acquired as part of a plan or series of related transactions that includes the distribution of our stock. The proposed tax sharing agreement will include our obligation to indemnify Cypress for any liability incurred as a result of issuances or dispositions of our stock after the distribution, other than liability attributable to certain dispositions of our stock by Cypress, that cause Cypress' distribution of shares of our stock to its stockholders to be taxable to Cypress under Section 355(e) of the Code. Our ability to use our equity to obtain additional financing or to engage in acquisition transactions for a period of time after a distribution will be restricted if we can only sell or issue a limited amount of our stock before triggering our obligation to indemnify Cypress for taxes it incurs under Section 355(e) of the Code.

Third parties may seek to hold us responsible for liabilities of Cypress.

Third parties may seek to hold us responsible for Cypress' liabilities. Under our anticipated separation agreements with Cypress, it is contemplated that Cypress will agree to indemnify us for claims and losses relating to liabilities related to Cypress' business and not related to our business. However, if those liabilities are significant and we are ultimately held liable for them, we cannot assure you that we will be able to recover the full amount of our losses from Cypress.

Our inability to resolve any disputes that arise between us and Cypress with respect to our past and ongoing relationships may result in a significant reduction of our revenue.

Disputes may arise between Cypress and us in a number of areas relating to our past and ongoing relationships, including:

- labor, tax, employee benefit, indemnification and other matters arising from our separation from Cypress;
- the cost of wafers for our imaging detectors;
- employee retention and recruiting;
- business combinations involving us;
- sales or distributions by Cypress of all or any portion of its ownership interest in us;
- the nature, quality and pricing of services Cypress has agreed to provide us; and
- business opportunities that may be attractive to both Cypress and us.

We may not be able to resolve any potential conflicts, and even if we do, the resolution may be less favorable than if we were dealing with an unaffiliated party.

The agreements we intend to enter into with Cypress may be amended upon agreement between the parties. While we are controlled by Cypress, we may not have the leverage to negotiate amendments to these agreements if required on terms as favorable to us as those we would negotiate with an unaffiliated third party.

Some of our directors and executive officers may have conflicts of interest because of their ownership of Cypress common stock, options to acquire Cypress common stock and positions with Cypress.

Some of our directors and executive officers own Cypress common stock and options to purchase Cypress common stock. For information regarding the ownership of Cypress common stock and options to purchase Cypress common stock, see “Management—Stock Ownership of Directors and Executive Officers.” In addition, some of our directors are executive officers and/or directors of Cypress. Ownership of Cypress common stock and options to purchase Cypress common stock by our directors and officers after this offering and the presence of executive officers or directors of Cypress on our board of directors could create, or appear to create, conflicts of interest with respect to matters involving both us and Cypress. For example, corporate opportunities may arise that concern both of our businesses, such as the potential acquisition of a particular business or technology that is complementary to both of our businesses. In these situations, our amended and restated certificate of incorporation provides that directors and officers who are also directors or officers of Cypress have no duty to communicate or present such corporate opportunity to us unless it relates solely to the solar energy business and is not applicable to or reasonably related to any business conducted by Cypress, have the right to deal with such corporate opportunity in their sole discretion and shall not be liable to us or our stockholders for breach of fiduciary duty by reason of the fact that such director or officer pursues or acquires such corporate opportunity for itself or for Cypress. In addition, we have not established at this time any procedural mechanisms to address actual or perceived conflicts of interest of these directors and officers and expect that our board of directors, in the exercise of its fiduciary duties, will determine how to address any actual or perceived conflicts of interest on a case-by-case basis. If any corporate opportunity arises and if our directors and officers do not pursue it on our behalf pursuant to the provisions in our amended and restated certificate of incorporation, we may not become aware of, and may potentially lose, a significant business opportunity.

Because Cypress is not obligated to distribute our common stock that it owns to its stockholders, we will continue to be subject to the risks described above relating to Cypress’ control of us if Cypress does not complete such a distribution.

Cypress has advised us that it does not have any current plans to distribute to its stockholders the shares of our class B common stock that it beneficially owns. Completion of any such distribution in the future would be contingent upon, among other things, the receipt of a favorable tax ruling from the Internal Revenue Service and/

or a favorable opinion of Cypress' tax advisor as to the tax-free nature of the distribution for U.S. federal income tax purposes. However, Cypress is not obligated to undertake the distribution, and the distribution may not occur for the foreseeable future or at all.

Unless and until such a distribution occurs or Cypress otherwise disposes of shares so that it, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding, we will continue to face the risks described above relating to Cypress' control of us and potential conflicts of interest between Cypress and us. We may be unable to realize potential benefits that could result from such a distribution by Cypress, such as greater strategic focus, greater access to capital markets, better incentives for employees and more accountable management, although we cannot guarantee that we would realize any of these potential benefits if such a distribution did occur. In addition, speculation by the press, investment community, our customers, our competitors or others regarding whether Cypress intends to complete such a distribution or otherwise dispose of its controlling interest in us could harm our business.

So long as Cypress continues to hold a controlling interest in us or is otherwise a significant stockholder, the liquidity and market price of our class A common stock may be adversely impacted.

Through potential control of our board of directors, Cypress may cause our board to act in Cypress' best interests which may diverge from the best interests of other stockholders and make it difficult for us to recruit quality independent directors.

Cypress may at any time replace our entire board of directors. Furthermore, some actions of our board of directors require the approval of 75% of our directors except to the extent this condition is waived by Cypress. As a result, unless and until Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes, Cypress could effectively control and direct our board of directors, which means that to the extent the interests of Cypress and we diverge, Cypress can cause us to act in Cypress' best interest to the detriment of the value of our class A common stock. Under these circumstances, persons who might otherwise accept our invitation to join our board of directors may decline.

Risks Related to this Offering

Our stock price may be volatile, and you may not be able to resell shares of our class A common stock at or above the price you paid, or at all.

Prior to this offering, our class A common stock has not been traded in a public market. We cannot predict the extent to which a trading market will develop or how liquid that market might become. The estimated initial public offering price for the shares was determined by negotiations between us and the representatives of the underwriters and may not be indicative of prices that will prevail in the trading market. The trading price of our class A common stock could be subject to wide fluctuations due to the factors discussed in this risk factors section and elsewhere in this prospectus. In addition, the stock market in general and The Nasdaq National Market and technology companies in particular have experienced extreme price and volume fluctuations. These trading prices and valuations may not be sustainable. These broad market and industry factors may decrease the market price of our class A common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

If securities or industry analysts do not publish research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our class A common stock will be influenced by the research and reports that industry or securities analysts publish about us, our business or our market. If one or more of the analysts who cover us change their recommendation regarding our stock adversely, our stock price would likely decline. If one

or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Substantial future sales of our class A common stock in the public market could cause our stock price to fall.

Additional sales of our class A common stock in the public market after this offering, or the perception that these sales could occur, could cause the market price of our class A common stock to decline. Upon completion of this offering, we will have shares of class A common stock outstanding and Cypress will own 104,066,575 outstanding shares of our class B common stock, representing approximately % of the outstanding shares of our common stock which Cypress may convert into class A common stock at any time. Cypress has no contractual obligation to retain its shares of our common stock, except that it has agreed not to sell or distribute any of its shares of our common stock without the consent of Credit Suisse First Boston LLC and Lehman Brothers Inc. on behalf of the underwriters of this offering until 270 days after the date of this prospectus, subject to certain exceptions, as described under "Underwriting." Subject to applicable U.S. federal and state securities laws, Cypress may sell or distribute to its stockholders any or all of the shares of our common stock that it owns, which may or may not include the sale of a controlling interest in us, either (1) after the expiration of this 270-day period or (2) before the expiration of this 270-day period with the consent of Credit Suisse First Boston LLC and Lehman Brothers Inc. on behalf of the underwriters.

Our directors and officers and all of our existing stockholders have entered into a 180-day lock-up agreements with us or with Credit Suisse First Boston LLC and Lehman Brothers Inc., subject to certain exceptions, as described in "Underwriting," except that Cypress has agreed to a 270-day lock-up period. We have agreed to stop our optionholders from engaging in similar transactions for a period of 180 days after the date of this prospectus. All shares sold in this offering will be freely transferable without restriction or additional registration under the Securities Act of 1933, or the Securities Act. Subject to the lock-up arrangements described in "Underwriting" and volume and other restrictions as applicable under Rule 144 and 701 under the Securities Act and assuming no exercise by the underwriters of their over-allotment option to purchase additional shares of common stock from us or any selling stockholders, the remaining shares of class A common stock outstanding after this offering will be available for sale as follows:

Number of Shares	Date of Availability for Sale
	Immediately upon expiration of the 180-day lock-up agreement
	270 days after the date of this prospectus

Any or all of these shares may be released prior to expiration of the lock-up period at the discretion of both Credit Suisse First Boston LLC and Lehman Brothers Inc. without prior notice. To the extent shares are released before the expiration of the lock-up period and these shares are sold into the market, the market price of our common stock could decline. The remaining shares of our common stock will become available for sale at various times thereafter upon the expiration of one-year holding periods.

Immediately after this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering 12,304,869 shares of class A common stock issuable under outstanding options under our 1988 Incentive Stock Plan and 1996 Stock Plan and 793,470 shares reserved for future issuance as of August 12, 2005 under our 2005 stock incentive plan. This registration statement will automatically become effective upon filing. Shares registered under this registration statement will be available for sale in the open market, subject to the lock-up arrangements described above, although sales of shares held by our affiliates will be limited by Rule 144 volume limitations.

In addition, Cypress has the right to cause us to register the sale of its shares of our common stock under the Securities Act. Registration of these shares under the Securities Act would result in these shares, other than shares purchased by our affiliates, becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration.

If Cypress distributes shares of our common stock that it owns to its stockholders, which it has agreed not to do for at least 270 days after the date of this prospectus, substantially all of these shares would be eligible for

immediate resale in the public market. We are unable to predict whether significant amounts of our common stock would be sold in the open market in anticipation of, or after, any such distribution. We also are unable to predict whether a sufficient number of buyers for shares of our class A common stock would be in the market at that time.

Purchasers in this offering will immediately experience substantial dilution in net tangible book value.

Because our common stock has in the past been sold at prices substantially lower than the estimated initial public offering price that you will pay, you will suffer immediate dilution of $ per share in net tangible book value, based on an estimated initial public offering price of $ per share of common stock. The exercise of outstanding options and warrants may result in further dilution.

Our management will have broad discretion in using the net proceeds of this offering, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately.

We intend to use the net proceeds from this offering to expand our manufacturing capacity and for general corporate purposes, including working capital. We may also use a portion of the net proceeds to acquire or invest in businesses, products and technologies that we believe will complement our business. However, depending on future developments and circumstances, we may use some of the proceeds for other purposes. We do not have more specific plans for the net proceeds from this offering. Therefore, our management will have broad discretion in applying the net proceeds of this offering. The net proceeds could be applied in ways that do not improve our operating results. The actual amounts and timing of these expenditures will vary significantly depending on a number of factors, including the amount of cash used in or generated by our operations and the market response to the introduction of any new product offerings.

The difference in the voting rights of our class A and our class B common stock may harm the value and liquidity of our class A common stock.

The rights of the holders of class A and class B common stock are substantially similar, except with respect to voting, conversion and other protective provisions as set forth in this prospectus. The holders of class B common stock shall be entitled to eight votes per share and the holders of our class A common stock shall be entitled to one vote per share. The difference in the voting rights of our class A and class B common stock both before and after any distribution of our class B common stock by Cypress to its stockholders could harm the value of the class A common stock to the extent that any investor or potential future purchaser of our common stock ascribes value to the right of the holders of our class B common stock to eight votes per share. The existence of two classes of common stock could result in less liquidity for either class of common stock than if there were only one class of our common stock. See “Description of Capital Stock” for a description of our common stock and rights associated with it.

Delaware law and our corporate charter and bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.

Provisions in our restated certificate of incorporation, as amended and restated upon the closing of this offering, may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the right of the board of directors to elect a director to fill a vacancy created by the expansion of the board of directors;
- the prohibition of cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the requirement for advance notice for nominations for election to the board of directors or for proposing matters that can be acted upon at a stockholders’ meeting;

- the ability of the board of directors to issue, without stockholder approval, up to 20,084,980 shares of preferred stock with terms set by the board of directors, which rights could be senior to those of common stock; and
- in the event that Cypress, its successors in interest and its subsidiaries no longer collectively own shares of our common stock equal to at least 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes:
    - our board of directors will be divided into three classes of directors, with the classes to be as nearly equal in number as possible;
    - no action can be taken by stockholders except at an annual or special meeting of the stockholders called in accordance with our bylaws, and stockholders may not act by written consent;
    - stockholders may not call special meetings of the stockholders; and
    - our board of directors will be able to alter our bylaws without obtaining stockholder approval.

Until such time as Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes, the affirmative vote of at least 75% of the then-authorized number of members of our board of directors will be required to: (a) adopt, amend or repeal our bylaws or certificate of incorporation; (b) appoint or remove our chief executive officer; (c) designate, appoint or allow for the nomination or recommendation for election by our stockholders of an individual to our board of directors; (d) change the size of our board of directors to be other than five members; (e) form a committee of our board of directors or establish or change a charter, committee responsibilities or committee membership of any committee of our board of directors; (f) adopt any stockholder rights plan, “poison pill” or other similar arrangement; or (g) approve any transactions that would involve a merger, consolidation, restructuring, sale of substantially all of our assets or any of our subsidiaries or otherwise result in any person or entity obtaining control of us or any of our subsidiaries. Cypress may at any time in its sole discretion waive this requirement to obtain such a supermajority vote of our board of directors.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our restated certificate of incorporation, bylaws and under Delaware law could discourage potential takeover attempts and could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than they would without these provisions.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the SEC and The Nasdaq Stock Market, have required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. For example, as a result of becoming a public company, we intend to add independent directors, create additional board committees and adopt policies regarding internal controls and disclosure controls and procedures. In addition, we will incur additional costs associated with our public company reporting requirements. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are contained principally in the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our expectations regarding our expenses, sources of revenues and international sales and operations;
- our anticipated cash needs and our estimates regarding our capital expenditures, capital requirements and our needs for additional financing;
- the performance, features and benefits of our products, plans for future products and for enhancements of existing products and product shipment dates;
- the supply and price of components and raw materials, including polysilicon;
- future pricing of our products and systems in which they are incorporated;
- plans for and timing of expanding our manufacturing capacity;
- our ability to attract customers and develop and maintain customer and supplier relationships;
- our ability to retain our current key executives and to attract and retain other skilled managerial, engineering and sales and marketing personnel;
- our competitive position and our expectation regarding key competitive factors;
- elements of our marketing, growth and diversification strategies including our strategy to reduce our dependence on market incentives;
- use of the proceeds of this offering;
- our intellectual property and our continued investment in research and development;
- anticipated trends and challenges in our business and the markets in which we operate; and
- statements regarding our potential legal proceedings.

In some cases, you can identify forward-looking statements by such terms as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "estimate," "predict," "potential," "plan," "is designed to" or the negative of these terms, and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this prospectus. We do not intend to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This prospectus also contains statistical data that we obtained from government and industry publications and reports generated by SolarBuzz, Datamonitor, Strategies Unlimited, the Energy Information Administration of the United States Department of Energy and other Department of Energy sources, the International Energy Administration, the National Hydropower Association and the World Bank. These government and industry publications generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. Although we believe that the publications are reliable, we have not independently verified their data.

USE OF PROCEEDS

We estimate that we will receive net proceeds of $ from our sale of the shares of class A common stock offered by us in this offering, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters' over-allotment option is exercised in full, we estimate that our net proceeds will be approximately $. We will not receive any proceeds from the sales of the shares being sold by the selling stockholders if the over-allotment option is exercised.

The principal purposes for this offering are to increase our working capital, create a public market for our class A common stock, facilitate our future access to the public capital markets and increase our visibility in our markets. We intend to use the net proceeds for the expansion of our manufacturing capacity and for general corporate purposes, including working capital. We do not have more specific plans for the net proceeds from this offering. We may also use a portion of the net proceeds to acquire businesses, products and technologies that we believe will complement our business. We are not currently engaged in any negotiations for any acquisitions.

We have not yet determined all of our anticipated expenditures and therefore cannot estimate the amounts to be used for all of the purposes discussed above. The amounts and timing of any expenditures will vary depending on the amount of cash generated by our operations, competitive and technological developments and the rate of growth, if any, of our business. Accordingly, our management will have broad discretion in applying the net proceeds from this offering. Pending the uses described above, we intend to invest the net proceeds from this offering in short-term, interest-bearing, investment-grade securities.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends on our common stock in the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Our board of directors will determine future dividends, if any.

CAPITALIZATION

The following table describes our capitalization as of June 30, 2005:

- on an actual basis;
- on a pro forma basis to give effect to: (a) the issuance of 24,000,000 shares of our class A common stock to Cypress, the payment of $20.2 million in cash by Cypress, the cancellation of warrants held by Cypress to purchase 7,642,859 shares of our class A common stock and the cancellation of $39.8 million of debt and payables owed to Cypress in July 2005, (b) the exchange of all outstanding shares of class A common stock held by Cypress into 59,151,515 shares of class B common stock prior to completion of this offering, (c) the automatic conversion of all outstanding shares of our series one convertible preferred stock into 12,915,060 shares of class B common stock and all outstanding shares of our series two convertible preferred stock into 32,000,000 shares of class B common stock and (d) the filing of our restated certificate of incorporation upon completion of this offering; and
- on the pro forma basis described above, as adjusted to reflect the sale of shares of class A common stock by us in this offering at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, as described under "Use of Proceeds."

You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	As of June 30, 2005		
	Actual	Pro Forma	Pro Forma As Adjusted
	($ in thousands except share and per share data)		
Convertible preferred stock, no par value per share; 66,000,000 shares authorized, 44,915,060 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	$ 24,552	$	$
Stockholders' equity:			
Preferred stock, $0.001 par value per share; no shares authorized, issued and outstanding, actual; 20,084,980 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted	—		
Class A common stock, no par value per share; 85,000,000 shares authorized, 35,233,535 shares issued and outstanding, actual; $0.001 par value per share, shares authorized, shares issued and outstanding, pro forma and pro forma as adjusted	58,018		
Class B common stock, no par value per share; 32,000,000 shares authorized, no shares issued and outstanding, actual; $0.001 par value per share, shares authorized, 80,066,575 shares issued and outstanding, pro forma and pro forma as adjusted	—		
Additional paid-in capital related to warrants and merger transactions	30,094		
Accumulated other comprehensive income	208		
Accumulated deficit	(56,263)		
Total stockholders' equity	32,057		
Total capitalization	$ 56,609	$	$

The number of pro forma as adjusted shares of class A and class B common stock shown as issued and outstanding in the table above is based on the number of shares of our class A and class B common stock outstanding as of June 30, 2005, and excludes:

- 12,304,869 shares of class A common stock issuable upon the exercise of options outstanding as of June 30, 2005, at a weighted average exercise price of $1.33 per share;
- 793,470 shares of class A common stock reserved for future issuance as of August 12, 2005 under our 2005 stock incentive plan; and
- 7,642,859 shares of class A common stock issuable upon the exercise of warrants outstanding as of June 30, 2005, which were terminated in connection with the purchase of 24,000,000 shares of our class A common stock by Cypress in July 2005, which shares will be exchanged for an equal number of shares of class B common stock prior to completion of this offering.

As of June 30, 2005, 1,349,070 shares remained available for future issuance under our 1996 Stock Plan. Upon the completion of this offering, the 1996 Stock Plan will be terminated. No shares of our class A common stock will remain available under the 1996 Stock Plan or our 1988 Stock Incentive Plan other than for satisfying exercises of stock options granted under this plan prior to its termination.

DILUTION

Our net tangible book value (deficit) as of June 30, 2005 was approximately $( ) million, or $( ) per share of our class A and class B common stock, and was approximately $ per share of common stock, assuming (a) the issuance of 24,000,000 shares of our class A common stock to Cypress, the payment of $20.2 million in cash by Cypress, the cancellation of warrants held by Cypress to purchase 7,642,859 shares of our class A common stock and the cancellation of $39.8 million of debt and payables owed to Cypress in July 2005, (b) the exchange of all outstanding shares of class A common stock held by Cypress for 59,151,515 shares of class B common stock prior to completion of this offering, (c) the automatic conversion of all outstanding shares of our convertible preferred stock into 44,915,060 shares of class B common stock. Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding as of June 30, 2005. Dilution in net tangible book value per share to new investors represents the difference between the amount per share paid by purchasers of shares of class A common stock in this offering and the net tangible book value per share of common stock immediately after completion of this offering.

After giving effect to the sale of the shares of class A common stock by us in this offering at an assumed initial public offering price of $ per share, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our net tangible book value as of June 30, 2005 would have been approximately $ million, or $ per share of common stock. This represents an immediate increase in net tangible book value of $ per share of class A and class B common stock to existing stockholders and an immediate dilution in net tangible book value of $ per share to new investors purchasing shares of class A common stock in this offering. If the offering price is higher or lower stock, the dilution to new investors will be greater or less.

The following table illustrates this per share dilution:

Assumed initial public offering price per share of class A common stock		$
Net tangible book value (deficit) per common share as of June 30, 2005	$	
Increase per share assuming the conversion of all outstanding convertible preferred stock as of June 30, 2005		
Increase in net tangible book value per share attributable to existing stockholders		
Net tangible book value per share as adjusted after this offering		
Dilution to new investors		$

The following table summarizes, as of June 30, 2005, the number of shares of class A common stock purchased from us at an assumed initial public offering price of $ per share, the total cash consideration paid and the average cash price per share paid by existing and new investors purchasing shares of class A common stock in this offering, before deducting estimated underwriting discounts and commissions and estimated offering expenses, and after giving effect to (a) the issuance of 24,000,000 shares of our class A common stock to Cypress, the payment of $20.2 million in cash by Cypress, the cancellation of warrants held by Cypress to purchase 7,642,859 shares of our class A common stock and the cancellation of $39.8 million of debt and payables owed to Cypress in July 2005, (b) the exchange of all outstanding shares of our class A common stock held by Cypress for 59,151,515 shares of class B common stock and (c) the conversion of all outstanding shares of our convertible preferred stock into 44,915,060 shares of class B common stock.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing common and preferred stockholders	104,148,595	%		%	$
New investors		%		%	
Total		100%		100%	$

The table above also assumes no exercise of any outstanding stock options or warrants outstanding as of June 30, 2005, of which warrants to purchase 7,642,859 shares of our class A common stock were terminated in July

2005 as described above. As of June 30, 2005, there were 12,304,869 shares of class A common stock issuable upon exercise of outstanding stock options at a weighted average exercise price of $1.33 per share. In addition, there are 793,470 shares of class A common stock reserved for future issuance as of August 12, 2005 under our 2005 stock incentive plan. As of June 30, 2005, 1,349,070 shares remained available for future issuance under our 1996 Stock Plan. Upon the completion of this offering, the 1996 Stock Plan will be terminated. No shares of our class A common stock will remain available under the 1996 Stock Plan or our 1988 Stock Incentive Plan other than for satisfying exercises of stock options granted under this plan prior to its termination.

As of June 30, 2005, assuming (a) the issuance of 24,000,000 shares of our class A common stock to Cypress, the payment of $20.2 million in cash by Cypress, the cancellation of warrants held by Cypress to purchase 7,642,859 shares of our class A common stock and the cancellation of $39.8 million of debt and payables owed to Cypress in July 2005, (b) the exchange of all outstanding shares of our class A common stock held by Cypress for 59,151,515 shares of class B common stock, (c) the conversion of all outstanding shares of convertible preferred stock into 44,915,060 shares of class B common stock and (d) the exercise and payment of all outstanding options and after giving effect to this offering, net tangible book value would have been approximately $ million, representing dilution of $ per share to new investors. The table below assumes the exercise of all options to purchase shares of our class A common stock outstanding at June 30, 2005:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing common and preferred stockholders	104,148,595	%	$	%	$
Shares subject to options	12,304,869	%	$	%	$
Subtotal	116,453,464				
New investors			$		$
Total		100%	$	100%	$

If the underwriters' over-allotment option is exercised in full and assuming no exercise of any such outstanding stock options or warrants to purchase our common stock, the number of shares of common stock held by existing stockholders will be reduced to % of the total number of shares of common stock to be outstanding after this offering; and the number of shares of class A common stock held by the new investors will be increased to shares or % of the total number of shares of common stock outstanding after this offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

On November 9, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our then outstanding shares of capital stock but leaving our unexercised warrants and options outstanding. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting. See note 2 of the notes to our consolidated financial statements. The consolidated balance sheet and statements of operations data in this prospectus prior and up to November 8, 2004, refer to the Predecessor Company and this period is referred to as the pre-merger period, while the consolidated balance sheet and statements of operations data subsequent to November 8, 2004 refer to the Successor Company and this period is referred to as the post-merger period. A black line has been drawn between the accompanying financial statements to distinguish between the pre-merger and post-merger periods.

The selected consolidated balance sheet data as of December 31, 2003, 2004 and June 30, 2005 and the selected consolidated statements of operations data for the fiscal years ended December 31, 2002 and 2003, the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004 and the six months ended June 30, 2005 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated balance sheet data as of December 31, 2000, 2001 and 2002 and the selected consolidated statements of operations data for the years ended December 31, 2000 and 2001 have been derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated statement of operations data for the six months ended June 30, 2004 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus.

The unaudited interim financial statements have been prepared on the same basis as our audited financial statements and, in our opinion, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the results of operations and financial position for those periods and as of that date. The historical results are not necessarily indicative of the results to be expected for any future periods and the results for the six months ended June 30, 2005 should not be considered indicative of results expected for the full fiscal year.

Our consolidated financial statements include allocations of certain Cypress expenses, including centralized legal, tax, treasury, information technology, employee benefits and other Cypress corporate services and infrastructure costs. The expense allocations have been determined on bases that we and Cypress considered to be reasonable reflections of the utilization of services provided or the benefit received by us. The financial information included in this discussion and in our consolidated financial statements may not be indicative of our consolidated financial position, operating results, changes in equity and cash flows in the future, or what they would have been had we been a separate stand-alone entity during the periods presented. See note 3 of the notes to our consolidated financial statements for additional information on our relationship with Cypress.

In 2000, 2001 and 2002, we reported our results of operations on a calendar year-end basis. In fiscal 2003, we began to report our results of operations on the basis of 52 or 53 week periods, ending on the Sunday closest to December 31. Fiscal 2003 ended on December 28, 2003 and included 52 weeks. Combined periods of fiscal 2004 ended January 2, 2005 and included 53 weeks. Our fiscal quarters end on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year in which the additional week falls into the fourth quarter of that fiscal year. For presentation purposes only, the consolidated financial statements and notes refer to the calendar year-end and month-end of each respective period.

We have also presented below our selected consolidated balance sheet data as of June 30, 2005 on a pro forma basis to give effect to (a) the issuance of 24,000,000 shares of our class A common stock to Cypress in exchange for approximately $20.2 million of cash, the cancellation of warrants held by Cypress to purchase 7,642,859 shares of our class A common stock and the cancellation of $39.8 million of debt and payables owed to Cypress in July 2005, (b) the exchange of all outstanding shares of class A common stock held by Cypress into

59,151,515 shares of class B common stock prior to completion of this offering, (c) the automatic conversion of all outstanding shares of our series one convertible preferred stock into 12,915,060 shares of class B common stock and all outstanding shares of our series two convertible preferred stock into 32,000,000 shares of class B common stock and (d) the filing of our restated certificate of incorporation upon completion of this offering. Dollars in thousands except share and per share amounts.

	Predecessor Company						Successor Company	
	Years Ended December 31,				Six Months Ended June 30, 2004	Jan. 1 Through Nov. 8 2004	Nov. 9 Through Dec. 31 2004	Six Months Ended June 30, 2005
	2000	2001	2002	2003				
Consolidated Statements of Operations Data								
Revenue:								
Product revenue	$8,787	$ 4,988	$ 3,722	$ 4,245	$ 3,644	$ 6,708	$ 3,881	$ 27,342
Other	922	589	333	760	—	122	174	150
Total revenue	9,709	5,577	4,055	5,005	3,644	6,830	4,055	27,492
Costs and expenses:								
Cost of revenue	7,652	5,977	3,198	4,987	3,459	9,397	5,410	28,318
Research and development	1,024	914	2,532	9,816	7,425	12,095	1,124	2,935
Sales, general and administrative	967	1,334	1,396	3,238	2,420	4,706	850	3,918
Stock-based compensation*.	—	—	—	—	55	131	650	184
Amortization of intangible assets	—	—	—	—	—	—	573	2,353
Total costs and expenses	9,643	8,225	7,126	18,041	13,359	26,329	8,607	37,708
Operating income (loss)	66	(2,648)	(3,071)	(13,036)	(9,715)	(19,499)	(4,552)	(10,216)
Interest expense	(444)	(240)	(493)	(1,509)	(1,417)	(3,759)	(1,072)	(3,184)
Other income (expense), net	67	0	31	—	3	(44)	15	(173)
Net loss	$ (311)	$ (2,888)	$ (3,533)	$ (14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Net loss per share:								
Basic and diluted[1]	$ (0.04)	$ (0.38)	$ (0.55)	$ (1.75)	$ (1.33)	$ (2.75)	$ (5.31)	$ (0.74)
Pro forma basic and diluted[2]						(1.02)	(0.40)	(0.24)
Weighted-average shares:								
Basic and diluted[1]	7,228	7,564	6,376	8,313	8,397	8,461	1,056	18,307
Pro forma basic and diluted[2]						22,769	14,135	57,305
* Stock-based compensation consists of:								
Cost of revenue					$ 55	$ 101	$ 96	$ 92
Research and development					—	23	293	69
Sales, general and administrative					—	7	261	23
					$ 55	$ 131	$ 650	$ 184

(1) The basic and diluted net loss per share computation excludes potential shares of common stock issuable upon conversion of convertible preferred stock and exercise of options and warrants to purchase common stock as their effect would be antidilutive. See note 1 of the notes to our consolidated financial statements for a detailed explanation of the determination of the shares used in computing basic and diluted loss per share.

(2) For information regarding the computation of per share amounts, refer to note 1 of our consolidated financial statements included elsewhere in this prospectus. Pro forma basic and diluted net loss per share is presented for the period from January 1, 2004 through November 8, 2004, the period from November 9, 2004 through December 31, 2004 and the six months ended June 30, 2005 to reflect per share data assuming the conversion of all our preferred stock into shares of class B common stock, which will occur upon completion of this offering, as if the conversion had taken place at the beginning of fiscal 2004.

	Predecessor Company				Successor Company		
	December 31,						
	2000	2001	2002	2003	December 31, 2004	June 30, 2005	June 30, 2005 Pro Forma
Consolidated Balance Sheet Data							
Cash and cash equivalents	$ 131	$ 70	$ 345	$ 5,588	$ 3,776	$ 8,091	
Working capital (deficiency)	(661)	(3,674)	(3,090)	(28,574)	(54,314)	(2,238)	
Total assets	2,185	1,212	9,254	30,891	89,646	122,916	
Notes payable to Cypress, net of current portion	—	—	—	5,312	21,673	21,553	
Customer advances, net of current portion	—	—	—	—	—	10,706	
Convertible preferred stock	7,347	7,365	7,452	9,366	8,552	24,552	
Total shareholders' equity (deficit)	(655)	(3,469)	(6,022)	(20,479)	(10,664)	32,057	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with the consolidated financial statements and related notes that are included elsewhere in this prospectus. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or elsewhere in this prospectus. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements." In 2002, we reported our results of operations on a calendar year-end basis. In fiscal 2003, we began to report our results of operations on the basis of 52 or 53 week periods, ending on the Sunday closest to December 31. Fiscal 2003 ended on December 28, 2003 and included 52 weeks. The combined periods of fiscal 2004 ended on January 2, 2005 and included 53 weeks. Our fiscal quarters end on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year in which the additional week falls into the fourth quarter of that fiscal year. For presentation purposes only, the consolidated financial statements and notes refer to the calendar year-end and month-end of each respective period.

On November 9, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our then outstanding shares of capital stock, but leaving our unexercised warrants and options outstanding. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting. See note 2 of the notes to our consolidated financial statements. The consolidated balance sheet and statements of operations data in this prospectus prior and up to November 8, 2004, refer to the Predecessor Company and this period is referred to as the pre-merger period, while the consolidated balance sheet and statements of operations data subsequent to November 8, 2004 refer to the Successor Company and this period is referred to as the post-merger period. A black line has been drawn between the accompanying financial statements to distinguish between the pre-merger and post-merger periods.

In our discussion of our fiscal year 2004, we refer to each line item in the statement of operations as "combined" for comparative purposes. These combined amounts represent the sum of the financial data for SunPower Corporation for the period from January 1, 2004 to November 8, 2004, our pre-merger period, and from November 9, 2004 to December 31, 2004, our post-merger period. We are including these combined amounts to improve the comparative analysis versus the prior period, which included a full fiscal year. These combined amounts are for informational purposes only and do not purport to represent what our financial position would have been in such periods.

Our consolidated financial statements include allocations of certain Cypress expenses, including centralized legal, tax, treasury, information technology, employee benefits and other Cypress corporate services and infrastructure costs. The expense allocations have been determined on bases that we and Cypress considered to be reasonable reflections of the utilization of services provided or the benefit received by us. The financial information included in this discussion and in our consolidated financial statements may not be indicative of our consolidated financial position, operating results, changes in equity and cash flows in the future, or what they would have been had we been a separate stand-alone entity during the periods presented. See note 3 of the notes to our consolidated financial statements for additional information on our relationship with Cypress.

General

We design, manufacture and sell solar power products, based on our proprietary processes and technologies. We have spent more than 15 years developing high performance solar cells, which are semiconductor devices that directly convert sunlight into electricity. We believe our solar cells have the highest conversion efficiency, a measurement of the amount of sunlight converted by the solar cell into electricity, available for the mass market. We believe our solar cells provide superior performance, including the ability to generate up to 50% more power per unit area, superior aesthetics with our uniformly black surface design and efficient use of silicon compared with conventional solar cells.

We offer solar power products including solar cells, solar panels and inverters which convert sunlight to electricity compatible with the utility network. Our initial solar sales efforts have been focused on residential and commercial applications where the high performance and superior aesthetics of our solar power products provide compelling customer benefits. We sell our solar power products in many countries, principally in regions where government incentives have accelerated solar power adoption. In addition, we offer high performance imaging detectors based on our solar power technology, primarily for medical imaging applications, and infrared detectors for use primarily in computing and mobile phone applications.

Overview

SunPower was incorporated in 1985 by Dr. Richard Swanson to develop and commercialize high-efficiency photovoltaic, or solar, cell technology. Our solar cells were initially used in solar concentrator systems, which concentrate sunlight to reflective dish systems. From 1988 to 2000, we focused our efforts on developing our high-efficiency solar cells and marketing our infrared detectors. In 2001, NASA used our solar cells in the Helios solar-powered airplane to achieve a world record powered-flight altitude of 96,863 feet. For the past several years, we have focused our efforts on building commercial manufacturing capacity for our solar cells while continuing to sell our imaging and infrared detectors. In late 2004, we commenced commercial production of our solar cells at our manufacturing facility in the Philippines.

In May 2002, Cypress made its initial investment in us of $8.8 million in exchange for 12,915,060 shares of our series one preferred stock, at which time it became our majority shareholder. This investment funded our operations and the initial development of our A-300 solar cell. During 2003, we built a pilot wafer fabrication line at Cypress' Round Rock, Texas wafer fabrication facility. In 2003 and 2004, we continued our A-300 solar cell product and manufacturing process development efforts. In late 2004, we completed the construction of our 215,000 square foot wafer fabrication facility in the Philippines, which is capable of housing four solar cell production lines with a total production capacity of approximately 100 megawatts per year, and we installed and qualified our first 25 megawatts per year production line. We funded these activities and our continuing operations through additional loans from Cypress.

In late 2004, we shipped our first commercial A-300 solar cells from our Philippines manufacturing facility. On November 8, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our then outstanding shares of our capital stock but leaving our unexercised warrants and options outstanding.

In January 2005, Cypress invested an additional $16.0 million in us in exchange for 32,000,000 shares of our series two convertible preferred stock. In March 2005, Cypress invested $58.0 million in us in exchange for 35,151,515 shares of our class A common stock. This investment, along with customer advances, funded the purchase of equipment for our second and third 25 megawatts per year production lines in our Philippines manufacturing facility. In July 2005, Cypress purchased an additional 24,000,000 shares of our class A common stock in exchange for approximately $20.2 million of cash, cancellation of all of our then outstanding debt and payables to Cypress, which totaled approximately $39.8 million, and cancellation of warrants issued to Cypress in connection with earlier loans. As a result, we no longer have any outstanding indebtedness to Cypress. For additional discussion regarding our financing arrangements with Cypress, see "Related Party Transactions—Arrangements Between SunPower Corporation and Cypress Semiconductor Corporation."

Our employee base has increased from 66 full-time employees as of December 31, 2002 to 416 as of June 30, 2005 with most of the increase coming from hiring at our facility in the Philippines related to our increased manufacturing capacity. We have also increased headcount in research and development as well as sales, general and administrative functions as we prepare for growth of our business.

We sell our solar power products to system integrators and original equipment manufacturers, or OEMs. Our solar panels are assembled for us by third-party subcontractors located in China. System integrators typically design and sell complete systems that include our solar panels along with additional required system components. In North America, our system integrators also incorporate our inverters in their system offerings. Our two largest customers for our solar power products are Conergy and Solon.

In addition, we offer imaging and infrared detectors based on our solar power technology. Our imaging detectors are manufactured for us by Cypress and are processed and tested in our Sunnyvale, California facility. We sell our imaging detectors to OEMs. Our primary customer for our imaging detectors is Plexus, a subcontractor to GE which uses our imaging detectors in its medical imaging products. We offer infrared detectors for use primarily in computing and mobile phone applications. For example, our infrared detectors are used in personal digital assistants to beam information from one device to another.

To date, substantially all of our revenue from our solar power products has been generated from two systems integrator customers in Europe. A significant number of the systems designed and manufactured by our customers are then sold to OEMs, who in turn sell the systems to end customers, including to customers outside of Europe. Our international sales accounted for approximately 58% and 29% of our total revenue in fiscal 2002 and fiscal 2003, respectively, 44% of our total combined revenue in fiscal 2004, and 75% of our total revenue in the six months ended June 30, 2005. We anticipate that a significant amount of our total revenue will continue to be generated by sales to customers outside the United States. A significant portion of our sales are denominated in Euros.

Cypress has agreed to provide specified manufacturing and support services such as legal, tax, treasury and employee benefits services to us for a limited period from the date of our initial public offering so long as Cypress owns 50% of our outstanding capital stock. These services may not be provided at the same level as they were prior to this offering, and we may not be able to obtain the same benefits that we received prior to the separation from Cypress. See “Related Party Transactions—Agreement Between SunPower Corporation and Cypress Semiconductor Corporation” and “Risk Factors—Risks Related to Our Relationship with Cypress Semiconductor Corporation” for a description of these services and risks. The historical financial information is not necessarily indicative of what our results of operations, financial position, cash flows or costs and expenses will be in the future.

Financial Operations Overview

The following describes certain line items in our statements of operations:

Total Revenue

We generate product revenue from sales of our solar cells, solar panels, inverters, imaging detectors and infrared detectors. Solar power products accounted for 1% and 4% of our product revenue in fiscal 2002 and 2003, 36% of our combined product revenue in fiscal 2004 and 80% of our product revenue in the six months ended June 30, 2005. Detector products and other revenue accounted for 99% and 96% of our product revenue in fiscal 2002 and 2003, 64% of our combined product revenue in fiscal 2004 and 20% of our product revenue in the six months ended June 30, 2005. Factors affecting our revenue include unit volumes shipped, average selling prices, product mix and product demand. We have experienced quarter-over-quarter unit volume increases in our solar power products for the past four quarters as we continued to increase our production. During this period, we have experienced relatively stable average selling prices for our solar power products primarily due to the strength of end-market demand. We expect average selling prices for our solar power products to decline over time as the market becomes more competitive, as certain products mature and as manufacturers are able to lower their manufacturing costs and pass on some of the savings to their customers, similar to our experience historically in our detector products.

Cost of Revenue

Our cost of revenue consists primarily of silicon ingots and wafers for the production of solar cells, along with other materials such as chemicals and gases that are needed to transform silicon wafers into solar cells. Other factors contributing to cost of revenue include depreciation, salaries, personnel-related costs, facilities expenses and manufacturing supplies associated with solar cell fabrication. For our solar panels, our cost of revenue includes raw materials such as glass, frame, backing and other materials, as well as the assembly costs we pay to our third-party subcontractors in China. For our detector products, our cost of revenue includes the cost of silicon wafers, which is charged to us by our manufacturing contractor, Cypress, and our packaging and test costs. We expect cost of revenue to increase in absolute dollars as we bring on additional capacity and increase our product volume. Potential increases in our suppliers’ cost of polysilicon can also contribute to higher cost of

revenue. Despite the absolute increase in cost of revenue dollars, we expect our cost of revenue to fluctuate as a percentage of revenue.

Our gross profit each quarter is affected by a number of factors, including average selling prices for our products, our product mix, our actual manufacturing costs and the utilization rate of our wafer fabrication facility. Presently, due to strong end-market demand for solar power products, we are able to manufacture and ship products at or near the manufacturing capacity of our first 25 megawatts per year production line, which allows us to spread a significant amount of our fixed costs over full production volume, thereby reducing our per unit fixed cost. As we build additional manufacturing lines or facilities, our fixed costs will increase, and the overall utilization rate of our wafer fabrication facility could decline, which could negatively impact our gross profit. This decline may continue until a line's manufacturing output reaches its rated capacity.

From time to time, we enter into agreements where the selling price for certain of our solar power products is fixed over a defined period. An increase in our manufacturing costs, including silicon ingots and wafers, over such a defined period could have a negative impact on our overall gross profit. Our gross profit may also be impacted by certain adjustments for inventory reserves. We expect our gross profit to increase over time as we improve our manufacturing process and as we grow our business and leverage certain of our fixed costs. An expected increase in gross profit based on manufacturing efficiencies, however, could be partially or completely offset by increased raw material costs. Our inventory policy is described in more detail under "Critical Accounting Policies and Estimates."

Operating Expenses

Our operating expenses include research and development expense and sales, general and administrative expense. Research and development expense consists primarily of salaries and related personnel costs, depreciation and the cost of solar cells and solar panel materials and services used for the development of products, including experiment and testing. We expect our research and development expense to increase in absolute dollars as we continue to develop new processes to further improve the conversion efficiency of our solar cells and reduce their manufacturing cost, and as we develop new products to diversify our product offerings. We expect our research and development expense to decrease as a percentage of revenue over time. We have recently entered into a three-year cost-sharing research and development project with the National Renewable Energy Laboratory to fund the design of our next generation solar panels. Payments received under this contract help offset our research and development expense. This contract is expected to fund approximately $1.0 million per year of our research and development expense through May 2008.

Sales, general and administrative expense consists primarily of salaries and related personnel costs, professional fees, insurance and other selling expenses. We expect our sales, general and administrative expense to increase in absolute dollars as we expand our sales and marketing efforts, hire additional personnel, improve our information technology infrastructure and incur other costs related to the anticipated growth of our business. We also expect sales, general and administrative expense to increase to support our operations as a public company, including compliance-related costs. However, we expect our sales, general and administrative expense to decrease as a percentage of revenue.

Amortization of Intangible Assets

On November 9, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our then outstanding shares of capital stock but leaving our unexercised warrants and options outstanding. As a result of that transaction, we were required to record Cypress' cost of acquiring us in our financial statements, including its equity investment and pro rata share of our losses by recording intangible assets, including purchased technology, patents, trademarks and distribution agreement. The fair value for these intangibles is being amortized over two to six years on a straight-line basis. We report amortization of intangibles as a separate expense rather than including it in the functional category to which it relates, as we believe it provides a more meaningful comparison. For additional discussion regarding amortization of acquired intangibles, please see note 2 of the notes to our consolidated financial statements.

Stock-Based Compensation Expense

Our stock-based compensation expense is the deemed fair value of variable stock-based compensation of stock and stock options issued to non-employees and consultants. Stock-based compensation was $0, $0, $781,000 and $184,000 for the years ended December 31, 2002, 2003, and combined 2004 and the first six months ended June 30, 2005, respectively. We expect to incur variable stock-based compensation through the first quarter of 2006 as these options vest. We report stock-based compensation as a separate expense rather than including it in the functional category to which it relates, as we believe it provides a more meaningful comparison.

Interest expense

Interest expense consists of interest expense associated with debt we owed Cypress and the fair value of warrants issued in connection with these losses which are reflected as interest expense using the effective interest method for financial reporting purposes.

Other income (expense), net

Other income (expense), net consists primarily of gains or losses from foreign exchange, hedging contracts, and, to a lesser extent, interest earned on our cash and investments.

Provision for Income Taxes

For financial reporting purposes, income tax expense and deferred income tax balances were calculated as if we were a separate entity and had prepared our own separate tax return. Deferred tax assets and liabilities are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. We will pay federal and state income taxes in accordance with the proposed tax sharing agreement with Cypress. See note 1 and note 5 of the notes to our consolidated financial statements.

As of June 30, 2005, we had federal net operating loss carryforwards of approximately $32.0 million. These federal net operating loss carryforwards expire at various dates from 2011 through 2025, if not utilized. We also had research and development credit carryforwards of approximately $1.2 million for federal and approximately $1.2 million for state tax purposes. We have provided a valuation allowance on our deferred tax assets, consisting primarily of net operating loss carryforwards, because of the uncertainty of their realizability. Due in part to equity financings, we experienced “ownership changes” as defined in Section 382 of the Code. Accordingly, our use of the net operating loss carryforwards and credit carryforwards is limited by the annual limitations described in Sections 382 and 383 of the Code.

We currently benefit from income tax holiday incentives in the Philippines pursuant to our Philippine subsidiary’s registrations with the Board of Investments and Philippine Economic Zone Authority, which provide that we pay no income tax in the Philippines for four years pursuant to our Board of Investments non-pioneer status and Philippine Economic Zone Authority registrations, and six years pursuant to our Board of Investments pioneer status registration. Our current income tax holidays expire in 2010, and we intend to apply for extensions. However, these tax holidays may or may not be extended. We believe that as our Philippine tax holidays expire, (a) gross income attributable to activities covered by our Philippine Economic Zone Authority registrations will be taxed at a 5% preferential rate, and (b) our Philippine net income attributable to all other activities will be taxed at the statutory Philippine corporate income tax rate of 32%.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be

reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our most critical policies include: (a) revenue recognition, which impacts the recording of revenue; (b) allowance for doubtful accounts, which impacts general and administrative expense; (c) warranty reserves, which impact gross margin; (d) valuation of inventories, which impacts cost of revenue and gross margin; (e) stock option valuation, which impacts the disclosure and recognition of stock compensation; (f) valuation of long-lived assets, which impacts write-offs of goodwill and other intangibles; (g) valuation of goodwill impairment, which impacts operating expense and net income; and (h) accounting for income taxes which impacts our net income. We also have other key accounting policies that are less subjective, and therefore, their application would not have a material impact on our reported results of operations. The following is a discussion of our most critical policies, as well as the estimates and judgments involved.

Revenue Recognition

We sell our products to system integrators and OEMs and recognize revenue when persuasive evidence of an arrangement exists, delivery of the product has occurred and title and risk of loss has passed to the customer, the sales price is fixed and determinable, collectibility of the resulting receivable is reasonably assured and the rights and risks of ownership have passed to the customer. We do not currently have any significant post-shipment obligations, including installation, training or customer acceptance clauses with any of our customers that could have an impact on revenue recognition. As such, we record a trade receivable for the selling price when the above conditions are met, reduce inventory for the carrying value of goods shipped, and record the gross margin.

We also enter into development agreements with some of our customers. Development revenue is recognized under the proportionate performance method, with the associated costs included in research and development expense. We estimate the proportionate performance of our development contracts based on an analysis of progress toward completion.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We make our estimates of the collectibility of our accounts receivable by analyzing historical bad debts, specific customer creditworthiness and current economic trends. The allowance for doubtful accounts was $59,000 and $294,000 as of December 31, 2004 and the six months ended June 30, 2005, respectively. If the financial condition of our customers were to deteriorate such that their ability to make payments was impaired, additional allowances could be required.

Warranty Reserves

It is customary in our business and industry to warrant or guarantee the performance of our solar panels at certain levels of conversion efficiency for extended periods, often as long as 25 years. It is also customary to warrant or guarantee the functionality of our solar cells and imaging detectors for at least one year. We therefore maintain warranty reserves to cover potential liability that could arise from these guarantees. Our potential liability is generally in the form of product replacement. Our warranty reserves reflect our best estimate of such liabilities and are based on our analysis of product returns, results of industry-standard accelerated testing and various other assumptions that we believe to be reasonable under the circumstances. We have sold solar cells only since late 2004, and accordingly have a limited history upon which to base our estimates of warranty expense. We recognize our warranty reserve as a component of cost of revenue. Our warranty reserve includes specific accruals for known product issues and an accrual for an estimate of incurred but not reported product issues based on historical activity. Due to effective product testing and the short turnaround time between product shipment and the detection and correction of product failures, warranty expenses based on historical activity were not significant as of and for the fiscal years or interim periods presented.

Valuation of Inventory

Inventory is valued at the lower of cost or market. Certain factors could impact the realizable value of our inventory, so we continually evaluate the recoverability based on assumptions about customer demand and market conditions. The evaluation may take into consideration historic usage, expected demand, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer concentrations, product merchantability and other factors. The reserve or write-down is equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory reserves or write-downs may be required that could negatively impact our gross margin and operating results. If actual market conditions are more favorable, we may have higher gross margin when products that have been previously reserved or written down are eventually sold.

Stock-Based Compensation

We have elected to follow the intrinsic value-based method prescribed by Accounting Principles Board, or APB, Opinion 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for employee stock options rather than adopting the alternative fair value accounting provided under Statement of Financial Accounting Standards, or SFAS, No. 123, Accounting for Stock-Based Compensation. Therefore, we do not record any compensation expense for stock options we grant to our employees where the exercise price equals the deemed fair market value of the stock on the date of grant and the exercise price, number of shares issuable under the options and vesting period are fixed. We comply with the disclosure requirements of SFAS No. 123 and SFAS No. 148, Accounting for Stock-Based Compensation—Transition and Disclosure, an Amendment of Financial Accounting Standards Board, or FASB, Statement No. 123, which require that we disclose our pro forma net income or loss and net income or loss per common share as if we had expensed the fair value of the options. In calculating this fair value, there are certain assumptions that we use, as disclosed in note 1 of the notes to our consolidated financial statements, consisting of the expected life of the option, risk-free interest rate, dividend yield and volatility.

We grant options to employees and consultants. Stock-based compensation includes the fair value of instruments issued to consultants and the deferred stock compensation associated with options to employees. The fair value of instruments issued to consultants is based on management's estimates using Black-Scholes option pricing models. Instruments issued to consultants which are not fully vested are subject to periodic revaluation, or variable accounting, over the vesting term. These fair value estimates are based on a number of variables, including the fair value of the stock underlying the instrument, which are subject to change over the lives of the instruments.

We record deferred stock-based compensation which consists of the amounts by which the estimated fair value of the stock underlying the employee option exceeds the exercise price at the date of grant or other measurement date, if applicable. In determining the fair value of our common stock at the dates of grant of stock awards, we were unable to rely on a public trading market for our stock, but in certain cases were able to rely on recent stock sales or transactions to unrelated third parties as well as third party valuations of our common stock. We have also relied on numerous objective and subjective factors and methodologies to value our common stock at different stages of our growth.

Valuation of Long-Lived Assets

Our long-lived assets include manufacturing equipment and facilities as well as certain intangible assets. Our business requires heavy investment in manufacturing facilities that are technologically advanced but can quickly become significantly under-utilized or rendered obsolete by rapid changes in demand for solar power products produced in those facilities. On November 9, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our outstanding shares of capital stock but leaving our unexercised outstanding warrants and options outstanding. As a result of that transaction, we were required to record Cypress' cost of

acquiring us in our financial statement by recording intangible assets including purchased technology, patents, trademarks, distribution agreement and goodwill. We evaluate our long-lived assets, including property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets or the strategy for our business and significant negative industry or economic trends. Impairments are recognized based on the difference between the fair value of the asset and its carrying value, and fair value is generally measured based on discounted cash flow analyses. We recorded a $461,000 impairment charge in the first quarter of 2005, related to certain equipment when we decommissioned our pilot wafer fab located in Cypress' Round Rock, Texas facility. If there is a significant decrease in our business in the future, we may be required to record impairment charges in the future.

Goodwill Impairment

On November 9, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our then outstanding shares of capital stock but leaving our unexercised outstanding warrants and options outstanding. As a result of that transaction, we were required to record Cypress' cost of acquiring us, including its equity investment and pro rata share of our losses in our financial statements by recording intangible assets including purchased technology, patents, trademarks, distribution agreement and goodwill. We perform a goodwill impairment test on an annual basis and will perform an assessment between annual tests in certain circumstances. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment at many points during the analysis. In estimating the fair value of our business, we make estimates and judgments about our future cash flows. Our cash flow forecasts are based on assumptions that are consistent with the plans and estimates we are using to manage our business.

Accounting for Income Taxes

Our global operations involve manufacturing, research and development and selling activities. Profit from non-U.S. activities is subject to local country taxes but not subject to United States tax until repatriated to the United States. It is our intention to permanently reinvest these earnings outside the United States. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. Should we determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, we would record an adjustment to the deferred tax asset valuation allowance. This adjustment would increase income in the period such determination is made.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate tax assessment, a further charge to expense would result.

Results of Operations

The following table sets forth the statement of operations for the periods indicated as a percentage of revenue.

	Predecessor Company				Successor Company	
	Years Ended December 31,		Six Months Ended June 30, 2004	Jan. 1 Through Nov. 8 2004	Nov. 9 Through Dec. 31 2004	Six Months Ended June 30, 2005
	2002	2003				
Consolidated Statements of Operations Data						
Revenue:						
Product revenue	92%	85%	100%	98%	96%	99%
Other	8	15	—	2	4	1
Total revenue	100	100	100	100	100	100
Costs and expenses:						
Cost of revenue	79	100	95	138	133	103
Research and development	62	196	204	177	28	11
Sales, general and administrative	34	65	66	69	21	14
Stock-based compensation	—	—	2	2	16	1
Amortization of intangible assets	—	—	—	—	14	9
Total costs and expenses	175	361	367	385	212	138
Operating loss	(76)	(260)	(267)	(285)	(112)	(37)
Interest expense	(12)	(30)	(39)	(55)	(26)	(12)
Other income (expense), net	1	—	—	(1)	—	(1)
Net loss	(87)%	(290)%	(306)%	(341)%	(138)%	(50)%

Six Months Ended June 30, 2004 and 2005

Total revenue. Total revenue increased from $3.6 million in the six months ended June 30, 2004 to $27.5 million in the six months ended June 30, 2005, a 654% increase. This increase was primarily due to strong demand for and commercial introduction of our solar cells and solar panels which began commercial production in late 2004. Revenue in the first six months of 2004 was primarily generated from sales of our detector products, which increased 60% in the first six months of 2005 driven by continued growth in demand for infrared detection applications. Our international sales accounted for 75% of our total revenue in the six months ended June 30, 2005 compared to 16% in the six months ended June 30, 2004.

Cost of revenue. Cost of revenue increased from $3.5 million in the six months ended June 30, 2004 to $28.3 million in the six months ended June 30, 2005, a 719% increase. This increase was primarily due to higher volumes of production and accompanying higher costs and volumes of raw materials, as well as increased utilities and maintenance, depreciation and freight expenses due to the production increase of our solar power products in our Philippines facility which commenced commercial operations in late 2004.

Gross margin was 5.1% in the six months ended June 30, 2004 and (3.0)% in the six months ended June 30, 2005. The negative gross margin in the first half of 2005 resulted from increased costs associated with the increased production of our solar power products, where the factory costs were not yet fully absorbed due to lower volume, as well as lower manufacturing yields which is customary during the build-up phase of a manufacturing line.

Our gross margin is likely to fluctuate in the future depending on unit demand, change in the average selling prices of our products, the mix of products that we sell, our actual cost of revenue and our factory performance particularly with respect to volume and yields. We may also be faced with inventory write-offs or write-downs depending on current or projected demand of our products.

Research and development. Research and development expense decreased from $7.4 million in the six months ended June 30, 2004 to $2.9 million in the six months ended June 30, 2005, a 60% decrease. For the first

six months of 2004 and extending into the second half of that year, we incurred process development and start-up costs associated with qualifying our first 25 megawatts per year production line in the Philippines that caused us to experience higher research and development expense. In addition, the operating expenses associated with running our pre-production pilot wafer fabrication line were also recognized as research and development expenses in the first six months of 2004. A significant portion of these costs was recognized as cost of revenue starting in late 2004 as our first production line went into commercial operations and we started selling solar cells and solar panels. This change in cost classification and the discontinuation of our pilot wafer fabrication line were the primary factors in the $4.5 million decline in research and development expense.

Sales, general and administrative. Sales, general and administrative expense increased from $2.4 million in the six months ended June 30, 2004 to $3.9 million in the six months ended June 30, 2005, a 62% increase. The increase was primarily due to growth in headcount in both the sales and administrative functions as we organized these functions to support our growth, and to a lesser extent from marketing samples and increased usage of Cypress services, such as tax, treasury, legal and human resources services.

Stock-based compensation. Stock-based compensation expense increased from $55,000 in the six months ended June 30, 2004 to $184,000 in the six months ended June 30, 2005. The increase was due to the larger number of vested options in the six months ended June 30, 2005. We expect stock-based compensation charges to increase in the future as these options continue to vest.

Amortization of intangible assets. Amortization of intangible assets commenced after the post-merger period beginning November 9, 2004, consequently there was no charge in the first six months ended June 30, 2004. Amortization of intangible assets was $2.4 million in the first six months of 2005, representing amortization of purchased technology, patents and trademarks and other. We expect quarterly amortization of intangible assets from our November 9, 2004 merger with Cypress of approximately $1.2 million per quarter through 2007 and diminishing thereafter through 2010.

Interest expense. Interest expense increased from $1.4 million in the six months ended June 30, 2004 to $3.2 million in the six months ended June 30, 2005. Interest expense attributed to debt we owed to Cypress increased from $1.1 million to $1.9 million for the comparable periods primarily due to increased borrowings to fund our manufacturing capacity expansion. Interest expense attributed to the fair value of warrants increased from $290,000 to $1.3 million in the comparable periods.

Other income (expense), net. Other income (expense), net increased from $3,000 income in the six months ended June 30, 2004 to $173,000 expense in the six months ended June 30, 2005. This expense was primarily from foreign exchange losses.

Years Ended December 31, 2003 and 2004

In our discussion of our fiscal year 2004, we refer to each line item in the statement of operations as “combined” for comparative purposes. These combined amounts represent the sum of the financial data for SunPower Corporation for the period from January 1, 2004 to November 8, 2004, our pre-merger period, and from November 9, 2004 to December 31, 2004, our post-merger period. We are including these combined amounts to improve the comparative analysis versus the prior period, which included a full fiscal year. These combined amounts are for informational purposes only and do not purport to represent what our financial position would have been in such periods.

Total revenue. Total revenue increased from $5.0 million in fiscal 2003 to $10.9 million combined in fiscal 2004, a 117% increase. This increase was primarily due to a 43% increase in sales of our detector products which was driven by continued growth in infrared detection applications. This increase was also due to revenue from initial sales of our A-300 solar cell products that went into commercial production in late 2004. International sales accounted for 44% of our total combined revenue in fiscal 2004, compared to 29% in fiscal 2003.

Cost of revenue. Cost of revenue increased from $5.0 million in fiscal 2003 to $14.8 million combined in fiscal 2004, a 197% increase. This increase was primarily due to the increase in unit sales of our detector

products and our first commercial sale of solar power products in late 2004. Also contributing to the increase in combined fiscal 2004 were costs related to the qualification of our first 25 megawatts per year production line in the Philippines which were recognized as research and development expense in prior periods. Specifically, the increase of approximately $9.8 million was primarily due to increases in consumption of silicon ingots and wafers, utilities and maintenance expense.

Gross margin decreased from 0.4% in fiscal 2003 to (36.0)% combined in fiscal 2004. This decrease was primarily due to increased costs associated with the production increase of our solar power products and due to higher unit sales of our detector products, primarily for infrared detector applications.

Research and development. Research and development expense increased from $9.8 million in fiscal 2003 to $13.2 million combined in fiscal 2004, an 35% increase. This increase was primarily due to significant process development spending for the commercialization and mass production of our A-300 solar cell product, including the operation of a pilot wafer fabrication line in Cypress' Round Rock, Texas facility. In addition, the increase was due to increases in start-up costs related to the qualification of our first 25 megawatts per year production line in the Philippines, which went into commercial operation late 2004, and increases in consumption of silicon ingots and wafers, maintenance and third-party research and development services.

Sales, general and administrative. Sales, general and administrative expense increased from $3.2 million in fiscal 2003 to $5.6 million combined in fiscal 2004, a 72% increase. This increase was primarily due to growth in headcount in both the sales and administrative organizations as we organized these functions to support our growth. Outside services and consulting costs, including legal and accounting fees, also contributed to the increased expense.

Stock-based compensation. Stock-based compensation expense was zero dollars in fiscal 2003 and $781,000 combined in fiscal 2004. The increase was due to additional stock-based compensation charges associated with the November 9, 2004 merger transaction with Cypress and an increase in the portion of vested options.

Amortization of intangible assets. Amortization of intangible assets was first recognized in 2004 as a result of recording the intangible assets from the transaction with Cypress. Combined amortization expense in fiscal 2004 was $573,000 representing amortization of purchased technology, trademark and patents.

Interest expense. Interest expense increased from $1.5 million in fiscal 2003 to $4.8 million combined in fiscal 2004. Interest expense attributed to debt we owed to Cypress increased from $1.5 million in fiscal 2003 to $2.9 million combined in fiscal 2004 primarily due to increased borrowings to fund our product and process development and manufacturing capacity expansion. Interest expense attributed to the fair value of warrants was zero in fiscal 2003 and $1.9 million combined in fiscal 2004 as, during that period, we issued warrants to Cypress as part of our debt financing.

Other income (expense), net. Other income (expense), net was zero in fiscal 2003 and $29,000 expense combined in fiscal 2004. The expense was primarily from foreign exchange losses.

Years Ended December 31, 2002 and 2003

Total revenue. Total revenue increased from $4.1 million in fiscal 2002 to $5.0 million in fiscal 2003, a 23% increase. This increase was primarily due to growth in unit sales of detector products, primarily for infrared detection applications and concentrator solar power products. During this period, our A-300 solar cell product was still in development and did not contribute to revenue. Sales to international customers were 58% in fiscal 2002 and 29% in fiscal 2003.

Cost of revenue. Cost of revenue increased from $3.2 million in fiscal 2002 to $5.0 million in fiscal 2003, a 56% increase. This increase was primarily due to the increase in unit sales of detector products, primarily in materials and supplies.

Gross margin decreased from 21% in fiscal 2002 to 0.4% in fiscal 2003. The decrease in gross margin was primarily due to lower average selling price of our detector products which failed to absorb the increased manufacturing costs.

Research and development. Research and development expense increased from $2.5 million in fiscal 2002 to $9.8 million in fiscal 2003, a 288% increase. In fiscal 2003, we incurred significant research and development expense to develop our A-300 solar cell as well as the production process needed to validate and mass produce this product. Specifically, we incurred expenses associated with the start-up of a pilot wafer fabrication line in Cypress' Round Rock, Texas facility, including higher payroll, personnel-related expenses, depreciation and utilities and maintenance expenses.

Sales, general and administrative. Sales, general and administrative expense increased from $1.4 million in fiscal 2002 to $3.2 million in fiscal 2003, a 132% increase. This increase was primarily due to growth in increased headcount in both the sales and administrative organizations as we organized these functions to support our growth.

Interest expense. Interest expense increased from $493,000 in fiscal 2002 to $1.5 million in fiscal 2003. This increase was due to increased debt we owed to Cypress to fund our product and process development. There was no interest expense related to warrants for the comparable periods.

Other income (expense), net. Other income (expense), net was $31,000 income in fiscal 2002 and zero in fiscal 2003. The income in fiscal 2002 was attributed to interest earned from our cash investments.

Quarterly Results of Operations

The following table sets forth our unaudited consolidated statements of operations data for the following time periods: quarters ended March 31, 2004, June 30, 2004, September 30, 2004, March 31, 2005 and June 30, 2005, the pre-merger period ended November 8, 2004 and the post-merger period ended December 31, 2004. The unaudited quarterly information has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of this data. This information should be read together with the consolidated financial statements and related notes included elsewhere in this prospectus.

	Predecessor Company				Successor Company		
	Quarters Ended			Oct. 1 Through Nov. 8, 2004	Nov. 9 Through Dec. 31, 2004	Quarters Ended	
	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004			Mar. 31, 2005	June 30, 2005
	(in thousands)				(in thousands)		
Consolidated Statements of Operations Data							
Revenue:							
Product revenue	$ 1,589	$ 2,054	$ 2,380	$ 685	$ 3,881	$ 11,092	$ 16,250
Other	—	—	122	—	174	—	150
Total revenue	1,589	2,054	2,502	685	4,055	11,092	16,400
Costs and expenses:							
Cost of revenue	1,361	2,099	3,192	2,745	5,410	11,917	16,401
Research and development	3,540	3,886	3,609	1,060	1,124	1,667	1,268
Sales, general and administrative	1,149	1,269	1,579	709	850	1,800	2,118
Stock-based compensation*	—	55	—	76	650	—	184
Amortization of intangible assets	—	—	—	—	573	1,176	1,177
Total costs and expenses	6,050	7,309	8,380	4,590	8,607	16,560	21,148
Operating loss	(4,461)	(5,255)	(5,878)	(3,905)	(4,552)	(5,468)	(4,748)
Interest expense	(458)	(958)	(1,544)	(799)	(1,072)	(1,786)	(1,398)
Other income (expense), net	10	(7)	(6)	(41)	15	17	(190)
Net loss	$(4,909)	$(6,220)	$(7,428)	$(4,745)	$(5,609)	$ (7,237)	$ (6,336)
* Stock-based compensation							
Cost of revenue	$ —	$ 55	$ —	$ 46	$ 96	$ —	$ 92
Research and development	—	—	—	23	293	—	69
Sales, general and administrative	—	—	—	7	261	—	23
Total	$ —	$ 55	$ —	$ 76	$ 650	$ —	$ 184

The following tables set forth our unaudited historical results, for the periods indicated, as a percentage of revenue.

	Predecessor Company				Successor Company		
	Quarters Ended					Quarters Ended	
	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Oct. 1 Through Nov. 8, 2004	Nov. 9 Through Dec. 31, 2004	Mar. 31, 2005	June 30, 2005
Consolidated Statements of Operations Data							
Revenue:							
Product revenue	100%	100%	95%	100%	96%	100%	99%
Other	—	—	5	—	4	—	1
Total revenue	100	100	100	100	100	100	100
Costs and expenses:							
Cost of revenue	86	102	128	401	133	107	100
Research and development	223	189	144	155	28	15	8
Sales, general and administrative	72	62	63	104	21	16	13
Stock-based compensation*	—	3	—	11	16	—	1
Amortization of intangible assets	—	—	—	—	14	11	7
Total costs and expenses	381	356	335	670	212	149	129
Operating loss	(281)	(256)	(235)	(570)	(112)	(49)	(29)
Interest expense	(29)	(47)	(62)	(117)	(26)	(16)	(9)
Other income (expense), net	1	—	—	(6)	—	—	(1)
Net loss	(309)%	(303)%	(297)%	(693)%	(138)%	(65)%	(39)%

The increase in total revenue beginning in late 2004 and continuing through the first two fiscal quarters of 2005 was primarily due to the commercial introduction of our solar cells and solar panels. The increase in cost of revenue in late 2004 and the first two fiscal quarters of 2005 was due to our relatively high start-up manufacturing costs and low volume sales of our solar power products, which began shipping commercially in late 2004. Our research and development expense declined significantly beginning in late 2004 and continuing in the first two fiscal quarters of 2005 when a significant portion of our development costs previously recognized as research and development expense was recognized as cost of revenue. Specifically, this decrease was due to the change in cost classification of process development and start-up costs associated with qualifying our first 25 megawatts per year production line in the Philippines from research and development expense to cost of revenue beginning in late 2004 as our first production line went into commercial operations, and the discontinuation of our pilot wafer fabrication line.

Our quarterly revenue and operating results are difficult to predict, and have in the past and may in the future fluctuate from quarter to quarter. We base our planned operating expenses in part on our expectations of future revenue, and our expenses are relatively fixed in the short term. If revenue for a particular quarter is lower than we expect, we may be unable to proportionately reduce our operating expenses for that quarter, which would harm our operating results for that quarter. We believe that period-to-period comparisons of our operating results should not be relied upon as an indication of future performance. In future periods, the market price of our common stock could decline if our revenue and results of operations are below the expectations of analysts and investors. For additional discussion of factors that may cause our revenue and operating results to fluctuate, please see those discussed in the “Risk Factors” section of this prospectus.

Liquidity and Capital Resources

In our discussion of our fiscal year 2004, we refer to certain sources and uses of cash as "combined" for comparative purposes. These combined amounts represent the sum of the financial data for SunPower Corporation for the period from January 1, 2004 to November 8, 2004, our pre-merger period, and November 9, 2004 to December 31, 2004, our post-merger period. We are including these combined amounts to improve the comparative analysis versus the prior period, which included a full fiscal year. These combined amounts are for informational purposes only and do not purport to represent what our financial position would have been in such periods.

Beginning in 2002, we have financed our operations primarily through sale of equity to and borrowings from our parent company, Cypress. Through June 30, 2005, we raised approximately $82.8 million through equity financings. As of June 30, 2005, we had approximately $8.1 million in cash and cash equivalents and $40.6 million of debt and payables owed to Cypress. All of the amounts outstanding under these obligations were subsequently converted into equity in July 2005.

Operating Activities

Net cash used in operating activities was $2.7 million in fiscal 2002, $8.8 million in fiscal 2003 and $13.6 million combined in fiscal 2004. Net cash generated from operating activities was $1.2 million in the six months ended June 30, 2005. Our net cash used in operating activities for the periods above was primarily from our net losses which were $3.5 million, $14.5 million and $28.9 million, respectively. Our net cash used in operating activities in fiscal 2002 and 2003 and combined fiscal 2004 was partially offset by the increase in accounts payable to our suppliers and to Cypress. Our net cash generated from operating activities in the first six months of fiscal 2005 was primarily from our net loss of $13.6 million which was offset by a customer advance of $14.3 million to fund future expansion of our manufacturing facility. In April 2005, we entered into an agreement with one of our customers to supply solar cells. As part of this agreement, the customer agreed to fund future expansion of our manufacturing facility to support this customer's solar cell product demand. Beginning January 1, 2006, we will be obligated to pay interest on any remaining unpaid balance. We may repay all or any portion of the unpaid principal and related interest on the advances at any time without penalty through December 31, 2010. As of June 30, 2005, we had received advances of $14.3 million with the remaining advances to be received through fiscal 2005. Net cash generated in the first six months of fiscal 2005 also benefited from an advance of $1.2 million from another customer prepayment for future purchases of solar power products.

Investing Activities

Net cash used in investing activities was $5.4 million in fiscal 2002, $14.8 million in fiscal 2003, $26.9 million combined in fiscal 2004 and $23.3 million in the first six months of 2005, all of which represented expenditures for capital equipment. Capital equipment in 2002 was primarily for product development. Capital equipment in 2003 was primarily for our pilot wafer fabrication line in Cypress' Round Rock, Texas facility. Capital equipment in 2004 and the first six months of 2005 was primarily for our manufacturing facility in the Philippines, equipment for our first 25 megawatts per year production line and for our second and third 25-megawatts per year production lines. We expect capital expenditures of approximately $50.0 million for the remainder of 2005 and approximately $55.0 million in 2006 as we continue to increase our manufacturing capacity.

Financing Activities

Net cash provided by financing activities was $8.4 million in fiscal 2002, $28.8 million in fiscal 2003, $38.7 million combined in fiscal 2004 and $26.6 million for the first six months of 2005. All other cash provided by financing activities came from our parent company, Cypress, in the form of either equity investments or debt. As of June 30, 2005, we raised approximately $82.8 million through the issuance of equity to Cypress and $25.2 million through the issuance of debt to Cypress. In July 2005, we reached an agreement with Cypress for the conversion of our outstanding debt into equity and the issuance of additional equity for $20.0 million for cash

such that by the end of the third quarter of 2005, we expect to have no outstanding debt obligation to Cypress. However, we retain the capacity to borrow up to $30.0 million from Cypress, which capacity will terminate upon the earlier of the completion of this offering or December 31, 2006. We are currently in negotiations with unrelated third parties regarding a new credit facility to be effective upon completion of this offering.

We believe that our current cash and cash equivalents and funds available from our credit facility with Cypress will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months. However, if our financial results or operating plans change from our current assumptions, we may not have sufficient resources to support our business plan. If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain other debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased expenses and could require us to abide by covenants that would restrict our operations. Financing arrangements may not be available to us, or may not be available in amounts or on terms acceptable to us.

We expect to experience growth in our operating expenses, including our research and development, sales and marketing and general and administrative expenses, for the foreseeable future to execute our business strategy. We may also be required to purchase polysilicon in advance to secure our wafer supplies. We intend to fund these activities with cash generated from operations and do not intend to increase our expenditures in these areas beyond what we believe our operations can support. This increase in operating expenses may not result in an increase in our revenue and our anticipated revenue may not be sufficient to support these increased expenditures. We anticipate that operating expenses, working capital as well as planned capital expenditures will constitute a material use of our cash resources.

The following summarizes our contractual obligations at June 30, 2005:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
			(in thousands)		
Obligation to Cypress	$25,170	$25,170	$ —	$ —	$ —
Customer advances	14,336	3,630	7,260	3,446	—
Interest on customer advances	5,110	931	2,897	1,112	171
Lease commitment	538	519	19	—	—
Non-cancelable purchase orders	23,418	23,058	—	360	—
Total	$68,572	$53,308	$10,176	$4,918	$ 171

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections,” which changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 replaces APB No. 20, “Accounting Changes” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statement.” It requires retrospective application to prior period’s financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, under SFAS No. 154, if an entity changes its method of depreciation, amortization, or depletion for long-lived, nonfinancial assets, the change must be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No. 154 applies to accounting changes and error corrections made in fiscal years beginning after December 15, 2005 on a prospective basis. We do not expect the adoption in the first quarter of fiscal 2006 will have a material impact on our consolidated results of operations and financial condition.

In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations.” Interpretation No. 47 clarifies that an entity must record a liability for a “conditional” asset retirement obligation if the fair value of the obligation can be reasonably estimated. Interpretation No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. Interpretation No. 47 is effective no later than the end of the fiscal year ending after

December 15, 2005. We are currently evaluating the provision and do not expect the adoption in the fourth quarter of fiscal 2005 will have a material impact on our results of operations or financial condition.

In March 2005, the SEC issued Staff Accounting Bulletin, or SAB, No. 107, which provides guidance on the implementation of SFAS No. 123 (R), Share-Based Payment (see discussion below). In particular, SAB No. 107 provides key guidance related to valuation methods (including assumptions such as expected volatility and expected term), the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123(R), the modification of employee share options prior to the adoption of SFAS No. 123(R), the classification of compensation expense, capitalization of compensation cost related to share-based payment arrangements, first time adoption of SFAS No. 123(R) in an interim period, and disclosures in Management's Discussion and Analysis subsequent to the adoption of SFAS No. 123(R). SAB No. 107 became effective on March 29, 2005. It did not have a material impact on our financial statements.

In December 2004, the FASB issued SFAS No. 123(R), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under SFAS No. 123(R), companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share-based compensation arrangements include stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. In April 2005, the SEC postponed the implementation date to the fiscal year beginning after June 15, 2005. We will adopt SFAS No. 123(R) in the first quarter of fiscal 2006. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. We are currently evaluating which method to adopt. The adoption of SFAS No. 123(R) will have a significant adverse impact on our results of operations, although it will have no impact on our overall financial position. The precise impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) using the modified retrospective application for all prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described under the "Accounting for Stock-Based Compensation" section in note 1. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options, the amount of operating cash flows recognized for such excess tax deductions were zero dollars in fiscal 2002, fiscal 2003, the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004 and for the six months ended June 30, 2004 and 2005.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets—an Amendment of APB Opinion No. 29, which eliminates the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 will be effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We are currently evaluating SFAS No. 153 and do not expect the adoption will have a material impact on our results of operations or financial condition.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs—an Amendment of ARB No. 43, Chapter 4, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred in fiscal periods beginning after June 15, 2005. We are currently evaluating SFAS No. 151 and do not expect the adoption will have a material impact on our results of operations or financial condition.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market risks for changes in interest rates relates primarily to our investment portfolio. As of June 30, 2005, our cash equivalents consisted of money market funds. Due to the short-term nature of our investment portfolio, we do not believe that an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio. Since we believe we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected to any significant degree by a sudden change in market interest rates on our investment portfolio.

Foreign Currency Exchange Risk

Our exposure to adverse movements in foreign currency exchange rates is primarily related to sales to European customers that are denominated in Euros and procurement of certain capital equipment in Euros. In combined fiscal 2004 and the six months ended June 30, 2005, approximately 44% and 75%, respectively, of our total revenue was generated outside the United States. A hypothetical change of 10% in foreign currency exchange rates could impact our consolidated financial statements or results of operations by $2.1 million based on our outstanding forward contracts of $20.6 million as of June 30, 2005. We currently conduct hedging activities, which involve the use of currency forward contracts. We cannot predict the impact of future exchange rate fluctuations on our business and operating results. In the past, we have experienced an adverse impact on our revenue and profitability as a result of foreign currency fluctuations. We believe that we may have increased risk associated with currency fluctuations in the future.

BUSINESS

Our Company Overview

We design, manufacture and sell solar power products based on our proprietary processes and technologies. We have spent more than 15 years developing high performance solar cells, which are semiconductor devices that directly convert sunlight into electricity. We believe our solar cells have the highest conversion efficiency, a measurement of the amount of sunlight converted by the solar cell into electricity, available for the mass market. We believe our solar cells provide the following benefits compared with conventional solar cells:

- Superior performance, including the ability to generate up to 50% more power per unit area;
- Superior aesthetics, with our uniformly black surface design which eliminates highly visible reflective grid lines and metal interconnect ribbons; and
- Efficient use of silicon, a key raw material used in the manufacture of solar cells.

We offer solar power products including solar cells, solar panels and inverters which convert sunlight to electricity compatible with the utility network. Our initial solar sales efforts have been focused on residential and commercial applications where the high performance and superior aesthetics of our solar power products provide compelling customer benefits. We sell our products in many countries, principally in regions where government incentives have accelerated solar power adoption. The global solar power market, as defined by solar power system installations, had an estimated $6.5 billion in revenue in 2004 and is expected to grow to $18.5 billion by 2010, according to SolarBuzz.

We produce our solar cells at our manufacturing facility in the Philippines. Our solar panels are assembled for us by third-party subcontractors in China. We currently operate a 25 megawatts per year solar cell production line in the Philippines and are adding two additional production lines, which is expected to increase the total production capacity to 75 megawatts per year in 2006. We currently sell our solar power products to system integrators and original equipment manufacturers, or OEMs.

In addition, we offer imaging detectors based on our solar power technology primarily for medical imaging applications. Our imaging detectors are manufactured for us by Cypress and are processed and tested in our Sunnyvale, California facility. We sell our imaging detectors to OEMs. We also offer infrared detectors based on our high performance all back contact technology primarily for use in computing and mobile phone applications.

We generated total combined revenue of $10.9 million in fiscal 2004 and total revenue of $27.5 million in the six months ended June 30, 2005.

Industry Overview

The electric power industry is one of the world's largest industrial segments, with annual revenue of approximately $1.06 trillion in 2004, according to Datamonitor. Global electricity demand has grown consistently at a rate of 2 to 5% annually for the past decade, according to the Energy Information Administration of the United States Department of Energy, or EIA. Worldwide demand for electricity is expected to increase from 14.3 trillion kilowatt hours in 2003 to 26.0 trillion kilowatt hours by 2025, according to the United States Department of Energy's International Energy Outlook. Investments in generation, transmission and distribution to meet growth in electricity demand, excluding investments in fuel supply, are expected to be roughly $10 trillion by 2030, according to the IEA.

The electric power industry faces the following challenges in meeting the growing worldwide electricity demand:

- ***Fossil Fuel Supply Constraints.*** Over 65% of the world's electricity is generated from fossil fuels such as coal, oil and natural gas, according to the IEA. Limited fossil fuel supply and escalating electricity consumption are driving up wholesale electricity prices. This has resulted in higher electricity costs for consumers and highlighted the need to develop new technologies for electricity generation.

- ***Infrastructure Constraints.*** In many parts of the world, existing electricity generation, transmission and distribution infrastructure is insufficient to meet projected demand. Developing and constructing electricity supply and delivery infrastructure is capital intensive. In much of the developed world, current and future electricity supply and delivery constraints caused by demand growth will be exacerbated by the need to replace existing aging infrastructure. In some parts of the developing world, demand is growing more rapidly than the developed world. This rapid growth has left electricity supply and delivery insufficient to meet demand in some areas, resulting in both scheduled and unscheduled blackouts.
- ***Desire for Energy Security.*** Given the political and economic instability in the major oil and gas producing regions of the world, governments are trying to reduce their dependence on foreign sources of energy. Over 60% of the energy used in Germany, Italy and Spain, and over 80% of the energy used in Japan and Korea, was imported, according to the World Bank. That figure was 27% for United States. Expanding the domestic portion, and particularly the renewable resources portion of the overall electric generation portfolio is a key element of many government strategies to increase energy security.

In addition to these fundamental challenges, the electric power industry is also exposed to growing environmental concerns. The climate change risks associated with fossil fuel generation are creating political momentum to implement greenhouse gas reduction strategies. Government regulators continue to strengthen other air and water emissions control requirements and over the past decade have launched incentive programs to accelerate the development of renewable energy sources.

- ***Emission Reduction Initiatives.*** The Kyoto Protocol, directing the signatory nations to lower and stabilize their greenhouse gas emissions, was adopted in 2004. In support of the Kyoto Protocol, the European Union implemented climate change mitigation requirements for the first time in 2005. While the United States did not sign the Kyoto Protocol, new United States power plants are required to install the best available emission control technology, which can be costly. This expense results in electricity from new fossil fuel-fired plants costing more than electricity from existing power plants, thus increasing retail electric rates over time.
- ***Renewable Resource Programs.*** Renewable energy policies are in place in the European Union, certain countries in Asia, as well as many of the states and provinces in Australia, Canada and the United States. China passed a renewable energy law in 2005 that will go into effect in 2006. Germany's renewable energy policy has had a strong solar focus which contributed to Germany surpassing Japan as the leading solar power market in terms of annual megawatt additions in 2004. In the United States, 18 states and the District of Columbia have established mandates that a certain portion of electricity delivered to customers come from renewable resources. The United States recently enacted a major energy bill which includes federal tax credits, federal purchasing goals and other programs designed to accelerate the adoption of solar power. Arizona, Colorado, New Jersey and Pennsylvania are among other states that require electric suppliers to obtain a certain percentage of their electricity from renewable resources, and specifically designate a solar procurement goal.

Renewable Resource Market

Renewable resources include solar, biomass, geothermal, hydroelectric and wind power generation. As opposed to fossil fuels which draw on finite resources that may eventually become too expensive to retrieve, renewable resources are generally unlimited in availability. In recent years, the use of renewable resources has been increasing in response to these growing concerns. While hydroelectric power generation currently has the largest installed base, solar and wind power generation have emerged as the most rapidly growing renewable energy sources.

Hydroelectric power refers to the use of flowing water to generate electricity. Hydroelectric power plants typically use water from a reservoir to drive turbine-powered generators, thereby producing electricity. While hydroelectric power plants generate 16% of worldwide electricity, according to IEA, additional hydroelectric generation in the developed world is limited due to the lack of remaining development opportunities and the concern about creating additional large reservoirs that flood agricultural land and human and animal habitat. In

the United States, the National Hydropower Association forecasts that no new hydroelectric power resources will be developed between 2004 and 2020 because of the regulatory hurdles associated with building new dams.

Wind power refers to the use of wind turbines to harness and convert kinetic energy from the wind into electricity. Today, large scale wind power is a cost-competitive alternative to wholesale natural gas and coal-fired power in locations with high average wind speed and space for large wind plants aggregating many wind turbines that can reach over 90 meters in height and over 60 meters in diameter each. Electricity generated from customer-sited, small-scale wind turbine can be cost competitive with retail electric rates in some areas, but its penetration is limited by space constraints, wind speed availability and zoning restrictions in suburban and urban regions.

Solar energy can be used to convert sunlight into heat, called solar thermal energy, or directly into electricity, called photovoltaic energy. Solar thermal applications can be distributed, such as roof-mounted systems for heating swimming pools, or can be centralized where sunlight is concentrated to heat a medium that drives a turbine to generate electricity in large scale plants. Large scale solar thermal electric power plants have operated for 20 years in Southern California. Electricity generated from solar thermal electric power plants requires large concentrators and turbines which are not suitable for residential locations.

We refer to solar power as the use of interconnected solar cells, as opposed to solar thermal technology, to generate electricity from sunlight. The interconnected cells are packaged into solar panels, which are mounted in areas with direct exposure to the sun, such as rooftops. Compared to other renewable energy technologies, solar power's benefits include:

- ***Environmental Advantage.*** Solar power is one of the most benign electric generation resources. Solar cells generate electricity without air or water emissions, noise, vibration, habitat impact or waste generation.
- ***Fuel Risk Advantage.*** Unlike fossil and nuclear fuels, solar energy has no fuel price volatility or delivery risk. Although there is variability in the amount and timing of sunlight over the day, season and year, a properly sized and configured system can be designed to be highly reliable while providing long-term, fixed price electricity supply.
- ***Location Advantage***. Unlike other renewable resources such as hydroelectric and wind power, solar power is generally located at a customer site due to the universal availability of sunlight. As a result, solar power limits the expense of and energy losses associated with, transmission and distribution from large scale electric plants to the end users. For most residential consumers seeking an environmentally friendly power alternative, solar power is the only viable choice because it can be located in urban and suburban environments.
- ***Retail Rate Benchmark Advantage.*** Unlike biomass, geothermal, hydroelectric and wind power generation which are location-dependent and sell primarily to the wholesale market, solar power competes with retail prices as it is customer-sited and supplements a customer's electricity purchased at retail rates from the utility network.
- ***Peak Energy Generation Advantage.*** Solar power is well-suited to match peak energy needs as maximum sunlight hours generally correspond to peak demand periods when electricity prices are at their highest. These characteristics increase the value of solar power as compared to other renewable resources that do not align with peak demand periods.
- ***Modularity.*** Solar power products can be deployed in many sizes and configurations to meet the specific needs of the customer.
- ***Reliability.*** With no moving parts or regular required maintenance, solar power systems are among the most reliable forms of electricity generation.

Solar Power Market

Solar power technology has been used to generate electricity in space program applications for several decades and in commercial applications over the last 30 years. Increasingly, government incentive programs are accelerating the adoption of solar power. Since 1985, the market for solar power, as defined by worldwide shipments of solar power systems, has grown at a compound annual growth rate of over 20%, according to Strategies Unlimited. The global solar power market, as defined by solar power system installations, had an estimated $6.5 billion in revenue in 2004 and is expected to grow to $18.5 billion by 2010, according to SolarBuzz.

Solar power systems convert sunlight directly into electricity. These systems are used for residential, commercial and industrial applications and for customers who either have access to or are remote from the electric utility grid. The market for "on-grid" applications, where solar power is used to supplement a customer's electricity purchased from the utility network, represents the largest and fastest growing segment of the market. Worldwide installations of solar power systems are expected to grow at an annual rate of 23% from 927 megawatts in 2004 to 3.2 gigawatts by 2010, led by on-grid shipments, according to SolarBuzz.

"Off-grid" markets, where access to utility networks is not economical or physically feasible, and consumer markets both offer additional opportunities for solar technology. Off-grid industrial applications include road signs, highway call boxes and communications support along remote pipelines and telecommunications equipment, as well as rural residential applications. Consumer applications include garden lights, other outdoor lighting and handheld devices such as calculators.

Challenges Facing Solar Power

The solar power industry must overcome the following challenges to achieve widespread commercialization of its products:

- ***Decrease Per Kilowatt-hour Cost to Customer.*** In most cases, the current cost of solar electricity is greater than the cost of retail electricity from the utility network. While government programs and consumer preference have accelerated the use of solar power for on-grid applications, product cost remains one of the largest impediments to growth. To provide an economically attractive alternative to conventional electricity network power, the solar power industry must continually reduce manufacturing and installation costs.
- ***Achieve Higher Conversion Efficiencies.*** Increasing the conversion efficiency of solar cells reduces the material and assembly costs required to build a solar panel with a given generation capacity. Increased conversion efficiency also reduces the amount of rooftop space required for a solar power system, thus lowering the cost of installation per consumer.
- ***Improve Product Appearance.*** We believe that aesthetics are a barrier to wider adoption of solar power products particularly among residential consumers. Historically, residential and commercial customers have resisted solar power products, in part, because most solar panels are perceived as unattractive.
- ***Efficiently Use Polysilicon.*** There is currently an industry-wide shortage of polysilicon, an essential raw material in the production of solar cells. Given this demand and supply imbalance, we believe that the efficient use of polysilicon, for example through the reduction of wafer thickness, will be critical for the continued growth of the solar power industry.

Our Strengths

We believe we are a leader in producing high performance solar cells. We believe our competitive advantages include:

- ***Superior Conversion Efficiency*.** We believe our solar cells have the highest conversion efficiency available for the mass market. Our proprietary all back contact design results in conversion efficiencies of up to 50% higher per unit area than conventional solar cells. Because our solar cells do not have front

gridlines which block a portion of the sunlight, more sunlight enters our solar cells and is converted into electricity. In addition, our solar cells incorporate other proprietary technologies which enable them to capture more light and convert more sunlight into energy. This superior conversion efficiency results in decreased per watt panel packaging and installation costs and provides greater power generation on a given rooftop space.

- ***Superior Aesthetics.*** Because all electrical contacts are located on the back, our solar cells have a uniformly black appearance that allows our solar panels to blend into customers' rooftops. We believe historical adoption of solar power by residential customers has been negatively impacted by the appearance of conventional solar panels. We believe our solution appeals to residential customers seeking a solution which is more aesthetically appealing.
- ***Efficient Silicon Utilization.*** Unlike conventional solar cells, which generally lose efficiency with thinner silicon wafers, our proprietary technology allows our solar cells to maintain high efficiency levels with thinner wafers. This provides our solar cells with more efficient utilization of silicon, as defined by grams of silicon per watt, than that of conventional solar cells. Efficient utilization of silicon is important because silicon wafers represent a significant cost component in the production of solar cells.
- ***Ease of Assembly.*** Our proprietary solar cell architecture simplifies assembly since all electrical contacts are in-plane behind the solar cell circuit. Panels made from our solar cells do not require traditional interconnect "weaving" whereby the front of one solar cell is connected to the back of the next solar cell. This process can be time-consuming, difficult and expensive. By contrast, our solar cell architecture allows for the connections to be made on the back only, thereby reducing the complexity and cost of assembly.
- ***Manufacturing Advantages.*** We manufacture our solar cells at our facility in the Philippines. We believe the location of our facility provides us with a cost of production advantage versus our competitors who produce solar cells in higher cost regions. In addition, we believe our technology and manufacturing processes from the traditional semiconductor industry enable us to improve our manufacturing yields, cost, quality and product ramp predictability.
- ***Strong Management Team.*** Our management team has a diverse set of industry skills and global operating experience, including backgrounds spanning the solar, semiconductor and optical media industries, as well as expertise running complex organizations and managing rapid growth. Our executive officers have an average of over 25 years of experience in the solar or high technology industries.

Our Strategy

Our principal objective is to be the leader in high performance solar power products. We plan to achieve this objective by pursuing the following strategies:

- ***Maintain our Technology Advantage and Reduce Manufacturing Costs.*** We believe that our all back contact solar cell technology currently provides us with a competitive advantage. We intend to invest in research and development to improve solar cell efficiency and lower manufacturing costs. We intend to continue investing in our equipment and processes to improve throughput, processing yield and quality.
- ***Continue to Expand Manufacturing Capacity.*** We intend to capitalize on our manufacturing expertise through expansion of our production capacity. Since the fall of 2004, we have been operating a single 25 megawatts per year solar cell production line. To meet the ongoing demand for our products, we have ordered manufacturing equipment for the second and third 25 megawatts per year production lines. Our current 215,000 square foot manufacturing facility in the Philippines has available space to support a total of four production lines. We are evaluating the timing for a fourth line in our existing facility and for a second production facility.
- ***Reduce our Dependence on Market Incentives.*** Most of our current customers operate in markets that depend on a variety of government incentives to reduce the cost of solar power systems to end customers. In the short term, we intend to diversify our customer and market base to reduce our exposure to any

single market's government incentive programs. Over the long term, we believe that our high efficiency solar cell technology and advanced manufacturing systems will allow us to reduce solar power system cost to reduce or eliminate the need for these market incentives.

- ***Build a Leading Brand.*** We believe establishing strong brand name recognition is important to address the mass market. We intend to continue to undertake marketing programs designed to increase the recognition and value of the SunPower brand for end users and market intermediaries. We believe there is an opportunity to establish a well-identified consumer brand for solar power systems. We intend to differentiate our brand by emphasizing our combination of high performance and superior product appearance.
- ***Drive Efficiency Improvements Through Relationships with Suppliers and Customers.*** We intend to pursue relationships with, and investments in, suppliers and customers to increase overall channel efficiency and reduce the cost of our products delivered to end customers. For example, we intend to pursue relationships with polysilicon suppliers to improve the availability and cost structure of this raw material. We also intend to expand our relationships with selected customers to improve the efficiency of customer service and increase our market share. For example, we are currently working with some customers to integrate our solar power technology directly into roofing materials rather than requiring the installation of a separate solar panel on the rooftop.

Public Policy Considerations

Different policy mechanisms have been used by governments to accelerate the adoption of solar power. Examples of customer-focused financial mechanisms include capital cost rebates, feed-in tariffs, tax credits and net metering. Capital cost rebates provide money to customers depending on the size of a customer's solar power system. Feed-in tariffs require utilities to pay customers for solar power system generation based on kilowatt-hours produced, at a rate generally guaranteed for a period of time. Tax credits reduce a customer's taxes at the time the taxes are due. In the United States and other countries, net metering has often been used as a supplemental program in conjunction with other policy mechanisms. Under net metering, a customer can generate more energy than used, during which periods the electricity meter will spin backwards. During these periods, the customer "lends" electricity to the grid, retrieving an equal amount of power at a later time. Net metering encourages customers to size their systems to match their electricity consumption over a period of time, for example over a month or a year, rather than limiting solar generation to matching customers' instantaneous electricity use.

In addition to the mechanisms described above, new market development mechanisms to encourage the use of renewable energy sources continue to emerge. For example, several states in the United States have adopted renewable portfolio standards, or RPS, which mandate that a certain portion of electricity delivered to customers come from a set of eligible renewable energy resources. Some of these renewable portfolio standards also specifically designate a solar generation goal. President Bush recently signed a major energy bill which included federal tax credits, federal purchasing goals and other programs aimed at accelerating adoption of solar power. In developing countries, governments are establishing initiatives to expand access to electricity, including initiatives to support off-grid rural electrification using solar power. A recent example of this is India's announcement in 2004 of a five-year initiative on power distribution reform, including rural electrification.

The following table illustrates some of the policy mechanisms employed in the second quarter of 2005 by a variety of governments. Each of these regions offers varying program designs often dependent on the size or exact location of the system. Some of these policy mechanisms expire, decline over time, are limited in total funding or require renewal of authority. For example, Japan's capital cost rebate program for residential solar power systems is expected to expire in 2005 after an 11-year program period. This will be the first example of a long-term solar market development program reaching its intended conclusion.

Region	Type of Incentive Program	Description
California	Capital Cost Rebate State Tax Rebate Net Metering	Customer receives $2.80 per watt alternating current, or AC, for systems up to 30 kilowatts and a state tax credit equal to the lesser of 7.5% of the system cost net of rebate. The customer receives electricity service under net-metering tariffs.
Germany	Feed-in Tariff Preferential Loans	Customer receives €0.545 per kilowatt-hour produced for 20 years for systems up to 30 kilowatts and access to federally supported preferential loans.
Japan	Capital Cost Rebate Preferential Loans Net Metering	Customer receives ¥20 per watt and access to preferential loans through private banks. The customer receives electricity service under net-metering tariffs.
Korea	Feed-in Tariff Capital Cost Rebate Preferential Loans	Customer receives 716.40 South Korean won, or KRW, per kilowatt-hour for 15 years produced from systems up to 3 megawatts. Customer may also receive 8.3 million KRW per kilowatt for up to 70% of installed costs for systems up to 3 kilowatts. In addition, customers may seek preferential loans and demonstration and dissemination grants to offset capital costs.
New Jersey	Capital Cost Rebate Sales Tax Exemption RPS Net Metering	Customer receives $5.30 per watt direct current, or DC, for systems up to 10 kilowatts. In addition, solar power equipment is exempt from the 6% state sales tax. Consumers may also monetize their solar renewable energy certificates, or RECs, which represent the clean energy benefits from the consumer's solar power generation. These solar RECs can be traded or sold to electric suppliers who are required to use solar RECs to comply with their obligations under the New Jersey RPS. The customer receives electricity service under net-metering tariffs.
Spain	Feed-in Tariff	Customer receives €0.414 per kilowatt-hour produced for the first 25 years and €0.332 per kilowatt-hour for the rest of the system lifetime for systems up to 100 kilowatts.

Below is an example of the potential cost savings to a residential customer under the capital cost rebate program in California and the feed-in tariff program in Germany, both from the perspective of a hypothetical residential customer.

In California, the customer receives a cash rebate from the California Energy Commission, a state tax credit and can take advantage of net metering. The customer's cash rebate is based on the capital cost of the system, currently set at $2.80 per AC watt. This cash rebate may be assigned to the solar installation company selling the system, lowering the effective net capital cost to the customer. A customer buying a four kilowatt AC solar power system costing $34,000 would receive an $11,200 rebate, resulting in a net system capital cost of $22,800. In addition, the customer's state tax credit of 7.5% would provide additional savings of $1,710. The value of the customer's state tax credit may be lowered depending on how state taxes are deducted from federal taxes in the United States. If the customer's solar power system generates 5,800 kilowatt-hours per year, at an average rate avoided by the customer of $0.25 per kilowatt-hour, the customer would save approximately $1,450 per year on their electric bill.

In Bavaria, Germany, the customer generating electricity from his solar power system in 2005 will receive a feed-in tariff rate of €0.545 per kilowatt-hour for a 20 year period. A customer buying a four kilowatt AC solar power system costing €28,000 generating 4,000 kilowatt-hours per year would receive over €43,000 in tariff payments over 20 years.

Customers in California and Germany could use loans to finance their systems, providing an opportunity to be immediately cash-flow positive.

Our Products

We currently design, manufacture and sell solar power products, imaging detectors and infrared detectors based on our proprietary processes and technologies.

Solar Cells

Solar cells are semiconductor devices that directly convert sunlight into electricity. Our current standard solar cell product is the A-300 solar cell, a silicon solar cell with a specified power value of 3.1 watts and a conversion efficiency of between 20% and 21.5%. We believe the A-300 solar cell has the highest conversion efficiency available for the mass market. In addition, our solar cells use technologies which enable them to capture more sunlight and convert more sunlight into energy.

Our A-300 solar cell is designed without highly reflective metal contact grids or current collection ribbons on the front of the solar cells. This feature enables our solar cells to be assembled into solar panels that exhibit a more uniform appearance than conventional solar panels.

Solar Panels

Solar panels are solar cells electrically connected together and encapsulated in a weatherproof package. We believe solar panels made with our solar cells are the highest efficiency solar panels available for the mass market. Because our A-300 solar cells are more efficient relative to conventional solar cells, when our solar cells are assembled into panels, the assembly cost per watt is less because more power can be incorporated into a given size package. Higher solar panel efficiency allows installers to mount a solar power system with more power within a given roof or site area and reduces per watt installation costs. We manufacture two basic types of solar panels:

- ***SPR-200/210.*** The SPR-200 and SPR-210 are our larger solar panels which contain 72 electrically interconnected A-300 solar cells, and are specified at 200 and 210 watts, respectively. Intended for use in on-grid residential and commercial rooftop systems, SPR-200 and SPR-210 solar panels are designed to be mounted on a common support framework and subsequently electrically connected together to form a multi-kilowatt solar power system. The SPR-200 is intended primarily for residential rooftop applications and incorporates a black metal frame and color-matched plastic encapsulation technology to create a highly uniform appearance. The SPR-210 is intended primarily for use in larger commercial rooftop installations. We recently announced higher power versions of these two products, designated SPR-215 and SPR-220 and specified at 215 and 220 watts, respectively. We plan to begin shipping these new solar panels in early 2006.
- ***SPR-90.*** The SPR-90 is our smaller solar panel which contains 32 electrically interconnected A-300 solar cells, and is specified at 90 watts. Intended for use in a wide variety of off-grid battery charging and remote power applications, SPR-90 solar panels are general purpose products designed to charge a typical 12 volt battery, which can provide sufficient power to rural housing and devices such as telecommunication equipment. We recently announced a higher power version of this product, designated SPR-100 and specified at 100 watts. We plan to begin shipping this new product in early 2006.

We cannot assure you that our SPR-215, SPR-220 or SPR-100 solar panels will be shipped within the anticipated timeframes discussed above, or that they will achieve market acceptance.

Inverters

Inverters transform DC electricity produced by solar panels into the more common form of AC electricity. Inverters are used in virtually every on-grid solar power system and typically feed power either directly into the home electrical circuit or into the utility grid. In North America, we sell a line of branded inverters specifically designed for use in residential and commercial systems. Our inverter product line currently includes three models spanning a power range of 2.0 to 3.2 kilowatts. Our inverters are optimized specifically for use with our solar panels. Our units are highly efficient and have the highest DC to AC conversion efficiency of any commercially available unit in its class, according to the California Energy Commission. Our inverters are manufactured for us by PV Powered, a specialized manufacturer of solar power conditioning components.

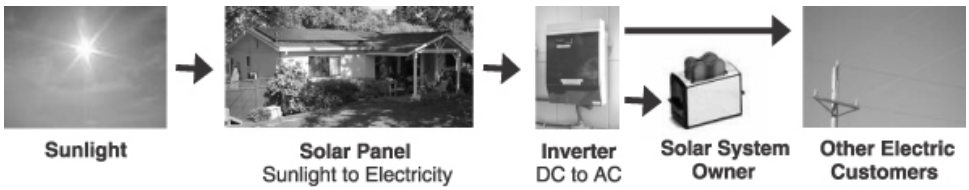
Imaging Detectors and Infrared Detectors

Our imaging detectors are high performance, back contact light sensor arrays for medical imaging applications where digital flat panel and computed tomography, or CT, systems are replacing conventional film-based X-ray imaging. Digital imaging is a demanding application for imaging detectors. X-rays pose a risk of radiation exposure, and this limits the practical dose that can be applied to the patient. A sensor must therefore maximize the conversion of incoming photons into electricity, the same fundamental challenge of solar power generation. Our imaging detectors are designed to have low current leakage and high sensitivity.

We also offer infrared detectors based on our high performance all back contact technology. Our infrared detectors are semiconductors which detect light signals primarily for use in computing and mobile phone applications. Our infrared detectors are used in devices such as personal digital assistants to beam information from one device to another.

Solar Power Technology

In a solar power system, solar cells, which are electrically interconnected into solar panels, absorb sunlight. The semiconducting materials in the solar cell convert the sunlight into DC electricity. Inverters, which are electric power converters, transform the DC electricity produced by the solar cells into the more common form of AC electricity, which is the electricity used in the home. The AC electricity produced by the solar power system can be stored, used or lent back to the electric utility grid. Solar power systems can be interconnected with or operate independent of the electric utility grid. The diagram below depicts a basic on-grid solar power system:

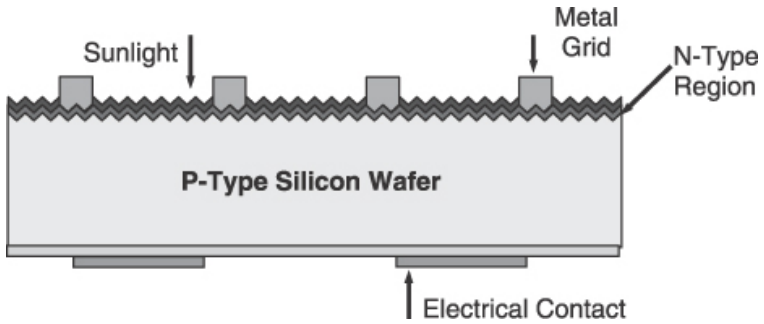


Our Technology

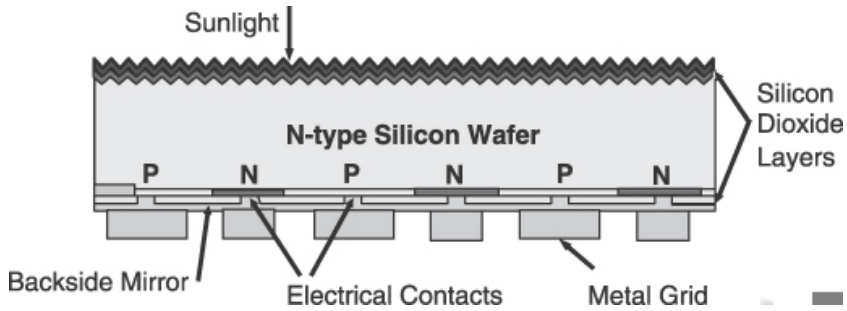
We believe that our proprietary all back contact solar cell technology provides the highest conversion efficiency of any solar cell available for the mass market. This technology evolved from high-performance specialty solar cells designed for powering solar powered race cars and aircraft such as Helios, NASA's solar powered airplane that set an absolute altitude record for engine-powered aircraft flight of 96,863 feet in August 2001. Starting in late 2001, our scientists invented and developed new mass-production manufacturing processes that enabled significant cost reduction while maintaining high efficiency.

The structure of a conventional crystalline silicon solar cell is shown in the first graphic below. Crystalline silicon solar cells accounted for approximately 94% of all product capacity shipped in 2004, according to SolarBuzz. Conventional solar cells are made from a slice of silicon called a wafer that is sawn from an ingot of crystallized silicon. Impurities are selectively incorporated into the silicon wafer to form regions that are negatively or positively electrically charged. These electrically charged regions are labeled N-type and P-type, respectively, in the graphic below. Sunlight enters the cell from the top and is absorbed in the silicon. This process frees electrons from the chemical bonds that hold the crystal together. The front of the cell where sunlight enters attracts these electrons and funnels them to a metal grid that collects the current and conducts it to external wires. The circuit is completed by a contact on the back of the cell. This type of cell structure can typically convert approximately 14% to 15% of the sun's energy striking the cell into electricity.

Cross-section of a conventional silicon solar cell:



Cross-section of our all back contact solar cell:



Our all back contact solar cell technology is shown in the second graphic above. In our A-300 solar cell, both the N-type and P-type regions are located on the back in alternating stripes. This architecture allows all of the metal contact grids to be located on the back where they no longer block a portion of the incoming sunlight. Our all back contact cell technology incorporates a number of features that work together to increase conversion efficiency by as much as 50% per unit area compared with conventional solar cells, including the following:

- Our solar cells have all of the conducting metal contacts on the back rather than on the front where they block a portion of the incoming sunlight. Since our contacts are all on the back, we can make them thick and highly conductive, thus decreasing electrical resistance.
- Both the front and back of the cell are covered with a thin layer of silicon dioxide. This greatly reduces an effect known as recombination whereby electrons get trapped and lost at the top and bottom surfaces of a conventional cell.

- The regions where metal contacts directly touch the active silicon material are also sites where electrons can easily recombine. We minimize this effect by making electrical contact to the cell through tiny holes in the insulating layer of silicon dioxide.
- Conventional solar cells are unable to absorb all of the incoming photons, and some photons pass all the way through the cell. Our solar cells use a combination of silicon dioxide and back metal to form a highly effective mirror to reflect light back into the cell. This back surface mirror combined with a textured, or roughened, front causes light to be efficiently trapped within the cell until it can be converted into electricity.

Our high performance imaging detectors and infrared detectors are based on our all back contact solar cell technology which enables them to maximize the conversion of imaging light into electricity.

Our Manufacturing

We manufacture our solar cells through our subsidiary, SunPower Philippines Manufacturing Limited, in a 215,000 square foot facility located near Manila in the Philippines. This plant began operations in the fall of 2004 and is capable of housing four production lines with a total production plant capacity to approximately 100 megawatts per year. Currently, we operate a 25 megawatts per year solar cell production line and have ordered equipment for the second and third 25 megawatts per year production lines, which are expected to increase our total production capacity to 75 megawatts per year in 2006. We are evaluating the timing for a fourth line in our existing facility and for a second production facility.

The solar cell value chain starts with high purity silicon called polysilicon. Polysilicon is melted and grown into crystalline ingots by companies specializing in ingot growth. We procure silicon ingots from these suppliers on a contractual basis and then slice these ingots into wafers. We also purchase wafers from third-party vendors. The ingots are sliced and the wafers are processed into solar cells in our Philippines manufacturing facility. We sell some of these solar cells to selected customers, and the remainder is laminated into solar panels made to our specifications by contract manufacturers in China.

Although we have made arrangements for what we believe will be an adequate supply of silicon ingots for the remainder of 2005, our estimates regarding our supply needs may not be correct and our purchase orders may be cancelled by our suppliers. If our manufacturing yields decrease significantly, our second manufacturing line becomes available earlier than anticipated or our suppliers cancel or fail to deliver, we may not have made adequate provision for our polysilicon needs for the balance of the year. In addition, since some of these arrangements are with suppliers who do not themselves manufacture polysilicon but instead purchase their requirements from other vendors, it is possible that these suppliers will not be able to obtain sufficient polysilicon to satisfy their contractual obligations to us.

The investment in 2002 and subsequent acquisition of our company in 2004 by Cypress brought together our solar cell technology and Cypress' semiconductor manufacturing expertise. Manufacturing high-efficiency solar cells requires very precise control over many processing procedures and variables. We believe our highly disciplined technology and manufacturing processes derived from the traditional semiconductor industry represent a competitive advantage in terms of our ability to rapidly and efficiently develop and implement complex production technologies capable of operating at high yields and product performance. We have a complex manufacturing process, which we believe requires more capital equipment than many of our competitors. However, we believe our technology and manufacturing process derived from the semiconductor industry, as well as the higher efficiency of our products, offsets the capital costs associated with the complexity of our manufacturing process.

Our imaging detectors are manufactured by Cypress and then shipped to our facility in Sunnyvale, California for back-end processing that includes electrical test, precision wafer dicing, measurement analysis tools, visual inspection and electrical contact preparation.

Over the past 15 years, we have developed a core competency in processing thin silicon wafers. This proprietary semiconductor processing expertise involves specialized equipment and facilities that we believe allow us to process thin wafers while minimizing breakage and accurately controlling the effect of metallic

contaminants and other non-desirable process conditions. This proprietary expertise is used in both our solar cell technology as well as for our imaging and infrared detector products.

Customers

We currently sell our solar power products to system integrators and OEMs. System integrators typically design and sell complete systems that include our solar panels along with other system components. In North America, our system integrators also incorporate our inverters in their system offerings. OEMs typically incorporate our A-300 solar cells into specialty solar panels designed for specific applications.

We currently work with a small number of key customers who have specific expertise and capabilities in a given market segment or geographic region. As we expand our manufacturing capacity, we anticipate developing additional customer relationships in other markets and geographic regions to decrease our customer concentration and dependence. Conergy accounted for approximately 7.6% of our total combined revenue in fiscal 2004 and 52.6% of our total revenue in the six months ended June 30, 2005. Solon accounted for approximately 19.3% of our total combined revenue in fiscal 2004 and 18.0% of our total revenue in the six months ended June 30, 2005. GE and its subcontracting partner, Plexus, accounted for approximately 9.3% of our total combined revenue in fiscal 2004, and accounted for approximately 12.2% of our total revenue in the six months ended June 30, 2005. Integration Associates accounted for 31.9% of our total combined revenue in fiscal 2004 and 6.7% of our total revenue in the six months ended June 30, 2005. Currently, our largest costumers for our solar power products are Conergy and Solon, our largest customers for our imaging detector products are GE and Plexus and our largest customer for our infrared detector products is Integration Associates.

Sales and Marketing

We market and sell our solar power products and detector products worldwide through a direct sales force. We have direct sales personnel or representatives in Germany, Singapore and the United States. Our marketing programs include conferences and technology seminars, sales training, public relations and advertising. Our sales and marketing group works closely with our research and development and manufacturing groups to align our product development roadmap. Our sales and marketing group also coordinates our product development activities, product launches and ongoing demand and supply planning with our development, operations and sales groups, as well as with our customers, direct sales representatives and distributors. We support our customers through our field application engineering and customer support organizations. Please see note 11 of the notes to our consolidated financial statements for information regarding our revenue by geographic region.

Research and Development

We engage in extensive research and development effort to improve solar cell efficiency and reduce manufacturing cost and complexity. Our goal is to increase efficiency in order to maintain our competitive advantage. Our research and development organization works closely with our manufacturing facility, our equipment suppliers and our customers to improve our solar cell design and lower manufacturing costs. In addition, we have dedicated employees who work closely with our current and potential ingot suppliers to develop specifications that meet our standards and ensure the high quality we require, while at the same time controlling costs.

Our research and development expenditures were approximately $2.5 million in fiscal 2002, $9.8 million in fiscal 2003, $13.2 million combined in fiscal 2004 and $2.9 million in the six months ended June 30, 2005. Our government contracts enable us to more rapidly develop new technologies and pursue additional research opportunities while helping to offset our research and development expense. We recently entered into a cost-sharing research and development project with the National Renewable Energy Laboratory to fund the design of our next generation solar panels. Payments received under this contract help offset our research and development expense. This contract is expected to fund approximately $1.0 million per year of our research and development expense through May 2008. In the six months ended June 30, 2005, funding from government contracts offset our research and development expense by approximately 4.0%.

Competition

The market for solar power products is competitive and continually evolving. We expect to face increased competition, which may result in price reductions, reduced margins or loss of market share. We compete with companies such as BP Solar, Evergreen Solar, Mitsubishi, Q-Cells, Sanyo and Sharp. Many of our competitors have established a stronger market position than ours and have larger resources and recognition than we have. In addition, universities, research institutions and other companies are developing alternative technologies such as thin films and concentrators, which may compete with our technology. In addition, the solar power market in general competes with other sources of renewable energy and conventional power generation.

We believe that the key competitive factors in the market for solar cells and solar panels include:

- power efficiency and performance;
- price;
- aesthetic appearance of solar cells and panels;
- strength of distribution relationships; and
- timeliness of new product introductions.

We believe that we compete favorably with respect to these factors.

We also compete with companies such as Hamamatsu Photonics and UDT Sensors in the market for high performance imaging detectors. In the market for infrared detectors, we compete with companies such as Vishay, Rohm and Agilent Technologies. We may face competition in the future from other manufacturers of imaging detectors, infrared detectors or alternative devices. The use of alternative devices, including low power, high data rate wireless protocols, may replace existing detectors and limit our market opportunity. Our current and future competitors may have longer operating histories, greater name recognition and greater financial, sales and marketing, technical and other resources than us or may develop technologies superior to those incorporated in our imaging detectors and infrared detectors. If we fail to compete successfully, we may be unable to expand our customer base for our imaging detectors and our business would suffer. We believe the key competitive factors for high performance imaging detectors include low current leakage and high sensitivity. In the market for infrared detectors, we believe the competitive factors include data transmission rates and price. We believe we compete favorably with these factors due in part to our proprietary processes and engineering expertise.

We may also face competition from some of our customers who may develop products or technologies internally which are competitive with our products, or who may enter into strategic relationships with or acquire existing solar power product providers or imaging or infrared detector product providers.

Intellectual Property

We rely on a combination of patent, copyright, trade secret, trademark and contractual protection to establish and protect our proprietary rights. “SunPower” is our registered trademark in the United States for solar cells and panels. We are seeking registration of this mark in a number of foreign jurisdictions where we conduct business. We require our customers to enter into confidentiality and nondisclosure agreements before we disclose any sensitive aspects of our solar cells, technology or business plans, and we typically enter into proprietary information agreements with employees and consultants. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. It is difficult to monitor unauthorized use of technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as laws in the United States. In addition, our competitors may independently develop technology similar to ours. Our precautions may not prevent misappropriation or infringement of our intellectual property.

As of June 30, 2005, in the United States we had five issued patents and 11 patent applications pending. We are co-owners of four additional patents with Honda Giken Kogyo Kabushiki Kaisha. We also filed applications in foreign jurisdictions corresponding to one U.S. patent and six pending U.S. patent applications. Our issued patents expire between 2013 and 2023. We have licensed U.S. patents from the Electric Power Research Institute

under a license agreement we are in the process of terminating as our current products do not use the licensed technology. In general, our issued patents and the patents we license relate to technology we do not use in our current solar cells while our pending patent applications relate to technology we use in our current solar cells. We intend to continue assessing appropriate opportunities for patent protection of those aspects of our technology that we believe provide significant competitive advantages to us, and for licensing opportunities of new technologies relevant to our business.

Although we apply for patents to protect our technology, our revenue is not dependent on any particular patent we own and we currently rely on trade secret rights to protect our proprietary information and know-how. We do not believe the expiration or loss of any of our current patents would materially harm our business. We do not know if our current or future patent applications will result in patents being issued with the scope of the claims we seek, if at all, or whether any patents we may receive will be challenged, invalidated or declared unenforceable.

Environmental Regulation

We use, generate and discharge toxic, volatile or otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. We are subject to a variety of foreign, federal, state and local governmental laws and regulations related to the purchase, storage, use and disposal of hazardous materials. If we fail to comply with present or future environmental laws and regulations, we could be subject to fines, suspension of production or a cessation of operations. In addition, under some foreign, federal, state and local statutes and regulations, a governmental agency may seek recovery and response costs from operators of property where releases of hazardous substances have occurred or are ongoing, even if the operator was not responsible for the release or otherwise was not at fault.

We believe that we have all environmental permits necessary to conduct our business and expect to obtain all necessary environmental permits for our new facility. We believe that we have properly handled our hazardous materials and wastes and have appropriately remediated any contamination at any of our premises. We are not aware of any pending or threatened environmental investigation, proceeding or action by foreign, federal, state or local agencies, or third parties involving our current facilities. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to substantial financial liabilities, operational interruptions and adverse publicity, any of which could materially and adversely affect our business, results of operations and financial condition.

Employees

As of June 30, 2005, we had 416 full-time employees, including 194 in manufacturing, 29 in research and development, 9 in sales and marketing and 184 in general and administrative. Of these full-time employees, 67 are located in Sunnyvale, California, one is located in Frankfurt, Germany, one is located in Round Rock, Texas and 347 are located in the Philippines. None of our employees is covered by a collective bargaining agreement. Some of our services, including certain information technology, legal, tax, treasury and human resources services, are provided by Cypress pursuant to a master transition services agreement between us and Cypress, as further described in “Related Party Transactions.” We believe that relations with our employees are good.

Legal Proceedings

On August 9, 2005, we filed a lawsuit in the United States District Court for the Northern District of California alleging trademark infringement, unfair competition, unauthorized infringement and common law unfair competition against Sun Power & Geothermal Energy Company, Inc. for its use of the name “Sun Power” in connection with its business of designing and installing photovoltaic panels. Our complaint seeks injunctive relief and an unspecified amount of actual damages. We are currently in negotiations with Sun Power & Geothermal Energy Company, Inc. to resolve this matter.

We may also be subject to various claims and legal actions arising in the ordinary course of business.

Facilities

Our corporate headquarters are located in Sunnyvale, California, where we occupy approximately 20,000 square feet under a lease expiring on May 31, 2006. We also lease from Cypress approximately 215,000 square feet in the Philippines, which serves as our manufacturing facility. Our primary lease in the Philippines expires on July 15, 2006. We have reached an agreement in principle with Cypress to extend this lease for an additional 15 years, with a right to purchase the facility from Cypress at any time at Cypress' original purchase price plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to us. Under the lease, we would pay Cypress at a rate equal to the cost to Cypress for the facility until the earlier of 10 years or such time as Cypress ceases to own at least 50% of the total combined voting power of all classes of our capital stock. Thereafter, we will pay market rent for the facility. We may require additional space in the future, which may not be available on commercially reasonable terms or in the location we desire.

MANAGEMENT

Executive Officers and Directors

The names of our executive officers and directors and their ages as of July 31, 2005 are as follows:

Name	Age	Position(s)
Thomas H. Werner	45	Chief Executive Officer and Director
Dr. Richard Swanson	60	President and Chief Technology Officer and Director
Emmanuel T. Hernandez	50	Chief Financial Officer
PM Pai	57	Chief Operating Officer
T.J. Rodgers	57	Chairman of the Board of Directors
Don Mika	61	Director
Christopher A. Seams	42	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

Thomas H. Werner has served as our chief executive officer and as a member of our board of directors since June 2003. Prior to joining SunPower, from July 2001 to June 2003, Mr. Werner served as chief executive officer of Silicon Light Machines, Inc., an optical solutions subsidiary of Cypress Semiconductor Corporation. From September 1998 to June 2001, Mr. Werner was vice president and general manager of the Business Connectivity Group of 3Com Corp., a network solutions company. Mr. Werner currently serves as a board member of Exar Corp., Three-Five Systems, Inc. and Silicon Light Machines. He holds a bachelor's degree in industrial engineering from the University of Wisconsin, Madison, a bachelor's degree in electrical engineering from Marquette University and a master's degree in business administration from George Washington University.

Dr. Richard Swanson co-founded SunPower in 1985. He has served as our president and chief technology officer since June 2003 and has been a member of the board of directors since 1985. Prior to his current position, Dr. Swanson served as our chief executive officer and president from 1991 to June 2003 and our vice president and director of technology from 1990 to 1991. From 1976 to 1991, Dr. Swanson served as a professor of electrical engineering at Stanford University. He holds a Ph.D. from Stanford University and both a bachelor's and master's degrees in electrical engineering from Ohio State University.

Emmanuel T. Hernandez has served as our chief financial officer since April 2005. Prior to joining SunPower, Mr. Hernandez served more than 11 years as the executive vice president of finance and administration and chief financial officer at Cypress Semiconductor Corporation. Mr. Hernandez currently serves as a board member of ON Semiconductor, Integration Associates and Silicon Light Machines. He holds a bachelor's degree in accounting from the University of Nueva Caceres in the Philippines, received his CPA license from the Philippine Institute of Certified Public Accountants and earned a master's degree in finance from Golden Gate University in San Francisco.

PM Pai has served as our chief operating officer since March 2005. Prior to joining SunPower, Mr. Pai served four years as the president of Moser Baer India Ltd., a recordable optical media company, from March 2001 to March 2005. Mr. Pai served as an executive director of Xerox India from 1984 to March 2001. Mr. Pai graduated first class with a bachelor's degree in mechanical engineering from Mysore University, India. His graduate work includes an M.Tech Industrial Engineering degree, with distinction, from ITT Madras and completion of the Advanced Management Program (ISMP) at Harvard Business School.

T.J. Rodgers has served as one of our directors since May 2002. Mr. Rodgers co-founded Cypress Semiconductor Corporation in 1982, and is currently Cypress' president and chief executive officer and a member of Cypress' board of directors. Mr. Rodgers also serves as a director at SolarFlare Communications Inc., Infinera, Ion America and Silicon Light Machines and is also a member of the Board of Trustees at Dartmouth College, his alma mater. Mr. Rodgers was a Sloan scholar at Dartmouth College, where he graduated as

Salutatorian with a double major in physics and chemistry. He attended Stanford University on a Hertz fellowship, earning both a master's degree in 1973 and a Ph.D. in 1975 in electrical engineering.

Don Mika has served as a member of our board of directors since June 2004. Since April 2005, Mr. Mika has served as senior business development director at Cypress. From March 2001 to April 2005, Mr. Mika served as president and managing director of Cypress Manufacturing Ltd., a subsidiary of Cypress Semiconductor Corporation. Prior to joining Cypress, Mr. Mika worked for 30 years at Texas Instruments, in various manufacturing positions worldwide. He holds a bachelor's degree in industrial technology from Texas A&M University.

Christopher A. Seams has served on our board of directors since May 2002. Since 1990, he has held a variety of positions in technical and operational management in manufacturing, development, and foundry at Cypress Semiconductor Corporation. Mr. Seams is currently Cypress' executive vice president of sales, marketing and manufacturing. In addition to SunPower, Mr. Seams serves as a board member of 1st Silicon and Joint Venture Silicon Valley. He holds a bachelor's degree in electrical engineering from Texas A&M University and a master's degree in electrical and computer engineering from the University of Texas at Austin.

Board of Directors

Our bylaws currently provide for a board of directors consisting of five members. Prior to completion of this offering, we intend to have five or six directors, three of whom will be independent under the current rules of the Nasdaq Stock Market and the rules and regulations of the SEC. There are no family relationships among any of our directors or executive officers.

Corporate Governance

We expect that our board will fully implement our corporate governance initiatives within 90 days after this offering. We believe these initiatives will comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC adopted thereunder. In addition, we believe our corporate governance initiatives will comply with the rules of The Nasdaq Stock Market. After this offering, our board will continue to evaluate, and improve upon as appropriate, our corporate governance principles and policies.

Our board and audit committee will adopt a code of business conduct and ethics that applies to each of our directors, officers and employees. We expect the code will address various topics, including:

- compliance with laws, rules and regulations;
- conflicts of interest;
- insider trading;
- corporate opportunities;
- competition and fair dealing;
- equal employment and working conditions;
- health and safety;
- record keeping;
- confidentiality;
- protection and proper use of company assets; and
- payments to government personnel.

Upon completion of this offering, the code of business conduct and ethics will be posted on our website. We also intend to implement whistleblower procedures by establishing formal procedures for receiving and handling complaints from employees. Any concerns regarding accounting or auditing matters reported under these procedures will be communicated promptly to the audit committee.

Board Committees

Upon completion of this offering, our board of directors will have an audit committee, a compensation committee and a nominating and corporate governance committee, each of which will have the composition and responsibilities described below. Cypress is entitled to have a representative on all committees except to the extent prohibited by applicable law or the rules of The Nasdaq Stock Market.

Audit Committee

The audit committee will provide assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal controls and legal compliance functions by approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The audit committee will also oversee the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. We have agreed to use our best efforts to use Cypress' independent accountants so long as Cypress is consolidating us for accounting purposes. Upon completion of this offering, our audit committee will consist of , and each of whom is an independent member of our board of directors. will be our financial expert as currently defined under SEC rules. will be the chairperson of our audit committee. We believe that the composition of our audit committee will meet the criteria for independence under, and the functioning of our audit committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002, the current rules of The Nasdaq Stock Market and Securities and Exchange Commission rules and regulations. We intend to comply with future audit committee requirements as they become applicable to us.

Compensation Committee

The compensation committee will determine our general compensation policies and the compensation provided to our directors and officers. The compensation committee will also review and determine bonuses for our officers and other employees. In addition, the compensation committee will review and determine equity-based compensation for our directors, officers, employees and consultants and administer our stock option plans. Upon completion of this offering, our compensation committee will consist of , and each of whom is a non-management member of our board of directors. will be the chairperson of our compensation committee. We believe that the composition of our compensation committee will meet the criteria for independence under, and the functioning of our compensation committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002, the current rules of The Nasdaq Stock Market and SEC rules and regulations. We intend to comply with future compensation committee requirements as they become applicable to us.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee will be responsible for identifying qualified candidates to the board of directors and making recommendations regarding the size and composition of the board. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance matters and reporting and making recommendations to the board concerning corporate governance matters. Upon completion of this offering, our nominating and corporate governance committee will consist of , and each of whom will be an independent director. will be the chairperson of our nominating and corporate governance committee. We believe that the composition of our nominating and governance committee will meet the criteria for independence under, and the functioning of our nominating and corporate governance committee complies with the applicable requirements of The Nasdaq Stock Market and SEC rules and regulations. We intend to comply with future nominating and corporate governance committee requirements as they become applicable to us.

Director Compensation

We have not paid any cash compensation to members of our board of directors for their services as directors. After completion of this offering, our independent directors will receive annual compensation of $ and compensation of $ for each board meeting attended in person and $ for each board meeting attended via teleconference. In addition, the chairperson of our audit committee will receive additional annual compensation of $. Each committee member other than a committee chairperson will receive $ for each committee meeting attended in person or via teleconference and the chairpersons of our compensation committee and nominating and corporate governance committee will receive $ for each committee meeting attended in person or via teleconference. We will also reimburse our directors for reasonable expenses in connection with attendance at board and committee meetings. Directors will also be eligible to receive stock options under our 2005 stock incentive plan. The following non-employee directors have received stock options under our 1996 Stock Plan as follows:

	Number of Shares Underlying Options Granted	Exercise Price Per Share	Date of Grant
Don Mika	50,000	$ 1.65	09/23/2004

In 2004, we were allocated a portion of the salary expense incurred by Cypress for Don Mika, one of our directors, for consulting services rendered to us by Mr. Mika unrelated to his position as a director.

Outside directors will receive nondiscretionary, automatic grants of nonstatutory stock options under our 2005 stock incentive plan. An outside director who first joins our board of directors on or after the effective date of the 2005 stock incentive plan will be automatically granted an initial option to purchase 50,000 shares of our class A common stock on the date of his or her election to our board. The initial option vests and becomes exercisable over five years, with the first 20% of the shares subject to the initial option vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. Immediately after each of our regularly scheduled annual meetings of stockholders, beginning with the annual meeting occurring immediately after the effective date of the 2005 stock incentive plan, each outside director will be automatically granted a nonstatutory option to purchase 10,000 shares of our class A common stock, provided the director has served on our board for at least six months. These options will vest and become exercisable on the first anniversary of the date of grant or immediately prior to our next annual meeting of stockholders, if earlier. The options granted to outside directors will have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant, and will become fully vested if we are subject to a change of control. See “Employee Benefit Plans—2005 Stock Incentive Plan.”

Stock Ownership of Directors & Executive Officers in Cypress Semiconductor Corporation

The following table sets forth the number of shares of Cypress common stock beneficially owned on July 31, 2005 by each director, each of the executive officers named in the Summary Compensation Table in the “Executive Compensation” section below, and all of our directors and executive officers as a group. Except as otherwise noted, the individual directors or executive officers or their family members have sole voting and investment power with respect to such securities. The total number of shares of Cypress common stock outstanding as of July 31, 2005 was 133,650,578 shares.

	Number of Shares of Cypress Beneficially Owned	Percentage of Cypress Common Stock Beneficially Owned
Thomas H. Werner	10,874	*
Dr. Richard Swanson	100,800	*
T.J. Rodgers	1,411,652	1.06%
Don Mika	12,271	*
Christopher A. Seams	67,510	*
All directors and executive officers as a group (7 persons)	1,603,107	1.20

* Represents beneficial ownership of less than 1%.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee at any time has been one of our officers or employees. There are no familial relationships among any of our directors or officers. No interlocking relationship exists between our board of directors or compensation committee and the board of directors or compensation committee of any other entity, nor has any interlocking relationship existed in the past.

Executive Compensation

The following table summarizes all compensation paid to our chief executive officer and our other most highly compensated executive officer whose total annual salary and bonus exceeded $100,000 for services rendered in all capacities to us during the year ended December 31, 2004. These individuals are referred to as our named executive officers.

Summary Compensation Table

	Annual Compensation		Long-Term Compensation
Name and Principal Position	Salary ($)	Bonus ($)	Securities Underlying Options (#)
Thomas H. Werner Chief Executive Officer	$ 264,423	$ 21,175	1,280,600
Dr. Richard Swanson President and Chief Technology Officer	200,000	7,290	879,600

Emmanuel T. Hernandez became our Chief Financial Officer in April 2005. Mr. Hernandez's salary for 2005 on an annualized basis will be $299,520. PM Pai became our Chief Operating Officer in March 2005. Mr. Pai's salary for 2005 on an annualized basis will be approximately $220,000.

Stock Option Grants

The following tables set forth certain information for the year ended December 31, 2004 with respect to stock options granted to our named executive officers. The percentage of total options granted is based on an aggregate of options to purchase 5,699,333 shares of class A common stock granted in 2004.

Option Grants in 2004

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[3]	
Name	Number of Shares Underlying Options Granted	% of Total Options Granted to Employees in 2004	Exercise Price Per Share[1]	Expiration Date[2]	5%	10%
Thomas H. Werner	1,280,600	22.5%	$ 1.65	6/17/2014	$	$
Dr. Richard Swanson	879,600	15.4	1.65	6/17/2014		

(1) The exercise price for each grant is equal to the fair market value of our class A common stock on the date of grant.

(2) The options have a term of 10 years, subject to earlier termination in certain events related to termination of employment. The options vest as to 20% of the shares one year after the date of grant and as to 1/60th of the shares each month thereafter.

(3) Potential realizable values are calculated by:

- multiplying the number of shares of our class A common stock subject to a given option by $ per share, the mid-point of the estimated initial public offering price range;

- assuming that the aggregate stock value derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire 10-year term of the option; and
- subtracting from that result the total option exercise price.

The 5% and 10% assumed rates of appreciation are required by the rules of the SEC and do not represent our estimate or projection of the future class A common stock price. There can be no assurance that any of the values reflected in the table will be achieved.

Aggregated Option Exercises in 2004 and Year-End Option Values

The following table sets forth certain information for the year ended December 31, 2004 with respect to stock options exercised by our named executive officers and the number and value of unexercised options held by our named executive officers. This table assumes a per-share fair market value equal to $, the mid-point of the estimated initial public offering price.

	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End Exercisable/Unexercisable
Thomas H. Werner	130,000	$	230,000/2,120,600	$ /$
Dr. Richard Swanson	—	—	30,000/879,600	/

Employee Benefit Plans

1988 Incentive Stock Plan and 1996 Stock Plan

Our 1988 Incentive Stock Plan was adopted by our board of directors in October 1988 and was subsequently approved by our stockholders. Our 1996 Stock Plan was adopted by our board of directors in June 1996 and was subsequently approved by our stockholders.

As of July 31, 2005, no shares of class A common stock remained available for future issuance under our 1988 Incentive Stock Plan and options to purchase a total of 50,000 shares of class A common stock were outstanding under this plan at a weighted average exercise price of $0.15 per share. We ceased issuing options under the 1988 Incentive Stock Plan in 1996.

As of July 31, 2005, 793,470 shares of class A common stock remained available for future issuance under the 1996 Stock Plan and options to purchase a total of 12,587,512 shares of class A common stock were outstanding thereunder at a weighted average exercise price of $1.44 per share. Upon the completion of this offering, the 1996 Stock Plan will be terminated. No shares of our class A common stock will remain available under the 1996 Stock Plan other than for satisfying exercises of stock options granted under this plan prior to its termination.

2005 Stock Incentive Plan

General. Our 2005 stock incentive plan was adopted by our board of directors in August 2005 and, subject to stockholder approval, will become effective upon the completion of this offering.

Administration. The 2005 stock incentive plan will be administered by our compensation committee. The 2005 stock incentive plan provides for the grant of options to purchase shares of class A common stock, restricted stock, stock appreciation rights and stock units. Incentive stock options may be granted only to employees. Nonstatutory stock options and other stock-based awards may be granted to employees, non-employee directors, advisors and consultants.

Authorized Shares. The number of shares of class A common stock that have been authorized for issuance under the 2005 stock incentive plan shall not exceed 793,470 shares as of August 12, 2005:

- minus the aggregate number of shares subject to options granted under our 1996 Stock Plan between August 12, 2005 and the effective date of the 2005 stock incentive plan;

- plus any shares subject to options granted under the 1988 Incentive Stock Plan and 1996 Stock Plan which lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005; and
- plus any of the 210,000 shares subject to non-plan options granted during 2004 that lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005.

No participant in the 2005 stock incentive plan can receive option grants, stock appreciation rights, restricted stock or stock units that relate to more than 1,000,000 shares total in any calendar year.

Plan Features. Under the 2005 stock incentive plan:

- We expect that options granted to optionees other than outside directors will generally vest as to 20% of the shares one year after the date of grant and as to 1/60th of the shares each month thereafter.
- Nondiscretionary, automatic grants of nonstatutory stock options will be made to outside directors. An outside director who first joins our board of directors on or after the effective date of the 2005 stock incentive plan will be granted automatically an initial option to purchase 50,000 shares on the date of his or her election to our board. The initial option vests and becomes exercisable over five years, with the first 20% of the shares subject to the initial option vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. Immediately after each of our regularly scheduled annual meetings of stockholders, beginning with the annual meeting occurring immediately after the effective date of the 2005 stock incentive plan, each outside director will be automatically granted a nonstatutory option to purchase 10,000 shares, provided the director has served on our board for at least six months. These options will vest and become exercisable on the first anniversary of the date of grant or immediately prior to our next annual meeting of stockholders, if earlier. The options granted to outside directors will have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant, and will become fully vested if we are subject to a change of control. Subject to certain exceptions, a change of control means the occurrence of one of the following:
  - the acquisition by any person of our securities representing 50% or more of the combined voting power of our then outstanding securities;
  - a merger or consolidation of us with or into another entity as a result of which persons who were not our stockholders immediately prior to the merger or consolidation own immediately after the merger or consolidation 50% or more of the voting power of the outstanding securities of the continuing or surviving entity and any parent corporation of the continuing or surviving entity; or
  - the sale, transfer or other disposition of all or substantially all of our assets.
- In the event of a recapitalization, stock split or similar capital transaction, we will make appropriate adjustments to the number of shares reserved for issuance under the 2005 stock incentive plan, the limitation regarding the total number of shares underlying awards given to an individual participant in any calendar year and the number of nonstatutory stock options automatically granted to outside directors, and other adjustments in order to preserve the benefits of outstanding awards under the 2005 stock incentive plan.
- Generally, if we merge with or into another corporation, we may terminate any unexercised options, regardless of whether we accelerate their vesting, unless they are assumed or substituted for by any surviving entity or a parent or subsidiary of the surviving entity.
- The number of shares or other benefits pursuant to an award granted under the 2005 stock incentive plan may be made subject to the attainment by us or one of our business units or subsidiaries of performance goals relating to one or more performance criteria outlined in the 2005 stock incentive plan.
- The plan terminates 10 years after its initial adoption, unless terminated earlier by our board. Our board may amend, modify or terminate the plan at any time, subject to stockholder approval if required by applicable law or stock exchange regulations. Any amendment or termination may not materially impair the rights of holders of outstanding awards without their consent.

Other Employee Benefit Plans

We have a pension plan covering our employees in the Philippines. In addition, some of our employees and officers still have an interest in several Cypress sponsored employee benefit plans such as the Cypress Executive Deferred Compensation Plan and the Cypress Stock Purchase Assistance Plan. In addition, some of our employees and officers have options to purchase common stock of Cypress.

Employment Agreements and Change in Control Arrangements

On May 22, 2003, Thomas H. Werner entered into an offer letter with us to serve as our Chief Executive Officer. Under the terms of the offer letter, Mr. Werner is entitled to receive an annual salary of $275,000 and bonus in an amount equal to 80% of his base salary. Pursuant to the offer letter, we granted Mr. Werner an option to purchase 1,200,000 shares of our class A common stock at an exercise price of $0.25 per share under our 1996 Stock Plan. If Mr. Werner is terminated without cause, he will receive benefits for one year and an amount equal to one year base salary.

On January 1, 1990, Dr. Richard Swanson entered into an offer letter with us under which Dr. Swanson became our Vice President and Director of Technology at a salary of $90,000. Since January 1, 1990, Dr. Swanson has been subject to changes in his title and salary to his current status as President and Chief Technology Officer at a base salary of $200,000.

On April 1, 2005, Emmanuel T. Hernandez entered into an offer letter with us to serve as our Chief Financial Officer. Under the terms of the offer letter, Mr. Hernandez received an option to purchase 2,083,477 shares of our class A common stock pursuant to our 1996 Stock Plan at an exercise price of $1.65 per share. In the event Cypress sells its controlling interest in us prior to our initial public offering or buys back the minority interest in us prior to or following our initial public offering, Mr. Hernandez's options will fully vest as to all shares.

On January 14, 2005, we entered into a standard offer letter with PM Pai. Under the terms of the offer letter, Mr. Pai received an option to purchase 850,000 shares of our class A common stock pursuant to our 1996 Stock Plan at an exercise price of $1.65 per share.

Indemnification Agreements and Director and Officer Insurance

We intend to enter into agreements to indemnify our directors and executive officers. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers. We also intend to obtain insurance that insures our directors and officers against certain losses and which insures us against our obligations to indemnify the directors and officers. Our certificate of incorporation and our bylaws contain provisions that limit the liability of our directors. A description of these provisions is contained under the heading "Description of Capital Stock—Limitation of Liability and Indemnification Matters."

RELATED PARTY TRANSACTIONS

Other than compensation agreements and other arrangements, which are described in "Management," and our transactions described below with Cypress and T.J. Rodgers, the chief executive officer of Cypress and chairman of our board of directors, since January, 2002, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

- in which the amount involved exceeded or will exceed $60,000; and
- in which any current director, executive officer, holder of 5% or more of our common stock on an as-converted basis or any member of their immediate family had or will have a direct or indirect material interest.

Arrangements between SunPower Corporation and Cypress Semiconductor Corporation

We have provided below a summary description of (1) our past transactions with Cypress and (2) the proposed master separation agreement along with the key ancillary agreements. This description, which summarizes the material terms of the agreements, is not complete. You should read the full text of these agreements, which will be filed with the SEC as exhibits to the registration statement of which this prospectus is a part.

Prior Transactions with Cypress

Overview

On May 30, 2002, Cypress purchased a majority interest in us in connection with an equity financing. Subsequent to that time, while we operated as an independent company with our own board of directors, management, employees, products, and corporate offices, Cypress provided all of our equity and debt financing, and we engaged in numerous inter-company transactions with Cypress, primarily regarding fabrication of our products and assistance with the provision of our administrative services. On November 9, 2004, all of our outstanding shares of capital stock other than those shares beneficially owned by Cypress were retired in exchange for the issuance of Cypress common stock to the former holders of those retired shares in connection with a reverse triangular merger in which a wholly owned subsidiary of Cypress was merged into us after which our company remained as the surviving corporation and a subsidiary of Cypress and after which all of our outstanding options to purchase SunPower common stock held by our employees and other service providers remained outstanding.

Immediately prior to this offering, Cypress beneficially owns more than 99% of our outstanding voting stock, and 89.4% on a fully-diluted basis taking into account our outstanding stock options. Upon completion of this offering, Cypress will beneficially own % of the outstanding voting stock (% if the underwriters' over-allotment option is exercised in full), and % on a fully-diluted basis taking into account our outstanding stock options (% if the underwriters' over-allotment option is exercised in full). For so long as Cypress and its affiliates collectively continue to own 40% or more of all classes of our outstanding common stock (on an as converted to class A common stock basis), Cypress will be able to direct the election of all of the members of our board of directors. In the event that, prior to a tax-free distribution of our class B common stock to Cypress stockholders, Cypress, its successors in interest and its subsidiaries collectively own less than 40% of all classes of our common stock then outstanding on an as-converted to class A common stock basis, all of Cypress' class B common stock will convert automatically into class A common stock on a one-for-one basis. As long as Cypress holds our class B common stock, Cypress will be able to exercise a controlling influence over our business and affairs, including, but not limited to, any determinations with respect to mergers or other business combinations involving us, the issuance of debt or equity securities and the payment of dividends. Similarly, Cypress will have the power to determine or significantly influence the outcome of matters submitted to a vote of our stockholders, to take actions that could be favorable to Cypress and to prevent a change of control of SunPower. See "Description of Capital Stock."

Equity Transactions with Cypress

Between January 1, 2002 and July 31, 2005, on the dates listed below we sold and issued the securities listed below to Cypress in:

May 30, 2002: We sold and issued (a) 12,120,362 shares of our series one convertible preferred stock to Cypress at a price of $0.6864 per share in exchange for cash, and (b) 794,698 shares of our series one convertible preferred stock to Cypress and 1,382,533 shares of our series one convertible preferred stock to T.J. Rodgers, the chief executive officer of Cypress and the chairman of our board of directors, upon conversion of their promissory notes at a price of $0.5834 per share, which represented a 15% discount to the cash purchase price. These issuances were part of issuances of the same or substantially similar securities to other, non-Cypress affiliated, investors at a price of $0.5834 per share. As a result of this transaction, Cypress acquired a majority of our outstanding voting stock but less than a majority of our capital stock determined on a fully-diluted basis, taking into account our outstanding stock options.

May 30, 2002: We issued to Cypress a warrant to purchase 16,000,000 shares of our series two convertible preferred stock with an exercise price of $1.00 per share, which warrant, as subsequently amended, expired during January 2004, prior to exercise by Cypress.

February 12, 2003 through October 18, 2004: We issued to Cypress warrants to purchase an aggregate of 7,642,859 shares of our class A common stock at an exercise price of $0.07 per share, all of which warrants were terminated in connection with the equity investment by Cypress on July 18, 2005 described below. These warrants were issued in connection with our loan transactions with Cypress described below.

November 9, 2004: A newly created and wholly owned subsidiary of Cypress was merged into us in a reverse triangular merger in which each of our outstanding shares of common stock was retired in exchange for the issuance to our former non-Cypress stockholders of $1.65 worth of common stock of Cypress valued based on the per share trading price of Cypress common stock on the NYSE. Cypress, as the then sole owner of our preferred stock, retained its shares and holders of our then outstanding options to purchase common stock, some of whom are our officers and directors, retained their SunPower options after the closing of the merger. In this merger, 14.9 million shares of our common stock were retired in exchange for the issuance of approximately 2.5 million shares of Cypress common stock to our former non-Cypress stockholders, as well as to Mr. Rodgers. As a result of this transaction, we became a wholly owned subsidiary of Cypress, with outstanding options to purchase SunPower class A common stock held by our officers, employees and other service providers remaining outstanding after the closing of the merger.

January 18, 2005: As contemplated by the merger, we issued 32,000,000 shares of series two convertible preferred stock in exchange for $16.0 million. Of the $16.0 million, $9.0 million was received as an advance from Cypress in December 2004, $3.0 million in January 2005 and $4.0 million in February 2005. The non-Cypress members of our board of directors had approved this issuance during the negotiations with Cypress and this issuance was contemplated in connection with its approval of the merger described immediately above.

March 17, 2005: We sold and issued to Cypress 35,151,515 shares of our class A common stock at a price of $1.65 per share, the consideration for which was the cancellation by Cypress of $58 million of promissory notes held by Cypress and inter-company indebtedness that we owed to Cypress.

July 18, 2005: We sold and issued to Cypress 24,000,000 shares of our class A common stock at a price of $3.50 per share, the consideration for which was a combination of $20.2 million of cash, the cancellation of $39.8 million of debt and payables we owed to Cypress, and the cancellation of all warrants that Cypress held to purchase shares of our class A common stock, which warrants our board of directors valued at not less than $24 million.

Upon completion of this offering each share of series one convertible preferred stock and each share of series two convertible preferred stock will convert into one share of class B common stock.

Loan Transactions with Cypress

In addition to the issuances of equity securities described above, between January 1, 2002 and July 31, 2005, Cypress made the following loans to us:

February 12, 2003: Cypress loaned us $2.5 million in exchange for a promissory note for such amount. We repaid this loan in full on June 22, 2005.

April 1, 2003 through December 1, 2003: Cypress loaned us an aggregate of $3.6 million in exchange for nine promissory notes in an aggregate amount of $3.6 million. We repaid these loans in full on March 17, 2005.

Since May 2002: Cypress loaned us an aggregate of $29.2 million pursuant to promissory notes issued pursuant to a note purchase and line of credit agreement, dated as of May 30, 2002, which provided us with a line of credit of up to $30.0 million. We repaid this line of credit in full on July 18, 2005, though this credit line remains available until completion of our public offering; and

From March 18, 2004 to June 22, 2005: Cypress loaned us an aggregate of $36.5 million pursuant to 10 demand promissory notes. We repaid $29.0 million of these loans on March 17, 2005 and we repaid the remaining $7.5 million of these loans on June 22, 2005.

In addition to the financing arrangements discussed above, Cypress has at various times extended credit to us for silicon wafers and other goods and services provided to us by Cypress as described below. We had an outstanding balance of $14.7 million as of July 18, 2005 regarding these credits which we repaid by issuing Cypress shares of class A common stock.

Relationship Prior to Separation

We originally made our specialty detector and solar power products at our Sunnyvale, California facility. After May 2002, we paid $3.4 million for tenant improvements to build a prototype production fabrication line for our newly designed solar cell in Cypress' Round Rock, Texas facility. We then paid a share of the costs of materials and Cypress personnel to operate the facility which made our solar cells until manufacturing operations at our Philippines facility began in November 2004. After that time, we moved our specialty detector production line to Cypress' Texas facility and we continue to pay the costs of materials and Cypress personnel to operate the facility. We have paid Cypress for products it has produced for us in the Texas facility $0 and $0 during fiscal 2002 and 2003, respectively, $727,000 combined during fiscal 2004, and $2.1 million during the first half of fiscal 2005. We believe we have paid at or below market rates for use of this production facility.

In 2003, we and Cypress reached an understanding that we would build out and occupy a building owned by Cypress in the Philippines for our solar cell production facility. We reimburse Cypress for the rental of the land which Cypress pays to the Philippine government under a long-term lease. We also reimburse Cypress for the amortized value of the purchase price of this building. The aggregate amount for the rental and amortization reimbursement has been $0 and $141,000 during fiscal 2002 and 2003, respectively, $275,000 combined during fiscal 2004, and $137,000 during the first half of fiscal 2005. We believe we have paid at or below market rental rates for this lease.

Cypress has also seconded employees and consultants to us for different time periods for whom we pay their fully-burdened compensation. In addition, Cypress personnel assist us with administrative functions such as centralized legal, tax, treasury, information technology, employee benefits and other Cypress corporate services and infrastructure and Cypress bills us for a portion of their fully-burdened compensation. The amounts we have paid Cypress for these services have been approximately $0, $1.7 million, $1.3 million, $171,000, $834,000 and $736,000 during fiscal 2002 and 2003, the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004 and the six months ended June 30, 2004 and 2005, respectively. We believe we have paid at or below market rates for these services.

Master Separation Agreement

We intend to enter into a master separation agreement containing the framework with respect to our separation from Cypress. The master separation agreement is expected to provide for the execution of various ancillary agreements that further specify the terms of the separation.

The Separation and Ancillary Agreements

The various ancillary agreements that will be exhibits to the master separation agreement and which will detail the separation of and the various interim and ongoing relationships between Cypress and us will include:

- an employee matters agreement;
- a tax sharing agreement;
- a master transition services agreement;
- a lease agreement;
- a wafer supply agreement;
- an indemnification and insurance matters agreement; and
- an investor rights agreement.

To the extent that the terms of any of these ancillary agreements conflict with the master separation agreement, the terms of these agreements will govern. These proposed agreements are described more fully below.

Expenses. We and Cypress would each bear our own internal costs incurred in consummating the separation.

Dispute Resolution. If problems arise between us and Cypress, we would follow these procedures:

- The parties first make a good faith effort to first resolve the dispute through negotiation.
- If negotiations fail, the parties attempt to resolve the dispute through non-binding mediation.
- If mediation fails, the parties may seek relief in any court of competent jurisdiction.

Representations and Warranties. The parties will make representations to each other in the master separation agreement regarding their respective power and authority to enter into the master separation agreement and the ancillary agreements.

Confidentiality. Each party would treat as confidential and not disclose confidential information of the other party except in specific circumstances.

Employee Matters Agreement

Overview

We plan to enter into an employee matters agreement with Cypress to allocate assets, liabilities and responsibilities relating to our current and former U.S. and international employees and their participation in the employee benefits plans that Cypress currently sponsors and maintains.

Our eligible employees generally will remain able to participate in Cypress' benefit plans, as they may change from time to time, for a period of time after this offering. We intend to have our own benefit plans established by the time our employees no longer are eligible to participate in Cypress' benefit plans. Once we have established our own benefit plans, we will have the ability to modify or terminate each plan in accordance with the terms of those plans and our policies. It is our intent that employees not receive duplicate benefits as a result of participation in our benefit plans and the corresponding Cypress benefit plans.

Retirement Plans, Health & Welfare Plans and Other Benefits

All of our eligible employees will be able to continue to participate in Cypress' health plans, life insurance and 401(k) plan, as they may change from time to time, until the earliest of, (1) the date on which we cease to be controlled by Cypress for purposes of the applicable sections of the Internal Revenue Code or we otherwise cease to be eligible to participate in Cypress' plans, (2) the date on which Cypress' cost under its health plans or life insurance program increases as a result of claims that we make under such plans or program or (3) such earlier date as we and Cypress mutually agree.

Our eligible employees will be able to continue to participate in all other Cypress benefit plans (other than the stock plans and stock purchase plan), as they may change from time to time, until we and Cypress mutually agree to end such participation or we otherwise cease to be eligible to participate in Cypress' plans.

Stock Options

Employees who are eligible to participate in Cypress' stock option plans will retain that eligibility until Cypress ceases to own at least 50% of the total combined voting power of all classes of our stock. At such time, each of our employees will be deemed terminated from Cypress employment for purposes of the Cypress stock option plans, and each outstanding option will be treated in accordance with that employee's stock option agreement with Cypress.

We have established a stock plan for our eligible employees. Pursuant to this stock plan, we may grant to our employees options to purchase our common stock and/or shares of our restricted stock, as well as other types of equity awards.

Stock Purchase Plan

In accordance with discretion provided to Cypress under the terms of its stock purchase plan, Cypress has removed us as a subsidiary designated for participation in offering periods under its stock purchase plan that began on July 1, 2005. This means that our employees are not eligible to participate in offering periods under the Cypress stock purchase plan.

Indemnification and Insurance Matters Agreement

General Release of Pre-Separation Claims

Effective as of the separation, we will release Cypress and its affiliates, agents, successors and assigns, and Cypress will release us, and our affiliates, agents, successors and assigns, from any liabilities arising from events occurring before the separation, including events occurring in connection with the activities to implement the separation, this offering and any distribution of our capital stock to Cypress' stockholders. This provision will not impair a party from enforcing the master separation agreement, any ancillary agreement or any arrangement specified in any of these agreements.

General Indemnification

We will indemnify Cypress and its affiliates, agents, successors and assigns from all liabilities that any third party seeks to impose on such entities arising from:

- our business, any of our liabilities, any of our contracts or any action or inaction by us with respect to any shared contracts;
- any breach by us of the master separation agreement or any ancillary agreement; and
- any liability arising from any untrue statement of a material fact or any omission of a material fact in this prospectus;

Cypress will indemnify us and our affiliates, agents, successors and assigns from all liabilities arising from:

- Cypress' business, other than our business;
- any breach by Cypress of the master separation agreement or any ancillary agreement.

The agreement will also contain provisions governing notice and indemnification procedures.

Indemnification for Environmental Matters

We will indemnify Cypress and its affiliates, agents, successors and assigns from all liabilities arising from environmental conditions:

- existing on, under, about or in the vicinity of any of our facilities, or arising out of operations occurring at any of our facilities, including our Sunnyvale, California facilities, whether prior to or after the separation;
- existing on, under, about or in the vicinity of the Philippines facility which we occupy, or arising out of operations occurring at such facility, whether prior to or after the separation, to the extent that those liabilities were caused by us; and
- arising out of hazardous materials found on, under or about any landfill, waste, storage, transfer or recycling site and resulting from hazardous materials stored, treated, recycled, disposed or otherwise handled at such sites prior to the separation.

Insurance Matters

The agreement will also contain provisions governing our insurance coverage (other than our directors and officers insurance, for which we intend to obtain our own separate policy) until the earliest of (1) the date on which Cypress ceases to own at least 50% of the total combined voting power of all classes of our capital stock or we otherwise cease to be eligible to be included in Cypress' coverage, (2) the date on which we cease to qualify for coverage under the terms of a particular insurance policy (3) the date on which Cypress' cost of insurance under any particular insurance policy increases as a result of claims that we make under such insurance policy or (4) the date on which Cypress and we mutually agree to terminate this arrangement. Prior to that time, Cypress will maintain insurance policies on our behalf, and we shall reimburse Cypress for expenses related to insurance coverage during this period. We will work with Cypress to secure additional insurance if desired and cost effective.

Tax Sharing Agreement

Cypress and SunPower will enter into a tax sharing agreement providing for each of the party's obligations concerning various tax liabilities. The tax sharing agreement will be structured such that Cypress will pay all federal, state, local and foreign taxes that are calculated on a consolidated or combined basis (while SunPower is a member of Cypress' consolidated or combined group pursuant to federal, state, local and foreign tax law). In return, SunPower's tax liability for such taxes will be determined based upon its separate return tax liability which will be defined under the tax sharing agreement. It is anticipated that such liability will be largely based on a pro forma calculation as if SunPower were filing a separate income tax return in each jurisdiction, rather than on a combined or consolidated basis with Cypress.

SunPower will continue to be jointly and severally liable for tax liability as governed under federal, state and local law to the extent of its activities as a member of the Cypress consolidated or combined group. Accordingly, although the tax sharing agreement allocates tax liabilities between Cypress and all its consolidated subsidiaries, for any period in which SunPower is included in Cypress' consolidated group, SunPower could be liable in the event that any federal tax liability was incurred, but not discharged, by any other member of the group.

If Cypress distributes our class B common stock to Cypress stockholders in a transaction intended to qualify as a tax-free distribution under Section 355 of the Code, Cypress intends to obtain an opinion of counsel and/or a ruling from the Internal Revenue Service to the effect that such distribution qualifies under Section 355 of the Code. Despite such an opinion or ruling, however, the distribution may nonetheless be taxable to Cypress under Section 355(e) of the Code if 50% or more of our voting power or economic value is acquired as part of a plan or series of related transactions that includes the distribution of our stock. The proposed tax sharing agreement will include our obligation to indemnify Cypress for any liability incurred as a result of issuances or dispositions of our stock after the distribution, other than liability attributable to certain dispositions of our stock by Cypress,

that cause Cypress' distribution of shares of our stock to its stockholders to be taxable to Cypress under Section 355(e) of the Code. Our ability to use our equity to obtain additional financing or to engage in acquisition transactions for a period of time after a distribution will be restricted if we can only sell or issue a limited amount of our stock before triggering our obligation to indemnify Cypress for taxes it incurs under Section 355(e) of the Code.

The tax sharing agreement further will provide for cooperation with respect to tax matters, the exchange of information and the retention of records which may affect the income tax liability of either party. Disputes arising between Cypress and SunPower relating to matters covered by the tax sharing agreement are subject to resolution through specific dispute resolution provisions contained in the agreement.

Master Transition Services Agreement

We also plan to enter into a master transition services agreement which would govern the provisions of services to us by Cypress, such as:

- corporate accounting, tax and treasury;
- human resources;
- legal matters;
- wafer services;
- training programs; and
- information technology.

For a period of three years following this offering, Cypress would provide these services and we would pay Cypress for services provided to us, either at cost (which, for purposes of the master transition services agreement, will mean an appropriate allocation of Cypress' full salary and benefits costs associated with such individuals as well as any out-of-pocket expenses that Cypress incurs in connection with providing us with those services) or at the rate charged to other Cypress departments or subsidiaries using these services. Cypress will have the ability to terminate all or a portion of the master transition services agreement upon prior notice to us. In addition, Cypress will incur no liability in connection with the provision of these services.

Lease Agreement

We have reached an agreement in principle with Cypress that relates to our manufacturing facility in the Philippines. The Philippine lease is planned to have a term of 15 years. Under the lease, we would pay Cypress at a rate equal to the cost to Cypress for that facility until the earlier of 10 years or such time as Cypress ceases to own at least 50% of the total combined voting power of all classes of our capital stock. Thereafter, we will pay market rent for the facility. We will have the right to purchase the facility from Cypress at any time at Cypress' original purchase price plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to us.

Wafer Supply Agreement

We intend to enter into an agreement with Cypress to continue to make infrared and imaging detector products for us on the same terms and at the same prices at which Cypress fabs make wafers for other internal divisions or subsidiaries of Cypress for the next three years or until such time as Cypress ceases to own at least 50% of the total combined voting power of all classes of our capital stock, after which a new supply agreement would be negotiated. In addition, we may use other Cypress fabs for development work on a cost per activity basis.

Investor Rights Agreement

We intend to enter into an investor rights agreement with Cypress providing for specified (1) registration and other rights relating to its shares of our common stock, (2) information and inspection rights, (3) coordination of auditing practices and (4) approval rights with respect to certain transactions.

Registration Rights

Demand Registration. In any 12-month period, Cypress would be entitled to request up to two registrations under the Securities Act of all or any portion of our shares covered by the investor rights agreement, and we will be obligated to register such shares as requested by Cypress. However, Cypress may not request such a registration prior to 270 days following the effective date of this registration statement or if Cypress proposes to dispose of shares that may be immediately registered on a Form S-3.

In addition, we would have the right, which may be exercised once in any 12-month period, to postpone the filing or effectiveness of any such registration for up to 75 days if we determine in the good faith judgment of our board of directors that such registration would not be in our best interests.

Piggy-Back Registration Rights. If we at any time intend to file on our behalf or on behalf of any of our other security holders a registration statement in connection with a public offering of any of our securities on a form and in a manner that would permit the registration for offer and sale of our common stock held by Cypress, Cypress would have the right to include its shares of our common stock in that offering.

Registration on Form S-3. After this offering, we would be required to use our best efforts to qualify to register the sale of our securities on Form S-3. After we are so qualified, Cypress may request registration under the Securities Act of all or any portion of our shares covered by the investor rights agreement on Form S-3, and we will be obligated to register such shares as requested by Cypress.

In addition, we would have the right, which may be exercised once in any 12-month period, to postpone the filing or effectiveness of any such registration for up to 75 days if we determine in the good faith judgment of our board of directors that such registration would not be in our best interests.

Registration Expenses. We would be responsible for the registration expenses in connection with the performance of our obligations under the registration rights provisions in the investor rights agreement except if the registration request is withdrawn at the request of Cypress. Cypress would be responsible for all of the fees and expenses of counsel to Cypress, except for one special counsel, any applicable underwriting discounts or commissions, and any registration or filing fees with respect to shares of our common stock being sold by Cypress.

Indemnification. The investor rights agreement would contain indemnification and contribution provisions by us for the benefit of Cypress and its affiliates and representatives and, in limited situations, by Cypress for the benefit of us and any underwriters with respect to information furnished to us by Cypress and stated by Cypress to be specifically included in any registration statement, prospectus or related document.

Duration. The registration rights under the investor rights agreement would remain in effect with respect to any shares of our class A common stock held by Cypress until such date when all shares by Cypress may immediately be sold under Rule 144 during any ninety day period.

Information and Inspection Rights

We would provide to Cypress information relating to governmental, legal, accounting, contractual and other similar requirements of our ongoing businesses. In furtherance of this:

- We would maintain adequate systems and controls, including internal accounting and disclosure controls, to allow Cypress to prepare its own financial statements and satisfy its own reporting obligations, including any certification, disclosure and reporting requirements under the federal securities laws, the Sarbanes-Oxley Act of 2002, any applicable self-regulatory organizations' rules and any other applicable laws, rules and regulations.
- We would retain records beneficial to Cypress for a specified period of time, in accordance with the policies set forth in Cypress' official records retention policy in effect as of the separation. If we decide to destroy certain records relating to governmental, legal, accounting, contractual and other similar requirements of our ongoing businesses, we would provide Cypress with an opportunity to retrieve all

relevant information from the records, unless the records are destroyed in accordance with adopted record retention policies.

- We would use best efforts to provide Cypress with access to directors, officers, employees, other personnel and agents who may be used as witnesses, and books, records and other documents that may reasonably be required, in connection with legal, administrative or other proceedings.

Coordination of Auditing Practices

So long as Cypress is required to consolidate us for accounting purposes or use the equity method of accounting for us, we would:

- use our best efforts to use the same auditor as Cypress and to coordinate with Cypress on the timing of the audit and reporting process;
- use our best efforts to cause our independent registered public accounting firm to date their opinion on our audited annual financial statements on the same date that Cypress' auditors date their opinion on Cypress' financial statements, and to complete their quarterly review procedures on our quarterly financial statements on the same date that Cypress' auditors complete their quarterly review procedures on Cypress' quarterly financial statements;
- provide to Cypress all relevant information that it needs to prepare its annual and quarterly financial statements; and
- instruct our auditors to make available to Cypress' auditors both the personnel who performed or will perform our annual audits and quarterly reviews and also the work papers related to our annual audits and quarterly reviews;
- grant to Cypress internal auditors access to our records; and
- notify Cypress of any significant change in our internal controls or information systems or any change in accounting principles.

Protective Provisions

Until Cypress, its successors in interest and its subsidiaries collectively own less than 40% of all shares of our common stock then outstanding, or is otherwise not consolidating us for accounting purposes, we will not take the following actions without the written consent or affirmative vote of 75% of the authorized members of our board of directors unless such vote requirement is waived by Cypress:

- approve our annual operating plan or any material changes to our annual operating plan which would be reasonably expected to result in our issuance of securities that represent 1% or more of our outstanding shares of capital stock or in a negative impact to our cash flows of greater than $2.0 million;
- undertake any transactions which would involve our issuing 4% or more of our outstanding capital stock or our making payments equal to or in excess of the fair market value of 4% of the then outstanding shares of capital stock of the Company unless provided for in our annual operating plan; or
- enter into an exclusive license, subject to certain exceptions, or sell, convey or otherwise transfer our intellectual property unless provided for in our annual operating plan.

Other Related Party Transactions

Indemnification Agreements

We intend to enter into indemnification agreements with each of our current directors and executive officers. These agreements will require us to indemnify these individuals to the fullest extent permitted under Delaware law against liabilities that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified. We also intend to enter into indemnification agreements with our future directors and executive officers.

Consulting Arrangements

We had a consulting arrangement with Don Mika, who is also a director. Mr. Mika's consulting arrangement is described in "Management—Director Compensation."

Restated Certificate of Incorporation

Our restated certificate of incorporation contains provisions which grant Cypress certain control rights. See "Description of Capital Stock."

Indebtedness of Management

No members of our management have any outstanding indebtedness to us or to any of our subsidiaries. Under Cypress' 2001 employee stock purchase assistance plan, Emmanuel T. Hernandez, our Chief Financial Officer, received a loan while he was employed by Cypress to purchase shares of Cypress' common stock. The loan is evidenced by a full recourse promissory note executed by Mr. Hernandez in favor of Cypress which note is secured by a pledge of the shares of Cypress' common stock purchased with the proceeds of the loan. As of June 30, 2005, this loan had an outstanding balance of approximately $1.4 million, secured by 55,000 shares of Cypress common stock, valued at approximately $812,500 based on the closing price of Cypress stock on August 19, 2005. This loan is callable by Cypress and currently bears interest at a rate of no less than 4.0% per annum compounded annually.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information as of July 31, 2005 about the number of shares of our common stock beneficially owned and the percentage of common stock beneficially owned before and after the completion of this offering by:

- each person known to us to be the beneficial owner of more than 5% of our common stock;
- each of our named executive officers;
- each of our directors; and
- all of our directors and executive officers as a group.

Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o SunPower Corporation, 430 Indio Way, Sunnyvale, California 94085.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 94,977 shares of class A common stock and 104,066,575 shares of class B common stock outstanding on July 31, 2005, which assumes the exchange of all outstanding shares of class A common stock held by Cypress into 59,151,515 shares of class B common stock and conversion of all outstanding shares of series one convertible preferred stock into 12,915,060 shares of class B common stock and all outstanding shares of series two convertible preferred stock into 32,000,000 shares of class B common stock. For purposes of the table below, we have assumed that shares of class A common stock and 104,066,575 shares of class B common stock will be outstanding upon completion of this offering. In calculating the number of shares of common stock beneficially owned by a person or group and the percentage ownership of that person or group, we deemed outstanding shares of class A common stock issuable upon conversion of class B common stock and subject to options held by that person or group that are currently exercisable or exercisable within 60 days after July 31, 2005. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or group. The following table assumes no exercise by the underwriters of their over-allotment option to purchase shares of common stock from us or any selling stockholder.

	Class B Common Stock			
	Shares Beneficially Owned Prior to Offering		Shares Beneficially Owned After Offering	
Beneficial Owner	Number	Percent	Number	Percent
5% Stockholders				
Cypress Semiconductor Corporation[1]	104,066,575	100%	104,066,575	100%

	Class A Common Stock			
	Shares Beneficially Owned Prior to Offering		Shares Beneficially Owned After Offering	
Beneficial Owner	Number	Percent	Number	Percent
5% Stockholders				
Cypress Semiconductor Corporation[1]	104,066,575	99.9%		%
Named Executive Officers and Directors				
Thomas H. Werner[2]	730,150	88.5		
Dr. Richard Swanson[3]	249,900	72.5		
T.J. Rodgers[4]	104,066,575	99.9		
Don Mika[5]	10,000	9.5		
Christopher A. Seams	—	*		
All directors and executive officers as a group (7 people)[6]	105,445,997	99.9%		

* Represents beneficial ownership of less than 1%.

(1) The principal business address of Cypress is 198 Champion Court, San Jose, California 95134. Includes 104,066,575 shares of class B common stock which are immediately convertible into class A common stock.

(2) Represents 730,150 shares subject to options which are exercisable within 60 days of July 31, 2005.

(3) Represents 249,900 shares subject to options which are exercisable within 60 days of July 31, 2005.

(4) Represents 104,066,575 shares of class B common stock held by Cypress. Mr. Rodgers is the chief executive officer of Cypress.

(5) Represents 10,000 shares subject to options which are exercisable within 60 days of July 31, 2005.

(6) Represents 1,379,422 shares subject to options which are exercisable within 60 days of July 31, 2005 and 104,066,575 shares of class B common stock held by Cypress. Mr. Rodgers is the chief executive officer of Cypress.

Following this offering, we will have two classes of authorized common stock: class A common stock and class B common stock. Only Cypress, its successors in interest and its subsidiaries may hold shares of class B common stock unless Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution. The rights of the holders of class A and class B common stock are substantially similar, except with respect to voting, conversion and other protective provisions as set forth in this prospectus. The holders of class B common stock shall be entitled to eight votes per share and the holders of class A common stock shall be entitled to one vote per share. Each share of class B common stock is convertible into one share of class A common stock at any time until Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution. In the event that Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress has not effected a tax-free distribution of our class B common stock prior to such time, each outstanding share of class B common stock will automatically convert into one share of class A common stock.

Selling Stockholders

If the underwriters exercise their over-allotment option in full, each of the following selling stockholders has agreed to sell the number of shares of class A common stock indicated as being subject to the over-allotment option. If this over-allotment option is not exercised, the following selling stockholders will not offer or sell any shares of class A common stock in this offering. The following table lists the selling stockholders and (a) the number of shares of our class A common stock currently beneficially owned by each such stockholder, (b) the number of such shares being offered for resale by this prospectus by each such stockholder, and (c) assuming each such stockholder sells all of the shares offered for resale, the number and percentage of shares such stockholder will own after the completion of this offering. Except as otherwise indicated in the footnotes to the table, no selling stockholder has had any position, office or other material relationship, other than as a stockholder, with us or any of our predecessors or affiliates during the past three years. We have determined beneficial ownership in accordance with the rules of the SEC.

Name of Stockholder	# of Shares of Class A Common Stock Beneficially Owned	# of Shares of Class A Common Stock to be Offered Subject to Over-Allotment Option	# of Shares of Class A Common Stock Beneficially Owned Assuming Exercise in Full of Over-Allotment Option	% of Shares of Class A Common Stock Beneficially Owned Assuming Exercise in Full of Over-Allotment Option
				%

DESCRIPTION OF CAPITAL STOCK

General

Upon completion of this offering and after the filing of our restated certificate of incorporation, our authorized capital stock will consist of

- 435,000,000 shares of class A common stock, par value $0.001 per share,
- 315,000,000 shares of class B common stock, par value $0.001 per share, and
- 20,084,980 shares of undesignated preferred stock, par value $0.001 per share.

Of the authorized shares of class A common stock, shares are being offered hereby, or shares if the underwriters exercise their over-allotment option in full. The material terms and provisions of our certificate of incorporation affecting the rights of the class A common stock and the class B common stock are described below. The following description of our capital stock is qualified in its entirety by reference to the forms of our restated certificate of incorporation and amended and restated bylaws filed with this registration statement, of which this prospectus is a part. The following information assumes our reincorporation in Delaware, the filing of our restated certificate of incorporation and the conversion of all outstanding shares of our preferred stock into shares of common stock upon completion of this offering.

As of July 31, 2005, there were 94,977 shares of class A common stock common stock outstanding held by 12 stockholders of record and 104,066,575 shares of class B common stock held by Cypress, assuming the exchange of all outstanding shares of class A common stock held by Cypress into 59,151,515 shares of class B common stock and the automatic conversion of all outstanding shares of our series one convertible preferred stock into 12,915,060 shares of class B common stock and all outstanding shares of our series two convertible preferred stock into 32,000,000 shares of class B common stock. Cypress is currently the only stockholder that holds our class B common stock. All the shares of our common stock that will be outstanding after this offering, including the shares of class A common stock to be sold in this offering, will be fully paid and nonassessable.

Common Stock

Dividend Rights

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our class A common stock and class B common stock are entitled to receive dividends out of assets legally available at the times and in the amounts that our board of directors may determine from time to time.

Conversion Rights

If Cypress decides to make a distribution of its shares of our class B common stock to its stockholders in connection with a tax-free distribution, shares of our class B common stock will automatically convert into shares of class A common stock if such shares of class B common stock are transferred to a person other than Cypress, a successor in interest to Cypress or one of Cypress' subsidiaries. Cypress, its successors in interest and its subsidiaries may also convert shares of our class B common stock held by them into class A common stock at any time. All conversions of our class B common stock to class A common stock will be effected on a one-for-one basis. Shares of our class A common stock are not convertible into shares of our class B common stock.

At such time, if at all, as Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and if Cypress has not effected a tax-free distribution of our class B common stock to its stockholders prior to such time, each outstanding share of our class B common stock will automatically convert into one share of our class A common stock on a one-for-one basis.

Voting Rights

The holders of class A common stock and class B common stock have substantially similar rights except that holders of class A common stock are entitled to one vote per share while holders of class B common stock are entitled to eight votes per share on all matters to be voted on by our stockholders. Holders of shares of our capital stock are not entitled to cumulate their votes in the election of directors to our board of directors. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast at a meeting by all shares of class A common stock and class B common stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preferred stock. Except as otherwise provided by law, and subject to any voting rights granted to holders of any outstanding preferred stock, amendments to our certificate of incorporation generally must be approved by at least a majority of the combined voting power of all our class A common stock and class B common stock, voting together as a single class. However, holders of our class A common stock shall not be eligible to vote on any alteration or change in the powers, preferences, or special rights of the class B common stock that would not adversely affect the rights of the class A common stock and vice versa.

No Preemptive or Redemption Rights

Our class A common stock and class B common stock are not entitled to preemptive rights and are not subject to redemption or sinking fund provisions.

Right to Receive Liquidation Distributions

Upon our liquidation, dissolution or winding-up, the holders of our class A common stock and class B common stock are entitled to share equally in all of our assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock.

Preferred Stock

Upon completion of this offering, each currently outstanding share of series one and series two convertible preferred stock will convert into one share of class B common stock. Upon completion of this offering, our board of directors will be authorized, subject to limitations imposed by the Delaware General Corporation Law, to issue up to a total of 20,084,980 shares of preferred stock in one or more series, without stockholder approval. Our board of directors will be authorized to establish from time to time the number of shares to be included in each series, and to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions, subject to the provisions of any series of preferred stock. Our board of directors will also be able to increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

The board of directors may authorize the issuance of preferred stock with voting or conversion rights that could harm the voting power or other rights of the holders of our class A common stock and class B common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of us and might harm the market price of our class A common stock and the voting and other rights of the holders of common stock. We have no current plans to issue any shares of preferred stock.

Warrants

As of July 31, 2005, there were no outstanding warrants to purchase shares of our capital stock.

Registration Rights

We intend to enter into an investor rights agreement with Cypress providing for specified registration and other rights relating to its shares of our common stock.

Demand Registration. In any 12-month period, Cypress would be entitled to request up to two registrations under the Securities Act of all or any portion of our shares covered by the investor rights agreement,

and we will be obligated to register such shares as requested by Cypress. However, Cypress may not request such a registration prior to 270 days following the effective date of the registration statement related to this offering. In addition, we would have the right, which may be exercised once in any 12-month period, to postpone the filing or effectiveness of any such registration for up to 75 days if we determine in the good faith judgment of our board of directors that such registration would not be in our best interests.

Piggy-Back Registration Rights. If we at any time intend to file on our behalf or on behalf of any of our other security holders a registration statement in connection with a public offering of any of our securities on a form and in a manner that would permit the registration for offer and sale of our common stock held by Cypress, Cypress would have the right to include its shares of our common stock in that offering.

Registration on Form S-3. After this offering, we would be required to use our best efforts to qualify to register the sale of our securities on Form S-3. After we are so qualified, Cypress may request registration under the Securities Act of all or any portion of our shares covered by the investor rights agreement on Form S-3, and we will be obligated to register such shares as requested by Cypress. In addition, we would have the right, which may be exercised once in any 12-month period, to postpone the filing or effectiveness of any such registration for up to 75 days if we determine in the good faith judgment of our board of directors that such registration would not be in our best interests.

Registration Expenses. We would be responsible for the registration expenses in connection with the performance of our obligations under the registration rights provisions in the investor rights agreement except if the registration request is withdrawn at the request of Cypress. Cypress would be responsible for all of the fees and expenses of counsel to Cypress, except for one special counsel, any applicable underwriting discounts or
commissions, and any registration or filing fees with respect to shares of our common stock being sold by Cypress.

Indemnification. The investor rights agreement would contain indemnification and contribution provisions by us for the benefit of Cypress and its affiliates and representatives and, in limited situations, by Cypress for the benefit of us and any underwriters with respect to information furnished to us by Cypress and stated by Cypress to be specifically included in any registration statement, prospectus or related document.

Duration. The registration rights under the investor rights agreement would remain in effect with respect to any shares of our Class A common stock held by Cypress until such date when all shares by Cypress may immediately be sold under Rule 144 during any 90-day period.

Provisions of Our Restated Certificate of Incorporation Relating to the Super-Majority Voting of the Board of Directors

Unless and until Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes, the affirmative vote of at least 75% of the then-authorized number of members of our board of directors will be required to: (a) adopt, amend or repeal our amended and restated bylaws or restated certificate of incorporation; (b) appoint or remove our chief executive officer; (c) designate, appoint or allow for the nomination or recommendation for election by our stockholders of an individual to our board of directors; (d) change the size of our board of directors to be other than five members; (e) form a committee of our board of directors or establish or change a charter, committee responsibilities or committee membership of any committee of our board of directors; (f) adopt any stockholder rights plan, “poison pill” or other similar arrangement; or (g) approve any transactions that would involve a merger, consolidation, restructuring, sale of substantially all of our assets or any of our subsidiaries or otherwise result in any person or entity obtaining control of us or any of our subsidiaries.

Cypress may at any time in its sole discretion waive this requirement to obtain such a super-majority vote of our board of directors.

Provisions of Our Restated Certificate of Incorporation Governing Corporate Opportunity

Our amended and restated certificate of incorporation provides that directors and officers who are also directors or officers of Cypress have no duty to communicate or present a corporate opportunity to us unless it relates solely to the solar energy business and is not applicable to or reasonably related to any business conducted by Cypress, have the right to deal with such corporate opportunity in their sole discretion and shall not be liable to us or our stockholders for breach of fiduciary duty by reason of the fact that such director or officer pursues or acquires such corporate opportunity for itself or for Cypress.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

The provisions of the Delaware General Corporation Law, our restated certificate of incorporation and our amended and restated bylaws described below may have the effect of delaying, deferring or discouraging another party from acquiring control of us.

Delaware Law

We will be subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, those provisions prohibit a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- the transaction is approved by the board before the date the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or
- on or after the date the business combination is approved by the board and authorized at a meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines “business combination” to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

A Delaware corporation may opt out of this provision either with an express provision in its original certificate of incorporation or in an amendment to its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out, and do not currently intend to opt out, of this provision. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Restated Certificate of Incorporation and Amended and Restated Bylaws

Upon completion of this offering, our restated certificate of incorporation and amended and restated bylaws will provide that:

- until such time as Cypress, its successors in interest and its subsidiaries collectively own shares of our common stock equal to less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes, our board of directors will not be classified; thereafter, our board of directors will be divided into three classes of directors, with the classes to be as nearly equal in number as possible. Our bylaws contain a process for determining to which class our incumbent directors will belong in the event that our board of directors becomes classified.
- until such time as Cypress, its successors in interest and its subsidiaries collectively own shares of our common stock equal to less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes, stockholders who own a majority of the shares of all classes of our common stock then outstanding and entitled to be voted at a stockholders' meeting may act without a meeting by written consent; thereafter, no action can be taken by stockholders except at an annual or special meeting of the stockholders called in accordance with our bylaws, and stockholders may not act by written consent;
- until such time as Cypress, its successors in interest and its subsidiaries collectively own shares of our common stock equal to less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes, stockholders who own a majority of the shares of all classes of our common stock then outstanding and entitled to be voted at a stockholders' meeting may call a special meeting of the stockholders; thereafter, stockholders may not call special meetings of the stockholders;
- our board of directors will be authorized to issue up to 20,084,980 shares of preferred stock without stockholder approval;
- the chairman of our board of directors, our chief executive officer or any two members of our board of directors may call a special meeting of the board of directors upon one day's prior notice to each director;
- until such time as Cypress, its successors in interest and its subsidiaries collectively own shares of our common stock equal to less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes, at the request of Cypress, a representative specifically designated by Cypress shall serve on each committee of our board of directors unless otherwise prohibited by the rules of The Nasdaq Stock Market or applicable law; and
- we will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

Limitation of Liability and Indemnification Matters

We have adopted provisions in our restated certificate of incorporation that limit the liability of our directors for monetary damages for breach of their fiduciary duty as directors, except for liability that cannot be eliminated under the Delaware General Corporation Law. Delaware law provides that directors of a company will not be personally liable for monetary damages for breach of their fiduciary duty as directors, except for liabilities:

- for any breach of their duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- for unlawful payment of dividend or unlawful stock repurchase or redemption, as provided under Section 174 of the Delaware General Corporation Law; or
- for any transaction from which the director derived an improper personal benefit.

Our restated certificate of incorporation and amended and restated bylaws also provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law. Our bylaws also permit us to purchase insurance on behalf of any officer, director, employee or other agent for any liability arising out of his actions as our officer, director, employee or agent, regardless of whether the bylaws would permit indemnification. We have entered into separate indemnification agreements with our directors and executive officers that could require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. We believe that the limitation of liability provision in our restated certificate of incorporation and the indemnification agreements will facilitate our ability to continue to attract and retain qualified individuals to serve as directors and officers. In addition, we intend to obtain insurance that insures our directors and officers against certain losses and which insures us against our obligations to indemnify the directors and officers.

Nasdaq National Market Listing Symbol

We have applied to list our class A common stock on The Nasdaq National Market under the symbol “SPWR.”

Transfer Agent and Registrar

The transfer agent and registrar for our class A common stock is ComputerShare Investor Services.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our class A common stock. We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Sales of our class A common stock in the public market after the offering, or the perception that those sales may occur, could cause the prevailing market price to decrease or to be lower than it might be in the absence of those sales or perceptions.

Sale of Unregistered Shares

Upon completion of this offering, we will have shares of class A common stock outstanding and Cypress will own 104,066,575 outstanding shares of our class B common stock, representing approximately % of the outstanding shares of our common stock. The shares of class A common stock being sold in this offering will be freely tradable, other than by any of our "affiliates" as defined in Rule 144(a) under the Securities Act, without restriction or registration under the Securities Act. All remaining shares were issued and sold by us in private transactions and are eligible for public sale if registered under the Securities Act or sold in accordance with Rule 144 or Rule 701 under the Securities Act. These remaining shares are "restricted securities" within the meaning of Rule 144 under the Securities Act.

As a result of lock-up arrangements with us or the underwriters as described below and subject to the provisions of Rules 144 and 701 described below and assuming no exercise by the underwriters of their over-allotment option to purchase additional shares of common stock from the selling stockholders, these securities will be available for sale in the public market as follows:

- shares will be eligible for sale immediately upon the expiration of the 180-day lock-up agreement; and
- shares will be eligible for sale 270 days after the date of this prospectus.

Lock-up Agreements

Cypress has agreed not to sell or distribute any of its shares of our common stock without the consent of Credit Suisse First Boston LLC and Lehman Brothers Inc. until 270 days after the date of this prospectus as described under "Underwriting." Subject to applicable U.S. federal and state securities laws, Cypress may sell or distribute to its stockholders any or all of the shares of our common stock that it owns, which may or may not include the sale of a controlling interest in us, either (1) after the expiration of this 270-day period or (2) before the expiration of this 270-day period with the consent of Credit Suisse First Boston LLC and Lehman Brothers Inc. Cypress has advised us that it does not have any current plans to distribute to its stockholders the shares of our class B common stock that it beneficially owns, although it may elect to effect such a distribution in the future.

Our directors and officers and all of our existing stockholders and optionholders have agreed with us or with Credit Suisse First Boston LLC and Lehman Brothers Inc. that, subject to certain exceptions, they will not sell any common stock owned by them for a period of 180 days after the date of this prospectus except that Cypress has agreed to a 270-day lock-up period as described above, in each case as described under "Underwriting." Any or all of these shares may be released prior to expiration of the lock-up period at the discretion of Credit Suisse First Boston LLC and Lehman Brothers Inc. without prior notice. To the extent shares are released before the expiration of the lock-up period and these shares are sold into the market, the market price of our class A common stock could decline.

In addition, Credit Suisse First Boston LLC and Lehman Brothers Inc. have agreed to permit any person who entered into a lock-up agreement with the underwriters to enter into at any time during the lock-up period a Rule 10b5-1 trading plan with respect to their SunPower securities, provided, however, that no such person shall be permitted to sell or trade any such securities during the lock-up period whether pursuant to the Rule 10b5-1 trading plan or otherwise.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year from the later of the date those shares of common stock were acquired from us or one of our affiliates would be entitled to sell within any three month period a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock, or approximately shares immediately after this offering, assuming no exercise of the underwriters' over-allotment option; or
- the average weekly trading volume of the class A common stock during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales under Rule 144 are subject to requirements relating to manner of sale, notice and availability of current public information about us. However, to the extent these shares remain subject to the lock-up arrangements described above, they would only become eligible for sale when the lock-up period expires.

Rule 144(k)

A person, or persons whose shares are aggregated, who is not deemed to have been our affiliate at any time during the 90 days immediately preceding the sale, and who beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner who is not an affiliate, unless subject to the contractual lock-up arrangements described above, may sell restricted securities after this offering under Rule 144(k) without complying with the volume limitations, manner of sale provisions, public information or notice requirements of Rule 144.

Rule 701

Subject to various limitations on the aggregate offering price of a transaction and other conditions, Rule 701 may be relied upon with respect to the resale of securities originally purchased from us by our employees, directors, officers, consultants or advisers prior to the closing of this offering, pursuant to written compensatory benefit plans or written contracts relating to the compensation of such persons. Securities issued in reliance on Rule 701 are deemed to be restricted securities and, beginning 90 days after the date of this prospectus, unless subject to the contractual lock-up arrangements described above, may be sold by persons other than affiliates subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with the minimum holding period requirements.

Stock Options

Immediately after this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering shares of class A common stock under outstanding options under our 1988 Incentive Stock Plan and 1996 Stock Plan and shares reserved for future issuance under our 2005 stock incentive plan. This registration statement will automatically become effective upon filing. Shares registered under this registration statement will be available for sale in the open market, subject to the lock-up arrangements described above, although sales of shares held by our affiliates will be limited by Rule 144 volume limitations. Based on the number of shares subject to outstanding options under our 1988 Incentive Stock Plan and 1996 Stock Plan as of July 31, 2005 and the number of shares reserved for issuance under our 2005 stock incentive plan, this registration statement would cover approximately shares.

Registration Rights

In addition, after this offering, Cypress will be entitled to rights to cause us to register the sale of shares common stock under the Securities Act. See "Description of Capital Stock—Registration Rights."

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON-UNITED STATES STOCKHOLDERS

This is a general summary of material U.S. federal income and estate tax considerations with respect to your acquisition, ownership and disposition of our class A common stock if you are a beneficial owner of class A common stock other than:

- a citizen or resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in, or under the laws of, the United States or any political subdivision of the United States;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust; or a trust that existed on August 20, 1996, was treated as a U.S. person on August 19, 1996, and elected to be treated as a U.S. person.

If a partnership holds our class A common stock, the U.S. federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our class A common stock, you should consult your tax advisor regarding the U.S. federal income tax consequences to you of the acquisition, ownership, and disposition of our class A common stock.

This summary does not address all of the U.S. federal income and estate tax considerations that may be relevant to you in light of your particular circumstances or if you are a beneficial owner subject to special treatment under U.S. income tax laws, including a former U.S. citizen or resident.

This summary does not discuss any aspect of state, local or non-U.S. taxation. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended, Treasury regulations, judicial opinions, published positions of the U.S. Internal Revenue Service, or the IRS, and other applicable authorities, all of which are subject to change, possibly with retroactive effect. This summary is not intended, and should not be construed, as tax advice.

WE URGE PROSPECTIVE NON-U.S. INVESTORS TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX CONSIDERATIONS WITH RESPECT TO ACQUIRING, HOLDING AND DISPOSING OF SHARES OF OUR CLASS A COMMON STOCK.

Dividends

In general, any distributions we make to you with respect to your shares of our class A common stock that constitute dividends for U.S. federal income tax purposes will be subject to U.S. withholding tax at a rate of 30% of the gross amount, unless you are eligible for a reduced rate of withholding tax under an applicable income tax treaty and you provide proper certification of your eligibility for such reduced rate (usually on an IRS Form W-8BEN). A distribution will constitute a dividend for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits as determined under the Internal Revenue Code of 1986, as amended. Any distribution not constituting a dividend will be treated first as reducing your basis in your shares of our class A common stock and, to the extent it exceeds your basis, as gain from the disposition of your shares of our class A common stock.

Dividends we pay to you that are effectively connected with your conduct of a trade or business within the United States and, if you are entitled to benefits under an applicable income tax treaty, attributable to a U.S. permanent establishment maintained by you, generally will not be subject to U.S. withholding tax if you comply with applicable certification and disclosure requirements. Instead, such dividends generally will be subject to U.S. federal income tax, net of certain deductions, at the same rates applicable to U.S. persons. If you are a corporation, effectively connected income may also be subject to a “branch profits tax” at a rate of 30%, or

a lower rate specified by an applicable income tax treaty. Dividends that are effectively connected with your conduct of a trade or business but that under an applicable income tax treaty are not attributable to a U.S. permanent establishment maintained by you may be eligible for a reduced rate of U.S. withholding tax under such treaty, provided you comply with certification and disclosure requirements necessary to obtain treaty benefits.

If you are eligible for a reduced rate of U.S. withholding tax under an applicable income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Sale or Other Disposition of Our Class A Common Stock

You generally will not be subject to U.S. federal income tax on any gain realized upon the sale or other disposition of your shares of our class A common stock unless:

- the gain is effectively connected with your conduct of a trade or business within the United States and, if you are entitled to benefits under an applicable income tax treaty, is attributable to a U.S. permanent establishment maintained by you;
- you are an individual, you hold your shares of our class A common stock as capital assets, you are present in the United States for 183 days or more in the taxable year of disposition and you meet other conditions, and you are not eligible for relief under an applicable income tax treaty; or
- our class A common stock constitutes a U.S. real property interest within the meaning of the Foreign Investment in Real Property Tax Act, which is referred to as FIRPTA. Our class A common stock will constitute a U.S. real property interest for FIRPTA if we are or have been a "U.S. real property holding corporation" for U.S. federal income tax purposes. We do not believe that we are, have been or will become a "U.S. real property holding corporation" for U.S. federal income tax purposes. Even if we were a U.S. real property holding corporation for FIRPTA, gain arising from a disposition of our class A common stock still would not be subject to FIRPTA tax if our class A common stock is considered regularly traded under applicable Treasury regulations on an established securities market, such as The Nasdaq National Market, and you do not own, actually or constructively, more than 5% of the total fair market value of our class A common stock at any time during the five year period ending on the date of disposition.

Gain that is effectively connected with your conduct of a trade or business within the United States generally will be subject to U.S. federal income tax, net of certain deductions, at the same rates applicable to U.S. persons. If you are a corporation, the branch profits tax, as discussed above, also may apply to such effectively connected gain. If the gain from the sale or disposition of your shares is effectively connected with your conduct of a trade or business in the United States but under an applicable income tax treaty is not attributable to a permanent establishment maintained by you in the United States, your gain may be exempt from U.S. tax under the treaty. If you are described in the second bullet point above, you generally will be subject to U.S. tax at a rate of 30% on the gain realized, although the gain may be offset by some U.S. source capital losses realized during the same taxable year.

Information Reporting and Backup Withholding

We must report annually to the IRS and to you the amount of dividends or other distributions we pay to you and the tax withheld from those payments. These reporting requirements apply regardless of whether withholding was reduced or eliminated by any applicable income tax treaty. Copies of the information returns reporting those dividends and amounts withheld may also be made available to the tax authorities in the country in which you reside pursuant to the provisions of an applicable income tax treaty or exchange of information treaty.

The United States imposes a backup withholding tax on dividends and certain other types of payments to U.S. persons currently at a rate of 28% of the gross amount. You will not be subject to backup withholding tax on dividends you receive on your shares of our class A common stock if you provide proper certification (usually on an IRS Form W-8BEN) of your status as a non-U.S. person or if you are a corporation or one of several types of entities and organizations that qualify for an exemption.

Information reporting and backup withholding generally are not required with respect to the amount of any proceeds from the sale of your shares of our class A common stock outside the United States through a foreign office of a foreign broker that does not have certain specified connections to the United States. However, if you sell your shares of our class A common stock through a U.S. broker or the U.S. office of a foreign broker, the broker will be required to report to the IRS the amount of proceeds paid to you and also backup withhold at a rate of 28% of that amount unless you provide appropriate certification (usually on an IRS Form W-8BEN) to the broker of your status as a non-U.S. person or you are a corporation or one of several types of entities and organizations that qualify for exemption. If the appropriate certification is not provided, the amount of proceeds paid to you will be subject to information reporting, and may be subject to backup withholding, if you sell your shares of our class A common stock outside the United States through the non-U.S. office of a U.S. broker or a foreign broker deriving more than a specified percentage of its income from U.S. sources or having certain other connections to the United States.

Any amounts withheld with respect to your shares of our class A common stock under the backup withholding rules will be refunded to you or credited against your U.S. federal income tax liability, if any, by the IRS if the required information is furnished in a timely manner.

Estate Tax

Shares of our class A common stock owned or treated as owned by an individual who is not a citizen or resident, as specifically defined for U.S. federal estate tax purposes, of the United States at the time of his or her death will be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement to be filed as an exhibit relating to this prospectus, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC and Lehman Brothers Inc. are acting as joint book-running managers and representatives, and the underwriters have severally agreed to purchase the following respective numbers of shares of class A common stock:

Underwriter	Number of Shares
Credit Suisse First Boston LLC	
Lehman Brothers Inc.	
SG Cowen & Co., LLC.	
First Albany Capital Inc.	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of class A common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We and certain of our selling stockholders have granted to the underwriters a 30-day over-allotment option to purchase on a pro rata basis up to an aggregate of additional shares from us and the selling stockholders at the initial public offering price less the underwriting discounts and commissions. The over-allotment option may be exercised if the underwriters sell more than shares in connection with this offering.

The underwriters propose to offer the shares of class A common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the initial public offering the representatives may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we will pay:

	Per Share		Total	
	Without Over-Allotment Option	With Over-Allotment Option	Without Over-Allotment Option	With Over-Allotment Option
Underwriting Discounts and Commissions paid by us	$	$	$	$
Expenses payable by us	$	$	$	$
Underwriting Discounts and Commissions, paid by selling stockholders	$	$	$	$

The representatives have informed us that the underwriters do not expect sales to accounts over which the underwriters have discretionary authority to exceed 5% of the shares of class A common stock being offered.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 relating to, any shares of our common stock regardless of class (the “Securities”) or securities convertible into or exchangeable or exercisable for any shares of Securities, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston LLC and Lehman Brothers Inc. for a period of 180 days after the date of this prospectus, except issuances pursuant to the exercise of employee stock options outstanding on the date hereof or pursuant to our dividend reinvestment plan.

Our officers, directors and all of our existing stockholders have agreed that, subject to certain exceptions, they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of Securities or securities convertible into or exchangeable or exercisable for any shares of Securities, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Securities, whether any of these transactions are to be settled by delivery of the Securities or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC and Lehman Brothers Inc. for a period of 180 days after the date of this prospectus except issuances pursuant to the exercise of employee stock options outstanding on the date hereof or pursuant to our dividend reinvestment plan, except that Cypress has agreed to the foregoing restrictions for a period of 270 days after the date of this prospectus. We have agreed to stop our optionholders from engaging in similar transactions for a period of 180 days after the date of this prospectus.

We and, if the underwriters' over-allotment option is exercised, the selling stockholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

We have applied to list the shares of class A common stock on The Nasdaq National Market under the symbol "SPWR."

Prior to this offering, there has been no public market for our class A common stock. The initial public offering price will be determined by negotiation between us and the representatives and such offering price will not necessarily reflect the market price of the class A common stock following the offering. The principal factors that will be considered in determining the public offering price will include:

- the information in the prospectus and otherwise available to the underwriters;
- market conditions for initial public offerings;
- the history and the prospects for the industry in which we will compete;
- our past and present operations;
- our past and present earnings and current financial position;
- the ability of our management;
- the prospects for our future earnings;
- the present state of our development and our current financial condition;
- the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; and
- the general condition of the securities markets at the time of this offering.

We cannot assure you that prices at which our shares sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market for the class A common stock will develop and continue after the offering.

In connection with the listing of the class A common stock on The Nasdaq National Market, the underwriters will undertake to sell round lots of 100 shares or more to a minimum of beneficial owners.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934 (the "Exchange Act").

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may

be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of the class A common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the class A common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our class A common stock or preventing or retarding a decline in the market price of the class A common stock. As a result the price of our class A common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

If you purchase shares of common stock offered in this prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of our class A common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the class A common stock are made. Any resale of the class A common stock in Canada must be made under applicable securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the class A common stock.

Representations of Purchasers

By purchasing the class A common stock in Canada and accepting a purchase confirmation a purchaser is representing to us, and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the class A common stock without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action—Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares, for rescission against us in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the shares were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, will have no liability. In the case of an action for damages, we and the selling stockholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of the securities should consult their own legal and tax advisors with respect to the tax consequences of an investment in the securities in their particular circumstances and about the eligibility of the securities for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

Selected legal matters with respect to the validity of the class A common stock offered by this prospectus will be passed upon for us by Pillsbury Winthrop Shaw Pittman LLP, Palo Alto, California. Selected legal matters with respect to the validity of the class A common stock offered by this prospectus will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, Palo Alto, California.

EXPERTS

The financial statements as of December 31, 2003 and 2004 and June 30, 2005 and for the years ended December 31, 2002 and 2003, the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004 and the six months ended June 30, 2005 included in this Prospectus have been so included in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement under the Securities Act with respect to the class A common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Please refer to the registration statement, exhibits and schedules for further information with respect to the class A common stock offered by this prospectus. Statements contained in this prospectus regarding the contents of any contract or other document are only summaries. With respect to any contract or document filed as an exhibit to the registration statement, you should refer to the exhibit for a copy of the contract or document, and each statement in this prospectus regarding that contract or document is qualified by reference to the exhibit. A copy of the registration statement and its exhibits and schedules may be inspected without charge at the SEC's public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's website at www.sec.gov.

Upon completion of this offering, we will be subject to the information reporting requirements of the Securities Exchange Act of 1934, and we intend to file reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference room and the website of the SEC referred to above.

SUNPOWER CORPORATION
INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm on Successor Company

To the Board of Directors and Shareholders of
SunPower Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholder's equity (deficit), of comprehensive loss and of cash flows present fairly, in all material respects, the financial position of SunPower Corporation and subsidiaries (Successor Company) at December 31, 2004 and June 30, 2005 and the results of their operations and their cash flows for the period from November 9, 2004 to December 31, 2004 and the six month period ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 25, 2005

Report of Independent Registered Public Accounting Firm on Predecessor Company

To the Board of Directors and Shareholders of
SunPower Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholder's deficit, of comprehensive loss and of cash flows present fairly, in all material respects, the financial position of SunPower Corporation and subsidiaries (Predecessor Company) at December 31, 2003 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003 and for the period from January 1, 2004 to November 8, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 25, 2005

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

	Predecessor Company	Successor Company		
	December 31, 2003	December 31, 2004	June 30, 2005	June 30, 2005 Pro Forma Shareholders' Equity (unaudited)
Assets				
Current assets:				
Cash and cash equivalents	$ 5,588	$ 3,776	$ 8,091	
Accounts receivable, net	950	4,558	15,280	
Inventories	1,268	4,416	7,261	
Prepaid expenses and other current assets	312	3,021	1,178	
Total current assets	8,118	15,771	31,810	
Property and equipment, net	22,773	47,549	67,132	
Goodwill	—	2,883	2,883	
Intangible assets, net	—	23,443	21,091	
Total assets	$ 30,891	$ 89,646	$122,916	
Liabilities, redeemable convertible preferred stock and shareholders' equity (deficit)				
Current liabilities:				
Accounts payable	$ 3,189	$ 11,580	$ 10,504	
Accounts payable to Cypress	4,985	11,109	15,432	
Advance from Cypress	—	9,000	—	
Accrued liabilities	2,443	7,372	3,111	
Current portion of customer advances	—	—	4,830	
Current portion of notes payable to Cypress	24,125	31,024	171	
Related party convertible notes payable	1,950	—	—	
Total current liabilities	36,692	70,085	34,048	
Notes payable to Cypress, net of current portion	5,312	21,673	21,553	
Customer advance, net of current portion	—	—	10,706	
Total liabilities	42,004	91,758	66,307	
Commitments and Contingencies (Note 6)				
Redeemable convertible preferred stock, no par value;				
Authorized shares—33,650,000 at December 31, 2003 and 66,000,000 at December 31, 2004 and June 30, 2005				
Issued and outstanding—14,308,099, 12,915,060 and 44,915,060 shares at December 31, 2003, 2004 and June 30, 2005, respectively				
Liquidation preference of $9,821 at December 31, 2003, $8,865 at December 31, 2004, and $24,865 at June 30, 2005	9,366	8,552	24,552	
Shareholders' Equity (Deficit):				
Common stock: no par value;				
Authorized shares—45,350,000 at December 31, 2003 and 149,000,000 at December 31, 2004 and June 30, 2005				
Issued and outstanding—8,345,853, 3,803 and 35,233,535 shares at December 31, 2003, 2004 and June 30, 2005, respectively	7,461	1	58,018	
Additional paid-in capital related to warrants and merger transaction	1,433	34,366	30,094	
Accumulated other comprehensive income (loss)	—	(2,341)	208	
Accumulated deficit	(29,373)	(42,690)	(56,263)	
Total shareholders' equity (deficit)	(20,479)	(10,664)	32,057	$
Total liabilities, redeemable convertible preferred stock and shareholders' equity (deficit)	$ 30,891	$ 89,646	$122,916	

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

SunPower Corporation

Consolidated Statements of Operations

(in thousands, except per share data)

	Predecessor Company				Successor Company	
	Years Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
Revenue:						
Product revenue	$ 3,722	$ 4,245	$ 3,644	$ 6,708	$ 3,881	$ 27,342
Other	333	760	—	122	174	150
Total revenue	4,055	5,005	3,644	6,830	4,055	27,492
Costs and expenses:						
Cost of revenue	3,198	4,987	3,459	9,397	5,410	28,318
Research and development	2,532	9,816	7,425	12,095	1,124	2,935
Sales, general and administrative	1,396	3,238	2,420	4,706	850	3,918
Stock-based compensation*	—	—	55	131	650	184
Amortization of intangible assets	—	—	—	—	573	2,353
Total costs and expenses	7,126	18,041	13,359	26,329	8,607	37,708
Operating loss	(3,071)	(13,036)	(9,715)	(19,499)	(4,552)	(10,216)
Interest expense	(493)	(1,509)	(1,417)	(3,759)	(1,072)	(3,184)
Other income (expense), net	31	—	3	(44)	15	(173)
Net loss	$(3,533)	$(14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Net loss per share:						
Basic and diluted	$ (0.55)	$ (1.75)	$ (1.33)	$ (2.75)	$ (5.31)	$ (0.74)
Pro forma basic and diluted				(1.02)	(0.40)	(0.24)
Weighted-average shares:						
Basic and diluted	6,376	8,313	8,397	8,461	1,056	18,307
Pro forma basic and diluted				22,769	14,135	57,305
* Stock-based compensation consists of:						
Cost of revenue			$ 55	$ 101	$ 96	$ 92
Research and development			—	23	293	69
Sales, general and administrative			—	7	261	23
			$ 55	$ 131	$ 650	$ 184

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

SunPower Corporation

Consolidated Statements of Shareholders' Equity (Deficit)

(in thousands)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital Related to Warrants and Merger Transaction	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Value	Shares	Value				
Balance at December 31, 2001 (Predecessor Company)	**4,530**	**$ 7,365**	**3,034**	**$ 79**	**$ 382**	**$ —**	**$ (11,295)**	**$ (3,469)**
Issuance of common stock upon conversion of preferred stock	(4,530)	(7,365)	5,215	7,365	—	—	—	—
Issuance of common stock upon exercise of options	—	—	27	7	—	—	—	7
Issuance of common stock upon exercise of warrants	—	—	29	2	—	—	—	2
Issuance of series one preferred stock, net of issuance costs	12,131	8,096	—	—	—	—	—	—
Issuance of series one preferred stock due to conversion of bridge notes and accrued interest	2,177	1,270	—	—	—	—	—	—
Warrants issued to Cypress in connection with promissory note and line of credit agreement	—	—	—	—	971	—	—	971
Net loss	—	—	—	—	—	—	(3,533)	(3,533)
Balances at December 31, 2002 (Predecessor Company)	**14,308**	**9,366**	**8,305**	**7,453**	**1,353**	**—**	**(14,828)**	**(6,022)**
Warrants issued in connection with promissory note	—	—	—	—	80	—	—	80
Issuance of common stock upon exercise of options	—	—	41	8	—	—	—	8
Net loss	—	—	—	—	—	—	(14,545)	(14,545)
Balances at December 31, 2003 (Predecessor Company)	**14,308**	**9,366**	**8,346**	**7,461**	**1,433**	**—**	**(29,373)**	**(20,479)**
Issuance of common stock upon exercise of options	—	—	555	149	—	—	—	149
Warrants issued to Cypress in connection with promissory note	—	—	—	—	11,023	—	—	11,023
Issuance of common stock upon exercise of warrants	—	—	1,263	75	—	—	—	75
Issuance of common stock upon conversion of convertible notes payable and related interest	—	—	3,342	1,950	—	—	—	1,950
Issuance of common stock upon conversion of redeemable convertible preferred stock	(1,393)	(814)	1,393	814	—	—	—	814
Merger with Cypress	—	—	(14,899)	(10,449)	10,449	—	—	—
Amortization of deferred compensation					131			131
Net loss	—	—	—	—	—	—	(23,302)	(23,302)
Balances at November 8, 2004 (Predecessor Company)	**12,915**	**8,552**	**—**	**—**	**23,036**	**—**	**(52,675)**	**(29,639)**
Push down effect of merger with Cypress (see Note 2)	—	—	—	—	11,305	—	15,594	26,899
Balance at November 9, 2004 (Successor Company)	**12,915**	**8,552**	**—**	**—**	**34,341**	**—**	**(37,081)**	**(2,740)**
Issuance of common stock upon exercise of options	—	—	4	1	—	—	—	1
Amortization of deferred compensation	—	—	—	—	25	—	—	25
Net unrealized loss on derivatives, net of tax	—	—	—	—	—	(2,341)	—	(2,341)
Net loss	—	—	—	—	—	—	(5,609)	(5,609)
Balances at December 31, 2004 (Successor Company)	**12,915**	**8,552**	**4**	**1**	**34,366**	**(2,341)**	**(42,690)**	**(10,664)**
Issuance of common stock upon exercise of options	—	—	78	17	—	—	—	17
Issuance of common stock to Cypress upon conversion of debt			23,282	38,416	—	—	—	38,416
Issuance of common stock to Cypress	—	—	11,870	19,584	—	—	—	19,584
Issuance of series two preferred stock to Cypress	14,000	7,000	—	—	—	—	—	—
Issuance of series two preferred stock upon conversion of debt	18,000	9,000	—	—	—	—	—	—
Warrants issued in connection with promissory notes	—	—	—	—	(4,456)	—	—	(4,456)
Amortization of deferred compensation	—	—	—	—	184	—	—	184
Net unrealized gain on derivatives, net of tax	—	—	—	—	—	2,549	—	2,549
Net loss	—	—	—	—	—	—	(13,573)	(13,573)
Balances at June 30, 2005 (Successor Company)	**44,915**	**$24,552**	**35,234**	**$ 58,018**	**$ 30,094**	**$ 208**	**$ (56,263)**	**$ 32,057**

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

SunPower Corporation

Consolidated Statements of Comprehensive Loss

(in thousands)

	Predecessor Company				Successor Company	
	Years Ended December 31,		Six Months Ended June 30, 2004	January 1, 2003 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
Net loss	$ (3,533)	$ (14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Other comprehensive loss, net of tax:						
Unrealized gain (loss) on derivatives	—	—	—	—	(2,341)	2,549
Total comprehensive loss	$ (3,533)	$ (14,545)	$ (11,129)	$ (23,302)	$ (7,950)	$ (11,024)

SunPower Corporation

Consolidated Statements of Cash Flows

(in thousands)

Revision based on 8/23 F/S at 00:30	Predecessor Company				Successor Company	
	Year Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
			(unaudited)			
Cash flows from operating activities						
Net loss	$ (3,533)	$ (14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities						
Interest expense related to warrants granted and accrued interest on notes payable	512	1,360	1,417	3,759	1,072	3,184
Depreciation and amortization	150	1,319	877	1,590	1,129	5,567
Changes in foreign currency derivatives	—	—	(30)	—	(2,341)	2,549
Impairment charge related to equipment	—	—		—	—	461
Stock based compensation	—	—	55	131	650	184
Advances from customers	—	—	—	—	—	15,536
Changes in current assets and liabilities						
Accounts receivable	98	(669)	(626)	(1,302)	(2,971)	(10,722)
Inventory	(565)	(29)	(899)	(1,823)	(1,325)	(2,845)
Prepaid expenses and other current assets	(574)	427	(50)	(375)	(2,334)	1,843
Accounts payable	1,037	(1,424)	(1,135)	3,300	5,092	(1,077)
Accounts payable to Cypress	293	4,692	2,981	4,277	1,847	4,323
Accrued liabilities	(123)	74	1,059	(276)	5,190	(4,209)
Net cash (used in) provided by operating activities	(2,705)	(8,795)	(7,480)	(14,021)	400	1,221
Cash flows from investing activities						
Purchase of property and equipment	(5,390)	(14,790)	(11,929)	(17,231)	(9,691)	(23,259)
Release (payment) of deposits	19	(12)	—	—	—	—
Net cash used in investing activities	(5,371)	(14,802)	(11,929)	(17,231)	(9,691)	(23,259)
Cash flows from financing activities						
Proceeds from issuance of related party notes payable	844	—	—	—	—	—
Proceeds from debt obligations to Cypress	0	29,191	14,869	30,100	9,000	—
Proceeds from issuance of preferred stock, net of issuance costs	8,095	—	—	—	—	7,000
Proceeds from issuance of common stock	—	—	—	—	—	19,584
Repayment of factoring arrangement	(266)	—	—	—	—	—
Principal payments on capital lease obligations	(299)	—	—	—	—	—
Repayment of notes payable to Cypress	(32)	(359)	(297)	(495)	(99)	(248)
Proceeds from exercise of warrants	2	—	—	75	—	—
Proceeds from exercise of common stock options	7	8	22	149	1	17
Net cash provided by (used in) financing activities	8,351	28,840	14,594	29,829	8,902	26,353
Net increase (decrease) in cash and cash equivalents	275	5,243	(4,815)	(1,423)	(389)	4,315
Cash and cash equivalents at beginning of period	70	345	5,588	5,588	4,165	3,776
Cash and cash equivalents at end of period	$ 345	$ 5,588	$ 773	$ 4,165	$ 3,776	$ 8,091
Non-cash transactions						
Issuance of warrants in connection with promissory notes	$ 971	$ 80	$ —	$ —	$ —	$ —
Conversion of Series A-E Preferred Stock to common	7,365	—	—	—	—	—
Conversion of bridge loan to long term notes	1,950	—	—	—	—	—
Conversion of notes to preferred stock	1,270	—	—	—	—	9,000
Conversion of notes to common stock	—	—	—	1,950	—	38,416
Conversion of preferred stock to common	—	—	—	814	—	—
Cancellation of common stock	—	—	—	10,449	—	—
Supplemental cash flow information						
Cash paid for interest	44	149	—	—	—	—
Cash paid for income taxes	—	—	—	—	—	—

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

SunPower Corporation

Notes to Consolidated Financial Statements

Note 1. The Company and Summary of Significant Accounting Policies

The Company and Basis of Presentation

SunPower Corporation (the "Company" or "SunPower"), a majority owned subsidiary of Cypress Semiconductor Corporation ("Cypress"), was incorporated in the State of California on April 24, 1985. The Company was basically dormant until October 1988, when it was organized as a business venture to commercialize high-efficiency photovoltaic, or solar, cell technology. The Company designs, manufactures and sells solar electric power products based on its proprietary processes and technologies. In addition, the Company offers imaging detectors and infrared detectors based on its solar power technology.

Through funding provided by Cypress (see Note 2 and 9), the Company completed the construction of its wafer fabrication facility in the Philippines in late 2004, at which point it began volume commercial production. Currently the Company operates a 25 megawatts capacity per year solar cell production line and has ordered equipment for a second and third 25 megawatts capacity per year production lines.

In May 2002, Cypress acquired a 57% equity interest in the Company and entered into several equity and debt financing transactions with the Company. On November 9, 2004, the Company became a wholly owned subsidiary of Cypress as a result of a merger transaction, whereby all of the minority shareholders exchanged their shares of SunPower common stock for Cypress common stock (see Note 2). Outstanding options to purchase SunPower common stock held by the Company's officers, employees and other service providers and warrants held by Cypress to purchase SunPower common stock remained outstanding as of the closing of the merger. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting. As a result, the balance sheet, statements of operations, cash flows and shareholders' deficit for the periods up to November 8, 2004 are presented as the "Predecessor Company," and all subsequent financial statements are presented as the "Successor Company."

The consolidated financial statements of the Company reflect the historical results of operations, cash flows, assets and liabilities of the Company and all of its subsidiaries, including the goodwill, intangible assets and related deferred tax effect arising from the November 9, 2004 merger with Cypress.

The financial statements include allocations of certain Cypress expenses, including centralized legal, tax, treasury, information technology, employee benefits and other Cypress corporate services and infrastructure costs. The expense allocations have been determined based on a method that Cypress and the Company considered to be reasonable reflections of the utilization of services provided or the benefit received by the Company. The financial information included herein may not be indicative of the consolidated financial position, operating results, changes in equity and cash flows of the Company in the future, or what they would have been had the Company been a separate stand-alone entity during the periods presented. See Note 3 for additional information on the relationship with Cypress.

The Company is subject to a number of business risks, including, but not limited to, an industry-wide shortage of polysilicon, an essential raw material in the production of solar cells; limited suppliers for capital equipment; concentration of revenue among few customers; competition from other companies with a longer operating history and significantly greater financial resources; the dependency on third-party subcontractors; the ability to obtain adequate financing to fund operating activities; dependence on key employees; and the ability to attract and retain additional qualified personnel.

Liquidity

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the financial statements, the Company had, as of June 30, 2005, a net accumulated deficit of $56.3 million, a working capital deficiency of $2.3 million, and a history of operating

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

losses. The Company's continuation as a going concern is dependent upon continued financial support from Cypress, the Company's ability to generate sufficient cash flows to meet its obligations on a timely basis, the Company's ability to obtain additional financing or refinancing as may be required, or the Company's ability to attain profitability.

Since May 2002, Cypress has been the primary source of funding for the Company's investing and financing activities. Aside from the existing $30.0 million Line of Credit Agreement with Cypress, Cypress has no obligation to provide additional funding to the Company. Management believes that current cash and cash equivalents, along with the combination of cash received from Cypress and the conversion of debt and payables to Cypress into equity on July 18, 2005 totaling $60.0 million, and the extension of the $30.0 million line of credit agreement which is in place up to the earlier of the Company's initial public offering or December 31, 2006 will be sufficient to enable the Company to meet its working capital and capital expenditure requirements for at least the next 12 months.

Principles of Consolidation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and all of its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

For 2002, the Company's fiscal year ended on December 31. In fiscal 2003, the Company began to report results of operations on the basis of 52 or 53 week periods, ending on the Sunday closest to December 31. Fiscal 2003 ended on December 28, 2003 and included 52 weeks. Combined periods of fiscal 2004 ended on January 2, 2005 and included 53 weeks. The Company's fiscal quarters end 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. For presentation purposes only, the consolidated financial statements and notes refer to the calendar year end and month end of each respective period.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 allowances for doubtful accounts receivable, inventory write-downs, estimates for future cash flows and economic useful lives of property and equipment, asset impairments, certain accrued liabilities and income taxes and tax valuation allowances. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying values for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values due to their short maturities.

Comprehensive Loss

Comprehensive income (loss) is defined as the change in equity during a period from non-owner sources. The Company's comprehensive loss is comprised of net loss and changes in unrealized gains (losses), net of tax, for derivatives such as the outstanding cash flow hedge forward contracts related to forecasted Euro revenue

COMPANY NAME

NOTES TO FINANCIAL CONSOLIDATED STATEMENT—(Continued)

transactions (see Note 7). Comprehensive income (loss) is presented in the Consolidated Statements of Comprehensive Loss.

Cash and Cash Equivalents

Highly liquid investments with original or remaining maturities of ninety days or less at the date of purchase are considered cash equivalents.

Inventories

Inventories are stated at the lower of standard cost or net realizable value. Standard cost approximates actual cost on a first-in, first-out basis. The Company routinely evaluates quantities and values of inventory in light of current market conditions and market trends, and records reserves for quantities in excess of demand and product obsolescence. The evaluation may take into consideration historic usage, expected demand, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer concentrations, product merchantability and other factors. Market conditions are subject to change and actual consumption of our inventory could differ from forecast demand. The Company's products have a long life cycle and obsolescence has not historically been a significant factor in the valuation of inventories. The Company also regularly reviews the cost of inventory against their estimated market value and records a lower of cost or market reserve for inventories that have a cost in excess of estimated market value. Inventory reserves once recorded are not reversed until the inventories have been subsequently disposed of.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed for financial reporting purposes using the straight line method over the estimated useful lives of the assets as presented below. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the remaining term of the lease. Repairs and maintenance costs are expensed as incurred.

	Useful Lives in Years
Manufacturing Equipment	2 to 7
Computer Equipment	2 to 7
Furniture and fixtures	3 to 5
Leasehold improvements	5 to 15

Long-Lived Assets

The Company evaluates its long-lived assets, including property and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable in accordance with Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets and significant negative industry or economic trends. Impairments are recognized based on the difference between the fair value of the asset and its carrying value. Fair value is generally measured based on either quoted market prices, if available, or discounted cash flow analyses.

Goodwill and Intangibles Arising from Cypress' Acquisition of the Company

The Company accounts for goodwill and other intangibles in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Goodwill and intangibles with indefinite lives are not amortized but are tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount

of these assets may not be recoverable. Intangible assets with finite useful lives are amortized using the straight-line method over their useful lives ranging primarily from 2 to 6 years and are reviewed for impairment in accordance with SFAS No. 144.

Product Warranties

The Company warrants or guarantees the performance of its solar panels at certain levels of conversion efficiency for extended periods, often as long as 25 years. It also warrants or guarantees the functionality of solar cells and imaging detectors for at least one year. Therefore, the Company maintains warranty reserves to cover potential liability that could result from these guarantees. The Company's potential liability is generally in the form of product replacement. Warranty reserves are based on the Company's best estimate of such liabilities and are recognized as a cost of revenue. The Company continuously monitors product returns for warranty failures and maintains a reserve for the related warranty expenses based on historical experience of similar products as well as various other assumptions that are considered reasonable under the circumstances. The warranty reserve includes specific accruals for known product issues and an accrual for an estimate of incurred but not reported product issues.

Revenue Recognition

The Company sells its products to system integrators and OEMs and recognizes revenue when persuasive evidence of an arrangement exists, delivery of the product has occurred and title and risk of loss has passed to the customer, the sales price is fixed and determinable, collectibility of the resulting receivable is reasonably assured and the rights and risks of ownership have passed to the customer. There are no significant post-shipment obligations, including installation, training or customer acceptance clauses with any of its customers that could have an impact on revenue recognition. As such, the Company records a trade receivable for the selling price when the above conditions are met, and reduces inventory for the carrying value of goods shipped.

The Company also enters into development agreements with some of its customers. Development revenue is recognized under the proportionate performance method, with the associated costs included in research and development expense. The Company estimates the proportionate performance of its development contracts based on an analysis of progress toward completion.

Translation of Foreign Currencies

The Company uses the U.S. dollar as its functional currency for all foreign subsidiaries. Accordingly, assets and liabilities of these subsidiaries are translated using exchange rates in effect at the end of the period, except for non-monetary assets, such as property, plant and equipment, which are translated using historical exchange rates. Revenues and costs are translated using average exchange rates for the period, except for income items related to non-monetary assets and liabilities, such as depreciation, that are translated using historical exchange rates. As of December 31, 2003, there were no accounts receivables or accounts payables denominated in foreign currencies. As of December 31, 2004 and June 30, 2005, the Company had accounts receivable of Euro 1.9 million and Euro 8.9 million, respectively, which translate into $2.6 million and $10.6 million respectively. The resulting translation gains and losses included in other income (expense) of the above combined with the other hedging activities were not significant to the consolidated statements of operations for the periods presented.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash, cash equivalents and trade accounts receivable. The Company's investment policy requires cash and cash equivalents to be placed with high-credit quality institutions and to limit the amount of credit risk from any one issuer. The Company performs ongoing credit evaluations of its customers' financial condition whenever deemed necessary and generally does not require collateral. The Company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of all accounts receivable, which takes into consideration an analysis of historical bad debts, specific customer creditworthiness and current economic trends. The allowance for doubtful accounts was $57,000, $59,000 and $294,000 as of December 31, 2003 and 2004 and June 30, 2005, respectively. Three customers accounted for 29%, 26% and 11% of accounts receivable as of December 31, 2003. Three customers accounted for 45%, 12% and 11% of accounts receivable as of December 31, 2004, respectively. One customer accounted for 63% of accounts receivable as of June 30, 2005.

Accounting for Stock-Based Compensation

The Company accounts for its stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and related Interpretations and complies with disclosure provisions of SFAS 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of SFAS 123*. In certain instances, the Company reflects stock-based employee compensation cost in net income (loss). If there is any compensation under the rules of APB 25, the expense is amortized using an accelerated method prescribed under the rules of the Financial Accounting Standards Board ("FASB") Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans ("FIN 28"). The following table illustrates the effect on net loss and related per share amounts if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), to all stock based employee awards (in thousands, except per share data).

	Predecessor Company				Successor Company	
	Years Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
Net loss, as reported	$(3,533)	$(14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$(13,573)
Add : Total stock-based employee compensation expense reported in net loss, net of related tax effects	—	—	55	131	650	184
Deduct: Total stock-based employee compensation expense determined under SFAS 123 for all awards, net of related tax effects	(11)	(55)	(206)	(1,187)	(370)	(2,187)
Pro forma net loss	$(3,544)	$(14,600)	$ (11,280)	$ (24,358)	$ (5,329)	$(15,576)
Net loss per share:						
Basic and diluted—as reported	$ (0.55)	$ (1.75)	$ (1.33)	$ (2.75)	$ (5.31)	$ (0.74)
Basic and diluted—pro forma	$ (0.56)	$ (1.76)	$ (1.34)	$ (2.88)	$ (5.05)	$ (0.85)

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

The fair value of each stock option is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
Dividend yield	0%	0%	0%	0%	0%	0%
Risk-free interest rate	3.17% - 3.95%	2.13% - 3.20%	3.08% - 3.58%	3.08% - 3.58%	3.08% - 3.58%	3.5% - 3.63%
Expected life	4.6 years	5 years	4 years	4 years	4 years	4 years
Volatility	85%	78%	81%	81%	81%	74%

No options were granted to employees where the exercise price was less than the deemed fair value of common stock on the date of grant for the years ended December 31, 2002 and 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 and 2005.

Earnings per Share

Basic net income (loss) per share is computed using the weighted-average common shares outstanding. Diluted net income per share is computed using the weighted-average common shares outstanding plus any potentially dilutive securities outstanding during the period using the treasury stock method, except when their effect is anti-dilutive. In computing dilutive net income per share, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Dilutive securities include stock options and warrants.

For the fiscal years ended December 31, 2002 and 2003; the period from January 1, 2004 to November 8, 2004; the period from November 9, 2004 to December 31, 2004; and the six months ended June 30, 2004 (unaudited) and 2005, outstanding convertible preferred stock, stock options to purchase common stock and warrants to purchase preferred and common stock, were excluded from the calculation of diluted net loss per share as the Company was in a net loss position and their inclusion would have been anti-dilutive. The following is a summary of all outstanding anti-dilutive potential common shares (in thousands):

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
Convertible preferred stock	14,308	14,308	14,308	12,915	12,915	44,915
Stock options	1,035	3,491	7,434	7,287	8,570	12,304
Warrants	17,364	17,692	6,835	7,643	7,643	7,643

Shipping and Handling Costs

The Company records costs related to shipping and handling in cost of revenue.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Advertising Expenses

Advertising expenses to date have not been significant.

Research and Development Costs

Research and development costs consist primarily of compensation and related costs for personnel, materials, supplies and equipment depreciation. Pre-production costs, incurred in connection with developing production capabilities at the Company's Philippine solar cell manufacturing facility are included in research and development. All research and development costs are expensed as incurred. In March 2005, the Company entered into a three year cost-sharing research and development project with a government agency to fund up to $3 million, representing half of the project costs, to design the Company's next generation solar panels. Amounts invoiced under this arrangement, which cannot exceed $1 million per year and are based on agreed milestones, are offset to research and development expense upon acceptance from the government agency. In June 2005, the Company invoiced $123,000 for work performed, which was recorded as an offset to research and development expense.

Income Taxes

For financial reporting purposes, income tax expense and deferred income tax balances were calculated as if the Company were a separate entity and had prepared its own separate tax return. Deferred tax assets and liabilities are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company filed separate U.S. federal tax returns up to November 8, 2004. Subsequent to November 8, 2004 the Company has filed U.S. federal consolidated tax returns with Cypress. The computation of any income taxes has been done on a separate return basis for financial reporting purposes. Cypress and the Company are in discussions to enter into a tax sharing agreement providing for each company's obligations concerning various tax liabilities.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 replaces APB No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statement." It requires retrospective application to prior period's financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, under SFAS No. 154, if an entity changes its method of depreciation, amortization, or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No. 154 applies to accounting changes and error corrections made in fiscal years beginning after December 15, 2005 on a prospective basis. The Company does not expect the adoption in the first quarter of fiscal 2006 will have a material impact on its consolidated results of operations and financial condition.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." Interpretation No. 47 clarifies that an entity must record a liability for a "conditional" asset retirement obligation if the fair value of the obligation can be reasonably estimated. Interpretation No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. Interpretation No. 47 is effective no later than the end of the fiscal year ending after December 15, 2005. The Company is currently evaluating the provision and does not expect the adoption in the fourth quarter of fiscal 2005 will have a material impact on its results of operations or financial condition.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 107, which provides guidance on the implementation of Statement of Financial Accounting Standards (SFAS) No. 123 (R), Share-Based Payment (see discussion below). In particular, SAB No. 107 provides key guidance related to valuation methods (including assumptions such as expected volatility and expected term), the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123(R), the modification of employee share options prior to the adoption of SFAS No. 123(R), the classification of compensation expense, capitalization of compensation cost related to share-based payment arrangements, first-time adoption of SFAS No. 123(R) in an interim period, and disclosures in Management's Discussion and Analysis subsequent to the adoption of SFAS No. 123(R). SAB No. 107 became effective on March 29, 2005. It did not have a material impact on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 123(R), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under SFAS No. 123(R), companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share-based compensation arrangements include stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. In April 2005, the SEC postponed the implementation date to the fiscal year beginning after June 15, 2005. The Company will adopt SFAS No. 123(R) in the first quarter of fiscal 2006. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. The Company is currently evaluating which method to adopt. The adoption of SFAS No. 123(R) will have a significant adverse impact on the Company's results of operations, although it will have no impact on its overall financial position. The precise impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) using the modified retrospective application for all prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described under the "Accounting for Stock-Based Compensation" section in Note 1. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized for such excess tax deductions were zero in fiscal 2002, fiscal 2003, the period from January 1, 2004 to November 8, 2004 and the period from November 9, 2004 to December 31, 2004 and zero for the six months ended June 30, 2004 and 2005.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets—an Amendment of APB Opinion No. 29, which eliminates the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 will be effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company is currently evaluating SFAS No. 153 and does not expect the adoption will have a material impact on its results of operations or financial condition.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs—an Amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred in fiscal years beginning after June 15, 2005. The Company is

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

currently evaluating SFAS No. 151 and does not expect the adoption will have a material impact on its results of operations or financial condition.

Unaudited Pro Forma Shareholders' Equity

If the offering contemplated by this prospectus is completed, all of the redeemable convertible preferred stock outstanding will automatically convert into shares of common stock, based on the shares of redeemable convertible preferred stock outstanding at June 30, 2005 and the initial conversion price. Unaudited pro forma stockholders' equity, as adjusted for the assumed conversion of the redeemable convertible preferred stock, is set forth on the consolidated balance sheets.

Unaudited Interim Financial Statements

The consolidated statements of operations and cash flows for the six months ended June 30, 2004 and all related financial data are unaudited. These unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly their financial position and results of operations and cash flows for the six months ended June 30, 2004. The results for the six months ended June 30, 2004 are not necessarily indicative of the results for any interim period or for any year.

Note 2. Cypress Step Acquisition of SunPower

Effective November 9, 2004, SunPower became a wholly owned subsidiary of Cypress when Cypress exchanged Cypress common stock for all outstanding shares of SunPower common stock. Outstanding options to purchase SunPower common stock held by the Company's officers, employees and other service providers and warrants held by Cypress to purchase SunPower common stock remained outstanding as of the closing of the merger. This was accomplished through two equity investments made by Cypress.

- On May 30, 2002, the Company (a) issued 12.1 million shares of series one convertible preferred stock to Cypress in exchange for $8.3 million in cash, and (b) converted approximately $0.5 million of promissory notes and accrued interest due to Cypress in exchange for 0.8 million shares of series one convertible preferred stock. In addition, the Company issued to Cypress a warrant to purchase 16 million shares of series two common stock at $1.00 per share, which warrant expired in January 2004, prior to being exercised by Cypress (see Note 10). As a result of this transaction, Cypress acquired an approximate 57% ownership of the Company's outstanding voting stock. Although Cypress owned a majority of the outstanding voting stock of the Company, the non-Cypress shareholders had 50% of the board seats, which provided such minority shareholders with effective veto (and substantive participatory) rights.
- On November 8, 2004, all of the then outstanding shares of capital stock other than those shares owned by Cypress were retired in exchange for the issuance of Cypress common stock to the former holders of those retired shares in connection with a reverse triangular merger in which a wholly owned subsidiary of Cypress was merged into the Company after which SunPower remained as the surviving corporation and a wholly owned subsidiary of Cypress, with outstanding options to purchase SunPower common stock held by the officers, employees and other service providers and warrants held by Cypress to purchase SunPower common stock remaining outstanding after the closing of the merger. In this merger, 14.9 million shares of common stock of the Company held by the minority shareholders were retired in exchange for the fair value of approximately 2.5 million shares of Cypress common stock, including 235,000 shares of Cypress common stock issued to the CEO of Cypress and Chairman of the Board of SunPower. Cypress considered the acquisition of the minority interest in SunPower as the completion of the acquisition of SunPower's voting securities. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Push down accounting requires an entity to establish a new cost basis of accounting for assets and liabilities based on the amount paid for the stock of SunPower. Cypress' basis in SunPower is reflected in the consolidated financial statements of the Company effective November 9, 2004. This includes (a) Cypress' investment on May 24, 2002 of $8.8 million; (b) the losses of SunPower recorded by Cypress from May 25, 2002 to November 8, 2004 of $37.1 million; and (c) Cypress' investment on November 8, 2004 of $23.2 million to acquire the minority interest of SunPower.

The determination of the fair value of SunPower's net assets as of May 24, 2002 and November 8, 2004 resulted in valuation adjustments (intangible assets and related deferred income taxes) aggregating $3.7 million and $23.2 million, respectively, which were previously reported in the accounts of Cypress as of November 8, 2004. The amounts pushed down to SunPower financial statements at November 9, 2004, derived from the net carrying balance previously reported by Cypress on November 9, 2004 consisted of the following (in thousands):

Purchased Technology	$ 18,139
Patents	3,811
Trademarks and other	2,066
	24,016
Goodwill	2,883
	$ 26,899

The fair value attributed to purchased technology was determined using the income approach method, which was based on a discounted forecast of the estimated net future cash flows to be generated from the technology using discount rates of 20% and 27%. The fair value of purchased technology is being amortized over 3 to 6 years on a straight-line basis.

The fair value of patents was determined using the royalty savings approach method, which calculated the present value of the royalty savings related to the intangible assets using a royalty rate of 4% and a discount rate of 27%. The fair value of patents are being amortized over 6 years on a straight-line basis.

The fair value of trademarks and other was determined using the royalty savings approach method, which calculated the present value of the royalty savings related to the intangible assets using a royalty rate of 0.5% and a discount rate of 27%. The fair value of trademarks is being amortized over 2 to 6 years on a straight-line basis.

The excess over net identifiable assets acquired is Goodwill. Goodwill is not amortized but is tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable (see Note 1).

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

The following presents details of the intangible assets, reflected on the Company's balance sheets (in thousands):

	Gross	Accumulated Amortization	Net
As of June 30, 2005			
Purchased Technology	$18,139	$ (2,222)	$15,917
Patents	3,811	(412)	3,399
Trademarks and other	2,066	(291)	1,775
	$24,016	$ (2,925)	$21,091

	Gross	Accumulated Amortization	Net
As of December 31, 2004			
Purchased Technology	$18,139	$ (445)	$17,694
Patents	3,811	(75)	3,736
Trademarks and other	2,066	(53)	2,013
	$24,016	$ (573)	$23,443

Amortization of all purchased intangible assets was $573,000 and $2.4 million, for the period November 9, 2004 to December 31, 2004 and for the six months ended June 30, 2005, respectively. The estimates for amortization of all intangible assets as of June 30, 2005 is as follows (in thousands):

Fiscal year:

Remainder of 2005	$ 2,440
2006	4,876
2007	4,621
2008	4,043
2009	3,735
2010	1,376
	$ 21,091

Note 3. Transactions with Cypress

Purchases of Imaging and Infrared Detector Products from Cypress

The Company purchases wafers from Cypress at intercompany prices that management believes are no less favorable than an unrelated third party would pay for such products. For each of the fiscal years ended December 31, 2002 and 2003 and the six months ended June 30, 2004 (unaudited), purchases of products from Cypress were not significant. Wafer purchases totaled $256,000, $471,000 and $2.1 million for the period from January 1, 2004 through November 8, 2004, the period from November 9, 2004 through December 31, 2004 and the six months ended June 30, 2005, respectively.

Manufacturing Services in Texas

The Company originally made its imaging and infrared detector and solar power products at its Sunnyvale, California facility. In May 2002, the Company installed certain tenant improvements to build a pilot wafer fabrication line for a newly designed solar cell in a Cypress facility located in Texas. The Company then paid pro rata costs of materials and Cypress personnel to operate the facility which made the Company's pre-commercial

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

production solar cells until the Philippines facility came on line in November 2004. In late 2004, the Company moved its imaging and infrared detector production lines to the Cypress Texas facility and continues to pay the costs of materials and Cypress personnel to operate the facility. The Company has paid the following amounts to Cypress for products produced and manufacturing services performed under this manufacturing service arrangement: $2.5 million, $40,000, $1.5 million and $50,000 for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 (unaudited) and 2005.

Administrative Services Provided by Cypress

Cypress has seconded employees and consultants to the Company for different time periods for which the Company pays their fully-burdened compensation. In addition, Cypress personnel render services to the Company to assist with administrative functions such as centralized legal, tax, treasury, information technology, employee benefits and other Cypress corporate services and infrastructure. Cypress bills the Company for a portion of the Cypress employees' fully-burdened compensation. The amounts that the Company has recorded as general and administrative expenses in the accompanying statements of operations for these services was approximately $0, $1.7 million, $1.3 million, $171,000, $834,000 and $736,000 during the fiscal years ended December 31, 2002 and 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 (unaudited) and 2005, respectively.

Leased Facility Philippines

In 2003, the Company and Cypress reached an understanding that the Company would build out and occupy a building owned by Cypress for its wafer fabrication facility in the Philippines. As of June 30, 2005, the Company has a rental agreement with Cypress for this facility which expires in July 2006. The Company has reached an agreement in principle with Cypress to extend this lease for an additional 15 years, with a right to purchase the facility from Cypress at any time at Cypress' original purchase price plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to the Company. There was no rental expense under this agreement for the fiscal year ended December 31, 2002. Rental expense paid to Cypress for this building was $141,000, $235,000, $40,000, $137,000 and $137,000 during the fiscal years ended December 31, 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 (unaudited) and 2005, respectively.

Note 4. Balance Sheet Components

Inventories consisted of the following (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Raw material	$ 570	$ 3,085	$4,389
Work-in-process	481	894	2,641
Finished goods	217	437	231
	$ 1,268	$ 4,416	$7,261

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Property and equipment consisted of the following (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Manufacturing equipment	$ 6,969	$ 31,441	$35,715
Computer equipment	1,207	1,033	1,109
Furniture and fixtures	114	124	124
Leasehold improvements	3,588	12,991	13,144
Construction-in-process (manufacturing facility in the Phillipines)	13,679	6,242	24,539
	25,557	51,831	74,631
Less: Accumulated depreciation and amortization	(2,784)	(4,282)	(7,499)
	$ 22,773	$ 47,549	$67,132

Total depreciation expense was $150,000, $1,319,000, $1,590,000, $556,000, $877,000, and $3,215,000 for the fiscal years ended December 31, 2002 and 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 (unaudited) and 2005, respectively.

During the first quarter of fiscal 2005, the Company recorded charges to research and development of $461,000 related to the write-down of property and equipment that were removed from operations. These assets consisted primarily of manufacturing and test equipment that was decommissioned in a pilot wafer fab located in Cypress' manufacturing facility in Texas. As management has committed to plans to dispose of these assets by sale, the Company classified the assets as held for sale and recorded the assets at the lower of their carrying amount or fair value less costs to sell. Fair value was determined by estimated market prices provided by a third party. The Company expects to complete the disposal of the restructured assets by the end of fiscal 2005.

Accrued liabilities consisted of the following (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Foreign exchange derivative liability	$ —	$ 3,973	$ 150
Employee compensation and employee benefits	356	673	906
Warranty reserve	—	180	310
Other	2,087	2,546	1,745
	$ 2,443	$ 7,372	$ 3,111

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Note 5. Income Taxes

U.S. and non U.S. components of loss before income taxes consist of the following (in thousands):

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003	(unaudited)			
U.S. loss	$(3,533)	$(12,810)	$ (4,141)	$ (7,351)	$ (2,278)	$ (8,984)
Non U.S. loss	—	(1,735)	(6,988)	(15,951)	(3,331)	(4,589)
Loss before income taxes	$(3,533)	$(14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)

Temporary differences and carryforwards, which give rise to significant portions of deferred tax assets and liabilities, are as follows (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Net operating loss carryforwards	$ 8,619	$ 9,153	$ 11,451
Research and development credit and California manufacturing credit carryforwards	796	2,005	2,005
Reserves and accruals	1,770	1,992	2,070
Capitalized research and development expenses	309	864	814
Total deferred tax asset	11,494	14,014	16,340
Valuation allowance	(11,494)	(5,049)	(8,286)
Total deferred tax asset net of valuation allowance	—	8,965	8,054
Deferred tax liability	—	(8,965)	(8,054)
Net deferred tax assets	$ —	$ —	$ —

The Company filed separate U.S. federal tax returns up to November 8, 2004. Subsequent to November 8, 2004, the Company has filed U.S. federal consolidated tax returns with Cypress. The Company had federal net operating loss carryforwards of approximately $32.0 million as of June 30, 2005, which may be applied to future taxable income until these benefits begin to expire in 2011 through 2025. The Company had California net operating loss carryforwards of approximately $4.0 million as of June 30, 2005, which may be applied to future taxable income until these benefits begin to expire in 2005 through 2013. The Company had research and development credit carryforwards of approximately $1.2 million for federal and approximately $1.2 million for state tax purposes.

Statement of Financial Accounting Standard 109, *Accounting for Income Taxes*, (“SFAS 109”) requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due the Company’s continuing losses and accumulated deficit, the Company has recorded a full valuation allowance on the deferred tax asset.

The Company’s ability to utilize the net operating loss carryforwards is dependent upon the Company being able to generate taxable income in future periods and may be limited due to restrictions imposed on utilization of

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

net operating loss and credit carryforwards under Federal and state laws upon a change in ownership, such as the transaction with Cypress.

The Company is subject to a tax holiday in the Philippines, where it manufactures its products. This tax holiday is scheduled to expire in 2010, unless extended.

Note 6. Commitments and Contingencies

Operating Lease Commitments

The Company leases its Sunnyvale, California facility under a non-cancelable operating lease, which expires on May 31, 2006. The lease also requires the Company to pay property taxes, insurance and certain other costs. Future minimum obligations under all noncancelable operating leases as of June 30, 2005 are as follows (in thousands):

Fiscal Year	
Remainder of 2005	$270
2006	268
Total	$538

Rent expense, including the rent paid to Cypress for the building in the Philippines (see Note 3), was $521,000, $662,000, $681,000, $115,000, $398,000, and $354,000 for the fiscal years ended December 31, 2002 and 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and the six months ended June 30, 2004 (unaudited) and 2005, respectively.

The Company has a royalty bearing license agreement covering certain solar cell technology. The Company is in the process of terminating this agreement because its current products do not use the licensed technology. Royalty expense (included in cost of revenue) was not significant for any of the periods presented.

Purchase Commitments

The Company purchases raw materials for inventory, services 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 upon criteria, as 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 recorded purchase commitments arising from these agreements are firm, noncancelable and unconditional commitments. As of June 30, 2005, the Company estimated its obligations under such agreements to be approximately $23.4 million.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Product Warranties

The following summarized activity within accrued warranty (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Balance at the beginning of the period	$ —	$ —	$ 180
Accruals for warranties issued during the period	—	180	130
Settlements made during the period (in cash or in kind)	—	—	—
Balance at the end of the period	$ —	$ 180	$ 310

Indemnifications

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

Legal Matters

The Company is a party to litigation matters and claims that are normal in the course of its operations. While the Company believes that the ultimate outcome of these matters will not have a material adverse effect on the Company, the outcome of these matters is not determinable and negative outcomes may adversely affect the Company's financial position, liquidity or results of operations.

Note 7. Foreign Currency Derivatives

The Company has non-U.S. subsidiaries that operate and sell the Company's products in various global markets, primarily Europe. As a result, the Company is exposed to risks associated with changes in foreign currency exchange rates. It is the Company's policy to use various hedge instruments to manage the exposures associated with net asset or liability positions of its subsidiaries and forecasted revenues and expenses. The Company does not enter into derivative financial instruments for speculative or trading purposes.

There were no hedging activities for the fiscal years ended December 31, 2002 and 2003. As of December 31, 2004 and June 30, 2005, the Company's hedge instruments consisted entirely of forward contracts. The Company calculates the fair value of its forward contracts based on forward rates from published sources.

Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company accounts for its hedges of forecasted foreign currency revenues as cash flow hedges such that changes in fair value of the effective portion of hedge contracts are recorded in accumulated other comprehensive income (loss)

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

in shareholders' equity (deficit) in the Consolidated Balance Sheets. Amounts deferred in accumulated other comprehensive income (loss) are reclassified into the Consolidated Statement of Operations in the periods in which the hedged exposure impacts earnings. The effective portion of unrealized gains (losses) on cash flow hedges recorded in accumulated other comprehensive income (loss), net of tax, beginning in 2004, was $(876,000), $(1.5) million, $30,000, and $2.5 million for the period from January 1, 2004 to November 8, 2004; the period from November 9, 2004 to December 31, 2004; and the six months ended June 30, 2004 (unaudited) and 2005, respectively. Cash flow hedges are tested for effectiveness each period on a spot to spot basis using dollar-offset method. Both the excluded time value and any ineffectiveness are recorded in other income and (expense), net. The changes in excluded time value, were not material for the period from January 1, 2004 to November 8, 2004; the period from November 9, 2004 to December 31, 2004; and the six months ended June 30, 2004 (unaudited) and 2005, respectively. No ineffectiveness was recorded for the period from January 1, 2004 to November 8, 2004; the period from November 9, 2004 to December 31, 2004; and the six months ended June 30, 2004 and 2005, respectively. As of December 31, 2004 and June 30, 2005, the Company had outstanding cash flow hedge forward contracts with an aggregate notional value of $34 million and $20.6 million respectively, related to forecasted Euro revenue transactions. The maturity dates of these contracts range from March 2005 to February 2006.

The Company began hedging the net balance sheet effect of the Euro denominated asset and liability in 2005. The Company records its hedges of foreign currency denominated monetary assets and liabilities at fair value with the related gains or losses recorded in other income and (expense), net. The gains and losses on these contracts are substantially offset by gains and losses on the underlying balances being hedged. As of June 30, 2005, the Company held forward contracts with an aggregate notional value of $7.6 million to hedge the risks associated with Euro foreign currency denominated assets and liabilities. Aggregate net foreign exchange gains (losses) on these hedging transactions and foreign currency remeasurement gains (losses) of was not material for the six months ended June 30, 2005.

Note 8. Customer Advances

In April 2005, the Company entered into an agreement with one of its customers to supply solar cells. As part of this agreement, the Customer agreed to fund future expansion of its manufacturing facility to support this customers' solar cell product demand. Beginning January 1, 2006, the Company will be obligated to pay interest on any remaining unpaid balance. The Company's repayment of principal on the advances is to be amortized over product deliveries at a specified rate. The Company may repay all or any portion of the unpaid principal and related interest on the advances at any time without penalty through December 31, 2010. As of June 30, 2005, the Company received advances of $14.3 million with the remaining advances to be received through fiscal 2005. Of the $14.3 million received, $3.6 million has been classified in current portion of customer advances and $10.7 million in long term customer advances as of June 30, 2005. As of June 30, 2005, the Company has utilized all funds as advanced by this customer towards expansion of the Company's manufacturing facility.

In June 2005, the Company entered into an agreement with another customer who prepaid $1.2 million towards the purchase of future solar cells. These advances will be reduced as shipments occur in the next twelve months. As of June 30, 2005, no shipments were made to this customer.

From time to time, the Company enters into agreements where customers prepay for future purchases of solar power products. These prepayments will be applied as shipments of product occur.

Note 9. Debt

Related Party Subordinated Convertible Promissory Notes

In connection with the sale of series one preferred stock in May 2002, the convertible promissory notes held by non-Cypress investors were amended into subordinated convertible promissory notes, convertible into

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

common stock. These notes were initially issued to certain investors of the Company. The principal balance of these notes was $1.9 million (along with accrual interest) and was convertible into 3,342,129 shares of common stock. These notes bore interest at a rate of 3.21% annually and accrued interest until either the outstanding principal was paid in full or was converted in full. As a result of the November 9, 2004 merger transaction with Cypress, these notes were converted into 3,342,129 shares of common stock in accordance with the terms of the Second Amended and Restated Articles of Incorporation. Furthermore, as part of the same transaction, in accordance with the terms of the Agreement and Plan of Reorganization entered into by the Company and Cypress; these 3,342,129 common shares were retired.

Borrowings from Cypress

From the period February 2003 through June 30, 2005, the Company borrowed a total of $83 million from Cypress in the form of Promissory Notes, Senior Convertible Promissory Notes, and Promissory Notes Issued under a Line of Credit Agreements. Amounts outstanding are as follows (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Promissory note (February 2003)	$ 2,142	$ 1,683	$ —
Unsecured senior convertible promissory notes, including accrued interest of $19,000 in 2003 and $72,000 in 2004	3,695	3,672	—
Promissory notes (March 2004), including accrued interest of $0 in 2003 and $803,000 in 2004 respectively	—	24,803	—
Promissory notes issued under line of credit, including accrued interest of $575,080 in 2003, $2.5 million in 2004 and $170,000 at June 30, 2005	23,666	31,740	25,170
Discount representing the fair value of warrants issued	(66)	(9,201)	(3,447)
	29,437	52,697	21,723
Less: Current portion	(24,125)	(31,024)	(170)
Long-term debt, net of current portion	$ 5,312	$ 21,673	$21,553

Promissory Note (February 2003)

In February 2003, the Company entered into a $2.5 million promissory note agreement with Cypress. This note bore interest at 7%, and was due in 60 equal monthly payments of $50,000, representing principal and interest, beginning April 2003 and was fully repaid by June 30, 2005. Amounts outstanding at December 31, 2003 and 2004 were $2.1 million and $1.7 million respectively. In connection with the issuance of this note, the Company granted warrants to Cypress to purchase 357,143 shares of its common stock with an exercise price of $0.07 per share (Note 10).

Unsecured Senior Convertible Promissory Notes

In accordance with the Note Purchase and Line of Credit Agreement signed in May 2002, Cypress funded the Company $400,000 per month from April 2003 through December 2003. As of December 31, 2003 and 2004, the Company had borrowed a total of $3.6 million at interest rates between 1.21% and 1.68% based on the date of the note. These notes, which matured on January 31, 2005, accrued interest until the outstanding principal was settled in March 2005. All promissory notes including related interest were repaid in January 2005, and the underlying agreement was terminated.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Promissory Notes (March 2004)

From March 2004 to June 2005, Cypress loaned the Company an aggregate of $36.5 million pursuant to 10 demand promissory notes. The Company repaid $29.0 million of these loans in March 2005 and repaid the remaining $7.5 million of these loans in June 2005. These notes bore interest at 7% and were due on demand. In connection with the issuance of those notes, the Company issued warrants to Cypress to purchase 3,000,001 shares of its common stock with an exercise price of $0.07 per share (see Note 10, which warrants were cancelled in July 2005).

Line of Credit Agreement

The Company entered into an amended $30.0 million Note Purchase and Line of Credit Agreement with Cypress in May 2004. Amounts outstanding under the line of credit agreement require monthly interest payments at an annualized rate of 7%. Principal is due in 60 equal monthly installments beginning June 2007 through May 2012. Amounts outstanding at December 31, 2003, 2004 and June 30, 2005 were $23.7 million, $31.7 million and $25.2 million, respectively. Subsequent to June 30, 2005, all amounts outstanding under the line of credit agreement were settled in full. In addition, Cypress agreed to extend the line of credit agreement until the earlier of the Company's initial public offering or December 31, 2006 (see Note 13). In connection with loans made under the line of credit agreement, the Company issued warrants to Cypress to purchase 4,285,715 shares of common with an exercise price of $0.07 per share (see Note 10).

Total interest expense related to all borrowings from Cypress (including interest expense attributed to the fair value of the warrants that were issued to Cypress in connection with these loans and amortized using the effective interest method) totaled $1.5 million, $ 3.8 million, $1.0 million, $1.4 million, and $3.2 million, for the fiscal year ended December 31, 2003; the period from January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and six months ended June 30, 2004 (unaudited) and 2005, respectively.

Subsequently, all outstanding debt related to Cypress as of June 30, 2005, was converted to shares of class A common stock (see Note 13).

Note 10. Redeemable Convertible Preferred Stock and Shareholders' Equity (Deficit)

At June 30, 2005, the Company is authorized to issue 149,000,000 shares of no par value common stock and 66,000,000 shares of no par value preferred stock.

Redeemable Convertible Preferred Stock.

At June 30, 2005, the Company's redeemable convertible preferred stock consists of two series designated as series one and series two preferred stock. At December 31, 2002 and 2003, Cypress and the chief executive officer of Cypress were the Company's majority preferred shareholders, owning a majority of the series one preferred stock outstanding. At November 8, 2004, December 31, 2004 and June 30, 2005, Cypress was the Company's sole preferred shareholder, owning 100% of the series one and two preferred stock outstanding.

At December 31, 2001, the Company had outstanding shares of series A, series B1, series C, series D and series E preferred stock. In May 2002, the shareholders, each as a separate class voted to convert all 4,530,084 of these preferred shares into 5,215,451 shares of common stock. Additionally, the Company amended its Articles of Incorporation to eliminate all previous series of preferred stock and created two new series of preferred stock, series one which consists of 17,650,000 designated shares and series two which consists of 16,000,000 designated shares. The Company then issued 12,130,868 shares of series one preferred stock at $0.6864 per share for $8.3 million in cash. Furthermore, Cypress, Cypress' chief executive officer and other bridge note holders converted approximately $1.3 million of bridge notes and accrued interest into 2,177,231 shares of series one preferred stock, representing a

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

price per share of $0.5834 per share, or 85% of the face value of series one preferred stock in accordance with the convertible promissory note agreement.

In conjunction with the November 8, 2004 merger, the Company issued 32 million shares of series two convertible preferred stock in exchange for $16 million. Of the $16 million, $9 million was received as an advance from Cypress in December 2004 and $7 million in January 2005.

Convertible preferred stock consisted of the following as of December 31, 2003 and 2004 and June 30, 2005 (in thousands except share data):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Series One			
Authorized—17,650,000 shares at December 31, 2003, 14,297,593 shares at December 31, 2004 and June 30, 2005			
Outstanding—14,308,099 shares at December 31, 2003 and 12,915,060 shares at December 31, 2004 and June 30, 2005			
Liquidation preference of $9,821 at December 31, 2003 and $8,865 at December 31, 2004 and June 30, 2005	$ 9,366	$ 8,552	$ 8,552
Series Two			
Authorized—16,000,000 shares at December 31, 2003 and 32,000,000 shares at December 31, 2004 and June 30, 2005			
Outstanding—None at December 31, 2003 and 2004, 32,000,000 shares at June 30, 2005			
Liquidation preference of $16,000 at June 30, 2005	—	—	16,000
	$ 9,366	$ 8,552	$24,552

The rights, preferences, and privileges of the holders of series one and two preferred stock are as follows:

Dividends—Preferred Stock

When and if declared by the Board of Directors, the holders of the preferred shares are entitled to receive noncumulative annual dividends in the amount of eight percent (8%) of the initial sales price of $0.6864 and $0.50 for series one and series two preferred stock, respectively. If dividends actually declared are inadequate to satisfy the full dividend preferences of the series one and two preferred stock, then the entire amount declared shall be paid to the holders of such preferred stock so that they receive the same percentage of their dividend preference.

Liquidation Preferences—Preferred Stock

In the event of any liquidation, dissolution, or winding up of the Company, the holders of preferred shares shall be entitled to be paid in accordance with the following liquidation order:

$0.6864 per share for series one preferred shares and $0.50 per share for series two preferred stock, subject to adjustment plus all declared but unpaid preferred dividends (the “Liquidation Amount”).

If the Company’s assets are insufficient to pay the distribution, then the assets and the funds of the Company will be distributed ratably amount the holders of preferred stock in proportion to the amount of such stock owned by each such holder. Any amounts available for distribution in excess of the Liquidation Amount will be distributed to the holders of common stock and preferred stock, on an as-if-converted basis, pro-rata based on the number of shares held.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Conversion—Preferred Stock

Each share of series one and series two preferred stock is convertible, at the option of the holder, into the number of fully paid and nonassessable shares of common stock as determined by dividing the preferred stock original issue price by the conversion price in effect at the time of conversion. The initial conversion prices of series one and series two preferred stock are $0.6864 and $0.50, respectively, and are subject to adjustment in accordance with anti-dilution provisions contained in the Company's Articles of Incorporation, as amended and restated.

After November 9, 2004, the series one preferred stock becomes convertible into class A common stock and the series two preferred stock becomes convertible into class C common stock.

The preferred stock will be automatically converted into common stock upon the closing of the Company's sale of common stock pursuant to a registration statement under the Securities Act of 1933, as amended, in which the aggregate net proceeds are equal to at least $20.0 million and in which the price per share of common stock is at least $2.07 (adjusted to reflect subsequent stock dividends, stock splits or recapitalization).

Voting Rights—Preferred Stock

The holders of series one and series two preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which their preferred shares are convertible.

Common Stock

Until November 8, 2004, there was only one class of common stock. After the merger on November 9, 2004, three classes of common stock were authorized for issuance, classes A, B and C common stock.

The outstanding options and warrants became exercisable for the class A common stock, and the series one preferred stock became convertible into class A common stock while series two preferred stock is convertible into class C common stock.

At December 31, 2002, 2003 and 2004 and on November 8, 2004, immediately prior to the merger, all shares of common stock were held by non-Cypress shareholders. At November 9, 2004, immediately after the merger, no common stock was outstanding while on June 30, 2005, a majority of the common shares were owned by Cypress.

In March 2005, the Company issued to Cypress 35,151,515 shares of its class A common stock at a price of $1.65 per share, the consideration for which was the cancellation by Cypress of $58 million of promissory notes held by Cypress and inter-company indebtedness that the Company owed to Cypress.

Common stock consisted of the following as of December 31, 2003 and 2004 and June 30, 2005 (in thousands except share data).

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Common stock, no par value; 33,650,000 shares authorized at December 31, 2003, none authorized at December 31, 2004, and June 30, 2005; 8,345,853 shares issued and outstanding at December 31, 2003, none at December 31, 2004 and June 30, 2005	$ 7,461	$ —	$ —
Class A common stock, no par value; no shares authorized at December 31, 2003; 85,000,000 shares authorized at December 31, 2004 and June 30, 2005; 3,803 shares issued and outstanding at December 31, 2004, 35,233,535 shares issued and outstanding at June 30, 2005	—	1	58,018
Class B common stock, no par value; no shares authorized at December 31, 2003; 32,000,000 shares authorized at December 31, 2004 and June 30, 2005; no shares issued and outstanding at December 31, 2004 and June 30, 2005	—	—	—
Class C common stock, no par value per share; no shares authorized at December 31, 2003; 32,000,000 shares authorized at December 31, 2004 and June 30 2005; no shares issued and outstanding at December 31, 2004 and June 30, 2005	—	—	—
Total common stock	$ 7,461	$ 1	$ 58,018

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Voting Rights—Common Stock

Class B and class C common stock are identical, except with respect to voting for directors and conversion. The holders of class A and C common stock, voting together shall be entitled to elect that number of directors which is the largest whole number less than or equal to 20% of the authorized number of directors; the holders of class B common stock are entitled to elect the remaining directors. Each share of class C common stock is convertible into one share of class A common stock and each share of class B common stock is convertible into one share of class A common stock at any time, on a one-for-one basis. At any time when Cypress and its affiliates own stock with less than 80% of the votes represented by the outstanding shares of stock, each outstanding share of class C common stock is convertible at the option of the holder into a share of class B common stock on a one-for-one basis.

Dividends—Common

When and if declared by the board of directors, and subject to the preferences applicable to any preferred stock outstanding, the holders of class A, class B and class C common stock are entitled to receive equal per share dividends. In the case of a dividend or distribution payable in the form of common stock, each holder of class A, class B and class C is only entitled to receive the class of stock that they hold.

Preferred and Common Stock Warrants

The following table summarizes information about warrants outstanding:

	Preferred Stock Warrants		Common Stock Warrants	
	Series Two Shares	Exercise Price	Shares	Exercise Price
Outstanding as of December 31, 2001 (Predecessor Company)	—	$ —	1,344,633	$ 0.06
Warrants granted	16,000,000	1.00	—	0.06
Warrants exercised	—	—	(28,622)	0.06
Warrants canceled	—	—	—	
Outstanding as of December 31, 2002 (Predecessor Company)	16,000,000	1.00	1,316,011	0.06
Warrants granted	—	—	357,143	
Warrants exercised	—	—	—	
Warrants canceled	—	—	(28,715)	
Outstanding as of December 31, 2003 (Predecessor Company)	16,000,000	1.00	1,644,439	0.06
Warrants granted	—	—	7,285,716	0.07
Warrants exercised	—	—	(1,263,441)	0.06
Warrants canceled	(16,000,000)	(1.00)	(23,855)	
Outstanding as of November 8, 2004 (Predecessor Company)	—		7,642,859	0.07
Warrants granted	—	—	—	—
Warrants exercised	—	—	—	—
Warrants canceled	—	—	—	—
Outstanding as of December 31, 2004 (Successor Company)	—	—	7,642,859	0.07
Warrants granted	—	—	—	—
Warrants exercised	—	—	—	—
Warrants canceled	—	—	—	—
Outstanding as of June 30, 2005 (Successor Company)	—	—	7,642,859	$ 0.07

From 1998 through 2001, the Company issued 1,392,438 warrants to purchase common stock in connection with the issuance of term loans. The Company valued the warrants using the Black-Scholes option pricing model on the date of grant resulting in a fair value of $169,000 which was fully recognized as interest expense prior to 2002.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

In connection with the issuance of series one preferred stock in May 2002, the Company entered into a Note Purchase and Line of Credit Agreement with Cypress and issued a warrant to Cypress to purchase up to 16.0 million shares of series two preferred stock at an exercise price of $1.00 per share. The fair value of the warrant was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: no dividend yield, risk-free interest rate of 3.17%, volatility of 85% and an expected term of 1.6 years. The Company amortized the fair value of these warrants of $971,000 to interest expense over the original term of the warrant (19 months) in the amount of $357,900 and $613,600 in 2002 and 2003, respectively using the effected interest method . In December 2003, Cypress was granted a five week extension to exercise the warrant, thereby extending the expiration date from December 2003 to January 2004. However, the warrant expired unexercised in January 2004.

In February 2003, in connection with the issuance of the $2.5 million promissory note to Cypress (see Note 8), the Company granted warrants to Cypress to purchase 357,143 shares of its common stock with an exercise price of $0.07 per share and a term of ten years. The fair value of the warrants was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: no dividend yield; risk-free rate of 3.95%; volatility of 85% and expected life of ten years. The Company recorded the fair value of these warrants of $80,000 as a deferred financing asset, the current portion of which is included in prepaid expenses and other current assets. The fair value of the warrant is being amortized to interest expense over the original term of the note (60 months) using the effective interest method. During the year ended December 31, 2003; the period from January 1, 2004 to November 8, 2004; the period November 9, 2004 to December 31, 2004; and the six months ended June 30, 2005 $13,000, $10,000, $3,000 and $6,700 of the amount relating to the warrants was amortized to interest expense, respectively.

In connection with the November 9, 2004 merger transaction with Cypress' holders of warrants, other than Cypress, were required as a condition to the merger to exercise their warrants so that they held common stock immediately prior to the merger. As a result, warrants to purchase 1,263,441 shares of common stock were exercised, prior to the merger.

In May 2004, the Company signed an amended note purchase and line of credit agreement, finalized the terms of a $30 million loan from Cypress. As of June 30, 2005, $25.1 million was outstanding under this facility. In connection with the issuance of this note, the Company granted warrants to purchase 4,285,715 shares of its common stock with an exercise price of $0.07 per share and a term of ten years. The fair value of the warrants was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: no dividend yield; risk free rate of 2.63%; volatility of 81.15% and expected life of 10 years. The Company recorded the fair value of these warrants of $6,620,000 as a discount to the debt. The fair value of the warrant is being amortized to interest expense over the original term of the note using the effective interest method. During the period from January 1, 2004 to November 8, 2004, the period November 9, 2004 to December 31, 2004 and the six months ended June 30, 2005, $939,000, $305,000 and $994,000 of the amount relating to the warrants was amortized to interest expense, respectively.

From March 2004 through April 2005, Cypress loaned the Company $36.5 million for operations and equipment financing. These loans were demand loans bearing interest at 7%. In conjunction with the issuance of these loans, the Company granted warrants to Cypress to purchase 3,000,001 shares of its common stock with an exercise price of $0.07 per share and a term of ten years. The fair value of the warrants was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: no dividend yield; risk free rate of 1.86%-3.10%; volatility of 81.15% and expected life of 10 years. The Company recorded the fair value of these warrants of $4,403,000 as a discount to debt. The fair value of the warrant is being amortized to interest expense over the original term of the note using the effective interest method. During the period from January 1, 2004 to November 8, 2004, the period November 9, 2004 to December 31, 2004 and the six months ended June 30, 2005, $416,000, $215,000 and $297,000 of the amount relating to the warrants was amortized to interest expense.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Stock Option Program

The Board of Directors has approved the 1988 Incentive Stock Plan (the "1988 Plan") and the 1996 Incentive Stock Plan (the "1996 Plan"). Under the terms of the plans, the Company may issue incentive or nonstatutory stock options or stock purchase rights to employees and consultants to purchase common stock. Currently, the maximum number of shares of common stock authorized for issuance under the 1988 Plan is 850,000 shares and under the 1996 Plan is 14,026,339 shares. The Company has also granted 228,000 options to employees and consultants outside of the 1988 and 1996 Plans.

As of June 30, 2005, the Company had 1,349,070 shares available under the 1996 Plan for grant and no shares available under the 1988 Plan.

Incentive stock options maybe granted at no less than the fair value of the common stock on the date of grant. Nonqualified stock options and stock purchase rights may be granted at no less than 85% of the fair value of the common stock at the date of grant. The options and rights become exercisable when and as determined by the Board of Directors, although these terms are generally not to exceed ten years for stock options and six months for stock purchase rights. The options typically vest over five years with a one year cliff and monthly vesting thereafter.

Activity under the Company's stock option plans is presented in the following table (in thousands except per share data):

	Predecessor Company						Successor Company			
	Year Ended December 31, 2002		Year Ended December 31, 2003		Period From January 1, 2004 through November 8, 2004		Period From November 9, 2004 through December 31, 2004		Six Months Ended June 30, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at										
Beginning	874	$ 0.32	1,034	$ 0.29	3,490	$ 0.25	7,287	$ 1.06	8,570	$ 1.15
Granted	245	0.20	2,720	0.25	4,411	1.60	1,288	1.65	3,945	1.68
Canceled	(58)	0.32	(223)	0.28	(59)	0.59	(1)	0.30	(133)	0.83
Exercised	(27)	0.28	(41)	0.20	(555)	0.27	(4)	0.32	(78)	0.22
Options outstanding at end of period	1,034	0.29	3,490	0.25	7,287	1.06	8,570	1.15	12,304	1.33
Options exercisable at end of period	502	0.26	620	0.27	1,199	0.47	1,324	0.48	2,586	0.91

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

The following table summarizes information about stock options outstanding as of June 30, 2005 (in thousands, except per share data):

Options Outstanding			Options Exercisable	
Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
151	3.90	$ 0.15	109	$ 0.15
2,277	7.85	0.25	874	0.25
424	5.36	0.33	386	0.33
100	8.55	1.00	28	1.00
10	8.96	1.25	10	1.25
9,109	9.42	1.65	1,179	1.65
233	9.85	2.15	—	2.15
12,304		$ 1.33	2,586	$ 0.91

Options Issued to Non-Employees

For the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004 and the six months ended June 30, 2004 (unaudited) and 2005, the Company granted options to consultants to purchase 210,000, 0, 160,000 and 26,000 options to purchase common stock, respectively, with weighted average exercise prices of $1.0, $0, $0.8 and $1.65 per share, respectively. The fair value of options granted to consultants was estimated using the Black-Scholes model resulting in stock-based compensation expense of $131,000, $25,000, $55,000 and $184,000 for the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004, and the six-month period ended June 30, 2004 (unaudited) and 2005, respectively.

Shares Reserved for Future Issuance

As of June 30, 2005, the Company had shares of common stock reserved for future issuance as follows:

Convertible preferred stock	24,864,897
Preferred and common stock warrants	7,642,859
Stock option plans	13,653,939
	46,161,695

Other Employee Benefit Plans

The Company has a pension plan covering employees in the Philippines. The aggregate costs and outstanding liability of this pension plan was not material to the Company's consolidated operating results or financial position for any period presented.

Certain employees and officers of the Company participate in several Cypress sponsored employee benefit plans such as the Cypress Executive Deferred Compensation Plan and the Cypress Stock Purchase Assistance Plan. In addition certain employees and officers of the Company have options to purchase common stock of Cypress, some of which, continue to vest until Cypress ceases to own at least 50% of total combined voting power of all classes of the Company's capital stock.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Note 11. Segment and Geographical Information

The Company operates in one industry segment comprising the design, manufacture and sale of solar electric power products, or solar power products, imaging detectors and infrared detectors based on its proprietary processes and technologies. The following tables present net revenue and long-lived asset information based on geographic region. Revenue is based on the destination of the shipments. Long-lived assets, which consist of net property and equipment, are based on the physical location of the assets (dollars in thousands):

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003	(unaudited)			
Revenue by geography						
United States	42%	71%	83%	80%	15%	25%
Europe	—	6%	2%	3%	70%	72%
Asia	58%	23%	15%	16%	15%	1%
Others	—	—	—	1%	—	2%

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30 2004	January 1 Through November 8, 2004	November 9 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003	(unaudited)			
Significant customers						
Customer						
A	28%	*	*	*	*	*
B	*	*	*	*	19%	53%
C	*	12%	*	*	*	12%
D	12%	27%	50%	45%	*	*
E	*	16%	13%	14%	*	*
F	14%	*	*	*	*	*
H	*	*	11%	*	*	*
I	*	*	*	*	51%	18%
J	23%	*	*	*	*	*

* denotes less than 10% during the period

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003	(unaudited)			
Revenue by product						
Solar electric power products	1%	4%	3%	5%	86%	80%
Imaging and infrared detectors and other	99%	96%	97%	95%	14%	20%

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Long-lived assets by geography			
United States	$ 17,031	$ 7,682	$ 4,894
Philippines	3,852	38,084	60,508
Denmark	1,890	1,634	1,496
China	—	149	234
	$ 22,773	$ 47,549	$67,132

Note 12. Unaudited Pro Forma Net Loss Per Share

Pro forma basic and diluted net loss per share have been computed to give effect to the conversion of redeemable convertible preferred stock upon the closing of the Company's initial public offering (using the as-converted method) for the period from January 1, 2004 through November 8, 2004, the period from November 9, 2004 through December 31, 2004 and for the six month period ended June 30, 2005, as if the closing occurred at the beginning of fiscal 2004. The following table sets forth the computation of pro forma basic and diluted net loss per share (in thousands, except per share data):

	Predecessor Company	Successor Company	
	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
Net loss	$ (23,302)	$ (5,609)	$ (13,573)
Weighted average common shares outstanding	8,461	1,056	18,307
Add: Adjustments to reflect the weighted average effect of the assumed conversion of the series one and series two redeemable convertible preferred stock from the date of issuance	14,308	13,079	38,998
Total shares used in computing basic and diluted pro forma net loss per share	22,769	14,135	57,305
Pro forma net loss per common share:			
Basic and diluted	$ (1.02)	$ (0.40)	$ (0.24)

Note 13. Subsequent Events

On July 7, 2005, SunPower's board of directors authorized the management of SunPower to proceed with the reincorporation of the Company in Delaware. On August 12, 2005, SunPower's board of directors, subject to shareholder approval, approved the form of certificate of incorporation which provides for class B common stock having eight votes per share in lieu of the current class B and class C common stock and for various provisions in the certificate of incorporation and bylaws to provide Cypress with various protections, primarily by requiring 75% board vote for certain actions.

On July 18, 2005, SunPower issued 24,000,000 shares of class A common stock to Cypress in exchange for a combination of cash, the conversion of debt and payables to Cypress and the cancellation of warrants to purchase shares of SunPower class A common stock held by Cypress, with an aggregate value of $60.0 million.

SunPower Corporation

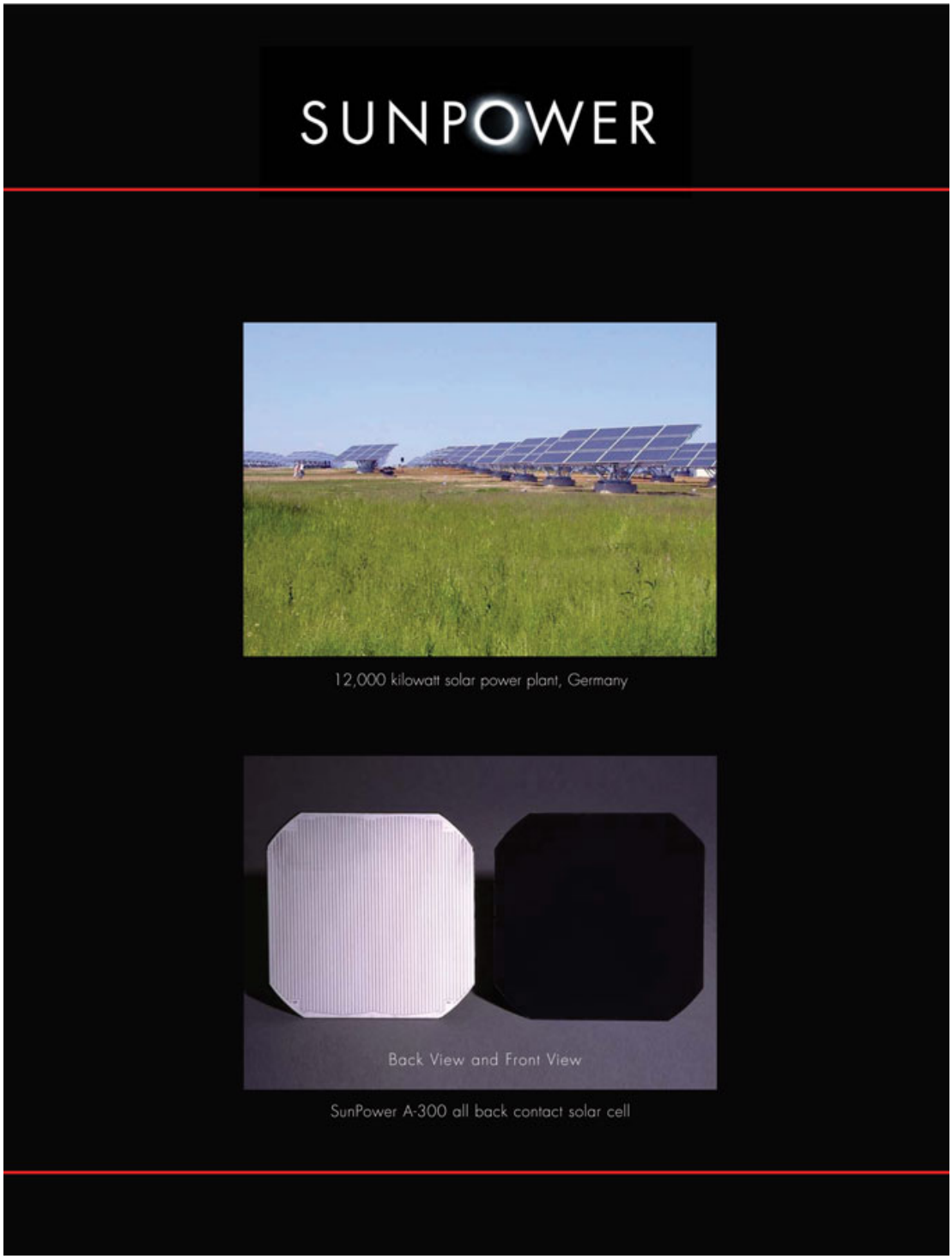
Notes to Consolidated Financial Statements—(Continued)

In addition, Cypress agreed to extend that certain Note Purchase and Line of Credit Agreement dated as of May 30, 2002 (the "Line of Credit") which provides for a $30.0 million line of credit to SunPower, until the earlier of the Company's initial public offering or December 31, 2006. As of July 18, 2005, there were no amounts outstanding under the Line of Credit.

On August 12, 2005, SunPower's board of directors and shareholders approved an amendment to the articles of incorporation providing for the following changes: (i) increasing the number of authorized shares of class A common stock by 35,000,000 shares to 120,000,000 shares, (ii) increasing the number of authorized shares of Class B Common Stock by 59,151,515 shares to 91,151,515 shares, and (iii) decreasing the number of authorized shares of series one preferred stock by 1,382,533 shares to 12,915,060 shares, (iv) increasing the number of authorized shares of common stock by 94,151,515 shares to 243,151,515 shares, (v) decreasing the number of authorized shares of preferred stock by 21,084,940 shares to 44,915,060 shares and (vi) increasing the number of authorized shares of stock by 73,066,575 shares to 288,066,575 shares.

On August 12, 2005, SunPower's board of directors, subject to shareholder approval, adopted the 2005 Stock Incentive Plan (the "Incentive Plan") to replace the 1988 and 1996 Stock Option Plans (the "Prior Plans") effective upon an IPO (the "Effective Date"). The Incentive Plan allows not only for the grant of options like the Prior Plans, but also for the grant of stock appreciation rights, restricted stock grants, and other equity rights. The aggregate number of Company shares authorized for issuance as awards under the Incentive Plan shall not exceed 793,470 shares (i) *minus* the aggregate number of shares subject to options granted under the Prior Plans between August 12, 2005 and the Effective Date, (ii) *plus* any shares subject to options granted under the Prior Plans which lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005, and (iii) *plus* any of the 210,000 shares subject to non-plan options granted during 2004 that lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005.

On August 12, 2005, SunPower's board of directors approved the Company's entering into various separation and services agreements with Cypress. Among these agreements are a sublease of the land and a lease for the building in the Philippines (see Note 3); a three-year wafer supply agreement for detector products at inter-company pricing; and a three-year master transition services agreement under which Cypress would allow SunPower to continue to utilize services provided by Cypress such as legal, tax, information technology, and treasury administration, at the same price that other Cypress subsidiaries or divisions utilized such services.


SUNPOWER
12,000 kilowatt solar power plant, Germany
Back View and Front View
SunPower A-300 all back contact solar cell


SUNPOWER

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses expected to be incurred by the Registrant in connection with the sale and distribution of the securities being registered hereby, other than underwriting discounts and commissions. All amounts are estimated except the Securities and Exchange Commission registration fee, the National Association of Securities Dealers, Inc. filing fee and The Nasdaq National Market listing fee. No expenses shall be borne by the selling stockholders.

Securities and Exchange Commission and registration fee	$ 13,536
National Association of Securities Dealers, Inc. filing fee	12,000
Nasdaq National Market listing fee	100,000
Blue Sky fees and expenses	*
Accounting fees and expenses	*
Legal fees and expenses	*
Printing and engraving fees	*
Registrar and Transfer Agent's fees	*
Miscellaneous fees and expenses	*
Total	*

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors and other corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Act"). Article VIII of the Registrant's Amended and Restated Certificate of Incorporation (Exhibit 3.(i)2 hereto) and Article 6 of the Registrant's Restated Bylaws (Exhibit 3.(ii)2 hereto) provide for indemnification of the Registrant's directors, officers, employees and other agents to the extent and under the circumstances permitted by the Delaware General Corporation Law. The Registrant also intends to enter into agreements with its directors and officers that will require the Registrant, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent allowed. The Underwriting Agreement (Exhibit 1.1) provides for indemnification by the underwriters of the Registrant, its directors and officers, and by the Registrant of the underwriters, for certain liabilities, including liabilities arising under the Act and affords certain rights of contribution with respect thereto.

Item 15. Recent Sales of Unregistered Securities

From January 1, 2002 to July 31, 2005, the Registrant has issued and sold an aggregate of 704,892 shares of common stock to directors, officers, employees, former employees and consultants at prices ranging from $0.15 to $2.15 per share, for aggregate cash consideration of approximately $182,979.

Between September 2001 and June 2002 the Registrant issued an aggregate of 47,805 shares of common stock in exchange for an aggregate of $2,868 from the exercise of warrants.

In November 2004, immediately prior to and conditioned upon its merger with Cypress, the Registrant issued an aggregate of 1,263,441 shares of common stock in exchange for $75,806 from the exercises of warrants.

In November 2004, immediately prior to and conditioned upon its merger with Cypress, the Registrant issued an aggregate of 3,342,129 shares of common stock upon conversion of $1.95 million of promissory notes.

In November 2004, immediately prior to and conditioned upon its merger with Cypress, the Registrant issued a total of 1,393,039 shares of common stock upon conversion of outstanding shares of series one preferred stock.

The Registrant has issued Cypress promissory notes in the aggregate amount of $6.1 million during 2003.

The Registrant has issued various promissory notes to Cypress under a May 2004 note purchase and line of credit agreement in the aggregate principal amount of $29,190,862.

From March 2003 to June 2005, the Registrant issued a combination of demand and promissory notes to Cypress in the aggregate principal amount of $36,500,000.

From March 18, 2004 to October 18, 2004, the Registrant issued warrants to purchase 7,642,859 shares of class A common stock to Cypress with exercise prices of $0.07 per share, in connection with certain loans.

On January 18, 2005, as contemplated by the merger with Cypress, the Registrant issued and sold 32,000,000 shares of series two convertible preferred stock to Cypress at $0.50 per share for aggregate consideration of $16,000,000, all of which will be converted into 32,000,000 shares of class B common stock in connection with this offering.

On March 17, 2005, the Registrant issued and sold 35,151,515 shares of class A common stock to Cypress at $1.65 per share for aggregate consideration of $58,000,000 consisting of debt cancellation.

On July 18, 2005, the Registrant issued and sold 24,000,000 shares of class A common stock to Cypress at $3.50 per share for aggregate consideration of $84,000,000 consisting of debt cancellation, cash, and warrant forfeitures.

The sales of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving a public offering or transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each of these transactions represented their intention to acquire the securities for investment only and not with view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access, through their relationship with the Registrant, to information about the Registrant.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits.

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
3.(i)1	Articles of Incorporation of the Registrant, prior to reincorporation.
3.(i)2*	Form of Restated Certificate of Incorporation of the Registrant, to be filed upon the closing of the offering to which this Registration Statement relates.
3.(ii)1	Bylaws of the Registrant, prior to reincorporation.
3.(ii)2*	Form of Amended and Restated Bylaws of the Registrant, to be effective upon the closing of the offering to which this Registration Statement relates.
4.1*	Specimen Class A Common Stock Certificate.
5.1*	Opinion of Pillsbury Winthrop Shaw Pittman LLP.
10.1	Form of Indemnification Agreement between the Registrant and its officers and directors.
10.2	1988 Incentive Stock Plan and form of agreements thereunder.
10.3	1996 Stock Plan and form of agreements thereunder.
10.4	Form of 2005 Stock Incentive Plan and form of agreements thereunder.
10.5	Industrial Lease, dated March 28, 2000, between the Registrant and The Irvine Company.
10.6	First Amendment, dated January 20, 2005, to Lease, dated March 28, 2000, between the Registrant and The Irvine Company.
10.7	Contract of Lease, dated January 1, 2003, between SunPower Philippines Manufacturing Limited-Phil. Branch and Cypress Manufacturing Ltd.-Phil. Branch.
10.8	Offer Letter dated May 22, 2003, between the Registrant and Thomas H. Werner.

Exhibit Number	Description
10.9	Offer Letter dated January 14, 2005, between the Registrant and PM Pai.
10.10	Offer Letter dated April 1, 2005, between the Registrant and Emmanuel Hernandez.
10.11	Offer Letter dated January 1, 1990, between Registrant and Dr. Richard Swanson.
10.12*	Master Separation Agreement between the Registrant and Cypress Semiconductor Corporation.
10.13*	Indemnification and Insurance Matters Agreement between the Registrant and Cypress Semiconductor Corporation.
10.14*	Investor Rights Agreement between the Registrant and Cypress Semiconductor Corporation.
10.15*	Employee Matters Agreement between the Registrant and Cypress Semiconductor Corporation.
10.16*	Tax Sharing Agreement between the Registrant and Cypress Semiconductor Corporation.
10.17*	Master Transition Services Agreement between the Registrant and Cypress Semiconductor Corporation.
10.18*	Wafer Supply Agreement between the Registrant and Cypress Semiconductor Corporation.
10.19*	SVTC Pilot Line Agreement between the Registrant and Cypress Semiconductor Corporation.
10.20*	Lease/Sublease Agreement between the Registrant and Cypress Semiconductor Corporation.
10.21	Note Purchase and Line of Credit Agreement dated May 30, 2002, held by Cypress Semiconductor Corporation.
10.22	Amendment No. 1 to Note Purchase and Line of Credit Agreement dated May 25, 2004.
10.23†	Supply Agreement, dated April 14, 2005, between the Registrant and Solon AG fur Solartechnik.
10.24†	Supply Agreement, dated April 17, 2004, between the Registrant and Conergy AG, and Appendixes thereto.
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Consent of Pillsbury Winthrop Shaw Pittman LLP (included in Exhibit 5.1).
24.1	Power of Attorney (see page II-5).

* To be filed by amendment.

† Confidential treatment has been requested for portions of this exhibit.

(b) Financial Statement Schedule

Schedules have been omitted because they are not applicable, not required or the information required to be set forth therein is included in the consolidated financial statement or notes thereto.

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Act"), may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) It will provide to the underwriters at the closing(s) specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California, on the 25th day of August 2005.

SUNPOWER CORPORATION

By /s/ Thomas H. Werner

Thomas H. Werner
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas H. Werner and Emmanuel T. Hernandez, and each of them, his or her true and lawful attorneys in fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments, including post-effective amendments, to this Registration Statement, and any registration statement relating to the offering covered by this Registration Statement and filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorneys in fact and agents or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ Thomas H. Werner Thomas H. Werner	Chief Executive Officer (Principal Executive Officer) and Director	August 25, 2005
/s/ Emmanuel T. Hernandez Emmanuel T. Hernandez	Chief Financial Officer (Principal Financial and Accounting Officer)	August 25, 2005
/s/ T. J. Rodgers T. J. Rodgers	Chairman of the Board	August 25, 2005
/s/ Don Mika Don Mika	Director	August 22, 2005
/s/ Christopher Seams Christopher Seams	Director	August 22, 2005
/s/ Dr. Richard Swanson Dr. Richard Swanson	Director	August 25, 2005

Exhibit Index

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24.1	Power of Attorney (See page II-5).

* To be filed by amendment.

† Confidential treatment has been requested for portions of this exhibit.

SECOND AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

SUNPOWER CORPORATION

ARTICLE I

The name of the corporation is SunPower Corporation (the ***"Corporation"***).

ARTICLE II

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California, other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

ARTICLE III

A. The total number of shares that the Corporation shall have authority to issue is 215,000,000, consisting of 149,000,000 shares designated as common stock, no par value per share (the ***"Common Stock"***), and 66,000,000 shares designated as preferred stock, no par value per share (the ***"Preferred Stock"***).

B. The Common Shares shall consist of three classes designated as ***"Class A Common Stock," "Class B Common Stock"*** and ***"Class C Common Stock."*** The authorized number of shares of Class A Common Stock shall be 85,000,000, the authorized number of shares of Class B Common Stock shall be 32,000,000 and the authorized number of shares of Class C Common Stock shall be 32,000,000.

C. The total number of shares of Preferred Stock that the Corporation shall have authority to issue is 66,000,000, of which 14,297,593 shall be designated as ***"Series One Preferred Stock"*** and 32,000,000 shall be designated as ***"Series Two Preferred Stock"***. The Board of Directors is hereby authorized, subject to limitations prescribed by law and the provisions of Part C of this Article III, by resolution to provide for the issuance of the remaining authorized shares of Preferred Stock in one or more series (which series at the time of such resolution is wholly unissued), and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, privileges, preferences, and relative participating, optional or other rights, if any, of the shares of each such series and the qualifications, limitations or restrictions thereof.

Subject to the restrictions set forth in Section 6 of Part D of this Article III and applicable law, the authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

1. The number of shares constituting that series (including an increase or decrease in the number of shares of any such series (but not below the number of shares in any such series then outstanding)) and the distinctive designation of that series;

2. The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;

3. Whether that series shall have voting rights (including multiple or fractional votes per share) in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

4. Whether that series shall have conversion privileges, and, if so, the terms and conditions of such privileges, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

5. Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption rates;

6. Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and the amount of such sinking funds;

7. The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and

8. Any other relative rights, preferences and limitations of that series.

No holders of shares of the Corporation of any class, now or hereafter authorized, shall have any preferential or preemptive rights to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants for such shares, or any rights to subscribe for, purchase or receive any securities convertible into or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation, except in the case of any shares of Preferred Stock to which such rights are specifically granted by any resolution or resolutions of the Board of Directors adopted pursuant to Part C of this Article III or in this case of any shares of Common Stock to which such rights are specifically granted by Section 5 of Part D of Article III.

D. The powers, preferences, rights, restrictions and other matters relating to the Common Stock are as follows:

1. ***Voting Rights***.

(a) All shares of Common Stock will be identical in all respects and will entitle the holders thereof to the same rights and privileges, except as expressly provided otherwise in these Articles of Incorporation. Except as expressly specified otherwise herein or as otherwise provided by law, all classes of Common Stock shall vote together as a single class on all matters submitted to a vote of the stockholders.

(b) The Class B Common Stock and Class C Common Stock shall be issuable only to Cypress, or any Subsidiary (as defined below) of Cypress; provided, however, that nothing herein will prevent the distribution of such shares by Cypress to the stockholders of Cypress in connection with a Tax-Free Spin-Off (as defined below) and the issuance of shares of Class B Common Stock or Class C Common Stock, as applicable, to holders thereof following a Tax-Free Spin-Off if such issuance is in connection with a dividend or distribution pursuant to Section 2(b) of this Part D of Article III and; provided, further, that Class B Common Stock shall be issuable only upon conversion of Class C Common Stock pursuant to Section 3(b) of this Part D of Article III.

(c) The holders of shares of Common Stock shall have the following voting rights:

(i) Except as provided in Section 1(c)(vi) of this Part D of Article III, each holder of a share of Class A Common Stock shall be entitled to cast one vote on all matters submitted to a vote of the stockholders of the Corporation for each share of Class A Common Stock held by such holder.

(ii) Each holder of a share of Class B Common Stock shall be entitled to cast one vote on all matters submitted to a vote of the stockholders of the Corporation for each share of Class B Common Stock held by such holder.

(iii) Each holder of a share of Class C Common Stock shall be entitled to cast one vote on all matters submitted to a vote of the stockholders of the Corporation for each share of Class C Common Stock held by such holder.

(iv) With respect to the election of directors of the Corporation, the holders of Class A Common Stock and Class C Common Stock, voting together as a class, shall be entitled to elect that number of directors which constitutes 20% of the number of members of the Board of Directors of the Corporation which may be elected by the holders of Common Stock at such time (or, if such number is not a whole number, then the next lower number (including zero) that is closest to 20% of such membership). Subject to Section 708(a) of the California Corporations Code, each share of Class A Common Stock and Class C Common Stock shall have one vote in the election of such directors. Holders of Class B Common Stock, voting separately as a class, shall be entitled to elect the remaining directors that may be elected by the holders of Common Stock at such

time. Subject to Section 708(a) of the California Corporations Code, each share of Class B Common Stock shall have one vote in the election of such directors.

(v) At any time at which there are no shares of (or Preferred Stock convertible into) Class A Common Stock or Class C Common Stock outstanding, Section 1(c)(iv) shall have no force or effect and, subject to the rights of the holders of any series of Preferred Stock, the holders of Class B Common Stock, voting as a class, shall be entitled to elect all the members of the Board of Directors. At any time at which there are no shares of Class B Common Stock outstanding, then Section 1(c)(iv) of Part D of this Article III shall have no force or effect, and thereafter, subject to the rights of the holders of any series of Preferred Stock, the holders of the Class A Common Stock and Class C Common Stock, voting together as a class, shall be entitled to elect all the members of the Board of Directors.

(vi) Notwithstanding any other provision of these Articles of Incorporation to the contrary, holders of Class A Common Stock shall not be eligible to vote on any alteration or change in the powers, preferences, or special rights of the Class B Common Stock or Class C Common Stock that would not adversely affect the rights of the Class A Common Stock. For the foregoing purposes, any alteration or change with respect to, and any provision for, the voluntary, mandatory or other conversion or exchange of the Class B Common Stock or Class C Common Stock into or for Class A Common Stock on a one-for-one basis shall be deemed not to adversely affect the rights of the Class A Common Stock.

2. ***Dividends and Distributions***.

(a) Subject to the preferences applicable to any Preferred Stock outstanding at any time, the holders of shares of Common Stock shall be entitled to receive such dividends and other distributions in cash, property or shares of stock of the Corporation as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(b) In the case of a dividend or other distribution payable in Class A Common Stock, Class B Common Stock or Class C Common Stock (including any distribution pursuant to a stock split or division of Class A Common Stock, Class B Common Stock or Class C Common Stock), only shares of Class A Common Stock shall be distributed with respect to Class A Common Stock, only shares of Class B Common Stock shall be distributed with respect to Class B Common Stock, and only shares of Class C Common Stock shall be distributed with respect to Class C Common Stock. In the case of any such dividend or other distribution payable in shares of Class A Common Stock, Class B Common Stock or Class C Common Stock, the number of shares of each class of Common Stock payable per share of such class of Common Stock shall be equal.

3. ***Conversion and Exchange Rights***.

(a) **Conversion of Class C Common Stock into Class A Common Stock**.

(i) The holders of Class C Common Stock shall be entitled to convert, at any time and from time to time, each share of Class C Common Stock into one (1) fully paid and non-assessable share of Class A Common Stock. Such right shall be exercised by the surrender to the Corporation of the certificate or certificates representing the shares of Class C Common Stock to be converted at any time during normal business hours at the principal executive offices of the Corporation or at the office of the Corporation's transfer agent (the ***"Transfer Agent"***), accompanied by a written notice from the holder of such shares stating that such holder desires to convert such shares, or a stated number of the shares represented by such certificate or certificates, into an equal number of shares of Class A Common Stock, and (if so required by the Corporation or the Transfer Agent) by instruments of transfer, in form satisfactory to the Corporation and to the Transfer Agent, duly executed by such holder or such holder's duly authorized attorney, and transfer tax stamps or funds therefor if required pursuant to Section 3(c)(iii) of this Part D of Article III.

(ii) Upon the transfer (other than the original issuance) of any share of Class C Common Stock to any Person other than the original holder thereof, such share shall immediately and automatically (and without any action on the part of the holder or the Corporation) convert into one (1) fully paid and non-assessable share of Class A Common Stock; provided, however, that no such conversion shall occur solely as a result of the pledge or hypothecation of, or existence of any other lien or encumbrance on, any share(s) of Class C Common Stock, and no such conversion shall occur solely as a result of a transfer by the original holder thereof or one of its Subsidiaries to the original holder thereof or one of its Subsidiaries; provided further, that such share of Class C Common Stock shall immediately and automatically (and without any action on the part of the holder or the Corporation) convert into one (1) fully paid and non-assessable share of Class A Common Stock if at any time such holder is no longer the original holder or a Subsidiary of the original holder of such share of Class C Common Stock.

(iii) As promptly as practicable following the surrender for conversion of a certificate representing shares of Class C Common Stock in the manner provided in Section 3(a)(i) or (ii) above, as applicable, and the payment in cash of any amount required by Section 3(c)(iii) of this Part D of Article III, the Corporation shall deliver or cause to be delivered at the office of the Transfer Agent, a certificate or certificates representing the number of full shares of Class A Common Stock issuable upon such conversion or exchange, issued in such name or names as such holder may direct. Such conversion or exchange shall be deemed to have been effected immediately prior to the close of business on the date of the giving of the required written notice and surrender of any certificate or certificates representing shares of Class C Common Stock or the date of the transfer of such certificate or certificates, as applicable. Upon the date any such conversion or exchange is made or effected, all rights of the holder of such shares of Class C Common Stock as such holder shall cease, and the Person or Persons in whose name or names the certificate or certificates representing the shares of Class A Common Stock are to be issued shall be treated for all purposes as having become the record holder or holders of such shares of Class A Common Stock.

(b) **Conversion of Class C Common Stock into Class B Common Stock**.

(i) At any time prior to a Tax-Free Spin-Off that Cypress and its Subsidiaries shall fail to own in the aggregate eighty percent (80%) or more of the total combined voting power of the Corporation, in order to facilitate a Tax-Free Spin-Off, Cypress and its Subsidiaries (other than the Corporation and its Subsidiaries) shall have the right to convert all (but not less than all) outstanding shares of Class C Common Stock into an equal number of shares of Class B Common Stock.

(ii) The conversion of shares of Class C Common Stock into shares of Class B Common Stock shall be effected by written notice to the Corporation stating the desire to convert such shares as described in Section 3(b)(i) above. Any such transfer shall be effected as of the date specified in the written notice to convert such shares which in no event shall be later than the close of business on the date immediately preceding the date of the Tax-Free Spin-Off and at such time the rights of the holders of such shares as such holders shall cease and such holders shall be treated for all purposes as having become the record owners of shares of Class B Common Stock issuable upon such conversion on such date.

(c) **Certain Provisions Relating to Stock Conversion, Exchange and Transfer**.

(i) In the event of a reclassification or other similar transaction as a result of which the shares of Class A Common Stock are converted into another security, then the holders of any outstanding shares of Class C Common Stock shall be entitled to receive upon conversion thereof the amount of such security that such holder would have received if it had effected such conversion immediately prior to the record date of such reclassification or other similar transaction. Except as set forth in the preceding sentence, no adjustments in respect of dividends or other distributions shall be made upon the conversion of any share of Class C Common Stock; provided, however, that if a share of Class C Common Stock shall be converted into a share of Class A Common Stock after the record date for the payment of a dividend or other distribution on shares of Class C Common Stock but prior to such payment, then the registered holder of such share at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on such share on such date notwithstanding the conversion thereof or the default in payment of the dividend or other distribution due on such date.

(ii) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock and Class B Common Stock, solely for the purpose of issuance upon conversion, exchange or transfer of outstanding shares of Class C Common Stock, such number of shares of Class A Common Stock or Class B Common Stock that shall be issuable upon the conversion or exchange of all such outstanding shares of Class C Common Stock. If any shares of Class A Common Stock or Class B Common Stock require registration with or approval of any governmental authority under any federal or state law before such shares may be distributed to Cypress stockholders in connection with a Tax-Free Spin-Off or sold by such Cypress stockholders thereafter without restriction under applicable law, the Corporation shall cause such shares to be duly registered or approved, as the case may be. The

Corporation shall use its best efforts to list the shares of Class A Common Stock and Class B Common Stock required to be delivered upon such conversion, exchange or transfer prior to such delivery on each national securities exchange or interdealer quotation system on which the outstanding Class A Common Stock is listed at the time of such delivery. The Corporation covenants and warrants that all shares of Class A Common Stock and Class B Common Stock issued upon conversion of shares of Class C Common Stock will, upon issuance in accordance with the terms of Section 3(a) and 3(b) of this Part D of Article III, be validly issued, fully paid and non-assessable.

(iii) The issuance of certificates for shares of Class A Common Stock and Class B Common Stock upon conversion of shares of Class C Common Stock shall be made without charge to the holders of such shares for any stamp or other similar tax in respect of such issuance; provided, however, that if any such certificate is to be issued in a name other than that of the holder of the share or shares of Class C Common Stock converted, then the Person or Persons requesting the issuance thereof shall pay to the Corporation the amount of any tax that may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid or is not payable.

4. ***Stock Splits***. Without the approval of the holders holding at least two-thirds of the Class A Common Stock, Class B Common Stock and Class C Common Stock, each voting as a separate class, the Corporation shall not in any manner subdivide (by any stock split, stock dividend, reclassification, recapitalization or otherwise) or combine (by reverse stock split, reclassification, recapitalization or otherwise) the outstanding shares of one class of Common Stock unless the outstanding shares of all classes of Common Stock shall be proportionately subdivided or combined.

5. ***Options, Rights or Warrants***.

(a) If the Corporation issues or makes an offering or distribution to all holders of a class of Common Stock of shares of any class or classes of its capital stock or options, rights or warrants to subscribe for such shares, then the Corporation shall simultaneously issue or make a similar offering or distribution of the same number of shares, options, rights, or warrants per share (which options, warrants or rights offered or distributed to each class of Common Stock shall entitle the holder, upon exercise thereof, to purchase the same class of Common Stock as the shares with respect to which such options, warrants or rights were offered or distributed) to all holders of the other outstanding classes of Common Stock, except that it need not issue or make such offering or distribution to any such class of Common Stock in the event that the holders of majority of the shares of such class of Common Stock, voting as a separate class, determine that such offering or distribution need not be made to such class.

(b) Subject to Section 5(a) above, the Corporation shall have the power to create and issue, whether or not in connection with the issuance and sale of any shares of stock or other securities of the Corporation, rights, options or warrants entitling the holders thereof to purchase from the Corporation any shares of its capital stock of any class or classes at the time authorized, such rights, options or warrants to have such terms and conditions, and to be evidenced by or in such instrument or instruments, as shall be approved by the Board of Directors.

6. ***No Preemptive Rights***. Except as provided in Section 5 of this Part D of Article III, the holders of shares of Common Stock are not entitled to any preemptive right to subscribe for, purchase or receive any part of any new or additional issue of stock of any class of the Corporation, whether now or hereafter authorized, or of bonds, debentures or other securities convertible into or exchangeable for stock of the Corporation.

7. ***No Reissuance***. No share or shares of Class B Common Stock or Class C Common Stock acquired by the Corporation by reason of redemption, purchase, conversion, exchange or otherwise shall be reissued and all such shares shall be cancelled, retired and eliminated from the shares that the Corporation is authorized to issue.

8. ***Certain Definitions***.

(a) ***"Affiliate"*** means as to any Person, any other Person who controls, is controlled by, or is under common control with such Person.

(b) ***"Code"*** means the Internal Revenue Code of 1986, as amended.

(c) ***"Person"*** means any individual, partnership, joint venture, limited liability company, firm, corporation, trust or other entity, including governmental authorities.

(d) ***"Subsidiary"*** means, with respect to any Person, any other Person in which such first Person owns, directly or indirectly, more than 50% of the capital stock (or other voting interests) the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such Person or otherwise controls such Person (whether by contract or otherwise).

(e) ***"Tax-Free Spin-Off"*** means a distribution of Common Stock (and Preferred Stock, if any) of the Corporation or common stock (and preferred stock, if any) of a Person that is a successor to the Corporation to holders of common stock of Cypress intended to qualify as a tax-free distribution under Section 355 of the Code, or any successor thereto.

E. The power, preferences, rights, restrictions and other matters relating to the Series One Preferred Stock and the Series Two Preferred Stock are as follows:

1. ***Dividend Rights***. No dividend may be paid on or declared or set apart for the Common Stock in any one fiscal year unless a dividend at the rate of eight percent (8%) of the Initial Sales Price (as defined below) is paid on, or declared and set apart for, each outstanding share of Series One Preferred Stock and Series Two Preferred Stock. The "Initial Sales Price" for each share of Series One Preferred Stock shall be $0.6864 per share. The "Initial Sales Price" for each share of Series Two Preferred Stock shall be $0.50 per share. References herein to the ***"Initial Sales Price"*** shall mean the Initial Sales Price for the Series One Preferred Stock or Series Two Preferred Stock, as applicable. The amount of dividend shall be prorated for a share of Series One Preferred Stock or Series Two Preferred Stock, as applicable, which is not issued and outstanding for an entire fiscal year. The dividends on the Series One Preferred Stock and the Series Two Preferred Stock shall be paid out of any assets legally available therefor, when, as, and if declared by the Board of Directors. Dividends on the Series One Preferred Stock and the Series Two Preferred Stock shall not be

cumulative and no rights shall accrue to the holders of the Series One Preferred Stock or the Series Two Preferred Stock in the event that the Corporation shall fail to declare or pay dividends on the Series One Preferred Stock or the Series Two Preferred Stock in the amount of eight percent (8%) of the Initial Sales Price per share per fiscal year, or in any amount in any prior year of the Corporation, whether or not the earnings of the Corporation in that previous fiscal year were sufficient to pay such dividends in whole or in part. In the event that the Board of Directors declares dividends in a fiscal year in an amount less than the aggregate of all the dividend preferences of the Series One Preferred Stock and the Series Two Preferred Stock, then the entire amount of dividends declared by the Board of Directors shall be distributed ratably among the holders of the outstanding Series One Preferred Stock and the Series Two Preferred Stock such that the same percentage of the annual dividend to which each series of Preferred Stock is entitled is paid on each outstanding share of such series of Preferred Stock.

2. ***Liquidation Preference***.

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made on the shares of Common Stock without first making distributions on the shares of Series One Preferred Stock and Series Two Preferred Stock, equal to the amount of the Initial Sales Price per share for each share of such series of Preferred Stock, as applicable, plus all declared but unpaid preferred dividends thereon (the ***"Preferential Amount"***). If, upon the occurrence of a voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, the assets and property thus distributed among the holders of the Series One Preferred Stock and the Series Two Preferred Stock shall be insufficient to permit the payment to such holders of the Preferential Amount, then the entire assets and property of the Corporation legally available for distribution shall be distributed ratably among holders of the Series One Preferred Stock and the Series Two Preferred Stock, such that the same percentage of the Preferential Amount to which each such series of Preferred Stock is entitled is paid on each share of such series of Preferred Stock. After the payment of the Preferential Amount to the holders of the Series One Preferred Stock and the Series Two Preferred Stock, the remaining proceeds, if any, shall be allocated among the holders of the Common Stock, the Series One Preferred Stock and the Series Two Preferred Stock on a per share pro rata basis, with such Preferred Stock being treated on an as-converted basis. A consolidation or merger of the Corporation with or into any other corporation or corporations if thereafter the shares issued to the Corporation's shareholders as a result of such merger based on their Corporation shareholdings do not constitute a majority of the outstanding voting shares of the surviving Corporation, or a sale of substantially all of the assets of the Corporation to an unaffiliated third party, shall be deemed to be a liquidation, dissolution, or winding up within the meaning of this subsection. A Tax-Free Spin-Off shall not be deemed to be a liquidation, dissolution or winding up within the meaning of this subsection.

(b) Each holder of an outstanding share of Series One Preferred Stock or Series Two Preferred Stock shall be deemed to have consented to distributions made by the Corporation in connection with the repurchase of shares of common stock issued to or held by employees, consultants, independent contractors, vendors, strategic partners or customers upon termination of their services or failure to fulfill certain conditions pursuant to agreements providing for the right of said repurchase between the Corporation and such persons at the same price per share such persons paid therefor.

3. ***Redemption***. Neither the Series One Preferred Stock nor the Series Two Preferred Stock is redeemable.

4. ***Conversion Privilege***. The holders of the Series One Preferred Stock and the Series Two Preferred Stock shall have conversion rights as follows (the ***"Conversion Rights"***):

(a) **Right to Convert**. Subject to subsection (d), (i) each share of Series One Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for the Preferred Stock, into such number of fully paid and nonassessable shares of Class A Common Stock as is determined by dividing the Initial Sales Price by the Conversion Price in effect on the date the certificate is surrendered for conversion and (ii) each share of Series Two Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for the Preferred Stock, into such number of fully paid and nonassessable shares of Class C Common Stock as is determined by dividing the Initial Sales Price by the Conversion Price in effect on the date the certificate is surrendered for conversion. The initial Conversion Price per share for shares of Series One Preferred Stock (the ***"Series One Conversion Price"***) shall be the Initial Sales Price for the Series One Preferred Stock, and the initial Conversion Price per share for shares of Series Two Preferred Stock (the ***"Series Two Conversion Price"***) shall be the Initial Sales Price for the Series Two Preferred Stock, provided, however, that the Series One Conversion Price and the Series Two Conversion Price shall be subject to adjustment as set forth herein. References herein to the Conversion Price shall mean the Conversion Price then in effect for the Series One Preferred Stock or the Series Two Preferred Stock, as applicable.

(b) **Automatic Conversion**. Each share of Series One Preferred Stock shall automatically be converted into shares of Class A Common Stock and each share of Series Two Preferred Stock shall be converted into shares of Class C Common Stock, in each case at the Conversion Price then in effect at such time immediately upon the earlier of (i) the date specified by vote or written consent or agreement of holders of at least a majority of the shares of the Series One Preferred Stock or Series Two Preferred Stock, as the case may be, voting separately, or (ii) immediately upon the closing of the sale of the Corporation's Class A Common Stock in a firm commitment, underwritten public offering registered under the Securities Act of 1933, as amended (the ***"Securities Act"***), other than a registration relating solely to a transaction under Rule 145 under such Securities Act (or any successor thereto) or to an employee benefit plan of the Corporation, at a public offering price (before underwriters' discounts and expenses) of at least Two Dollars and Seven Cents ($2.07) per share (as adjusted for any stock splits, stock dividends or other recapitalizations) and with gross proceeds to the Corporation of at least $20,000,000 (a ***"Qualified Public Offering"***).

(c) **Mechanics of Conversion**.

(i) Before any holder of Series One Preferred Stock shall be entitled voluntarily to convert the same into shares of Class A Common Stock or any holder of Series Two Preferred Stock shall be entitled to voluntarily convert the same into shares of Class C Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such stock, and shall give written notice to

the Corporation at such office that he elects to convert the same (except that no such written notice of election to convert shall be necessary in the event of an automatic conversion pursuant to Section 4(b) hereof) and shall state therein the number of shares to be converted and the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of such shares of Preferred Stock, a certificate or certificates for the number of shares of Class A Common Stock or Class C Common Stock, as applicable, to which such holder shall be entitled. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Preferred Stock to be converted, and the person or persons entitled to receive the shares of Class A Common Stock or Class C Common Stock, as applicable, issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Class A Common Stock or Class C Common Stock, as applicable, on such date.

(ii) If the conversion is in connection with an underwritten offering of securities pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of Series One Preferred Stock or Series Two Preferred Stock for conversion, be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Class A Common Stock or Class C Common Stock upon conversion of the Series One Preferred Stock or the Series Two Preferred Stock, respectively, shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such sale of securities. If the conversion occurs through the vote of the holders of a majority of the shares of Series One or Series Two Preferred Stock then outstanding, such conversion shall be deemed to have been made at the close of business on the day written notice of such election has been received by the Corporation, and the person or persons entitled to receive shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Class A Common Stock or Class C Common Stock, as applicable, on such date. Until certificates for such shares of the Series One Preferred Stock or the Series Two Preferred Stock which has been converted have been delivered to the Corporation for exchange for certificates representing such Class A Common Stock or Class C Common Stock, respectively, such certificates shall be deemed to represent the shares of Class A Common Stock or Class C Common Stock, as applicable, into which such Preferred Stock has been converted.

(d) **Adjustments to Conversion Price for Certain Diluting Issues**.

(i) Special Definitions. For purposes of this Section 4(d), the following definitions apply:

(A) ***"Options"*** shall mean rights, options, or warrants to subscribe for, purchase or otherwise acquire Class A Common Stock or Convertible Securities (as hereinafter defined).

(B) ***"Original Issue Date"*** shall mean the date on which a share of Series One Preferred Stock or Series Two Preferred Stock, as applicable, was first issued.

(C) ***"Convertible Securities"*** shall mean any evidences of indebtedness, shares (other than Common Stock, the Series One Preferred Stock and the Series Two Preferred Stock) or other securities convertible into or exchangeable for Class A Common Stock.

(D) ***"Additional Shares of Common Stock"*** shall mean all shares of Common Stock issued (or, pursuant to 4(d)(iii) hereof, deemed to be issued) by the Corporation after the Original Issue Date, other than (i) shares of Class B Common Stock or (ii) shares of Class A Common Stock or Class C Common Stock issued or issuable:

(1) upon conversion of shares of Class C Common Stock or the Series One or Series Two Preferred Stock into any other series or class of stock pursuant to these Articles of Incorporation;

(2) to employees, officers, directors, consultants or advisors pursuant to arrangements approved by the Board of Directors or an authorized committee thereof;

(3) upon the exercise of options or warrants (i) existing and outstanding as of the date of filing of these Articles of Incorporation or (ii) issued or assumed in connection with the merger of SunPower Corporation, a California corporation, with and into the Corporation;

(4) upon the issuance of the Series Two Preferred Stock or the warrants issued to Cypress in connection with the $40 million line of credit provided or to be provided by Cypress to the Corporation, and the issuance of shares upon exercise of such warrant;

(5) to any lessors, lenders, or others in connection with equipment purchases, leases, lines of credit, or bank financing arrangements by the Corporation, or to strategic partners to the Corporation, in each case approved by the Board of Directors;

(6) pursuant to the acquisition of another corporation or business entity by the Corporation by merger, purchase of all or substantially all of

the assets or other reorganization whereby the Corporation or its shareholders own more than fifty percent (50%) of the voting power of the surviving or successor corporation or entity, provided such acquisition is approved by the Board of Directors;

(7) in connection with any stock split, stock dividend or recapitalization by the Corporation;

(8) to the public pursuant to a Qualified Public Offering;

(9) as a dividend or distribution on shares of Series One Preferred Stock, Series Two Preferred Stock, Class B Common Stock or Class C Common Stock;

(10) which are excluded by the vote or written consent of the holders of at least a majority of the outstanding shares of Series One Preferred Stock or Series Two Preferred Stock, voting separately; or

(11) for which adjustment of the Conversion Price is made pursuant to Section 4(e) hereof.

(ii) No Adjustment of Conversion Price. Any provision herein to the contrary notwithstanding, no adjustment in the Conversion Price shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share (determined pursuant to Section 4(d)(v) hereof) for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Series One Conversion Price or Series Two Conversion Price, as applicable, in effect on the date of, and immediately prior to, such issue.

(iii) Deemed Issue of Additional Shares of Common Stock. In the event the Corporation, at any time or from time to time after the applicable Original Issue Date, shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against dilution) of Class A Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(A) no further adjustments in the applicable Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Class A Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration

payable to the Corporation, or decrease or increase in the number of shares of Class A Common Stock issuable, upon the exercise, conversion or exchange thereof, the applicable Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the applicable Conversion Price shall affect Class A Common Stock or Class C Common Stock previously issued upon conversion of the Series One Preferred Stock or Series Two Preferred Stock, respectively);

(C) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the applicable Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

(1) in the case of Convertible Securities or Options for Class A Common Stock, the only Additional Shares of Common Stock issued were the shares of Class A Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange, and

(2) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Corporation (determined pursuant to Section 4(d) hereof) upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

(D) no readjustment pursuant to clause (B) or (C) above shall have the effect of increasing the applicable Conversion Price to an amount which exceeds the lower of (1) the applicable Conversion Price on the original adjustment date, or (2) the applicable Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(E) in the case of any Options which expire by their terms not more than thirty (30) days after the date of issue thereof, no adjustment of the applicable Conversion Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the same manner provided in clause (C) above.

(iv) Adjustment of Conversion Price Upon Issuance of Shares of Common Stock. In the event this Corporation, at any time after the Original Issue Date of the Series One Preferred Stock or Series Two Preferred Stock, as applicable, shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 4(d)(iii) hereof) without consideration or for a consideration per share less than the Conversion Price, as applicable, in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price, as applicable, shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Class A Common Stock outstanding immediately prior to such issue plus the number of shares of Common Stock which the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at such Conversion Price in effect immediately prior to such issuance, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued. For the purpose of the above calculation, the number of shares of Class A Common Stock outstanding immediately prior to such issue shall be calculated as of the date of conversion on an outstanding basis, as if all shares of Preferred Stock, Common Stock and all other Convertible Securities had been fully converted into shares of Class A Common Stock immediately prior to such issuance, and as if currently exercisable warrants had been fully exercised immediately prior to such issuance (and the resulting securities fully converted into shares of Class A Common Stock, if so convertible), but not including in such calculation any stock options or any additional shares of Common Stock issuable with respect to shares of Preferred Stock or other Convertible Securities, solely as a result of the adjustment of the Conversion Price, as applicable, (or other conversion ratios) resulting from the issuance of Additional Shares of Common Stock causing such adjustment.

(v) Determination of Consideration. For purposes of this Section 4(d), the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) Cash and Property. Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation;

(2) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors.

(B) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been

issued pursuant to Section 4(d)(iii) hereof, relating to Options and Convertible Securities shall be determined by dividing:

(1) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by

(2) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against the dilution) issuable upon the exercise of such Options or conversion or exchange of such Convertible Securities.

(e) Adjustments to Conversion Prices for Stock Dividends and for Combinations or Subdivisions of Common Stock. In the event that this Corporation at any time or from time to time after the Original Issue Date of the Series One Preferred Stock or Series Two Preferred Stock, as applicable, shall declare or pay, without consideration, any dividend on the Class A Common Stock or Class C Common Stock payable in Common Stock or in any right to acquire Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Class A Common Stock or Class C Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire Common Stock), or in the event the outstanding shares of Class A Common Stock or Class C Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the applicable Conversion Price in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate; provided that adjustments to the Conversion Price for the Series One Preferred Stock shall be made only with respect to such events involving Class A Common Stock and adjustments to the Conversion Price for the Series Two Preferred Stock shall be made only with respect to such events involving Class C Common Stock. In the event that this Corporation shall declare or pay, without consideration, any dividend on the Class A Common Stock or the Class C Common Stock payable in any right to acquire Common Stock for no consideration, then the Corporation shall be deemed to have made a dividend payable in Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

(f) Adjustments for Reclassification and Reorganization. If the Class A Common Stock or Class C Common Stock, as applicable, issuable upon conversion of the Series One or Series Two Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for in Section 4(e) hereof or a merger or other reorganization), the applicable Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted so that such Series One Preferred Stock or Series Two Preferred Stock shall be convertible into, in lieu of the

number of shares of Class A Common Stock or Class C Common Stock, respectively, which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Class A Common Stock or Class C Common Stock that would have been subject to receipt by the holders upon conversion of such series of Preferred Stock immediately before that change.

(g) No Impairment. The Corporation will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 4 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series One Preferred Stock and the Series Two Preferred Stock against impairment.

(h) Certificates as to Adjustments. Upon the occurrence of each adjustment or readjustment of the applicable Conversion Price pursuant to this Section 4, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series One Preferred Stock and Series Two Preferred Stock a certificate executed by the Corporation's President or Chief Financial Officer setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series One Preferred Stock or Series Two Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the applicable Conversion Price at the time in effect, and (iii) the number of shares of Class A Common Stock or Class C Common Stock, as applicable, and the amount, if any, of other property which at the time would be received upon the conversion of such Preferred Stock.

(i) Notices of Record Date. In the event that the Corporation shall propose at any time: (i) to declare any dividend or distribution upon its Class A Common Stock or Class C Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus; (ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (iii) to effect any reclassification or recapitalization of its Class A Common Stock or Class C Common Stock outstanding involving a change in the Common Stock; or (iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; then, in connection with each such event, the Corporation shall send to the holders of the Series One Preferred Stock and Series Two Preferred Stock:

(A) at least twenty (20) days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (iii) and (iv) above; and

(B) in the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days' prior written notice of the date when the same shall take place (and

specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event).

(C) in the event that the Corporation does not comply with the requirements of this subsection (i) unless waived by holders of a majority of the outstanding shares of Series One and Series Two Preferred Stock, the Corporation shall forthwith either cause the closing of the transaction to be postponed until the Corporation has complied with such requirements or cancel the transaction, in which event the rights, preferences and privileges existing immediately prior to the date of the first notice referred to in this subsection (i) hereof, shall remain in effect.

(j) Issue Taxes. The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Class A Common Stock or Class C Common Stock, as applicable, on conversion of the Series One Preferred Stock and the Series Two Preferred Stock, respectively, pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion.

(k) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock and Class C Common Stock, solely for the purpose of effecting the conversion of the shares of the Preferred Stock, such number of its shares of Class A Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series One Preferred Stock and such number of its shares of Class C Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series Two Preferred Stock; and if at any time the number of authorized but unissued shares of Class A Common Stock or Class C Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series One Preferred Stock or the Series Two Preferred Stock, respectively, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Class A Common Stock or Class C Common Stock, as applicable, to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to these Articles of Incorporation.

(l) Fractional Shares. No fractional share shall be issued upon the conversion of any share or shares of Preferred Stock. All shares of Class A Common Stock (including fractions thereof) or Class C Common Stock (including fractions thereof) issuable upon conversion of more than one share of Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Class A Common Stock or Class C Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined in good faith by the Board of Directors).

(m) Notices. Any notice required by the provisions of this Section 4 to be given to the holders of shares of Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of the Corporation.

5. Voting Rights. Each share of Series One Preferred Stock issued and outstanding shall have the number of votes equal to the number of shares of Class A Common Stock into which each is convertible, as adjusted from time to time under Section 4 hereof. Each share of Series Two Preferred Stock issued and outstanding shall have the number of votes equal to the number of shares of Class C Common Stock into which each is convertible, as adjusted from time to time under Section 4 hereof. Fractional votes shall not, however, be permitted and any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of Series One Preferred Stock and Series Two Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward).

6. Covenants. In addition to any other rights provided by law, so long as any shares of Series One Preferred Stock or Series Two Preferred Stock shall be outstanding, this Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of the outstanding shares of the Series One Preferred Stock and Series Two Preferred Stock, voting as separate series:

(a) amend or repeal any provision of the Corporation's Articles of Incorporation or Bylaws if such action would materially and adversely change the rights, preferences or privileges of the Series One Preferred Stock or Series Two Preferred Stock;

(b) amend the Corporation's Articles of Incorporation if such action would increase the authorized number of shares of Series One Preferred Stock or Series Two Preferred Stock;

(c) authorize or issue shares of any class of stock having any preference or priority as to dividends or assets on a parity with of superior to the Series One Preferred Stock or Series Two Preferred Stock;

(d) approve or authorize a merger of the Corporation with or into another company, if thereafter the shares issued to the Corporation's shareholders as a result of such merger based on their Corporation shareholdings do not constitute a majority of the outstanding voting shares of the surviving company (except for a merger or reincorporation effected solely to change the Corporation's place of business), sale of substantially all the assets of the Corporation to an unaffiliated third party, or other like reorganization of the Corporation;

(e) approve the purchase, redemption or other acquisition of any Common Stock of the Corporation, other than repurchases pursuant to stock restriction agreements approved by the Board of Directors that grant the Corporation a right of repurchase upon termination of the service or employment of a consultant, director, or employee;

(f) pay or declare any dividend on any securities of the Corporation;

(g) approve the transfer of material assets of the Corporation to any person other than a wholly owned subsidiary of the Corporation; or

(h) approve the liquidation or dissolution of the Corporation.

ARTICLE IV

A. ***Limitation of Director's Liability***. The liability of the directors of this Corporation for monetary damages shall be eliminated to the fullest extent permissible under the California law.

B. ***Indemnification of Directors and Officers***. This Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) of this Corporation through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors or otherwise in excess of that expressly permitted by said Section 317 for said agents to the fullest extent permissible under California law, subject to the limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to this Corporation or its shareholders.

C. ***Repeal or Modification***. Any repeal or modification of the foregoing provisions of this Article IV shall not adversely affect any right or protection of an agent of this Corporation relating to acts or omissions occurring prior to such repeal or modification.

AMENDED AND RESTATED

BYLAWS

OF

SUNPOWER CORPORATION

(as of April 29, 2002)

TABLE OF CONTENTS

BYLAWS

OF

SUNPOWER CORPORATION

ARTICLE I

CORPORATE OFFICES

1.1 PRINCIPAL OFFICE

The board of directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside such state and the corporation has one or more business offices in such state, then the board of directors shall fix and designate a principal business office in the State of California.

1.2 OTHER OFFICES

The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF SHAREHOLDERS

2.1 PLACE OF MEETINGS

Meetings of shareholders shall be held at any place within or outside the State of California designated by the board of directors. In the absence of any such designation, shareholders meetings shall be held at the principal executive office of the corporation.

2.2 ANNUAL MEETING

The annual meeting of shareholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation, the annual meeting of shareholders shall be held on the third Thursday of May in each year at 1:00 p.m. However, if such day falls on a legal holiday, than the meeting shall be held at the same time and place on the next succeeding full business day. At the meeting, directors shall be elected, and any other proper business may be transacted.

2.3 SPECIAL MEETING

A special meeting of the shareholders may be called at any time by the board of directors, or by the chairman of the board, or by the president or by one or more shareholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting.

If a special meeting is called by any person or persons other than the board of directors or the president or the chairman of the board, then the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of these bylaws, that a meeting will be held at the time requested by the person or persons calling the meeting, so long as that time is not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, then the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the board of directors may be held.

2.4 NOTICE OF SHAREHOLDERS' MEETINGS

All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than ten (10) (or if sent by third-class mail pursuant to Section 2.5 of these bylaws, thirty (30)) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted (no business other than that specified in the notice may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the shareholders (but subject to the provisions of the next paragraph of this Section 2.4 any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

If action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a director has a direct

or indirect financial interest, pursuant to Section 310 of the Corporations Code of California (the "Code"), (ii) an amendment of the articles of incorporation, pursuant to Section 902 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, (iv) a voluntary dissolution of the corporation, pursuant to Section 1900 of the Code, or (v) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of the Code, then the notice shall also state the general nature of that proposal.

2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Written notice of any meeting of shareholders shall be given either (i) personally or (ii) by first-class mail or (iii) by third-class mail but only if the corporation has outstanding shares held of record by five hundred (500) or more persons (determined as provided in Section 605 of the Code) on the record date for the shareholders' meeting, or (iv) by telegraphic or other written communication. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the shareholder at the address of that shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or is given, notice shall be deemed to have been given if sent to that shareholder by mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a shareholder at the address of that shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, then all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the shareholder on written demand of the shareholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any shareholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

2.6 QUORUM

The presence in person or by proxy of the holders of a majority of the shares entitled to vote thereat constitutes a quorum for the transaction of business at all meetings of shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

2.7 ADJOURNED MEETING; NOTICE

Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy. In the absence of a quorum, no other business may be transacted at that meeting except as provided in Section 2.6 of these bylaws.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is fixed or if the adjournment is for more than forty-five (45) days from the date set for the original meeting, then notice of the adjourned meeting shall be given. Notice of any such adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.4 and 2.5 of these bylaws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.8 VOTING

The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to the provisions of Sections 702 through 704 of the Code (relating to voting shares held by a fiduciary, in the name of a corporation or in joint ownership).

The shareholders' vote may be by voice vote or by ballot; provided, however, that any election for directors must be by ballot if demanded by any shareholder at the meeting and before the voting has begun.

Except as provided in the last paragraph of this Section 2.8, or as may be otherwise provided in the articles of incorporation,

each outstanding share, regardless of class, shall be entitled to one dote on each matter submitted to a vote of the shareholders. Any shareholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote them against the proposal; but, if the shareholder fails to specify the number of shares which the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares which the shareholder is entitled to vote.

If a quorum is present, the affirmative vote of the majority of the shares represented and voting at a duly held meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number or a vote by classes is required by the Code or by the articles of incorporation.

At a shareholders' meeting at which directors are to be elected, a shareholder shall be entitled to cumulate votes (i.e., cast for any candidate a number of votes greater than the number of votes which such shareholder normally is entitled to cast) if the candidates' names have been placed in nomination prior to commencement of the voting and the shareholder has given notice prior to commencement of the voting of the shareholder's intention to cumulate votes. If any shareholder has given such a notice, then every shareholder entitled to vote may cumulate votes for candidates in nomination either (i) by giving one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are normally entitled or (ii) by distributing the shareholder's votes on the same principle among any or all of the candidates, as the shareholder thinks fit. The candidates receiving the highest number of affirmative votes, up to the number of directors to be elected, shall be elected; votes against any candidate and votes, withheld shall have no legal effect.

2.9 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT

The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. The waiver of notice or consent or approval need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval

of any of those matters specified in the second paragraph of Section 2.4 of these bylaws, the waiver of notice or consent or approval shall state the general nature of the proposal. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of and presence at that meeting, except when, the person objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Attendance at a meeting is not a waiver of any right to object to the consideration of matters required by the Code to be included in the notice of the meeting but not so included, if that objection is expressly made at the meeting.

2.10 SHAREHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted.

In the case of election of directors, such a consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors. However, a director may be elected at any time to fill any vacancy on the board of directors, provided that it was not created by removal of a director and that it has not been filled by the directors, by the written consent of the holders of a majority of the outstanding shares entitled to vote for the election of directors.

All such consents shall be maintained in the corporate records. Any shareholder giving a written consent, or the shareholder's proxy holders, or a transferee of the shares, or a personal representative of the shareholder, or their respective proxy holders, may revoke the consent by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

If the consents of all shareholders entitled to vote have not been solicited in writing and if the unanimous written consent of all such shareholders has not been received, then the secretary shall give prompt notice of the corporate action approved by the shareholders without a meeting such notice shall be given to those shareholders entitled to vote who have not consented in writing and shall be given in the manner specified in Section 2.5

of these bylaws. In the case of approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Code, (ii) indemnification of a corporate "agent," pursuant to Section 317 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, and (iv) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of the Code, the notice shall be given at least ten (10) days before the consummation of any action, authorized by that approval.

2.11 RECORD DATE FOR SHAREHOLDER NOTICE; VOTING; GIVING CONSENTS

For purposes of determining the shareholders entitled to notice of any meeting or to vote thereat or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting nor more than sixty (60) days before any such action without a meeting, and in such event only shareholders of record on the date so fixed are entitled to notice and to vote or to give consents, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Code.

If the board of directors does not so fix a record date:

(a) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held; and

(b) the record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the board has been taken, shall be the day on which the first written consent is given, or (ii) when prior action by the board has been taken, shall be at the close of business on the day on which the hoard adopts the resolution relating to that action, or the sixtieth (60th) day before the date of such other action, whichever is later.

The record date for any other purpose shall be as provided in Article VIII of these bylaws.

2.12 PROXIES

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholders name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) the person who executed the proxy revokes it prior to the time of voting by delivering a writing to the corporation stating that the proxy is revoked or by executing a subsequent proxy and presenting it to the meeting or by voting in person at the meeting; or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The dates contained on the forms of proxy presumptively determine the order of execution, regardless of the postmark dates on the envelopes in which they are mailed. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Code.

2.13 INSPECTORS OF ELECTION

Before any meeting of shareholders, the board of directors may appoint an inspector or inspectors of election to act at the meeting or its adjournment. If no inspector of election is so appointed, then the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint an inspector or inspectors of election to act at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting pursuant to the request of one (1) or more shareholders or proxies, then the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

(a) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(b) receive votes, ballots or consents;.

(c) hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) count and tabulate all votes or consents;

(e) determine when the polls shall close;

(f) determine the result; and

(g) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the Code and any limitations in the articles of incorporation and these bylaws relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER OF DIRECTORS

The number of directors of the Corporation shall be not less than five (5) nor more than nine (9). The exact number of directors shall be 8 until changed, within the limits specified above, by a resolution amending this Section 3.2, duly adopted by the Board of Directors or by the shareholders. The indefinite number of directors may be changed, or a definite number may be fixed without provision for an indefinite number, by a duly adopted amendment to the Articles of Incorporation or by an amendment to this bylaw duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided however, that an amendment reducing the fixed number or the minimum number of directors to a number less than three (3) cannot be adopted if the votes cast against its adoption at a meeting, or the shares not consenting in the case of an action by written consent, are equal to more than sixteen and two-thirds percent (16 2/3%) of the outstanding shares entitled to vote thereon. No amendment may change the stated maximum number of authorized directors to a number greater than two (2) times the stated minimum number of directors minus one (1).

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS

Directors shall be elected at each annual meeting of shareholders to hold office until the next annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

3.4 RESIGNATION AND VACANCIES

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

Vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director; however, a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute a majority of the required quorum), or by the unanimous written consent of all shares entitled to vote thereon. Each director so elected shall hold office until the next annual meeting of the shareholders and until a successor has been elected and qualified.

A vacancy or vacancies in the board of director shall be deemed to exist (i) in the event of the death, resignation or removal of any director, (ii) if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, (iii) if the authorized number of directors is increased, or (iv) if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the number of directors to be elected at that meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election, other than to fill a vacancy created by removal,

if by written consent, shall require the consent of the holders of a majority of the outstanding shares entitled to vote thereon.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

Regular meetings of the board of directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of California that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed by the board of directors.

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or telegram, it shall be delivered personally or by telephone or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting,

if the meeting is to be held at the principal executive office of the corporation.

3.8 QUORUM

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.10 of these bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of Section 310 of the Code (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest), Section 311 of the Code (as to appointment of committees), Section 317(e) of the Code (as to indemnification of directors), the articles of incorporation, and other applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 WAIVER OF NOTICE

Notice of a meeting need not be given to any director (i) who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or (ii) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such directors. All such waivers, consents, and approvals shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

3.10 ADJOURNMENT

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

3.11 NOTICE OF ADJOURNMENT

Notice of the time and place of holding an adjourned meeting need not be given unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.7 of these bylaws, to the directors who were not present at the time of the adjournment.

3.12 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

3.13 FEES AND COMPENSATION OF DIRECTORS

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.13 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

3.14 APPROVAL OF LOANS TO OFFICERS*

The corporation may, upon the approval of the board of directors alone, make loans of money or property to, or guarantee the obligations of, any officer of the corporation or its parent or subsidiary, whether or not a director, or adopt an employee benefit plan or plans authorizing such loans or guaranties provided that (i) the board of directors determines that such a loan or guaranty or plan may reasonably be expected to benefit the corporation, (ii) the corporation has outstanding shares held of record by 100 or more persons (determined as provided in Section 605 of the Code) on the date of approval by the board of directors, and (iii) the approval of the board of directors is by a vote sufficient without counting the vote of any interested director or directors.

* This section is effective only if it has been approved by the shareholders in accordance with Sections 315(b) and 152 of the Code.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) the approval of any action which, under the Code, also requires shareholders' approval or approval of the outstanding shares;

(b) the filling of vacancies on the board of directors or in any committee;

(c) the fixing of compensation of the directors for serving on the board or any committee;

(d) the amendment or repeal of these bylaws or the adoption of new bylaws;

(e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;

(f) a distribution to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or

(g) the appointment of any other committees of the board of directors or the members of such committees.

4.2 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings), Section 3.6 (regular; meetings), Section 3.7 (special meetings and notice), Section 3.8

(quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment), Section 3.11 (notice of adjournment), and Section 3.12 (action without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these bylaws, shall be chosen by the board, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or may empower the president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at anytime by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

5.6 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the shareholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a

corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 VICE PRESIDENTS

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors and shareholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given) the names of those present at directors' meetings or committee meetings, the number of shares present or represented at shareholders, meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 CHIEF FINANCIAL OFFICER

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records

of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors.

He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES,

AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The corporation shall, to the maximum extent and in the manner permitted by the Code, indemnify each of its directors and officers against expenses (as defined in Section 3I7(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.1, a “director” or “officer” of the corporation includes any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the extent and in the manner permitted by the Code, to indemnify each of its employees and agents (other than directors and officers) against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred an connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or

was an agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF SHARE REGISTER

The corporation shall keep either at its principal executive office or at the office of its transfer agent or registrar (if either be appointed), as determined by resolution of the board of directors, a record of its shareholders listing the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of the corporation who holds at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation or who holds at least one percent (1%) of such voting shares and has filed a Schedule 14B with the Securities and Exchange commission relating to the election of directors, may (i) inspect and copy the records of shareholders' names, addresses, and shareholdings during usual business hours on five (5) days' prior written demand on the corporation, (ii) obtain from the transfer agent of the corporation, on written demand and on the tender of such transfer agent's usual charges for such list, a list of the names and addresses of the shareholders who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which that list has been compiled or as of a date specified by the shareholder after the data of demand. Such list shall be made available to any such shareholder by the transfer agent on or before the later of five (5) days after the demand is received or five (5) days after the date specified in the demand as the date as of which the list is to be compiled.

The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate.

Any inspection and copying under this Section 7.1 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

7.2 MAINTENANCE AND INSPECTION OF BYLAWS

The corporation shall keep at its principal executive office or, if its principal executive office is not in the State of California, at its principal business office in California the original or a copy of these bylaws as amended to date, which bylaws shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in such state, then the secretary shall, upon the written request of any shareholder, furnish to that shareholder a copy of these bylaws as amended to date.

7.3 MAINTENANCE AND INSPECTION OF OTHER CORPORATE RECORDS

The accounting books and records and the minutes of proceedings of the shareholders, of the board of directors, and of any committee or committees of the board of directors shall be kept at such place or places as are designated by the board of directors or, in absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form, and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form.

The minutes and accounting books and records shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney and shall include the right to copy and make extracts. Such rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

7.4 INSPECTION BY DIRECTORS

Every director shall have the absolute right at any reasonable time to inspect all books, records, and documents of every kind as well as the physical properties of the corporation and each of its subsidiary corporations. Such inspection by a director may be made in person or by an agent or attorney. The right of inspection includes the right to copy and make extracts of documents.

7.5 ANNUAL REPORT TO SHAREHOLDERS; WAIVER

The board of directors shall cause an annual report to be sent to the shareholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent at least fifteen (15) days (or, if sent by third-class mail, thirty-five (35) days) before the annual meeting of shareholders to be held during the next fiscal year and in the manner specified in Section 2.5 of these bylaws for giving notice to shareholders of the corporation.

The annual report shall contain (i) a balance sheet as of the end of the fiscal year, (ii) an income statement, (iii) a statement of changes in financial position for the fiscal year, and (iv) any report of independent accountants or, if there is no such report, the certificate of an authorized officer of the corporation that the statements, were prepared without audit from the books and records of the corporation.

The foregoing requirement of an annual report shall be waived so long as the shares of the, corporation are held by fewer than one hundred (100) holders of record.

7.6 FINANCIAL STATEMENTS

If no annual report for the fiscal year has been sent to shareholders, then the corporation shall, upon the written request of any shareholder made more than one hundred twenty (120) days after the close of such fiscal year, deliver or mail to the person making the request, within thirty (30) days thereafter, a copy of a balance sheet as of the end of such fiscal year and an income statement and statement of changes in financial position for such fiscal year.

If a shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of stock of the corporation makes a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the then current fiscal year ended more than thirty (30) days before the date of the request, and for a balance sheet of the corporation as of the end of that period, then the chief financial officer shall cause that statement to be prepared, if not already prepared, and shall deliver personally or mail that statement or statements to the person making the request within thirty (30) days after the receipt of the request. If the corporation has not sent to the shareholders its annual report for the last fiscal year, the statements referred to in the first paragraph of this Section 7.6 shall likewise be delivered or mailed to the shareholder or shareholders within thirty (30) days after the request.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report, if any, of any independent accountants engaged by the corporation or by the certificate of an authorized officer of the corporation that the financial statement's were prepared without audit from the books and records of the corporation.

7.7 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairman of the board, the president, any vice president, the chief financial officer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING

For purposes of determining the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the shareholders entitled to exercise any rights in respect of any other lawful action (other than action by shareholders by written consent without a meeting), the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action. In that case, only shareholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the Code.

If the board of directors does not so fix a record date, then the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the board

adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED

The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 CERTIFICATES FOR SHARES

A certificate or certificates for shares of the corporation shall be issued to each shareholder when any of such shares are fully paid. The board of directors may authorize the issuance of certificates for shares partly paid provided that these certificates shall state the total amount of the consideration to be paid for them and the amount actually paid. All certificates shall be signed in the name of the corporation by the chairman of the board or the vice chairman of the board or the president or a vice president and by the chief financial officer or an assistant treasurer or the secretary or an assistant secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on a certificate ceases to be that officer, transfer agent or registrar before that certificate is issued, it may be issued by the corporation with the same effect as if that person were an officer, transfer agent or registrar at the date of issue.

8.5 LOST CERTIFICATES

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require; the board may require indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

8.6 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Code shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “person” includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

9.1 AMENDMENT BY SHAREHOLDERS

New bylaws may be adopted or these bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the articles of incorporation of the corporation set forth the number of authorized directors of the corporation, then the authorized number of directors may be changed only by an amendment of the articles of incorporation.

9.2 AMENDMENT BY DIRECTORS

Subject to the rights of the shareholders as provided in Section 9.1 of these bylaws, bylaws, other than a bylaw or an amendment of a bylaw changing the authorized number of directors (except to fix the authorized number of directors pursuant to a bylaw providing for a variable number of directors), may be adopted, amended or repealed by the board of directors.

SUNPOWER CORPORATION

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "Agreement") is entered into as of _____, 2005 (the "Effective Date"), by and between SUNPOWER CORPORATION, a Delaware corporation (the "Company"), and _____("Indemnitee").

RECITALS

A. Indemnitee is either a member of the board of directors of the Company (the "Board of Directors") or an officer of the Company, or both, and in such capacity or capacities, or otherwise as an Agent (as hereinafter defined) of the Company, is performing a valuable service for the Company.

B. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that he or she be indemnified as herein provided.

C. It is intended that Indemnitee shall be paid promptly by the Company all amounts necessary to effectuate in full the indemnity provided herein.

NOW, THEREFORE, in consideration of the premises and the covenants in this Agreement, and of Indemnitee continuing to serve the Company as an Agent and intending to be legally bound hereby, the parties hereto agree as follows:

1. Services by Indemnitee. Indemnitee agrees to serve (a) as a director or an officer of the Company, or both, so long as Indemnitee is duly appointed or elected and qualified in accordance with the applicable provisions of the Certificate of Incorporation and bylaws of the Company, and until such time as Indemnitee resigns or fails to stand for election or is removed from Indemnitee's position, or (b) as an Agent of the Company. Indemnitee may from time to time also perform other services at the request or for the convenience of, or otherwise benefiting, the Company. Indemnitee may at any time and for any reason resign or be removed from such position (subject to any other contractual obligation or other obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in any such position.

2. Indemnification. Subject to the limitations set forth herein and in Section 7 hereof, the Company hereby agrees to indemnify Indemnitee as follows:

(a) Except as otherwise specifically provided herein, the Company shall, with respect to any Proceeding (as hereinafter defined) associated with Indemnitee's being an Agent of the Company, indemnify Indemnitee to the fullest extent permitted by applicable law and the Certificate of Incorporation of the Company in effect on the date hereof or as such law or Certificate of Incorporation may from time to time be amended (but, in the case of any such amendment, only to the extent such amendment permits the Company to provide broader indemnification rights than the law or Certificate of Incorporation permitted the Company to provide before such amendment).

(b) The Company shall indemnify Indemnitee if Indemnitee is or was a party or is threatened to be made a party to any threatened, pending or completed Proceeding (other than an action by or in the right of the Company) by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against Expenses (as hereinafter defined) or Liabilities (as hereinafter defined), actually and reasonably incurred by Indemnitee in connection with such Proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful.

(c) The Company shall indemnify Indemnitee if Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed Proceeding by or in the right of the Company or any subsidiary of the Company to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against Expenses and, to the fullest extent permitted by law, Liabilities if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, except that no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

(d) The right to indemnification conferred herein and in the Certificate of Incorporation shall be presumed to have been relied upon by Indemnitee in serving or continuing to serve the Company as an Agent and shall be enforceable as a contract right.

3. Advancement of Expenses. All reasonable Expenses incurred by or on behalf of Indemnitee (including costs of enforcement of this Agreement) shall be advanced from time to time by the Company to Indemnitee within twenty (20) days after the receipt by the Company of a written request for an advance of Expenses, whether prior to or after final disposition of a Proceeding (except to the extent that there has been a Final Adverse Determination (as hereinafter defined) that Indemnitee is not entitled to be indemnified for such Expenses), including, without limitation, any Proceeding brought by or in the right of the Company. The written request for an advancement of any and all Expenses under this paragraph shall contain reasonable detail of the Expenses incurred by Indemnitee. In the event that such written request shall be accompanied by an affidavit of counsel to Indemnitee to the effect that such counsel has reviewed such Expenses and that such Expenses are reasonable in such counsel's view, then such expenses shall be deemed reasonable in the absence of clear and convincing evidence to the contrary. By execution of this Agreement, Indemnitee shall be deemed to have made whatever undertaking as may be required by law at the time of any advancement of Expenses with respect to repayment to the Company of such Expenses. In the event that the Company shall breach its obligation to advance Expenses under this Section 3, the parties hereto agree that Indemnitee's remedies available at law would not be adequate and that Indemnitee would be entitled to specific performance.

4. Surety Bond.

(a) In order to secure the obligations of the Company to indemnify and advance Expenses to Indemnitee pursuant to this Agreement, the Company shall obtain at the time of any Change in Control (as hereinafter defined) a surety bond (the "Bond"). The Bond shall be in an appropriate amount not less than one million dollars ($1,000,000), shall be issued by a commercial insurance company or other financial institution headquartered in the United States having assets in excess of $10 billion and capital according to its most recent published reports equal to or greater than the then applicable minimum capital standards promulgated by such entity's primary federal regulator and shall contain terms and conditions reasonably acceptable to Indemnitee. The Bond shall provide that Indemnitee may from time to time file a claim for payment under the Bond, upon written certification by Indemnitee to the issuer of the Bond that (i) Indemnitee has made written request upon the Company for an amount not less than the amount Indemnitee is drawing under the Bond and that the Company has failed or refused to provide Indemnitee with such amount in full within thirty (30) days after receipt of the request, and (ii) Indemnitee believes that he or she is entitled under the terms of this Agreement to the amount that Indemnitee is drawing upon under the Bond. The issuance of the Bond shall not in any way diminish the Company's obligation to indemnify Indemnitee against Expenses and Liabilities to the full extent required by this Agreement.

(b) Once the Company has obtained the Bond, the Company shall maintain and renew the Bond or a substitute Bond meeting the criteria of Section 4(a) during the term of this Agreement so that the Bond shall have an initial

term of five (5) years, be renewed for successive five-year terms, and always have at least one (1) year of its term remaining.

5. Presumptions and Effect of Certain Proceedings. Upon making a request for indemnification, Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Company shall have the burden of proof to overcome that presumption in reaching any contrary determination. The termination of any Proceeding by judgment, order, settlement, arbitration award or conviction, or upon a plea of nolo contendere or its equivalent shall not affect this presumption or, except as determined by a judgment or other final adjudication adverse to Indemnitee, establish a presumption with regard to any factual matter relevant to determining Indemnitee's rights to indemnification hereunder. If the person or persons so empowered to make a determination pursuant to Section 6 hereof shall have failed to make the requested determination within thirty (30) days after any judgment, order, settlement, dismissal, arbitration award, conviction, acceptance of a plea of nolo contendere or its equivalent, or other disposition or partial disposition of any Proceeding or any other event that could enable the Company to determine Indemnitee's entitlement to indemnification, the requisite determination that Indemnitee is entitled to indemnification shall be deemed to have been made.

6. Procedure for Determination of Entitlement to Indemnification.

(a) Whenever Indemnitee believes that Indemnitee is entitled to indemnification pursuant to this Agreement, Indemnitee shall submit a written request for indemnification to the Company. Any request for indemnification shall include sufficient documentation or information reasonably available to Indemnitee for the determination of entitlement to indemnification. In any event, Indemnitee shall submit Indemnitee's claim for indemnification within a reasonable time, not to exceed five (5) years after any judgment, order, settlement, dismissal, arbitration award, conviction, acceptance of a plea of nolo contendere or its equivalent, or final determination, whichever is the later date for which Indemnitee requests indemnification. The Secretary or other appropriate officer shall, promptly upon receipt of Indemnitee's request for indemnification, advise the Board of Directors in writing that Indemnitee has made such request. Determination of Indemnitee's entitlement to indemnification and, if so entitled, full payment of Indemnitee's claim for indemnification shall be made not later than thirty (30) days after the Company's receipt of Indemnitee's written request for such indemnification, provided that any request for indemnification for Liabilities, other than amounts paid in settlement, shall have been made after a determination thereof in a Proceeding.

(b) The Company shall be entitled to select the forum in which Indemnitee's entitlement to indemnification will be heard; provided, however, that if there is a Change in Control of the Company, Independent Legal Counsel (as hereinafter defined) shall determine whether Indemnitee is entitled to indemnification. The forum shall be any one of the following:

(i) a majority vote of Disinterested Directors (as hereinafter defined), even though less than a quorum;

(ii) by a committee of Disinterested Directors designated by majority vote of the Disinterested Directors, even though less than a quorum;

(iii) Independent Legal Counsel, whose determination shall be made in a written opinion; or

(iv) the stockholders of the Company.

7. Specific Limitations on Indemnification. Notwithstanding anything in this Agreement to the contrary, the Company shall not be obligated under this Agreement to make any payment to Indemnitee with respect to any Proceeding:

(a) To the extent that payment is actually made to Indemnitee under any insurance policy, or is made to Indemnitee by the Company or an affiliate otherwise than pursuant to this Agreement. Notwithstanding the availability of such insurance, Indemnitee also may claim indemnification from the Company pursuant to this Agreement by assigning to the Company any claims under such insurance to the extent Indemnitee is paid by the Company;

(b) Provided there has been no Change in Control, for Liabilities in connection with Proceedings settled without the Company's consent, which consent, however, shall not be unreasonably withheld;

(c) For an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or similar provisions of any state statutory or common law;

(d) To the extent it would be otherwise prohibited by law, if so established by a judgment or other final adjudication adverse to Indemnitee; or

(e) In connection with a Proceeding commenced by Indemnitee (other than a Proceeding commenced by Indemnitee to enforce Indemnitee's rights under this Agreement) unless the commencement of such Proceeding was authorized by the Board of Directors.

8. Fees and Expenses of Independent Legal Counsel. The Company agrees to pay the reasonable fees and expenses of Independent Legal Counsel should such Independent Legal Counsel be retained to make a determination of Indemnitee's entitlement to indemnification pursuant to Section 6(b) of this Agreement, and to fully indemnify such Independent Legal Counsel against any and all expenses and losses incurred by it arising out of or relating to this Agreement or its engagement pursuant hereto.

9. Remedies of Indemnitee.

(a) In the event that (i) a determination pursuant to Section 6 hereof is made that Indemnitee is not entitled to indemnification, (ii) advances of Expenses are not made pursuant to this Agreement, (iii) payment has not been timely made following a determination of entitlement to indemnification pursuant to this Agreement or (iv) Indemnitee otherwise seeks enforcement of this Agreement, Indemnitee shall be entitled to a final adjudication in the Court of Chancery of the State of Delaware of the remedy sought. Alternatively, unless court approval is required by law for the indemnification sought by Indemnitee, Indemnitee at Indemnitee's option may seek an award in arbitration to be conducted by a single arbitrator pursuant to the commercial arbitration rules of the American Arbitration Association now in effect, which award is to be made within thirty (30) days following the filing of the demand for arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or arbitration award. In any such proceeding or arbitration, Indemnitee shall be presumed to be entitled to indemnification and advancement of Expenses under this Agreement and the Company shall have the burden of proof to overcome that presumption.

(b) In the event that a determination that Indemnitee is not entitled to indemnification, in whole or in part, has been made pursuant to Section 6 hereof, the decision in the judicial proceeding or arbitration provided in paragraph (a) of this Section 9 shall be made *de novo* and Indemnitee shall not be prejudiced by reason of a determination that Indemnitee is not entitled to indemnification.

(c) If a determination that Indemnitee is entitled to indemnification has been made pursuant to Section 6 hereof, or is deemed to have been made pursuant to Section 5 hereof or otherwise pursuant to the terms of this Agreement, the Company shall be bound by such determination in the absence of a misrepresentation or omission of a material fact by Indemnitee in connection with such determination.

(d) The Company shall be precluded from asserting that the procedures and presumptions of this Agreement are not valid, binding and enforceable. The Company shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement and is precluded from making any assertion to the contrary.

(e) Expenses reasonably incurred by Indemnitee in connection with Indemnitee's request for indemnification under, seeking enforcement of or to recover damages for breach of this Agreement shall be borne by the Company

when and as incurred by Indemnitee irrespective of any Final Adverse Determination that Indemnitee is not entitled to indemnification.

10. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the costs, judgments, penalties, fines, liabilities or Expenses actually and reasonably incurred in connection with any action, suit or proceeding (including an action, suit or proceeding brought by or on behalf of the Company), but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such costs, judgments, penalties, fines, liabilities and Expenses actually and reasonably incurred to which Indemnitee is entitled.

11. Maintenance of Insurance. Upon the Company's purchase of directors' and officers' liability insurance policies covering its directors and officers, then, subject only to the provisions within this Section 11, the Company agrees that so long as Indemnitee shall have consented to serve or shall continue to serve as a director or officer of the Company, or both, or as an Agent of the Company, and thereafter so long as Indemnitee shall be subject to any possible Proceeding (such periods being hereinafter sometimes referred to as the "Indemnification Period"), the Company will use all reasonable efforts to maintain in effect for the benefit of Indemnitee one or more valid, binding and enforceable policies of directors' and officers' liability insurance from established and reputable insurers, providing, in all respects, coverage both in scope and amount which is no less favorable than that provided by such preexisting policies. Notwithstanding the foregoing, the Company shall not be required to maintain said policies of directors' and officers' liability insurance during any time period if during such period such insurance is not reasonably available or if it is determined in good faith by the then directors of the Company either that:

(a) The premium cost of maintaining such insurance is substantially disproportionate to the amount of coverage provided thereunder; or

(b) The protection provided by such insurance is so limited by exclusions, deductions or otherwise that there is insufficient benefit to warrant the cost of maintaining such insurance.

Anything in this Agreement to the contrary notwithstanding, to the extent that and for so long as the Company shall choose to continue to maintain any policies of directors' and officers' liability insurance during the Indemnification Period, the Company shall maintain similar and equivalent insurance for the benefit of Indemnitee during the Indemnification Period (unless such insurance shall be less favorable to Indemnitee than the Company's existing policies).

12. Modification, Waiver, Termination and Cancellation. No supplement, modification, termination, cancellation or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver.

13. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

14. Notice by Indemnitee and Defense of Claim. Indemnitee shall promptly notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter, whether civil, criminal, administrative or investigative, but the omission so to notify the Company will not relieve it from any liability that it may have to Indemnitee if such omission does not prejudice the Company's rights. If such omission does prejudice the Company's rights, the Company will be relieved from liability only to the extent of such prejudice. Notwithstanding the foregoing, such omission will not relieve the Company from any liability that it may have to Indemnitee otherwise than under this Agreement. With respect to any Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

(a) The Company will be entitled to participate therein at its own expense; and

(b) The Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee; provided, however, that the Company shall not be entitled to assume the defense of any Proceeding if there has been a Change in Control or if Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee with respect to such Proceeding. After notice from the Company to Indemnitee of its election to assume the defense thereof, the Company will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee in connection with the defense thereof, other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ Indemnitee's own counsel in such Proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Indemnitee unless:

(i) the employment of counsel by Indemnitee has been authorized by the Company;

(ii) Indemnitee shall have reasonably concluded that counsel engaged by the Company may not adequately represent Indemnitee due to, among other things, actual or potential differing interests; or

(iii) the Company shall not in fact have employed counsel to assume the defense in such Proceeding or shall not in fact have assumed such defense and be acting in connection therewith with reasonable diligence; in each of which cases the fees and expenses of such counsel shall be at the expense of the Company.

(c) The Company shall not settle any Proceeding in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent; provided, however, that Indemnitee will not unreasonably withhold his or her consent to any proposed settlement.

15. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) delivered by facsimile with telephone confirmation of receipt or (c) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(i) If to Indemnitee, to the address or facsimile number set forth on the signature page hereto.

(ii) If to the Company, to:

SunPower Corporation
430 Indio Way
Sunnyvale, California 94085
Attn:

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

16. Nonexclusivity. The rights of Indemnitee hereunder shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under applicable law, the Company's Certificate of Incorporation or bylaws, or any agreements, vote of stockholders, resolution of the Board of Directors or otherwise, and to the extent that during the Indemnification Period the rights of the then existing directors and officers are more favorable to such directors or officers than the right currently provided to Indemnitee thereunder or under this Agreement, Indemnitee shall be entitled to the full benefits of such more favorable rights.

17. Certain Definitions.

(a) "Agent" shall mean any person who is or was, or who has consented to serve as, a director, officer, employee, agent, fiduciary, joint venturer, partner, manager or other official of the Company or a subsidiary or an

affiliate of the Company, or any other entity (including without limitation, an employee benefit plan) either at the request of, for the convenience of, or otherwise to benefit the Company or a subsidiary of the Company.

(b) "Change in Control" shall mean the occurrence of any of the following:

(i) Both (A) any "person" (as defined below) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least twenty percent (20%) of the total voting power represented by the Company's then outstanding voting securities and (B) the beneficial ownership by such person of securities representing such percentage has not been approved by a majority of the "continuing directors" (as defined below);

(ii) Any "person" is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities;

(iii) A change in the composition of the Board of Directors occurs, as a result of which fewer than two-thirds of the incumbent directors are directors who either (A) had been directors of the Company on the "look-back date" (as defined below) (the "Original Directors") or (B) were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority in the aggregate of the Original Directors who were still in office at the time of the election or nomination and directors whose election or nomination was previously so approved (the "continuing directors");

(iv) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, if such merger or consolidation would result in the voting securities of the Company outstanding immediately prior thereto representing (either by remaining outstanding or by being converted into voting securities of the surviving entity) fifty percent (50%) or less of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(v) The stockholders of the Company approve (A) a plan of complete liquidation of the Company or (B) an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

For purposes of Subsection (i) above, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act, but shall exclude (x) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a parent or subsidiary of the Company or (y) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company.

For purposes of Subsection (iii) above, the term "look-back date" shall mean the later of (x) the Effective Date and (y) the date twenty-four (24) months prior to the date of the event that may constitute a "Change in Control."

Any other provision of this Section 17(b) notwithstanding, the term "Change in Control" shall not include a transaction, if undertaken at the election of the Company, the result of which is to sell all or substantially all of the assets of the Company to another corporation (the "surviving corporation"); provided that the surviving corporation is owned directly or indirectly by the stockholders of the Company immediately following such transaction in substantially the same proportions as their ownership of the Company's common stock immediately preceding such transaction; and provided, further, that the surviving corporation expressly assumes this Agreement.

(c) "Disinterested Director" shall mean a director of the Company who is not or was not a party to or otherwise involved in the Proceeding in respect of which indemnification is being sought by Indemnitee.

(d) "Expenses" shall include all direct and indirect costs (including, without limitation, attorneys' fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, all other disbursements or out-of-pocket expenses

and reasonable compensation for time spent by Indemnitee for which Indemnitee is otherwise not compensated by the Company or any third party) actually and reasonably incurred in connection with either the investigation, defense, settlement or appeal of a Proceeding or establishing or enforcing a right to indemnification under this Agreement, applicable law or otherwise; provided, however, that "Expenses" shall not include any Liabilities.

(e) "Final Adverse Determination" shall mean that a determination that Indemnitee is not entitled to indemnification shall have been made pursuant to Section 6 hereof and either (1) a final adjudication in the Court of Chancery of the State of Delaware or decision of an arbitrator pursuant to Section 9(a) hereof shall have denied Indemnitee's right to indemnification hereunder, or (2) Indemnitee shall have failed to file a complaint in a Delaware court or seek an arbitrator's award pursuant to Section 9(a) for a period of one hundred twenty (120) days after the determination made pursuant to Section 6 hereof.

(f) "Independent Legal Counsel" shall mean a law firm or a member of a firm selected by the Company and approved by Indemnitee (which approval shall not be unreasonably withheld) or, if there has been a Change in Control, selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld), that neither is presently nor in the past five (5) years has been retained to represent: (i) the Company or any of its subsidiaries or affiliates, or Indemnitee or any corporation of which Indemnitee was or is a director, officer, employee or agent, or any subsidiary or affiliate of such a corporation, in any material matter, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Legal Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's right to indemnification under this Agreement.

(g) "Liabilities" shall mean liabilities of any type whatsoever including, but not limited to, any judgments, fines, ERISA excise taxes and penalties, penalties and amounts paid in settlement (including all interest assessments and other charges paid or payable in connection with or in respect of such judgments, fines, penalties or amounts paid in settlement) of any Proceeding.

(h) "Proceeding" shall mean any threatened, pending or completed action, claim, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative, that is associated with Indemnitee's being an Agent of the Company.

18. Binding Effect; Duration and Scope of Agreement. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), spouses, heirs and personal and legal representatives. This Agreement shall continue in effect during the Indemnification Period, regardless of whether Indemnitee continues to serve as an Agent.

19. Severability. If any provision or provisions of this Agreement (or any portion thereof) shall be held to be invalid, illegal or unenforceable for any reason whatsoever:

(a) the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby; and

(b) to the fullest extent legally possible, the provisions of this Agreement shall be construed so as to give effect to the intent of any provision held invalid, illegal or unenforceable.

20. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within the State of Delaware, without regard to conflict of laws rules.

21. Consent to Jurisdiction. The Company and Indemnitee each irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding that arises out of or

relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of Delaware.

22. Entire Agreement. This Agreement represents the entire agreement between the parties hereto, and there are no other agreements, contracts or understandings between the parties hereto with respect to the subject matter of this Agreement, except as specifically referred to herein or as provided in Section 16 hereof.

23. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer and Indemnitee has executed this Agreement as of the date first above written.

SUNPOWER CORPORATION,
a Delaware corporation

By _____

Print Name _____

Title _____

INDEMNITEE

Signature _____

Print Name _____

Address _____

_____

Telephone _____

Facsimile _____

E-mail _____

Exhibit 10.2

SUNPWR SYSTEMS INC.

1988 INCENTIVE STOCK PLAN

1. Purposes of the Plan. The purposes of this Incentive Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to the Employees and Consultants of the Company and to promote the success of the Company's business.

Options granted hereunder may be either Incentive Stock Options or Nonstatutory Stock Options, at the discretion of the Board and as reflected in the terms of the written option agreement. The Board may also grant Stock Purchase Rights under this Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Board" shall mean the Committee, if one has been appointed, or the Board of Directors of the Company, if no Committee is appointed.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Committee" shall mean the Committee appointed by the Board of Directors in accordance with paragraph (a) of Section 4 of the Plan, if one is appointed.

(d) "Common Stock" shall mean the Common Stock of the Company.

(e) "Company" shall mean Sunpwr Systems Inc., a California corporation.

(f) "Consultant" shall mean any person who is engaged by the Company or any Parent or Subsidiary to render consulting services and is compensated for such consulting services, and any director of the Company whether compensated for such services or not; provided that if and in the event the Company registers any class of any equity security pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term Consultant shall thereafter not include directors who are not compensated for their services or are paid only a director's fee by the Company.

(g) "Continuous Status as an Employee or Consultant" shall mean the absence of any interruption or termination of service as an Employee or Consultant. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Board; provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(h) "Employee" shall mean any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

(i) "Incentive Stock Option" shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422A of the Code.

(j) "Nonstatutory Stock Option" shall mean an Option not intended to qualify as an Incentive Stock Option.

(k) "Option" shall mean a stock option granted pursuant to the Plan.

(l) "Optioned Stock" shall mean the Common Stock subject to an Option.

(m) "Optionee" shall mean an Employee or Consultant who receives an Option.

(n) "Parent" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 425(e) of the Code.

(o) "Plan" shall mean this 1988 Incentive Stock Plan.

(p) "Purchaser" shall mean any person who has purchased Shares pursuant to an Option or who has purchased, or has the right to purchase, Shares pursuant to a Stock Purchase Right under the Plan.

(q) "Share" shall mean a share of the Common Stock, as adjusted in accordance with Section 12 of the Plan.

(r) "Stock Purchase Right" shall mean a right, other than an Option, to purchase Common Stock pursuant to the Plan.

(s) "Subsidiary" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 425(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of shares which may be optioned and sold under the Plan is 644,800 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. Notwithstanding any other provision of the Plan, shares issued under the Plan and later repurchased by the Company shall not become available for future grant or sale under the Plan.

4. Administration of the Plan.

(a) Procedure. The Plan shall be administered by the Board of Directors of the Company.

(i) Subject to subparagraph (ii), the Board of Directors may appoint a Committee consisting of not less than two members of the Board of Directors to administer the Plan on behalf of the Board of Directors, subject to such terms and conditions as the Board of Directors may prescribe. Once appointed, the Committee shall continue to serve until otherwise directed by the Board of Directors. Members of the Board who are either eligible for Options or Stock Purchase Rights or have been granted Options or Stock Purchase Rights may vote on any matters affecting the administration of the Plan or the grant of any Options or Stock Purchase Rights pursuant to the Plan, except that no such member shall act upon the granting of an Option or Stock Purchase Rights to himself, but any such member may be counted in determining the existence of a quorum at any meeting of the Board during which action is taken with respect to the granting of Options or Stock Purchase Rights to him.

(ii) Notwithstanding the foregoing subparagraph (i), if and in any event the Company registers any class of any equity security pursuant to Section 12 of the Exchange Act, from the effective date of such registration until six months after the termination of such registration, any grants of Options or Stock Purchase Rights to officers or directors shall only be made by the Board of Directors; provided, however, that if a majority of the Board of Directors is eligible to participate in this Plan or any other stock option or other stock plan of the Company or any of its affiliates, or has been eligible at any time during the prior one-year period (or, if shorter, the period following the initial registration of the Company's equity securities under Section 12 of the Exchange Act), any grants of Options or Stock Purchase Rights to directors must be made by, or only in accordance with the recommendation of, a Committee consisting of three or more persons, who may but need not be directors or employees of the Company, appointed by the Board of Directors and having full authority to act in the matter, none of whom is eligible to participate in this Plan or any other stock option or other stock plan of the Company or any of its affiliates, or has been eligible at any time during the prior one-year period (or, if shorter, the period following the initial registration of the Company's equity securities under Section 12 of the Exchange Act). Any Committee administering the Plan with respect to grants to officers who are not also directors shall conform to the requirements of the preceding sentence. Once appointed, the Committee shall continue to serve until otherwise directed by the Board of Directors.

(iii) Subject to the foregoing subparagraphs (i) and (ii), from time to time the Board of Directors may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer the Plan.

(b) Powers of the Board. Subject to the provisions of the Plan, the Board shall have the authority, in its discretion: (i) to grant Incentive Stock Options, Nonstatutory Stock Options, and Stock Purchase Rights; (ii) to determine, upon review of relevant information and in accordance with Section 8(b) of the Plan, the fair market value of the Common Stock; (iii) to determine the exercise price per share of Options or Stock Purchase Rights to be granted, which exercise price shall be determined in accordance with Section 8(a) of the Plan; (iv) to determine the Employees or Consultants to whom, and the time or times at which, Options or Stock Purchase Rights shall be granted and the number of shares to be represented by each Option or Stock Purchase Right; (v) to interpret the Plan; (vi) to prescribe, amend and rescind rules and

regulations relating to the Plan; (vii) to determine the terms and provisions of each Option or Stock Purchase Right granted (which need not be identical) and, with the consent of the holder thereof, modify or amend each Option or Stock Purchase Right; (viii) to accelerate or defer (with the consent of the Optionee) the exercise date of any Option, consistent with the provisions of Section 5 of the Plan; (ix) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Stock Purchase Right previously granted by the Board; and (x) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(c) Effect of Board's Decision. All decisions, determinations and interpretations of the Board shall be final and binding on all Optionees, Purchasers and any other holders of any Options or Stock Purchase Rights granted under the Plan.

5. Eligibility.

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted only to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if he is otherwise eligible, be granted an additional Option or Options, or Stock Purchase Right or Rights.

(b) No Incentive Stock Option may be granted to an Employee which, when aggregated with all other incentive stock options granted to such Employee by the Company or any Parent or Subsidiary, would result in Shares having an aggregate fair market value (determined for each Share as of the date of grant of the Option covering such Share) in excess of $100,000 becoming first available for purchase upon exercise of one or more Incentive Stock Options during any calendar year.

(c) Section 5(b) of the Plan shall apply only to an Incentive Stock Option evidenced by an "Incentive Stock Option Agreement" which sets forth the intention of the Company and the Optionee that such Option shall qualify as an Incentive Stock Option. Section 5(b) of the Plan shall not apply to any Option evidenced by a "Nonstatutory Stock Option Agreement" which sets forth "the intention of the Company and the Optionee that such Option shall be a Nonstatutory Stock Option, nor to any Stock Purchase Right.

(d) THE PLAN SHALL NOT CONFER UPON ANY OPTIONEE, PURCHASER OR HOLDER OF A STOCK PURCHASE RIGHT ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTING RELATIONSHIP WITH THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH HIS RIGHT OR THE COMPANY'S RIGHT TO TERMINATE HIS EMPLOYMENT OR CONSULTING RELATIONSHIP AT ANY TIME, WITH OR WITHOUT CAUSE.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company as described in Section 18 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Incentive Stock Option and Nonstatutory Stock Option shall be ten (10) years from the date of grant thereof or such shorter term as may be provided in the Incentive Stock Option Agreement or Nonstatutory Stock Option Agreement. However, in the case of an Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Incentive Stock Option Agreement or Nonstatutory Stock Option Agreement.

8. Exercise Price and Consideration.

(a) The per Share exercise price for the Shares to be issued pursuant to exercise of an Option or Stock Purchase Right shall be such price as is determined by the Board, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the fair market value per Share on the date of grant.

(B) granted to any Employee, the per Share exercise price shall be no less than 100% of the fair market value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option or any Stock Purchase Right

(A) granted to a person who, at the time of the grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the fair market value per Share on the date of the grant.

(B) granted to any person, the per Share exercise price shall be no less than 85% of the fair market value per Share on the date of grant.

(b) The fair market value shall be determined by the Board in its discretion; provided, however, that where there is a public market for the Common Stock, the fair market value per Share shall be the mean of the bid and asked prices (or the closing price per share if the Common Stock is listed on the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System) of the Common Stock for the date of grant, as reported in The Wall Street Journal (or, if not so reported, as otherwise reported by the NASDAQ System) or, in the event the Common Stock is listed on a stock exchange, the fair market value per Share shall be the closing price on such exchange on the date of grant of the Option, as reported in The Wall Street Journal.

(c) The consideration to be paid for the Shares to be issued upon exercise of an Option or Stock Purchase Right, including the method of payment, shall be determined by the

Board and may consist entirely of cash, check, promissory note, other Shares of Common Stock which (i) either have been owned by the Optionee or Purchaser for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company, and (ii) have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option or Stock Purchase Right shall be exercised, or any combination of such methods of payment, or such other consideration and method of payment for the issuance of Shares to the extent permitted under Sections 408 and 409 of the California General Corporation Law. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company (Section 315(b) of the California General Corporation Law).

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Board, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 8(c) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Status as an Employee or Consultant. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant (as the case may be), such Optionee may, but only within thirty (30) days (or such other period of time, not exceeding three (3) months in the case of an Incentive Stock Option or six (6) months in the case of a Nonstatutory Stock Option, as is determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his Option to the extent that he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise the

Option at the date of such termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. Notwithstanding the provisions of Section 9(b) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his total and permanent disability (as defined in Section 22(e)(3) of the Code), he may, but only within six (6) months (or such other period of time not exceeding twelve (12) months as is determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) from the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his Option to the extent he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) Death of Optionee. In the event of the death of an Optionee:

(i) during the term of the Option who is at the time of his death an Employee or Consultant of the Company and who shall have been in continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as an Employee or Consultant six (6) months after the date of death, subject to the limitation set forth in Section 5(b); or

(ii) within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) after the termination of Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

10. Stock Purchase Rights.

(a) Rights to Purchase. After the Board of Directors determines that it will offer an Employee or Consultant the right to purchase Shares under the Plan, it shall advise the offeree in writing of the terms, conditions and restrictions relating to the offer, including the number of Shares that such person shall be entitled to purchase, and the time within which such person must accept such offer, which shall in no event exceed sixty (60) days from the date upon which the Board of Directors or its Committee made the determination to grant the Stock

Purchase Right. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Board of Directors.

(b) Issuance of Shares. Forthwith after payment therefor, the Shares purchased shall be duly issued; provided, however, that the Board may require that the Purchaser make adequate provision for any Federal and State withholding obligations of the Company as a condition to such purchase. Such withholding may be accomplished by the withholding of Shares having an aggregate fair market value at least equal to the amount required to be withheld.

(c) Repurchase Option. Unless the Board of Directors or its Committee determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the Purchaser's employment with the Company for any reason (including death or disability). The purchase price for shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the Purchaser and may be paid by cancellation of any indebtedness of the Purchaser to the Company. The repurchase option shall lapse at such a rate as the Board of Directors may determine.

(d) Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Board of Directors.

(e) Rights as a Shareholder. A Stock Purchase Right shall be deemed to have been exercised when full payment for the Shares to be purchased thereunder has been received by the Company. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Stock Purchase Right. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Stock Purchase Right. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

(f) Shares Available Under the Plan. Exercise of a Stock Purchase Right in any manner shall result in a decrease in the number of Shares that thereafter shall be available, both for purposes of the Plan and for sale under the Stock Purchase Right provisions, by the number of Shares as to which the Stock Purchase Right is exercised. Shares repurchased by the Company pursuant to Section 10(c) hereof shall not be available for reissuance under the Plan.

11. Non-Transferability of Options and Stock Purchase Rights. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee or holder of a Stock Purchase Right, only by the Optionee or holder of a Stock Purchase Right.

12. Adjustments Upon Changes in Capitalization or Merger. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option and Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

In the event of the proposed dissolution or liquidation of the Company, any outstanding Options or Stock Purchase Rights will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its sole discretion in such instances, declare that any Option or Stock Purchase Right shall terminate as of a date fixed by the Board and give each Optionee or holder of a Stock Purchase Right the right to exercise his Option or Stock Purchase Right as to all or any part of the Common Stock subject to such Option or Stock Purchase Right, including Shares as to which the Option or Stock Purchase Right would not otherwise be exercisable. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, Options and Stock Purchase Rights shall be assumed or an equivalent option or right shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless such successor corporation does not agree to assume the Option or Stock Purchase Right or to substitute an equivalent option or right, in which case the Board shall, in lieu of such assumption or substitution, provide for the Optionee or holder of a Stock Purchase Right to have the right to exercise the Option or Stock Purchase Right as to all or any part of the Common Stock subject to such Option or Stock Purchase Right, including Shares as to which the Option or Stock Purchase Right would not otherwise be exercisable. If the Board makes an Option or Stock Purchase Right fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify the Optionee or holder of a Stock Purchase Right that the Option or Stock Purchase Right shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right will terminate upon the expiration of such period.

13. Time of Granting Options or Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Board makes the determination granting such Option or Stock Purchase Right. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable; provided that, the following revisions or amendments shall require approval of the shareholders of the Company in the manner described in Section 18 of the Plan:

(i) any increase in the number of Shares subject to the Plan, other than in connection with an adjustment under Section 12 of the Plan;

(ii) any change in the designation of the class of persons eligible to be granted Options or Stock Purchase Rights; or

(iii) if the Company has a class of equity securities registered under Section 12 of the Exchange Act at the time of such revision or amendment, any material increase in the benefits accruing to participants under the Plan.

(b) Shareholder Approval. If any amendment requiring shareholder approval under Section 14(a) of the Plan is made subsequent to the first registration of any class of equity securities by the Company under Section 12 of the Exchange Act, such shareholder approval shall be solicited as described in Section 18 of the Plan.

(c) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options or Stock Purchase Rights already granted and such Options and Stock Purchase Rights shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Board and the Optionee, Purchaser or holder of a Stock Purchase Right, which agreement must be in writing and signed by the Company and the Optionee, Purchaser or holder of the Stock Purchase Right.

15. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

16. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Stock Option and Stock Purchase Agreements. Options shall be evidenced by written Stock Option Agreements in such form as the Board shall approve. Upon the exercise of Stock Purchase Rights, a Purchaser shall execute a Restricted Stock Purchase Agreement in such form as the Board of Directors shall approve.

18. Shareholder Approval.

(a) Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted.

(b) If and in the event that the Company registers any class of equity securities pursuant to Section 12 of the Exchange Act, any required approval of the shareholders of the Company obtained after such registration shall be solicited substantially in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder.

(c) If any required approval by the shareholders of the Plan itself or of any amendment thereto is solicited at any time otherwise than in the manner described in Section 18(b) hereof, then the Company shall, at or prior to the first annual meeting of shareholders held subsequent to the later of (1) the first registration of any class of equity securities of the Company under Section 12 of the Exchange Act or (2) the granting of an Option hereunder to an officer or director after such registration, do the following:

(i) furnish in writing to the holders entitled to vote for the Plan substantially the same information which would be required (if proxies to be voted with respect to approval or disapproval of the Plan or amendment were then being solicited) by the rules and regulations in effect under Section 14(a) of the Exchange Act at the time such information is furnished; and

(ii) file with, or mail for filing to, the Securities and Exchange Commission four copies of the written information referred to in subsection (i) hereof not later than the date on which such information is first sent or given to shareholders.

19. Information to Optionees and Holders of Stock Purchase Rights. The Company shall provide to each Optionee and each holder of a Stock Purchase Right, during the period for which such Optionee or holder of a Stock Purchase Right has one or more Options or Stock Purchase Rights outstanding, copies of all annual reports and other information which are provided to all shareholders of the Company. The Company shall not be required to provide such information if the issuance of Options and Stock Purchase Rights under the Plan is limited to key employees whose duties in connection with the Company assure their access to equivalent information.

SUNPOWER CORPORATION

NOTICE OF STOCK OPTION GRANT

[Name]
[Address]

You have been granted an option to purchase Common Stock of SunPower Corporation (the "Company") as follows:

Grant Number:	
Date of Grant:	
Option Price Per Share:	$
Total Number of Shares Granted:	
Total Price of Shares Granted:	$
Type of Option:	Incentive Stock Option
Term /Expiration Date:	

Exercise Schedule:

This Option may be exercised, in whole or in part, in accordance with the Vesting Schedule set our below.

Vesting Schedule:

Date of Vesting	Number of Shares
	1/60 of Shares Per Month

Termination Period:

This Option may be exercised for 30 days after termination of the Optionee's employment or consulting relationship with the Company, except as set out in Sections 7 and 8 of the Option Agreement (but in no event later than the Expiration Date).

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE RIGHT TO EXERCISE OPTIONS FOR SHARES PURSUANT TO THIS NOTICE OF STOCK OPTION GRANT AND THE STOCK OPTION AGREEMENT IS EARNED ONLY BY CONTINUING CONSULTANCY OR EMPLOYMENT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THE STOCK OPTION AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the 1988 Incentive Stock Plan and certain information related thereto and represents that Optionee is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the 1988 Incentive Stock Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan.

By your signature and the signature of the Company's representative below, you and the Company agree that this option is granted under and governed by the terms and conditions of the 1988 Incentive Stock Plan and the Stock Option Agreement, all of which are attached and made a part of this document.

OPTIONEE:

By: _____
Signature

_____
Print Name

SUNPOWER CORPORATION

By: _____

Title: _____

SUNPOWER CORPORATION

STOCK OPTION AGREEMENT

1. Grant of Option. SunPower Corporation, a California corporation (the "Company"), hereby grants to the Optionee named in the Notice of Stock Option Grant (the "Optionee"), an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price") subject to the terms, definitions and provisions of the SunPower Corporation 1988 Incentive Stock Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option ("ISO") as defined in Section 422A of the Code.

2. Exercise of Option. This Option shall be exercisable during its term in accordance with the Exercise Schedule set out in the Notice of Grant and with the provisions of Section 9 of the Plan as follows:

(i) Right to Exercise.

(a) This Option may not be exercised for a fraction of a share.

(b) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 6, 7 and 8 below, subject to the limitation contained in subsection 2(i)(c).

(c) In no event may this Option be exercised after the date of expiration of the term of this Option as set forth in the Notice of Grant.

(ii) Method of Exercise. This Option shall be exercisable by written notice (in the form attached as Exhibit A) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the exercise price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the exercise price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares purchasable pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Optionee shall, concurrently with the exercise of all or any portion of this Option, deliver to the Company his Investment Representation Statement in the form attached hereto as Exhibit B, and shall read the applicable rules of the Commissioner of Corporations attached to such Investment Representation Statement.

4. Method of Payment. Payment of the exercise price shall be by cash or check.

5. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Termination of Relationship. In the event of termination of Optionee's consulting relationship or Continuous Status as an Employee, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set out in the Notice of Grant. To the extent that Optionee was not entitled to exercise this Option at the date of such termination, or if Optionee does not exercise this Option within the time specified herein, the Option shall terminate.

7. Disability of Optionee. Notwithstanding the provisions of Section 6 above, in the event of termination of Optionee's Continuous Status as an Employee as a result of total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within six (6) months from the date of termination of employment (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), exercise the Option to the extent otherwise so entitled at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

8. Death of Optionee. In the event of the death of Optionee, the Option may be exercised at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but, (a) if such death occurs while the Optionee is an Employee or Consultant of the Company who has been in Continuous Status as an Employee or Consultant since the date of grant of the Option, only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as an Employee or Consultant six (6) months after the date of death, and (b) if the date' of death was within thirty (30) days after the termination of Continuous Status as an Employee or Consultant, only to the extent the Optionee could exercise the Option at the date of death.

9. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

10. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this option. The limitations set out in Section 7 of the Plan regarding Options designated as Incentive Stock Options and Options granted to more than ten percent (10%) shareholders shall apply to this Option.

11. Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal and California tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES,

(i) Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability or California income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

(ii) Exercise of Nonqualified Stock Option (NSO"). If this Option does not qualify as an ISO, there may be a regular federal income tax liability and a California income tax liability upon the exercise of the Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(iii) Disposition of Shares. In the case of an NSO, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal and California income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal and California income tax purposes. If Shares purchased under an ISO are disposed of within such one-year period or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price.

(iv) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is treated as an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, or (2) the date one year after transfer of such Shares to the Optionee upon exercise of the ISO, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee from the early disposition by payment in cash or out of the current earnings paid to the Optionee.

EXHIBIT 10.3

SUNPOWER CORPORATION

1996 STOCK PLAN

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant of an Option and subject to the applicable provisions of Section 422 of the Code and the regulations promulgated thereunder. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "Applicable Laws" means the legal requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a Committee appointed by the Board of Directors in accordance with Section 4 of the Plan.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means SunPower Corporation, a California corporation.

(h) "Consultant" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services and is compensated for such services, and any Director of the Company whether compensated for such services or not. If the Company registers any class of any equity security pursuant to the Exchange Act, the term Consultant shall thereafter not include Directors who are not compensated for their services or are paid only a Director's fee by the Company.

(i) "Continuous Status as an Employee or Consultant" means that the employment or consulting relationship with the Company, any Parent or Subsidiary is not interrupted or terminated. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. A leave of absence approved by the Company shall include sick leave, military leave, or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon

expiration of such leave is guaranteed by statute or contract, including Company policies. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 91st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

(j) "Director" means a member of the Board of Directors of the Company.

(k) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid; if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(n) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(o) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(p) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(q) "Option" means a stock option granted pursuant to the Plan.

(r) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.

(s) "Optionee" means an Employee or Consultant who receives an Option or Stock Purchase Right.

(t) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(u) "Plan" means this 1996 Stock Plan.

(v) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 11 below.

(w) "Section 16(h)" means Section 16(b) of the Securities Exchange Act of 1934, as amended.

(x) "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 below.

(y) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 11 below.

(z) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate. number of Shares which may be subject to option and sold under the Plan is 1,800,000 Shares. The Shares maybe authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an option exchange program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, and the original purchaser of such Shares did not receive any benefits of ownership of such Shares, such Shares shall become available for future grant under the Plan. For purposes of the preceding sentence, voting rights shall not be considered a benefit of Share ownership.

4. Administration of the Plan.

(a) Initial Plan Procedure. Prior to the date, if any, upon which the Company becomes subject to the Exchange Act, the Plan shall be administered by the Board or a Committee appointed by the Board.

(b) Plan Procedure After the Date, if any, upon Which the Company becomes Subject to the Exchange.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to Directors, Officers and Employees who are neither Directors nor Officers.

(ii) Administration With Respect to Directors and Officers. With respect to grants of Options and Stock Purchase Rights to Employees who are also Officers or Directors of the Company, the Plan shall be administered by (A) the Board if the Board may administer the Plan in compliance with the rules under Rule 16b-3 promulgated under the Exchange Act or any successor thereto ("Rule 16b-3") relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made, or (B) a Committee designated by the Board to administer the Plan, which Committee shall be constituted to comply with the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made.

(iii) Administration With Respect to Other Employees and Consultants. With respect to grants of Options and Stock Purchase Rights to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which committee shall be constituted in such a manner as to satisfy Applicable Laws. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(c) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, including the approval, if required, of any stock exchange upon which the Common Stock is listed, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(m) of the Plan;

(ii) to select the Consultants and Employees to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options and Stock Purchase Rights or any combination thereof are granted hereunder;

(iv) to determine the number of Shares to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions of any award granted hereunder,

(vii) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(f) instead of Common Stock;

(viii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option has declined since the date the Option was granted; and

(ix) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(d) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options or Stock Purchase Rights.

5. Eligibility.

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if otherwise eligible, be granted additional Options or Stock Purchase Rights.

(b) Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any tight with respect to continuation of his or her employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

(d) Upon the Company or a successor corporation issuing any class of common equity securities required to be registered under Section 12 of the Exchange Act or upon the Plan being assumed by a corporation having a class of common equity securities required to be registered under Section 12 of the Exchange Act, the following limitations shall apply to grants of Options to Employees:

(i) No employee shall be granted, in any fiscal year of the Company, Options to purchase more than 100,000 Shares.

(ii) In connection with his or her initial employment, an Employee may be granted Options to purchase up to an additional 100,000 Shares which shall not count against the limit set forth in subsection (i) above.

(iii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 12.

(iv) If an Option is canceled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 12), the canceled Option shall be counted against the limit set forth in subsection (i) above. For this purpose, if the exercise price of an Option is reduced, such reduction will be treated as a cancellation of the Option and the grant of a new Option.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company, as described in Section 18 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a person who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any other person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (1) cash, (2) check, (3) promissory note, (4) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) delivery of a properly executed exercise notice together with such other documentation as the Administrator and a broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan, but in no case at a rate of less than 20% per year over five (5) years from the date the Option is granted.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(b) hereof. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote, receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 hereof.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant (but not in the event of an Optionee's change of status from Employee to Consultant (in which case an Employee's Incentive Stock Option shall automatically convert to a Nonstatutory Stock Option on the date three (3) months and one day following such change of status) or from Consultant to Employee), such Optionee may, but only within such period of time as is determined by the Administrator, of at least thirty (30) days, with such determination in the case of an Incentive Stock Option not exceeding three (3) months after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that the Optionee was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her disability, the Optionee may, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. If such disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option on the day three months and one day following such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. In the event of the death of an Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant) by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the Optionee was entitled to exercise the Option on the date of death. If, at the time of death, the Optionee was not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall immediately revert to the Plan. If, after the Optionee's death, the Optionee's estate or a person who acquires the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Rule 16b-3. Options granted to persons subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(f) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options and Stock Purchase Rights. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer, which shall in no event exceed [thirty (30)] days from the date upon which the Administrator makes the determination to grant the Stock Purchase Right. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator. Shares purchased pursuant to the grant of a Stock Purchase Right shall be referred to herein as “Restricted Stock.”

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock purchase agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser’s employment with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine, but in no case at a rate of less than 20% per year over five years from the date of purchase.

(c) Other Provisions. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion. In addition, the provisions of Restricted Stock purchase agreements need not be the same with respect to each purchaser.

(d) Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a shareholder and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

12. Adjustments Upon Changes in Capitalization or Merger.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option, the Optionee shall have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. If an Option is exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the merger or sale of assets, the option confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash,

or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

13. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

Amendment and Termination. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of the NASD or an established stock exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(a) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options or Stock Purchase Rights already granted, and such Options and Stock Purchase Rights shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

15. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

16. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Agreements. Options and Stock Purchase Rights shall be evidenced by written agreements in such form as the Administrator shall approve from time to time.

18. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws and the rules of any stock exchange upon which the Common Stock is listed.

19. Information to Optionees and Purchasers. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

SUNPOWER CORPORATION

1996 STOCK PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

NOTICE OF STOCK OPTION GRANT

[Optionee's Name and Address]

You have been granted an option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Number	_____
Date of Grant	_____
Vesting Commencement Date	_____
Exercise Price per Share	$_____
Total Number of Shares Granted	_____
Total Exercise Price	$_____
Type of Option:	_____ Incentive Stock Option
	_____ Nonstatutory Stock Option
Term/Expiration Date:	_____

Vesting Schedule:

You may exercise this Option, in whole or in part, according to the following vesting schedule:

20% of the Shares subject to the Option shall vest twelve months after the Vesting Commencement Date, and 1/60 of the Shares subject to the Option shall vest each month thereafter.

Termination Period:

You may exercise this Option for three months after your employment or consulting relationship with the Company terminates, or for such longer period upon your death or

disability as provided in the Plan. If your status changes from Employee to Consultant or Consultant to Employee, this Option Agreement shall remain in effect. In no case may you exercise this Option after the Term/Expiration Date as provided above.

2. AGREEMENT

(a) Grant of Option. SunPower Corporation, a California corporation (the "Company"), hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase the total number of shares of Common Stock (the "Shares") set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price") subject to the terms, definitions and provisions of the 1996 Stock Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the $100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("NSO").

(b) Exercise of Option.

(i) Right to Exercise. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement. In the event of Optionee's death, disability or other termination of the employment or consulting relationship, this Option shall be exercisable in accordance with the applicable provisions of the Plan and this Option Agreement.

(ii) Method of Exercise. This Option shall be exercisable by written notice (in the form attached as Exhibit A) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

(c) Joinder Agreement. The (1) Company, (2) Cypress Semiconductor Corporation and TJ Rodgers (collectively "Cypress"), and (3) the holders of shares, or of securities exercisable for or convertible into shares, of the Company's common stock (the "Common Stock") and the holders of Amended and Restated Subordinated Convertible Promissory Notes

(the "Notes") convertible into shares of the Company's Series One Preferred Stock (the "Series One Preferred Stock"), (collectively the "Non-Cypress Shareholders) have entered into (1) a Put/Call Option Agreement (the "Put/Call Option Agreement"), (2) a Co-Sale Agreement (the "Co-Sale Agreement"), (3) a Voting Agreement (the "Voting Agreement"), and (4) a Shareholder Agreement (the "Shareholder Agreement"), all dated as of May 30, 2002, (collectively, the "Shareholder Transaction Documents").

As a condition of receiving this grant, Optionee must become a party to the Shareholder Transaction Documents; and by executing the Joinder Agreement (the "Joinder Agreement") attached hereby as Exhibit B, the Optionee shall become a party to each of the Shareholder Transaction Documents..

Additionally, if the Optionee is married, the Spousal Consent to the Put/Call Option Agreement and Co-Sale Agreement, must be signed by the Optionee's spouse.

(d) Optionee's Representations. In the event the Shares purchasable pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit C, and shall read the applicable rules of the Commissioner of Corporations attached to such Investment Representation Statement.

(e) Lock Up Period. Optionee hereby agrees that if so requested by the Company or any representative of the underwriters (the "Managing Underwriter") in connection with any registration of the offering of any securities of the Company under the Securities Act, Optionee shall not sell or otherwise transfer any Shares or other securities of the Company during the 180 day period (or such longer period as may be requested in writing by the Managing Underwriter and agreed to in writing by the Company) (the "Market Standoff Period") following the effective date of a registration statement of the Company filed under the Securities Act; provided, however, that such restriction shall apply only to the first registration statement of the Company to become effective under the Securities Act that includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

(f) Method of Payment. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(i) cash;

(ii) check;

(iii) surrender of other shares of Common Stock of the Company which (A) in the case of Shares acquired pursuant to the exercise of a Company option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised; or

(iv) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the Exercise Price.

(g) Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board.

(h) Termination of Relationship. In the event an Optionee's Continuous Status as an Employee or Consultant terminates, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set out in the Notice of Grant. To the extent that Optionee was not entitled to exercise this Option at the date of such termination, or if Optionee does not exercise this Option within the time specified herein, the Option shall terminate.

(i) Disability of Optionee. Notwithstanding the provisions of Section 6 above, in the event of termination of an Optionee's consulting relationship or Continuous Status as an Employee as a result of his or her disability, Optionee may, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination; provided, however, that if such disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such incentive Stock Option shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option on the day three months and one day following such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(j) Death of Optionee. In the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of the death of Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the Optionee could exercise the Option at the date of death.

(k) Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

(l) Term of Option . This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and

the terms of this Option. The limitations set out in Section 7 of the Plan regarding Options designated as Incentive Stock Options and Options granted to more than ten percent (10%) shareholders shall apply to this Option.

(m) Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal and California tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(i) Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability or California income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

(ii) Exercise of ISO Following Disability. If the Optionee's Continuous Status as an Employee or Consultant terminates as a result of disability that is not total and permanent disability as defined in Section 22(e)(3) of the Code, to the extent permitted on the date of termination, the Optionee must exercise an ISO within three months of such termination for the ISO to be qualified as an ISO.

(iii) Exercise of Nonstatutory Stock Option. There may be a regular federal income tax liability and California income tax liability upon the exercise of a Nonstatutory Stock Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Optionee is an Employee or a former Employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(iv) Disposition of Shares. In the case of an NSO, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long term capital gain for federal and California income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long term capital gain for federal and income tax purposes. If Shares purchased under an ISO are disposed of within such one year period or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (1) the Fair Market Value of the Shares on the date of exercise, or (2) the sale price of the Shares.

(v) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares

acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

(n) Entire Agreement: Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by California law except for that body of law pertaining to conflict of laws.

SUNPOWER CORPORATION,
a California corporation

By: _____

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING CONSULTANCY OR EMPLOYMENT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

Dated: _____

Optionee _____

Residence Address: _____

_____

_____

EXHIBIT 10.4

SUNPOWER CORPORATION

2005 STOCK INCENTIVE PLAN

(Adopted by the Board on August 12, 2005)

SUNPOWER CORPORATION
2005 STOCK INCENTIVE PLAN

Table of Contents

SUNPOWER CORPORATION

2005 STOCK INCENTIVE PLAN

SECTION 1. ESTABLISHMENT AND PURPOSE.

The Plan was adopted by the Board of Directors on August 12, 2005, and approved by the shareholders of the Company on _____ ____, 2005, to be effective as of the date of the initial offering of Stock to the public pursuant to a registration statement filed by the Company with the Securities and Exchange Commission (the "Effective Date"). The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Employees, Outside Directors and Consultants to focus on critical long-range objectives, (b) encouraging the attraction and retention of Employees, Outside Directors and Consultants with exceptional qualifications and (c) linking Employees, Outside Directors and Consultants directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of restricted shares, stock units, options (which may constitute incentive stock options or nonstatutory stock options) or stock appreciation rights.

SECTION 2. DEFINITIONS.

(a) "Affiliate" shall mean any entity other than a Subsidiary, if the Company and/or one of more Subsidiaries own not less than 50% of such entity.

(b) "Award" shall mean any award of an Option, a SAR, a Restricted Share or a Stock Unit under the Plan.

(c) "Board of Directors" shall mean the Board of Directors of the Company, as constituted from time to time.

(d) "Change in Control" shall mean the occurrence of any of the following events:

(i) Any "person" (as defined below) other than Cypress Semiconductor Corporation who by the acquisition or aggregation of securities, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company; or

(ii) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (A) the continuing or surviving entity and (B) any direct or indirect parent corporation of such continuing or surviving entity; or

(iii) The sale, transfer or other disposition of all or substantially all of the Company's assets.

For purposes of subsection (d)(ii)) above, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (1) a trustee or other fiduciary holding securities under an employee benefit plan maintained by the Company or a Parent or Subsidiary and (2) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the Stock.

Any other provision of this Section 2(d) notwithstanding, a transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction, and a Change in Control shall not be deemed to occur if the Company files a registration statement with the United States Securities and Exchange Commission for the initial offering of Stock to the public or if there is a spin off of the Company by a Parent resulting in a dividend or distribution payable in Stock to the Parent's stockholders.

(e) "*Code*" shall mean the Internal Revenue Code of 1986, as amended.

(f) "*Committee*" shall mean the Compensation Committee as designated by the Board of Directors, which is authorized to administer the Plan, as described in Section 3 hereof.

(g) "*Company*" shall mean SunPower Corporation, a California corporation, until it reincorporates in Delaware prior to Effective Date, by merging into SunPower Corporation, a Delaware corporation, and after such reincorporation and merger the "*Company*" shall mean SunPower Corporation, a Delaware corporation.

(h) "*Consultant*" shall mean (i) a consultant or advisor who provides bona fide services to the Company, a Parent, a Subsidiary or an Affiliate as an independent contractor (not including service as a member of the Board of Directors) or a member of the board of directors of a Parent or a Subsidiary, in each case who is not an Employee, or (ii) a common-law employee of an Affiliate.

(i) "*Employee*" shall mean any individual who is a common-law employee of the Company, a Parent or a Subsidiary.

(j) "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended.

(k) "Exercise Price" shall mean, in the case of an Option, the amount for which one Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. "Exercise Price," in the case of a SAR, shall mean an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of one Share in determining the amount payable upon exercise of such SAR.

(l) "Fair Market Value" with respect to a Share, shall mean the market price of one Share, determined by the Committee as follows:

(i) If the Stock was traded over-the-counter on the date in question but was not traded on The Nasdaq Stock Market, then the Fair Market Value shall be equal to the last transaction price quoted for such date by the OTC Bulletin Board or, if not so quoted, shall be equal to the mean between the last reported representative bid and asked prices quoted for such date by the principal automated inter-dealer quotation system on which the Stock is quoted or, if the Stock is not quoted on any such system, by the Pink Sheets LLC;

(ii) If the Stock was traded on The Nasdaq Stock Market, then the Fair Market Value shall be equal to the last reported sale price quoted for such date by The Nasdaq Stock Market;

(iii) If the Stock was traded on a United States stock exchange on the date in question, then the Fair Market Value shall be equal to the closing price reported for such date by the applicable composite-transactions report; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

In all cases, the determination of Fair Market Value by the Committee shall be conclusive and binding on all persons.

(m) "ISO" shall mean an employee incentive stock option described in Section 422 of the Code.

(n) "Nonstatutory Option" or *"NSO"* shall mean an employee stock option that is not an ISO.

(o) "Offeree" shall mean an individual to whom the Committee has offered the right to acquire Shares under the Plan (other than upon exercise of an Option).

(p) "Option" shall mean an ISO or Nonstatutory Option granted under the Plan and entitling the holder to purchase Shares.

(q) "Optionee" shall mean an individual or estate who holds an Option or SAR.

(r) "Outside Director" shall mean a member of the Board of Directors who is also an "independent director" as defined in (i) if the Stock is listed on The Nasdaq Stock

Market, Rule 4200(a)(15) of the National Association of Securities Dealers, as such rule may be amended from time to time, which governs the independence determination with respect to directors serving on the board of directors for companies listed on The Nasdaq Stock Market or (ii) if the Stock is listed on the New York Stock Exchange, Section 303A.02 of the New York Stock Exchange Listed Company Manual, as such rule may be amended from time to time, which governs the independence determination with respect to directors serving on the board of directors for companies listed on the New York Stock Exchange.

(s) "Parent" shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be a Parent commencing as of such date.

(t) "Participant" shall mean an individual or estate who holds an Award.

(u) "Plan" shall mean this 2005 Stock Incentive Plan of SunPower Corporation, as amended from time to time.

(v) "Purchase Price" shall mean the consideration for which one Share may be acquired under the Plan (other than upon exercise of an Option), as specified by the Committee.

(w) "Restricted Share" shall mean a Share awarded under the Plan.

(x) "Restricted Share Agreement" shall mean the agreement between the Company and the recipient of a Restricted Share which contains the terms, conditions and restrictions pertaining to such Restricted Shares.

(y) "SAR" shall mean a stock appreciation right granted under the Plan.

(z) "SAR Agreement" shall mean the agreement between the Company and an Optionee which contains the terms, conditions and restrictions pertaining to his or her SAR.

(aa) "Service" shall mean service as an Employee, Consultant or Outside Director. Service does not terminate when an Employee goes on a bona fide leave of absence, that was approved by the Company in writing, if the terms of the leave provide for continued service crediting, or when continued service crediting is required by applicable law. However, for purposes of determining whether an Option is entitled to ISO status, an Employee's employment will be treated as terminating 90 days after such Employee went on leave, unless such Employee's right to return to active work is guaranteed by law or by a contract. Service terminates in any event when the approved leave ends, unless such Employee immediately returns to active work. The Company determines which leaves count toward Service, and when Service terminates for all purposes under the Plan.

(bb) "Share" shall mean one share of Stock, as adjusted in accordance with Section 8 (if applicable).

(cc) "*Stock*" shall mean the Class A Common Stock of the Company.

(dd) "Stock Option Agreement" shall mean the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to his Option.

(ee) "Stock Unit" shall mean a bookkeeping entry representing the equivalent of one Share, as awarded under the Plan.

(ff) "Stock Unit Agreement" shall mean the agreement between the Company and the recipient of a Stock Unit which contains the terms, conditions and restrictions pertaining to such Stock Unit.

(gg) "Subsidiary" shall mean any corporation, if the Company and/or one or more other Subsidiaries own not less than 50% of the total combined voting power of all classes of outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(hh) "Total and Permanent Disability" shall mean permanent and total disability as defined by section 22(e)(3) of the Code.

SECTION 3. ADMINISTRATION.

(a) Committee Composition. The Plan shall be administered by the Committee. The Committee shall consist of two or more directors of the Company, who shall be appointed by the Board. In addition, the composition of the Committee shall satisfy (i) such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and (ii) such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under Section 162(m)(4)(C) of the Code.

(b) Committee for Non-Officer Grants. The Board may also appoint one or more separate committees of the Board, each composed of one or more directors of the Company who need not satisfy the requirements of Section 3(a), who may administer the Plan with respect to Employees who are not considered officers or directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Employees and may determine all terms of such grants. Within the limitations of the preceding sentence, any reference in the Plan to the Committee shall include such committee or committees appointed pursuant to the preceding sentence. The Board of Directors may also authorize one or more officers of the Company to designate Employees, other than officers under Section 16 of the Exchange Act, to receive Awards and/or to determine the number of such Awards to be received by such persons; provided, however, that the Board of Directors shall specify the total number of Awards that such officers may so award.

(c) Committee Procedures. The Board of Directors shall designate one of the members of the Committee as chairman. The Committee may hold meetings at such times and places as it shall determine. The acts of a majority of the Committee members present at

meetings at which a quorum exists, or acts reduced to or approved in writing by all Committee members, shall be valid acts of the Committee.

(d) Committee Responsibilities. Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take the following actions:

(i) To interpret the Plan and to apply its provisions;

(ii) To adopt, amend or rescind rules, procedures and forms relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws including qualifying for preferred tax treatment under applicable foreign tax laws;

(iii) To authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan;

(iv) To determine when Awards are to be granted under the Plan;

(v) To select the Offerees and Optionees;

(vi) To determine the number of Shares to be made subject to each Award;

(vii) To prescribe the terms and conditions of each Award, including (without limitation) the Exercise Price and Purchase Price, and the vesting or duration of the Award (including accelerating the vesting of Awards, either at the time of the Award or thereafter, without the consent of the Participant), to determine whether an Option is to be classified as an ISO or as a Nonstatutory Option, and to specify the provisions of the agreement relating to such Award;

(viii) To amend any outstanding Award agreement, subject to applicable legal restrictions and to the consent of the Participant if the Participant's rights or obligations would be materially impaired;

(ix) To prescribe the consideration for the grant of each Award or other right under the Plan and to determine the sufficiency of such consideration;

(x) To determine the disposition of each Award or other right under the Plan in the event of a Participant's divorce or dissolution of marriage;

(xi) To determine whether Awards under the Plan will be granted in replacement of other grants under an incentive or other compensation plan of an acquired business;

(xii) To correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award agreement;

(xiii) To establish or verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award; and

(xiv) To take any other actions deemed necessary or advisable for the administration of the Plan.

Subject to the requirements of applicable law, the Committee may designate persons other than members of the Committee to carry out its responsibilities and may prescribe such conditions and limitations as it may deem appropriate, except that the Committee may not delegate its authority with regard to the selection for participation of or the granting of Options or other rights under the Plan to persons subject to Section 16 of the Exchange Act. All decisions, interpretations and other actions of the Committee shall be final and binding on all Offerees, all Optionees, and all persons deriving their rights from an Offeree or Optionee. No member of the Committee shall be liable for any action that he has taken or has failed to take in good faith with respect to the Plan, any Option, or any right to acquire Shares under the Plan.

SECTION 4. ELIGIBILITY.

(a) General Rule. Only Employees shall be eligible for the grant of ISOs. Only Employees, Consultants and Outside Directors shall be eligible for the grant of Restricted Shares, Stock Units, Nonstatutory Options or SARs.

(b) Automatic Grants to Outside Directors.

(i) Each Outside Director who first joins the Board of Directors on or after the Effective Date, and who was not previously an Employee, shall receive a Nonstatutory Option, subject to approval of the Plan by the Company's stockholders, to purchase fifty thousand (50,000) Shares (subject to adjustment under Section 11) on the date of his or her election to the Board of Directors. Twenty percent (20%) of the Shares subject to each Option granted under this Section 4(b)(i) shall vest and become exercisable on the first anniversary of the date of grant. The balance of the Shares subject to such Option (i.e. the remaining eighty percent (80%)) shall vest and become exercisable monthly over a four-year period beginning on the day which is one month after the first anniversary of the date of grant, at a monthly rate of 1 2/3% of the total number of Shares subject to such Options. Notwithstanding the foregoing, each such Option shall become vested if a Change in Control occurs with respect to the Company during the Optionee's Service.

(ii) On the first business day following the conclusion of each regular annual meeting of the Company's stockholders, commencing with the annual meeting occurring after the Effective Date, each Outside Director who was not elected to the Board for the first time at such meeting and who will continue serving as a member of the Board of Directors thereafter shall receive an Option to purchase ten thousand (10,000) Shares (subject to adjustment under Section 11), provided that such Outside Director has served on the Board of Directors for at least six months. Each Option granted under this Section 4(b)(ii) shall vest and become exercisable on the first anniversary of the date of grant;

provided, however, that each such Option shall become exercisable in full immediately prior to the next regular annual meeting of the Company's stockholders following such date of grant in the event such meeting occurs prior to such first anniversary date. Notwithstanding the foregoing, each Option granted under this Section 4(b)(ii) shall become vested if a Change in Control occurs with respect to the Company during the Optionee's Service.

(iii) The Exercise Price of all Nonstatutory Options granted to an Outside Director under this Section 4(b) shall be equal to 100% of the Fair Market Value of a Share on the date of grant, payable in one of the forms described in Section 8(a), (b) or (d).

(iv) All Nonstatutory Options granted to an Outside Director under this Section 4(b) shall terminate on the earlier of (A) the day before the tenth anniversary of the date of grant of such Options or (B) the date twelve months after the termination of such Outside Director's Service for any reason; provided, however, that any such Options that are not vested upon the termination of the Outside Director's service as a member of the Board of Directors for any reason shall terminate immediately and may not be exercised.

(c) Ten-Percent Stockholders. An Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, a Parent or Subsidiary shall not be eligible for the grant of an ISO unless such grant satisfies the requirements of Section 422(c)(5) of the Code.

(d) Attribution Rules. For purposes of Section 4(c) above, in determining stock ownership, an Employee shall be deemed to own the stock owned, directly or indirectly, by or for such Employee's brothers, sisters, spouse, ancestors and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be deemed to be owned proportionately by or for its stockholders, partners or beneficiaries.

(e) Outstanding Stock. For purposes of Section 4(c) above, "outstanding stock" shall include all stock actually issued and outstanding immediately after the grant. "Outstanding stock" shall not include shares authorized for issuance under outstanding options held by the Employee or by any other person.

SECTION 5. STOCK SUBJECT TO PLAN.

(a) Basic Limitation. Shares offered under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares authorized for issuance as Awards under the Plan shall not exceed 793,470 Shares (i) *minus* the aggregate number of Shares subject to options granted under the Company's 1988 Incentive Stock Plan and 1996 Stock Plan (the "Prior Plans") between August 12, 2005 and the Effective Date, (ii) *plus* any Shares subject to options granted under the Prior Plans which lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005, and (iii) plus any of the 210,000 Shares subject to non-plan options granted during 2004 that lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005. The limitations of this Section 5(a) shall be subject to

adjustment pursuant to Section 11. The number of Shares that are subject to Options or other Awards outstanding at any time under the Plan shall not exceed the number of Shares which then remain available for issuance under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient Shares to satisfy the requirements of the Plan.

(b) Award Limitation. Subject to the provisions of Section 11, no Participant may receive Options, SARs, Restricted Shares or Stock Units under the Plan in any calendar year that relate to more than one million (1,000,000) Shares.

(c) Additional Shares. If Restricted Shares or Shares issued upon the exercise of Options are forfeited, then such Shares shall again become available for Awards under the Plan. If Stock Units, Options or SARs are forfeited or terminate for any other reason before being exercised, then the corresponding Shares shall become available for Awards under the Plan. If Stock Units are settled, then only the number of Shares (if any) actually issued in settlement of such Stock Units shall reduce the number available under Section 5(a) and the balance shall again become available for Awards under the Plan. If SARs are exercised, then only the number of Shares (if any) actually issued in settlement of such SARs shall reduce the number available in Section 5(a) and the balance shall again become available for Awards under the Plan.

SECTION 6. RESTRICTED SHARES.

(a) Restricted Stock Agreement. Each grant of Restricted Shares under the Plan shall be evidenced by a Restricted Stock Agreement between the recipient and the Company. Such Restricted Shares shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Restricted Stock Agreements entered into under the Plan need not be identical.

(b) Payment for Awards. Subject to the following sentence, Restricted Shares may be sold or awarded under the Plan for such consideration as the Committee may determine, including (without limitation) cash, cash equivalents, full-recourse promissory notes, past services and future services.

(c) Vesting. Each Award of Restricted Shares may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. A Restricted Stock Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of granting Restricted Shares of thereafter, that all or part of such Restricted Shares shall become vested in the event that a Change in Control occurs with respect to the Company.

(d) Voting and Dividend Rights. The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Restricted Stock Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid.

(e) Restrictions on Transfer of Shares. Restricted Shares shall be subject to such rights of repurchase, rights of first refusal or other restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Restricted Stock Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

SECTION 7. TERMS AND CONDITIONS OF OPTIONS.

(a) Stock Option Agreement. Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Option Agreement. The Stock Option Agreement shall specify whether the Option is an ISO or an NSO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. Options may be granted in consideration of a reduction in the Optionee's other compensation.

(b) Number of Shares. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 11.

(c) Exercise Price. Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price of an ISO shall not be less than 100% of the Fair Market Value of a Share on the date of grant, except as otherwise provided in 4(c), and the Exercise Price of an NSO shall not be less 85% of the Fair Market Value of a Share on the date of grant. Subject to the foregoing in this Section 7(c), the Exercise Price under any Option shall be determined by the Committee at its sole discretion. The Exercise Price shall be payable in one of the forms described in Section 8.

(d) Withholding Taxes. As a condition to the exercise of an Option, the Optionee shall make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with such exercise. The Optionee shall also make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with the disposition of Shares acquired by exercising an Option.

(e) Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed 10 years from the date of grant (five years for Employees described in Section 4(c)). A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability, or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's Service. Options may be awarded in combination with SARs, and such an Award may provide that the Options will not be exercisable unless the related SARs are forfeited. Subject to the foregoing in this Section 7(e), the Committee at its sole discretion shall determine when all or any installment of an Option is to become exercisable and when an Option is to expire.

(f) Exercise of Options. Each Stock Option Agreement shall set forth the extent to which the Optionee shall have the right to exercise the Option following termination of the Optionee's Service with the Company and its Subsidiaries, and the right to exercise the Option of any executors or administrators of the Optionee's estate or any person who has acquired such Option(s) directly from the Optionee by bequest or inheritance. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Service.

(g) Effect of Change in Control. The Committee may determine, at the time of granting an Option or thereafter, that such Option shall become exercisable as to all or part of the Shares subject to such Option in the event that a Change in Control occurs with respect to the Company.

(h) No Rights as a Stockholder. An Optionee, or a transferee of an Optionee, shall have no rights as a stockholder with respect to any Shares covered by his Option until the date of the issuance of a stock certificate for such Shares. No adjustments shall be made, except as provided in Section 11.

(i) Modification, Extension and Renewal of Options. Within the limitations of the Plan, the Committee may modify, extend or renew outstanding options or may accept the cancellation of outstanding options (to the extent not previously exercised), whether or not granted hereunder, in return for the grant of new Options for the same or a different number of Shares and at the same or a different exercise price, or in return for the grant of the same or a different number of Shares. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, materially impair his or her rights or obligations under such Option.

(j) Restrictions on Transfer of Shares. Any Shares issued upon exercise of an Option shall be subject to such special forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Stock Option Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

(k) Buyout Provisions. The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents an Option previously granted or (b) authorize an Optionee to elect to cash out an Option previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

SECTION 8. PAYMENT FOR SHARES.

(a) General Rule. The entire Exercise Price or Purchase Price of Shares issued under the Plan shall be payable in lawful money of the United States of America at the time when such Shares are purchased, except as provided in Section 8(b) through Section 8(g) below.

(b) Surrender of Stock. To the extent that a Stock Option Agreement so provides, payment may be made all or in part by surrendering, or attesting to the ownership of, Shares

which have already been owned by the Optionee or his representative. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan. The Optionee shall not surrender, or attest to the ownership of, Shares in payment of the Exercise Price if such action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to the Option for financial reporting purposes.

(c) Services Rendered. At the discretion of the Committee, Shares may be awarded under the Plan in consideration of services rendered to the Company or a Subsidiary prior to the award. If Shares are awarded without the payment of a Purchase Price in cash, the Committee shall make a determination (at the time of the award) of the value of the services rendered by the Offeree and the sufficiency of the consideration to meet the requirements of Section 6(b).

(d) Cashless Exercise. To the extent that a Stock Option Agreement so provides, payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate Exercise Price.

(e) Exercise/Pledge. To the extent that a Stock Option Agreement so provides, payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker or lender to pledge Shares, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of the aggregate Exercise Price.

(f) Other Forms of Payment. To the extent that a Stock Option Agreement or Restricted Stock Agreement so provides, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

(g) Limitations under Applicable Law. Notwithstanding anything herein or in a Stock Option Agreement or Restricted Stock Agreement to the contrary, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

SECTION 9. STOCK APPRECIATION RIGHTS.

(a) SAR Agreement. Each grant of a SAR under the Plan shall be evidenced by a SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Optionee's other compensation.

(b) Number of Shares. Each SAR Agreement shall specify the number of Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Section 11.

(c) Exercise Price. Each SAR Agreement shall specify the Exercise Price. A SAR Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the SAR is outstanding.

(d) Exercisability and Term. Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR. A SAR Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. SARs may be awarded in combination with Options, and such an Award may provide that the SARs will not be exercisable unless the related Options are forfeited. A SAR may be included in an ISO only at the time of grant but may be included in an NSO at the time of grant or thereafter. A SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control.

(e) Effect of Change in Control. The Committee may determine, at the time of granting a SAR or thereafter, that such SAR shall become fully exercisable as to all Common Shares subject to such SAR in the event that a Change in Control occurs with respect to the Company.

(f) Exercise of SARs. Upon exercise of a SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (a) Shares, (b) cash or (c) a combination of Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Shares subject to the SARs exceeds the Exercise Price.

(g) Modification or Assumption of SARs. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SARs or may accept the cancellation of outstanding SARs (whether granted by the Company or by another issuer) in return for the grant of new SARs for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of a SAR shall, without the consent of the holder, materially impair his or her rights or obligations under such SAR.

(h) Buyout Provisions. The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents a SAR previously granted or (b) authorize an Optionee to elect to cash out a SAR previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

SECTION 10. STOCK UNITS.

(a) Stock Unit Agreement. Each grant of Stock Units under the Plan shall be evidenced by a Stock Unit Agreement between the recipient and the Company. Such Stock Units shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Stock Unit Agreements entered into under the Plan need not be identical. Stock Units may be granted in consideration of a reduction in the recipient's other compensation.

(b) Payment for Awards. To the extent that an Award is granted in the form of Stock Units, no cash consideration shall be required of the Award recipients.

(c) Vesting Conditions. Each Award of Stock Units may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Unit Agreement. A Stock Unit Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of granting Stock Units or thereafter, that all or part of such Stock Units shall become vested in the event that a Change in Control occurs with respect to the Company.

(d) Voting and Dividend Rights. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions (including without limitation, any forfeiture conditions) as the Stock Units to which they attach.

(e) Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of (a) cash, (b) Shares or (c) any combination of both, as determined by the Committee. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 11.

(f) Death of Recipient. Any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient's death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

(g) Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

SECTION 11. ADJUSTMENT OF SHARES.

(a) Adjustments. In the event of a subdivision of the outstanding Stock, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Stock (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make such adjustments as it, in its sole discretion, deems appropriate in one or more of:

(i) The number of Options, SARs, Restricted Shares and Stock Units available for future Awards under Section 5;

(ii) The limitations set forth in Sections 5(a) and (b);

(iii) The number of NSOs to be granted to Outside Directors under Section 4(b);

(iv) The number of Shares covered by each outstanding Option and SAR;

(v) The Exercise Price under each outstanding Option and SAR; or

(vi) The number of Stock Units included in any prior Award which has not yet been settled.

Except as provided in this Section 11, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

(b) Dissolution or Liquidation. To the extent not previously exercised or settled, Options, SARs and Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

(c) Reorganizations. In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Such agreement shall provide for:

(i) The continuation of the outstanding Awards by the Company, if the Company is a surviving corporation;

(ii) The assumption of the outstanding Awards by the surviving corporation or its parent or subsidiary;

(iii) The substitution by the surviving corporation or its parent or subsidiary of its own awards for the outstanding Awards;

(iv) Acceleration of the expiration date of the outstanding unexercised Awards to a date not earlier than thirty (30) days after notice to the Participant; or

(v) Settlement of the value of the outstanding Awards which have vested as of the consummation of such merger or other reorganization in cash or cash equivalents; in the sole discretion of the Company, settlement of the value of some or all of the outstanding Awards which have not vested as of the consummation of such merger or other reorganization in cash or cash equivalents on a deferred basis pending vesting; and the cancellation of all vested and unvested Awards as of the consummation of such merger or other reorganization.

(d) Reservation of Rights. Except as provided in this Section 11, an Optionee or Offeree shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend or any other increase or decrease in the number of shares of stock of any class. Any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of Shares subject to an Option. The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

SECTION 12. DEFERRAL OF AWARDS.

(a) Committee Powers. The Committee (in its sole discretion) may permit or require a Participant to:

(i) Have cash that otherwise would be paid to such Participant as a result of the exercise of a SAR or the settlement of Stock Units credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books;

(ii) Have Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR converted into an equal number of Stock Units; or

(iii) Have Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR or the settlement of Stock Units converted into amounts credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books. Such amounts shall be determined by reference to the Fair Market Value of such Shares as of the date when they otherwise would have been delivered to such Participant.

(b) General Rules. A deferred compensation account established under this Section 12 may be credited with interest or other forms of investment return, as determined by the Committee. A Participant for whom such an account is established shall have no rights other than those of a general creditor of the Company. Such an account shall represent an unfunded and unsecured obligation of the Company and shall be subject to the terms and conditions of the applicable agreement between such Participant and the Company. If the deferral or conversion of Awards is permitted or required, the Committee (in its sole discretion) may establish rules,

procedures and forms pertaining to such Awards, including (without limitation) the settlement of deferred compensation accounts established under this Section 12.

SECTION 13. AWARDS UNDER OTHER PLANS.

The Company may grant awards under other plans or programs. Such awards may be settled in the form of Shares issued under this Plan. Such Shares shall be treated for all purposes under the Plan like Shares issued in settlement of Stock Units and shall, when issued, reduce the number of Shares available under Section 5.

SECTION 14. PAYMENT OF DIRECTOR'S FEES IN SECURITIES.

(a) Effective Date. No provision of this Section 14 shall be effective unless and until the Board has determined to implement such provision.

(b) Elections to Receive NSOs, Restricted Shares or Stock Units. An Outside Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash, NSOs, Restricted Shares or Stock Units, or a combination thereof, as determined by the Board. Such NSOs, Restricted Shares and Stock Units shall be issued under the Plan. An election under this Section 14 shall be filed with the Company on the prescribed form.

(c) Number and Terms of NSOs, Restricted Shares or Stock Units. The number of NSOs, Restricted Shares or Stock Units to be granted to Outside Directors in lieu of annual retainers and meeting fees that would otherwise be paid in cash shall be calculated in a manner determined by the Board. The terms of such NSOs, Restricted Shares or Stock Units shall also be determined by the Board.

SECTION 15. LEGAL AND REGULATORY REQUIREMENTS.

Shares shall not be issued under the Plan unless the issuance and delivery of such Shares complies with (or is exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations and the regulations of any stock exchange on which the Company's securities may then be listed, and the Company has obtained the approval or favorable ruling from any governmental agency which the Company determines is necessary or advisable. The Company shall not be liable to a Participant or other persons as to: (a) the non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares under the Plan; and (b) any tax consequences expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Award granted under the Plan.

SECTION 16. WITHHOLDING TAXES.

(a) General. To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The

Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) Share Withholding. The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. In no event may a Participant have Shares withheld that would otherwise be issued to him or her in excess of the number necessary to satisfy the legally required minimum tax withholding.

SECTION 17. OTHER PROVISIONS APPLICABLE TO AWARDS.

(a) Transferability. Unless the agreement evidencing an Award (or an amendment thereto authorized by the Committee) expressly provides otherwise, no Award granted under this Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner (prior to the vesting and lapse of any and all restrictions applicable to Shares issued under such Award), other than by will or the laws of descent and distribution; provided, however, that an ISO may be transferred or assigned only to the extent consistent with Section 422 of the Code. Any purported assignment, transfer or encumbrance in violation of this Section 17(a) shall be void and unenforceable against the Company.

(b) Qualifying Performance Criteria. The number of Shares or other benefits granted, issued, retainable and/or vested under an Award may be made subject to the attainment of performance goals for a specified period of time relating to one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group or index, in each case as specified by the Committee in the Award: (a) cash flow, (b) earnings per share, (c) earnings before interest, taxes and amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, or (p) market segment shares ("Qualifying Performance Criteria"). The Committee may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) any extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in managements' discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year. If applicable, the Committee shall determine the Qualifying Performance Criteria not later than the 90th day of the performance period, and shall determine and certify, for each Participant, the extent to which the Qualifying Performance Criteria have been met. The

Committee may not in any event increase the amount of compensation payable under the Plan upon the attainment of a Qualifying Performance Goal to a Participant who is a "covered employee" within the meaning of Section 162(m) of the Code.

SECTION 18. NO EMPLOYMENT RIGHTS.

No provision of the Plan, nor any right or Option granted under the Plan, shall be construed to give any person any right to become, to be treated as, or to remain an Employee. The Company and its Subsidiaries reserve the right to terminate any person's Service at any time and for any reason, with or without notice.

SECTION 19. DURATION AND AMENDMENTS.

(a) Term of the Plan. The Plan, as set forth herein, shall terminate automatically on August 12, 2015 and may be terminated on any earlier date pursuant to Subsection (b) below.

(b) Right to Amend or Terminate the Plan. The Board of Directors may amend the Plan at any time and from time to time. Rights and obligations under any Award granted before amendment of the Plan shall not be materially impaired by such amendment, except with consent of the Participant. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules.

(c) Effect of Termination. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan shall not affect Awards previously granted under the Plan.

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SECTION 20. EXECUTION.

To record the adoption of the Plan by the Board of Directors, the Company has caused its authorized officer to execute the same.

SUNPOWER CORPORATION

By _____

Name _____

Title _____

SUNPOWER CORPORATION

2005 STOCK INCENTIVE PLAN

NOTICE OF STOCK OPTION GRANT

You have been granted the following Option to purchase Class A Common Stock of SUNPOWER CORPORATION (the "Company") under the Company's 2005 Stock Incentive Plan (the "Plan"):

Name of Optionee:	[Name of Optionee]
Total Number of Option Shares Granted:	[Total Number of Shares]
Type of Option:	☐ Incentive Stock Option ☐ Nonstatutory Stock Option
Exercise Price Per Share:	$_____
Grant Date:	[Date of Grant]
Vesting Commencement Date:	[Vesting Commencement Date]
Vesting Schedule:	This Option becomes exercisable with respect to the first 1/5th of the shares subject to this Option when you complete 12 months of continuous service as an Employee or a Consultant from the Vesting Commencement Date. Thereafter, this Option becomes exercisable with respect to an additional 1/60th of the shares subject to this Option when you complete each additional month of service.
Expiration Date:	[Expiration Date] This Option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the term and conditions of the Plan and the Stock Option Agreement, both of which are attached to and made a part of this document.

By signing this document you further agree that the Company may deliver by e-mail all documents relating to the Plan or this award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by e-mail.

OPTIONEE:

Optionee's Signature

Optionee's Printed Name

SUNPOWER CORPORATION

By: _____

Title: _____

SUNPOWER CORPORATION

2005 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT

Tax Treatment	This Option is intended to be an incentive stock option under Section 422 of the Internal Revenue Code or a nonstatutory option, as provided in the Notice of Stock Option Grant. Even if this Option is designated as an incentive stock option, it shall be deemed to be a nonstatutory option to the extent required by the $100,000 annual limitation under Section 422(d) of the Internal Revenue Code.
Vesting	This Option becomes exercisable in installments, as shown in the Notice of Stock Option Grant. This Option will in no event become exercisable for additional shares after your service as an Employee or a Consultant has terminated for any reason.
Term	This Option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Grant Date, as shown on the Notice of Stock Option Grant (fifth anniversary for a more than 10% stockholder as provided under the Plan if this is an incentive stock option). This Option may expire earlier if your Service terminates, as described below.
Regular Termination	If your Service terminates for any reason except death or "Total and Permanent Disability" (as defined in the Plan), then this Option will expire at the close of business at Company headquarters on the date three (3) months after the date your Service terminates (or, if earlier, the Expiration Date). The Company has discretion to determine when your Service terminates for all purposes of the Plan and its determinations are conclusive and binding on all persons.
Death	If your Service terminates because of death, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date your Service terminates (or, if earlier, the Expiration Date). During that period of up to 12 months, your estate or heirs may exercise the Option.
Disability	If your Service terminates because of your Total and Permanent Disability, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date your Service terminates (or, if earlier, the Expiration Date).
Leaves of Absence	For purposes of this Option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work.

If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.

Restrictions on Exercise

The Company will not permit you to exercise this Option if the issuance of shares at that time would violate any law or regulation. The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of the Company stock pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Company stock as to which such approval shall not have been obtained. However, the Company shall use its best efforts to obtain such approval.

Notice of Exercise

When you wish to exercise this Option you must notify the Company by completing the attached "Notice of Exercise of Stock Option" form and filing it with the Human Resources Department of the Company. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered. The notice will be effective when it is received by the Company. If someone else wants to exercise this Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Form of Payment

When you submit your notice of exercise, you must include payment of the Option exercise price for the shares you are purchasing. Payment may be made in the following form(s):

- Your personal check, a cashier's check or a money order.
- Certificates for shares of Company stock that you own, along with any forms needed to effect a transfer of those shares to the Company. The value of the shares, determined as of the effective date of the Option exercise, will be applied to the Option exercise price. Instead of surrendering shares of Company stock, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the Option shares issued to you. However, you may not surrender, or attest to the ownership of shares of Company stock in payment of the exercise price if your action would cause the Company to recognize a compensation expense (or additional compensation expense) with respect to this Option for financial reporting purposes.
- By delivery on a form approved by the Committee of an irrevocable direction to a securities broker approved by the Company to sell all or

part of your Option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the Option exercise price and any withholding taxes. The balance of the sale proceeds, if any, will be delivered to you. The directions must be given by signing a special "Notice of Exercise" form provided by the Company.

- By delivery on a form approved by the Committee of an irrevocable direction to a securities broker or lender approved by the Company to pledge Option shares as security for a loan and to deliver to the Company from the loan proceeds an amount sufficient to pay the Option exercise price and any withholding taxes. The directions must be given by signing a special "Notice of Exercise" form provided by the Company.
- Any other form permitted by the Committee in its sole discretion.

Notwithstanding the foregoing, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

Withholding Taxes and Stock Withholding

You will not be allowed to exercise this Option unless you make arrangements acceptable to the Company to pay any withholding taxes that may be due as a result of the Option exercise. These arrangements may include withholding shares of Company stock that otherwise would be issued to you when you exercise this Option. The value of these shares, determined as of the effective date of the Option exercise, will be applied to the withholding taxes.

Restrictions on Resale

By signing this Agreement, you agree not to sell any Option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as you are an employee, consultant or director of the Company or a subsidiary of the Company.

Transfer of Option

In general, only you can exercise this Option prior to your death. You cannot transfer or assign this Option, other than as designated by you by will or by the laws of descent and distribution, except as provided below. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid. You may in any event dispose of this Option in your will. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your Option in any other way.

However, if this Option is designated as a nonstatutory stock option in the Notice of Stock Option Grant, then the Committee may, in its sole discretion, allow you to transfer this Option as a gift to one or more family members. For purposes of this Agreement, "family member" means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, or

	sister-in-law (including adoptive relationships), any individual sharing your household (other than a tenant or employee), a trust in which one or more of these individuals have more than 50% of the beneficial interest, a foundation in which you or one or more of these persons control the management of assets, and any entity in which you or one or more of these persons own more than 50% of the voting interest. In addition, if this Option is designated as a nonstatutory stock option in the Notice of Stock Option Grant, then the Committee may, in its sole discretion, allow you to transfer this option to your spouse or former spouse pursuant to a domestic relations order in settlement of marital property rights. The Committee will allow you to transfer this Option only if both you and the transferee(s) execute the forms prescribed by the Committee, which include the consent of the transferee(s) to be bound by this Agreement.
Retention Rights	Neither your Option nor this Agreement gives you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.
Stockholder Rights	You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this Option by giving the required notice to the Company and paying the exercise price. No adjustments are made for dividends or other rights if the applicable record date occurs before you exercise this Option, except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of shares covered by this Option and the exercise price per share may be adjusted pursuant to the Plan.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to their choice-of-law provisions).
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. All capitalized terms in the Stock Option Agreement shall have the meanings assigned to them in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this Option are superseded. This Agreement may be amended only by another written agreement, signed by both parties.

BY SIGNING THE COVER SHEET OF THIS AGREEMENT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

SUNPOWER CORPORATION
2005 STOCK INCENTIVE PLAN

NOTICE OF EXERCISE OF STOCK OPTION

You must sign this Notice on the last page before submitting it to the Company

OPTIONEE INFORMATION:

Name: _____ Social Security Number: _____

Address: _____ Employee Number: _____

OPTION INFORMATION:

Date of Grant: _____, 200_
Exercise Price per Share: $_____
Total number of shares of Class A Common Stock of SUNPOWER CORPORATION (the "Company") covered by option: _____

Type of Stock Option:

☐ Nonstatutory (NSO)
☐ Incentive (ISO)

EXERCISE INFORMATION:

Number of shares of Class A Common Stock of the Company for which option is being exercised now: _____. (These shares are referred to below as the "Purchased Shares.")

Total exercise price for the Purchased Shares: $_____

Form of payment enclosed ***[check all that apply]*:**

☐ Check for $_____, payable to "SUNPOWER CORPORATION"

☐ Certificate(s) for _____ shares of Class A Common Stock of the Company that I have owned for at least six months or have purchased in the open market. (These shares will be valued as of the date when the Company receives this notice.)

☐ Attestation Form covering _____ shares of Class A Common Stock of the Company. (These shares will be valued as of the date when the Company receives this notice.)

Name(s) in which the Purchased Shares should be registered ***[please check one box]*:**

☐ In my name only

☐ In the names of my spouse and myself as community property — My spouse's name (if applicable): _____

☐ In the names of my spouse and myself as joint tenants with the right of survivorship

☐ In the name of an eligible revocable trust — Full legal name of revocable trust: _____ _____ _____

The certificate for the Purchased Shares should be sent to the following address: _____ _____ _____

ACKNOWLEDGMENTS:

1. I understand that all sales of Purchased Shares are subject to compliance with the Company's policy on securities trades.
2. I hereby acknowledge that I received and read a copy of the prospectus describing the Company's 2005 Stock Incentive Plan and the tax consequences of an exercise.
3. In the case of a nonstatutory option, I understand that I must recognize ordinary income equal to the spread between the fair market value of the Purchased Shares on the date of exercise and the exercise price. I further understand that I am required to pay withholding taxes at the time of exercising a nonstatutory option.
4. In the case of an incentive stock option, I agree to notify the Company if I dispose of the Purchased Shares before I have met both of the tax holding periods applicable to incentive stock options (that is, if I make a disqualifying disposition).
5. I acknowledge that the Company has encouraged me to consult my own adviser to determine the form of ownership that is appropriate for me. In the event that I choose to transfer my Purchased Shares to a trust that does not satisfy the requirements of the Internal Revenue Service (i.e., a trust that is not an eligible revocable trust), I also acknowledge that the transfer will be treated as a "disposition" for incentive stock option tax purposes. As a result, the favorable incentive stock option tax treatment will be unavailable and other unfavorable tax consequences may occur.

SIGNATURE AND DATE:

_____ _____ __, 200_

EXHIBIT 10.5

INDUSTRIAL LEASE
(Single Tenant; Net; Stand-Alone)

BETWEEN

THE IRVINE COMPANY

AND

SUNPOWER, INC.

INDEX TO INDUSTRIAL LEASE
(Single Tenant; Net; Stand-Alone)

INDUSTRIAL LEASE
(Single Tenant; Net; Stand-Alone)

THIS LEASE is made as of the 28th day of March, 2000, by and between The Irvine Company, hereafter called "Landlord," and SUNPOWER, INC., a California corporation hereinafter called "Tenant."

ARTICLE I. BASIC LEAST PROVISIONS

Each reference in this Lease to the "Basic Lease Provisions" shall mean and refer to the following collective terms, the application of which shall be governed by the provisions in the remaining Articles of this Lease.

1. Premises: The Premises are more particularly described in Section 2.1.
2. Address of Building: 320 Soquel Way/430 Indio Way, Sunnyvale, CA 94086
3. Use of Premises: General office, administration, sales, and engineering related to electronic components.
4. Commencement Date: June 1, 2000.
5. Lease Term: The Term of this Lease shall expire at midnight on May 31, 2005.
6. Basic Rent: Thirty Nine Thousand Dollars ($39,000.00) per month, based on $1.95 per rentable square foot. Basic Rent is subject to adjustment as follows:

   Commencing June 1, 2001, the Basic Rent shall be Forty Thousand Six Hundred Dollars ($40,600.00) per month, based on $2.03 per rentable square foot.

   Commencing June 1, 2002, the Basic Rent shall be Forty Two Thousand Two Hundred Dollars ($42,200.00) per month, based on $2.11 per rentable square foot.

   Commencing June 1, 2003, the Basic Rent shall be Forty Three Thousand Eight Hundred Dollars ($43,800.00) per month, based on $2.19 per rentable square foot.

   Commencing June 1, 2004, the Basic Rent shall be Forty Five Thousand Six Hundred Dollars ($45,600.00) per month, based on $2.28 per rentable square foot.
7. Guarantor(s): None
8. Floor Area of Premises: approximately 20,000 rentable square feet
9. Security Deposit: $50,160.00
10. Broker(s): None
11. Additional Insureds: Insignia/ESG of California, Inc.
12. Address for Payments and Notices:

LANDLORD	TENANT
INSIGNIA/ESG OF CALIFORNIA, INC. 1 Ada, Suite 270 Irvine, CA 92618	SUNPOWER, INC. 430 Indio Way Sunnyvale, CA 94085

With a copy of notices to:

IRVINE INDUSTRIAL COMPANY
P.O. Box 6370
Newport Beach, CA 92658-6370
Attn: Vice President, Industrial Operations

13. Tenant’s Liability Insurance Requirement: $2,000,000.00

14. Vehicle Parking Spaces: See Section 6.2.

ARTICLE II. PREMISES

SECTION 2.1 LEASED PREMISES. Landlord leases to Tenant and Tenant leases front Landlord the premises shown in EXHIBIT A (the "Premises"), including the building identified in Item 2 of the Basic Lease Provisions (which together with the underlying real property, is called the "Building"), and containing approximately the floor area set forth in Item 8 of the Basic Lease Provisions. The Building is located on the site (the "Site") shown on EXHIBIT A-1 attached hereto.

SECTION 2.2 ACCEPTANCE OF PREMISES. Tenant acknowledges that neither Landlord nor any representative of Landlord has made any representation or warranty with respect to the Premises or the Building or the suitability or fitness of either for any purpose, including without limitation any representations or warranties regarding zoning or other land use matters. Tenant further acknowledges that neither Landlord nor any representative of Landlord has agreed to undertake any alterations or additions or construct any improvements to the Premises except as expressly provided in this Lease. The taking of possession or use of the Premises by Tenant for any purpose other than construction shall conclusively establish that the Premises and the Building were in satisfactory condition and in conformity with the provisions of this Lease in all respects. Tenant is currently in possession of the Premises under the "Existing Lease" (as defined in Section 22.7 of this Lease). Tenant shall take possession of the Premises as of the Commencement Date of the Lease in an "as-is" condition without further obligation on Landlord's part as to improvements whatsoever.

SECTION 2.3 BUILDING NAME AND ADDRESS. Tenant shall not utilize any name selected by Landlord from time to time for the Building as any part of Tenant's corporate or trade name. Landlord shall have the right to change the name, address, number or designation of the Building without liability to Tenant.

ARTICLE III. TERM

SECTION 3.1 GENERAL. The Term shall be for the period shown in Item 5 of the Basic Lease Provisions. The Term shall commence ("Commencement Date") on the date set forth in Item 4 of the Basic Lease Provisions and shall expire on the date set forth in Item 5 of the Basic Lease Provisions ("Expiration Date").

ARTICLE IV. RENT AND OPERATING EXPENSES

SECTION 4.1 BASIC RENT. From and after the Commencement Date, Tenant shall pay to Landlord without deduction or offset, Basic Rent for the Premises in the total amount shown (including subsequent adjustments, if any) in Item 6 of the Basic Lease Provisions. Any rental adjustment shown in Item 6 shall be deemed to occur on the specified monthly anniversary of the Commencement Date, whether or not that date occurs at the end of a calendar month. The rent shall be due and payable in advance commencing on the Commencement Date (as prorated for any partial month) and continuing thereafter on the first day of each successive calendar month of the Term. No demand, notice or invoice shall be required for the payment of Basic Rent.

SECTION 4.2 OPERATING EXPENSES.

(a) Tenant shall pay to Landlord, as additional rent, "Building Costs" and "Property Taxes," as those terms are defined below, incurred by Landlord in the operation of the Building. For convenience of reference, Property Taxes and Building Costs shall be referred to collectively as "Operating Expenses".

(b) Commencing prior to the start of the first full "Expense Recovery Period" (as defined below) of the Lease, and prior to the start of each full or partial Expense Recovery Period thereafter, Landlord shall give Tenant a written estimate of the amount of Operating Expenses for the Expense Recovery Period. Tenant shall pay the estimated amounts to Landlord in equal monthly installments, in advance, with Basic Rent. If Landlord has not furnished its written estimate for any Expense Recovery Period by the time set forth above, Tenant shall continue to pay cost reimbursements at the rates established for the prior Expense Recovery Period, if any; provided that when the new estimate is delivered to Tenant, Tenant shall, at the next monthly payment date, pay any accrued cost reimbursements based upon the new estimate. For purposes hereof, "Expense Recovery Period" shall mean every twelve month period during the Term (or portion thereof for the first and last lease years) commencing July 1 and ending June 30.

(c) Within one hundred twenty (120) days after the end of each Expense Recovery Period, Landlord shall furnish to Tenant a statement allowing in reasonable detail the actual or prorated Operating Expenses incurred by Landlord during the period, and the parties shall within thirty (30) days thereafter make any payment or allowance necessary to adjust Tenant's estimated payments, if any, to Tenant's actual owed amounts as shown by the annual statement. Any delay or failure by Landlord in delivering any statement hereunder shall not constitute a waiver of Landlord's right to require Tenant to pay Operating Expenses pursuant hereto. Any amount due Tenant shall be credited against installments next coming due under this Section 4.2, and any deficiency shall he paid by Tenant together with the next installment. If Tenant has not made estimated payments during the Expense Recovery Period, any amount owing by Tenant pursuant to subsection (a) above shall be paid to Landlord in accordance with Article XVI. Should Tenant fail to object in writing to Landlord's determination of actual Operating Expenses within sixty (60) days following delivery of Landlord's expense statement, Landlord's determination of actual Operating Expenses for the applicable Expense Recovery Period shall be conclusive and binding on the parties and any future claims to the contrary shall be barred.

(d) Even though the Lease has terminated and the Tenant has vacated the Premises, when the final determination is made of Operating Expenses for the Expense Recovery Period in which the Lease terminates, Tenant shall upon notice pay the entire increase due over the estimated expenses paid. Conversely, any overpayment made in the event expenses decrease shall be rebated by Landlord to Tenant.

(e) If, at any time during any Expense Recovery Period, any one or more of the Operating Expenses are increased to a rate(s) or amount(s) in excess of the rate(s) or amounts) used in calculating the estimated expenses for the year, then the estimate of Operating Expenses shall be increased for the month in which such rate(s) or amount(s) becomes effective and for all succeeding months by an amount equal to the increase. Landlord shall give Tenant written notice of the amount or estimated amount of the increase, the month in which the increase will become effective, and the month for which the payments are due. Tenant shall pay the increase to Landlord as a part of Tenant's monthly payments of estimated expenses as provided in paragraph (b) above, commencing with the month in which effective.

(f) The term "Building Costs" shall include all expenses of operation and maintenance of the Building and all landscaping, walkways, parking areas and lighting of the Site to the extent such expenses are not billed to and paid directly by Tenant, and shall include the following charges by way of illustration but not limitation: water and sewer charges; insurance premiums or reasonable premium equivalents should Landlord elect to self-insure any risk that Landlord is authorized to insure hereunder; license, permit, and inspection fees; heat; light; power; air conditioning; supplies; materials; equipment; tools; the cost of any environmental, insurance, tax or other consultant utilized by Landlord in connection with the Building; costs incurred in connection with compliance of any laws or changes in laws applicable to the Building; the cost of any capital investments (other than tenant improvements for specific tenants) to the extent of the amortized amount thereof over the useful life of such capital investments calculated at a market cost of funds, all as determined by Landlord, for each such year of useful life during the Term; labor; reasonably allocated wages and salaries, fringe benefits, and payroll taxes for administrative and other personnel directly applicable to the Building, including both Landlord's personnel and outside personnel; any expense incurred pursuant to Sections 6.1, 6.2, 7.2, and 10.2; and a reasonable overhead/management fee for the professional operation of the Building. Notwithstanding anything to the contrary contained herein, the amount of such overhead/management fee to be charged to Tenant shall be determined by multiplying the actual fee charged (which from tine to time may be with respect to the Building only or the Building together with other properties owned by Landlord and/or its affiliates) by a fraction, the numerator of which is the floor area of the Premises (as set forth in Item No. 8 of the Basic Lease Provisions) and the denominator of which is the total square footage of space charged with such fee actually leased to tenants (including Tenant). It is understood that Building Costs shall include competitive charges for direct services provided by any subsidiary or division of Landlord, and may include the Building's or the Site's proportionate share of rite cost of maintenance or repair contracts which cover the Building and/or the Site and other buildings and/or projects in Landlord's portfolio, as reasonably allocated by Landlord.

(g) The term "Property Taxes" as used herein shall include the following: (i) all real estate taxes or personal property taxes, as such property taxes may be reassessed from time to time; and (ii) other taxes, charges and assessments which are levied with respect to this Lease, to the Building or to the Site, and any improvements, fixtures and equipment and other property of Landlord located in the Building or on the Site, except that general net income and franchise taxes imposed against Landlord shall be excluded; and (iii) all assessments and fees for public improvements, services, and facilities and impacts thereon, including without limitation arising out of any Community Facilities Districts, "Mello Roos" districts, similar assessment districts, and any traffic

impact mitigation assessments or fees; and (iv) any tax, surcharge or assessment which shall be levied in addition to or in lieu of real estate or personal properly taxes, other then taxes covered by Article VIII; and (v) costs and expenses incurred in contesting the amount or validity of any Property Tax by appropriate proceedings.

SECTION 4.3 SECURITY DEPOSIT. Concurrently with Tenant's delivery of this Lease, Tenant shall deposit with Landlord the sum, if any, slated in item 9 of the Basic Lease Provisions, to be held by Landlord as security for the full and faithful performance of Tenant's obligations under this Lease (the "Security Deposit"). Subject to the last sentence of this Section, the Security Deposit shall be understood and agreed to be the property of Landlord upon Landlord's receipt thereof, and may be utilized by Landlord in its discretion towards the payment of all prepaid expenses by Landlord for which Tenant would be required to reimburse Landlord under this Lease, including without limitation brokerage commissions and Tenant Improvement costs. Upon any default by Tenant, including specifically Tenant's failure to pay rent or to abide by its obligations under Sections 7.1 and 15.3 below, whether or not Landlord is informed of or has knowledge of the default, the Security Deposit shall be deemed to be automatically and immediately applied, without waiver of any rights Landlord may have under this Lease or at law or in equity as a result of the default, as a setoff for full or partial compensation for that default. If any portion of the Security Deposit is applied after a default by Tenant, Tenant shall within five (5) days after written demand by Landlord deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount. Landlord shall not be required to keep this Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on the Security Deposit. If Tenant fully performs its obligations under this Lease, the Security Deposit or any balance thereof shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interest in this Lease) after the expiration of the Term, provided that landlord may retain the Security Deposit to the extent and until such time as all amounts due from Tenant in accordance with this Lease have been determined and paid in full. Tenant hereby authorizes Landlord to retain any remaining balance of the security deposit funded to Landlord under the Existing Lease (as defined in Section 22.7), which balance shall be applied by Landlord to offset the sums owing under this Section 4.3.

ARTICLE V. USES

SECTION 5.1 USE. Tenant shall use the Premises only for the purposes stated in Item 3 of the Basic Lease Provisions, all in accordance with applicable laws and restrictions and pursuant to approvals to be obtained by Tenant from all relevant and required governmental agencies and authorities. The parties agree that any contrary use shall be deemed to cause material and irreparable harm to Landlord and shall entitle Landlord to injunctive relief in addition to any other available remedy. Tenant, at its expense, shall procure, maintain and make available for Landlord's inspection throughout the Term, all governmental approvals, licenses and permits required for the proper and lawful conduct of Tenant's permitted use of the Premises. Tenant shall not use or allow the Premises to be used for any unlawful purpose, nor shall Tenant permit any nuisance or commit any waste in the Premises. Tenant shall not do or permit to be done anything which will invalidate or increase the cost of any insurance policy(ies) covering the Building or its contents, and shall comply with all applicable insurance underwriters rules and the requirements of the Pacific Fire Rating Bureau or any other organization performing a similar function. Tenant shall comply at its expense with all present and future laws, ordinances, restrictions, regulations, orders, rules and requirements of all governmental authorities that pertain to Tenant or its use of the Premises, including without limitation all federal and state occupational health and safety requirements, whether or not Tenant's compliance will necessitate expenditures or interfere with its use and enjoyment of the Premises. Tenant shall comply at its expense with all present and future covenants, conditions, easements or restrictions now or hereafter affecting or encumbering the Building, and any amendments or modifications thereto, including without limitation the payment by Tenant of any periodic or special dues or assessments charged against the Premises or Tenant which may be allocated to the Premises or Tenant in accordance with the provisions thereof. Tenant shall promptly upon demand reimburse Landlord for any additional insurance premium charged by reason of Tenant's failure to comply with the provisions of this Section, and shall indemnify Landlord from any liability and/or expense resulting from Tenant's noncompliance.

SECTION 5.2 SIGNS. Provided Tenant continues to occupy the entire Premises, Tenant shall have the non-exclusive right to one (1) exterior sign on the Building, subject to Landlord's right of prior approval that such exterior signage is in compliance with the Signage Criteria (defined below). Except as provided in the foregoing or as otherwise approved in writing by Landlord, in its sole discretion, Tenant shall have no right to maintain identification signs in any location in, on or about the Premises or the Building and shall not place or erect any signs, displays or other advertising materials that are visible from the exterior of the Building. The size, design, graphics, material, style, color and other physical aspects of any permitted sign shall be subject to Landlord's written approval prior to installation (which approval may be withheld in Landlords discretion), any covenants, conditions or restrictions encumbering the Premises, Landlord's signage program, if any, as in effect from time to time ("Signage

Criteria"), and any applicable municipal or other governmental permits and approvals. Tenant acknowledges having received and reviewed a copy of the current Signage Criteria, if applicable. Tenant shall be responsible for the cost of any permitted sign, including the fabrication, installation, maintenance and removal thereof. If Tenant fails to maintain its sign, or if Tenant fails to remove same upon termination of this Lease and repair any damage caused by such removal, Landlord may do so at Tenant's expense.

SECTION 5.3 HAZARDOUS MATERIALS.

(a) For purposes of this Lease, the term "Hazardous Materials" includes (i) any "hazardous materials" as defined in Section 25501(n) of the California Health and Safety Code, (ii) any other substance or matter which results in liability to any person or entity from exposure to such substance or matter under any statutory or common law theory, and (iii) any substance or matter which is in excess of permitted levels set forth in any federal, California or local law or regulation pertaining to any hazardous or toxic substance, material or waste.

(b) Tenant shall not cause or permit any Hazardous Materials to be brought upon, stored, used, generated, released or disposed of on, under, from or about the Premises or the Site (including without limitation the soil and groundwater thereunder) without the prior written consent of Landlord. Notwithstanding the foregoing, Tenant shall have the right, without obtaining prior written consent of Landlord, to utilize within the Premises standard office products that may contain Hazardous Materials (such as photocopy toner, "White Out", and the like), provided however, that (i) Tenant shall maintain such products in their original retail packaging, shall follow all instructions on such packaging with respect to the storage, use and disposal of such products, and shall otherwise comply with all applicable laws with respect to such products, and (ii) all of the other terms and provisions of this Section 5.3 shall apply with respect to Tenant's storage, use and disposal of all such products. Landlord may, in its sole discretion, place such conditions as Landlord deems appropriate with respect to any such Hazardous Materials, and may further require that Tenant demonstrate that any such Hazardous Materials are necessary or useful to Tenant's business and will be generated, stored, used and disposed of in a manner that complies with all applicable laws and regulations pertaining thereto and with good business practices. Tenant understands that Landlord may utilize an environmental consultant to assist in determining conditions of approval in connection with the storage, generation, release, disposal or use of Hazardous Materials by Tenant on or about the Premises, and/or to conduct periodic inspections of the storage, generation, use, release and/or disposal of such Hazardous Materials by Tenant on and from the Premises, and Tenant agrees that any costs incurred by Landlord in connection therewith shall be reimbursed by Tenant to Landlord as additional rent hereunder upon demand.

(c) Prior to the execution of this Lease, Tenant shall complete, execute and deliver to Landlord an Environmental Questionnaire and Disclosure Statement (the "Environmental Questionnaire") in the form of Exhibit B attached hereto. The completed Environmental Questionnaire shall be deemed incorporated into this Lease for all purposes, and Landlord shall be entitled to rely fully on the information contained therein. On each anniversary of the Commencement Date until the expiration or sooner termination of this Lease, Tenant shall disclose to Landlord in writing the names and amounts of all Hazardous Materials which were stored, generated, used, released and/or disposed of on, under or about the Premises for the twelve-month period prior thereto, and which Tenant desires to store, generate, use, release and/or dispose of on, under or about the Premises for the succeeding twelve-month period. In addition, to the extent Tenant is permitted to utilize Hazardous Materials upon the Premises, Tenant shall promptly provide Landlord with complete and legible copies of all the following environmental documents relating thereto: reports filed pursuant to any self-reporting requirements; permit applications, permits, monitoring reports, workplace exposure and community exposure warnings or notices and all other reports, disclosures, plans or documents (even those which may be characterized as confidential) relating to water discharges, air pollution, waste generation or disposal, and underground storage tanks for Hazardous Materials; orders, reports, notices, listings and correspondence (even those which may be considered confidential) of or concerning the release, investigation of, compliance, cleanup, remedial and corrective actions, and abatement of Hazardous Materials; and all complaints, pleadings and other legal documents filed by or against Tenant related to Tenant's use, handling, storage, release and/or disposal of hazardous Materials.

(d) Landlord and its agents shall have the right, but not the obligation, to inspect, sample and/or monitor the Premises, the Site and/or the soil or groundwater thereunder at any time to determine whether Tenant is complying with the terms of this Section 5.3, and in connection therewith Tenant shall provide Landlord with full access to all relevant facilities, records and personnel. If Tenant is not in compliance with any of the provisions of this Section 5.3, or in the event of a release of any Hazardous Material on, under or about the Premises and/or the Site caused or permitted by Tenant, its agents, employees, contractors, licensees or invitees, Landlord and its agents shall have the right, but not the obligation, without limitation upon any of Landlord's other rights and

remedies under this Lease, to immediately enter upon the Premises and/or the Site without notice and to discharge Tenant's obligations under this Section 5.3 at Tenant's expense, including without limitation the taking of emergency or long-term remedial action. Landlord and its agents shall endeavor to minimize interference with Tenant's business in connection therewith, but shall not be liable for any such interference. In addition, Landlord, at Tenant's expense, shall have the right, but not the obligation, to join and participate in any legal proceedings or actions initiated in connection with any claims arising out of the storage, generation, use, release and/or disposal by Tenant or its agents, employees, contractors, licensees or invitees of Hazardous Materials on, under, from or about the Premises and/or the Site.

(e) If the presence of any Hazardous Materials on, under, from or about the Premises and/or the Site caused or permitted by Tenant or its agents, employees, contractors, licensees or invitees results in (i) injury to any person, (ii) injury to or any contamination of the Premises and/or the Site, or (iii) injury to or contamination of any real or personal property wherever situated, Tenant, at its expense, shall promptly take all actions necessary to return the Premises, the Site and any other affected real or personal property owned by Landlord to the condition existing prior to the introduction of such Hazardous Materials and to remedy or repair any such injury or contamination, including without limitation, any cleanup, remediation, removal, disposal, neutralization or other treatment of any such Hazardous Materials. Notwithstanding the foregoing, Tenant shall not, without Landlord's prior written consent, take any remedial action in response to the presence of any Hazardous Materials on, under or about the Premises, the Site or any other affected real or personal property owned by Landlord or enter into any similar agreement, consent, decree or other compromise with any governmental agency with respect to any hazardous Materials claims; provided however, Landlord's prior written consent shall not be necessary in the event that the presence of Hazardous Materials on, under or about the Premises, the Site or any other affected real or personal property owned by Landlord (i) imposes an immediate threat to the health, safety or welfare of any individual or (ii) is of such a nature that an immediate remedial response is necessary and it is not possible to obtain Landlord's consent before taking such action. To the fullest extent permitted by law, Tenant shall indemnify, hold harmless, protect and defend (with attorneys acceptable to Landlord) Landlord and any successors to all or any portion of Landlord's interest in the Premises, the Site and any other real or personal property owned by Landlord from and against any and all liabilities, losses, damages, diminution in value, judgments, fines, demands, claims, recoveries, deficiencies, costs and expenses (including without limitation attorneys' fees, court costs and other professional expenses), whether foreseeable or unforeseeable, arising directly or indirectly out of the use, generation, storage, treatment, release, on- or off-site disposal or transportation of Hazardous Materials on, into, from, under or about the Premises, the Site and any other real or personal properly owned by Landlord caused or permitted by Tenant, its agents, employees, contractors, licensees or invitees, specifically including without limitation the cost of any required or necessary repair, restoration, cleanup or detoxification of the Premises, the Site and any other real or personal property owned by Landlord, and the preparation of any closure or other required plans, whether or not such action is required or necessary during the Term or after the expiration of this Lease. If Landlord at any time discovers that Tenant or its agents, employees, contractors, licensees or invitees may have caused or permitted the release of a Hazardous Material on, under, from or about the Premises, the Site or any other real or personal property owned by Landlord, Tenant shall, at Landlord's request, immediately prepare and submit to Landlord a comprehensive plan, subject to Landlord's approval, specifying the actions to be taken by Tenant to return the Premises, the Site or any other real or personal property owned by Landlord to the condition existing prior to the introduction of such Hazardous Materials. Upon Landlord's approval of such cleanup plan, Tenant shall, at its expense, and without limitation of any rights and remedies of Landlord under this Lease or at law or in equity, Immediately implement such plan and proceed to cleanup such Hazardous Materials in accordance with all applicable laws and as required by such plan and this Lease. The provisions of this subsection (e) shall expressly survive the expiration or sooner termination of this Lease.

(f) Landlord hereby discloses to Tenant, and Tenant hereby acknowledges, certain facts relating to Hazardous Materials at the Premises and/or the Site known by landlord to exist as of the date of this Lease, as more particularly described in Exhibit C attached hereto. Tenant shall have no liability or responsibility with respect to the Hazardous Materials facts described in Exhibit C, nor with respect to any hazardous Materials which Tenant proves were not caused or permitted by Tenant, its agents, employees, contractors, licensees or invitees. Notwithstanding the preceding two sentences, Tenant agrees to notify its agents, employees, contractors, licensees, and invitees of any exposure or potential exposure to hazardous Materials at the Premises and/or the Site that Landlord brings to Tenant's attention.

ARTICLE VI. SERVICES

SECTION 6.1 UTILITIES AND SERVICES. Tenant shall be responsible for and shall pay promptly, directly to the appropriate supplier, all charges for water, gas, electricity, sewer, heat, light, power, telephone, refuse pickup, janitorial service, interior landscape maintenance and all other utilities, materials and services furnished directly to Tenant or the Premises or used by Tenant in, on or about the Premises during the Term, together with any taxes thereon. Landlord shall not be liable for damages or otherwise for any failure or interruption of any utility or other service furnished to the Premises, and no such failure or interruption shall be deemed an eviction or entitle Tenant to terminate this Lease or withhold or abate any rent due hereunder. Landlord shall at all reasonable times have free access to all electrical and mechanical installations of Landlord.

SECTION 6.2 PARKING. Tenant shall be entitled to Tenant's Share of the vehicle parking spaces on those portions of the Common Areas designated by Landlord for parking, on an unreserved and unassigned basis. Tenant shall not use more parking spaces than such number. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers or invitees to be loaded, unloaded or parked in areas other than those designated by Landlord for such activities. If Tenant permits or allows any of the prohibited activities described above, then Landlord shall have the right, without notice, in addition to such other rights and remedies that Landlord may have, to remove or tow away the vehicle involved and charge the costs to Tenant. Parking shall be limited to striped parking stalls, and no parking shall be permitted in any driveways, access ways or in any similar area. Nothing contained in this Lease shall be deemed to create liability upon Landlord for any damage to motor vehicles of visitors or employees, for any loss of property from within those motor vehicles, or for any injury to Tenant, its visitors or employees, unless ultimately determined to be caused by the sole active negligence or willful misconduct of Landlord, its agents, servants and employees. Landlord shall have the right to establish, and from time to time amend, and to enforce against all users all reasonable rules and regulations (including the designation of areas for employee parking) that Landlord may deem necessary and advisable for the proper and efficient operation and maintenance of parking. Landlord shall have the right to construct, maintain and operate lighting facilities within the parking areas; to change the area, level, location and arrangement of the parking areas and improvements therein; and to do and perform such other acts in and to the parking areas and improvements therein as, in the use of good business judgment, Landlord shall determine to be advisable. Parking areas shall be used only for parking vehicles. Washing, waxing, cleaning or servicing of vehicles, or the storage of vehicles for 24-hour periods, is prohibited unless otherwise authorized by Landlord. Tenant shall be liable for any damage to the parking areas caused by Tenant or Tenant's employees, suppliers, shippers, customers or invitees, including without limitation damage from excess oil leakage. Tenant shall have no right to install any fixtures, equipment or personal property in the parking areas.

ARTICLE VII. MAINTAINING THE PREMISES

SECTION 7.1 TENANT'S MAINTENANCE AND REPAIR. Tenant at its sole expense shall comply with all applicable laws and governmental regulations governing the Premises and make all repairs necessary to keep the Premises in the condition as existed on the Commencement Date (or on any later date that the improvements pray have been installed), excepting ordinary wear and tear, including without limitation the electrical and mechanical systems, any air conditioning, ventilating or heating equipment which serves the Premises, all walls, glass, windows, doors, door closures, hardware, fixtures, electrical, plumbing, fire extinguisher equipment and other equipment. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices by Tenant. As part of its maintenance obligations hereunder, Tenant shall, at Landlords request, provide Landlord with copies of all maintenance schedules, reports and notices prepared by, for or on behalf of Tenant. Tenant shall obtain preventive maintenance contracts from a licensed heating and air conditioning contractor to provide for regular inspection and maintenance of the heating, ventilating and air conditioning systems servicing the Premises, all subject to Landlord's approval. All repairs shall be at least equal in quality to the original work, shall be made only by a licensed contractor approved in writing in advance by Landlord and shall be made only at the time or times approved by Landlord. Any contractor utilized by Tenant shall be subject to Landlord's standard requirements for contractors, as modified from time to time. Landlord shall have the right at all times to inspect Tenant's maintenance of all equipment (including without limitation air conditioning, ventilating and heating equipment), and may impose reasonable restrictions and requirements with respect to repairs, as provided in Section 7.3, and the provisions of Section 7.4 shall apply to all repairs. Alternatively, Landlord may elect to make any repair or maintenance required hereunder on behalf of Tenant and at Tenant's expense, and Tenant shall promptly reimburse Landlord for all costs incurred upon submission of an invoice.

SECTION 7.2 LANDLORD'S MAINTENANCE AND REPAIR. Subject to Section 7.1 and Article XI, Landlord shall provide service, maintenance and repair with respect to the roof, foundations, and footings of the Building, all landscaping, walkways, parking areas, exterior lighting of the Site, and the exterior surfaces of the exterior walls of the Building, except that Tenant at its expense shall make all repairs which landlord deems reasonably necessary as a result of the act or negligence of Tenant, its agents, employees, invitees, subtenants or contractors. Landlord shall have the right to employ or designate any reputable person or firm, including any employee or agent of Landlord or any of Landlords affiliates or divisions, to perform any service, repair or maintenance function. Landlord need not make any other improvements or repairs except as specifically required under this Lease, and nothing contained in this Section shall limit Landlord's right to reimbursement from Tenant for maintenance, repair costs and replacement costs as provided elsewhere in this Lease. Tenant understands that it shall not make repairs at Landlord's expense or by rental offset. Tenant further understands that Landlord shall not be required to make any repairs to the roof, foundations or footings unless and until Tenant has notified Landlord in writing of the need for such repair and Landlord shall have a reasonable period of time thereafter to commence and complete such repair, if warranted. All costs of any maintenance and repairs on the part of Landlord provided hereunder shall be considered part of Building Costs.

SECTION 7.3 ALTERATIONS. Tenant shall make no alterations, additions or improvements to the Premises without the prior written consent of Landlord, which consent may be given or withheld in Landlord's sole discretion. Notwithstanding the foregoing, Landlord shall not unreasonably withhold its consent to any alterations, additions or improvements to the Premises which cost less than One Dollar ($1.00) per square foot of the improved portions of the Premises (excluding warehouse square footage) and do not (i) affect the exterior of the Building or outside areas (or be visible from adjoining sites), or (ii) affect or penetrate any of the structural portions of the Building, including but not limited to the roof, or (iii) require any change to the basic floor plan of the Premises, any change to any structural or mechanical systems of the Premises, or any governmental permit as a prerequisite to the construction thereof, or (iv) interfere in any manner with the proper functioning of or landlord's access to any mechanical, electrical, plumbing or HVAC systems, facilities or equipment located in or serving the Building, or (v) diminish the value of the Premises. Landlord may impose, as a condition to its consent, any requirements that Landlord in its discretion may deem reasonable or desirable, including but not limited to a requirement that all work be covered by a lien and completion bond satisfactory to Landlord and requirements as to the manner, time, and contractor for performance of the work. Tenant shall obtain all required permits for the work and shall perform the work in compliance with all applicable laws, regulations and ordinances, all covenants, conditions and restrictions affecting the Premises, and the Rules and Regulations (hereafter defined). Tenant understands and agrees that Landlord shall be entitled to a supervision fee in the amount of five percent (5%) of the cost of the work. If any governmental entity requires, as a condition to any proposed alterations, additions or improvements to the Premises by Tenant, that improvements be made in the outside areas, and if Landlord consents to such improvements to the outside areas, then Tenant shall, at Tenant's sole expense, make such required improvements to the outside areas in such manner, utilizing such materials, and with such contractors (including, if required by Landlord, Landlord's contractors) as Landlord may require in its sole discretion. Under no circumstances shall Tenant make any improvement which incorporates any Hazardous Materials, including without limitation asbestos-containing construction materials into the Premises. Any request for Landlord's consent shall be made in writing and shall contain architectural plans describing the work in detail reasonably satisfactory to Landlord. Unless Landlord otherwise agrees in writing; all alterations, additions or improvements affixed to the Premises (excluding moveable trade fixtures and furniture) shall become the property of Landlord and shall be surrendered with the Premises at the end of the Term, except that Landlord may, by notice to Tenant, require Tenant to remove by the Expiration Date, or sooner termination date of this Lease, all or any alterations, decorations, fixtures, additions, improvements and the like installed either by Tenant or by Landlord at Tenant's request and to repair any damage to the Premises arising from that removal. Except as otherwise provided in this Lease or in any Exhibit to this Lease, should Landlord make any alteration or improvement to the Premises for Tenant, Landlord Shall be entitled to prompt reimbursement from Tenant for all costs incurred.

SECTION 7.4 MECHANIC'S LIENS. Tenant shall keep the Premises free from any liens arising out of any work performed, materials furnished, or obligations incurred by or for Tenant. Upon request by Landlord, Tenant shall promptly cause any such lien to be released by posting a bond in accordance with California Civil Code Section 3143 or any successor statute. In the event that Tenant shall not, within thirty (30) days following the imposition of any lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other available remedies, the right to cause the lien to be released by any means it deems proper, including payment of or defense against the claim giving rise to the lien. All expenses so incurred by Landlord, including Landlord's attorneys' fees, and any consequential or other damages incurred by Landlord arising out of such lien, shall be reimbursed by Tenant promptly following Landlord's demand, together with

interest from the date of payment by Landlord at the maximum rate permitted by law until paid. Tenant shall give Landlord no less than twenty (20) days' prior notice in writing before commencing construction of any kind on the Premises so that Landlord may post and maintain notices of nonresponsibility on the Premises.

SECTION 7.5 ENTRY AND INSPECTION. Landlord shall at all reasonable times, upon written or oral notice (except in emergencies, when no notice shall be required) have the right to enter the Premises to inspect them, to supply services in accordance with this Lease, to protect the interests of Landlord in the Premises, and to submit the Premises to prospective or actual purchasers or encumbrance holders (or, during the last one hundred and eighty (180) days of the Term or when an uncured Tenant default exists, to prospective tenants), all without being deemed to have caused an eviction of Tenant and without abatement of rent except as provided elsewhere in this Lease. Landlord shall have the right, if desired, to retain a key which unlocks all of the doors in the Premises, excluding Tenant's vaults and safes, and Landlord shall have the right to use any and all means which Landlord may deem proper to open the doors in an emergency in order to obtain entry to the Premises, and any entry to the Premises obtained by Landlord shall not under any circumstances be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or any eviction of Tenant from the Premises.

ARTICLE VIII. TAXES AND ASSESSMENTS ON TENANT'S PROPERTY

Tenant shall be liable for and shall pay, at least ten (10) days before delinquency, all taxes amid assessments levied against all personal property of Tenant located in the Premises, and against any alterations, additions or like improvements made to the Premises by or on behalf of Tenant. When possible Tenant shall cause its personal properly and alterations to be assessed and billed separately from the real property of which the Premises form a part. If any taxes on Tenant's personal property and/or alterations are levied against Landlord or Landlord's property and if Landlord pays the same, or if the assessed value of Landlord's property is increased by the inclusion of a value placed upon the personal property and/or alterations of Tenant and if Landlord pays the taxes based upon the increased assessment, Tenant shall pay to Landlord the taxes so levied against Landlord or the proportion of the taxes resulting from the increase in the assessment. In calculating what portion of any tax bill which is assessed against Landlord separately, or Landlord and Tenant jointly, is attributable to Tenant's alterations and personal property, Landlord's reasonable determination shall be conclusive.

ARTICLE IX. ASSIGNMENT AND SUBLETTING

SECTION 9.1 RIGHTS OF PARTIES.

(a) Notwithstanding any provision of this Lease to the contrary, Tenant will not, either voluntarily or by operation of law, assign, sublet, encumber, or otherwise transfer all or any part of Tenant's interest in this lease, or permit the Premises to be occupied by anyone other than Tenant, without Landlord's prior written consent, which consent shall not unreasonably be withheld in accordance with the provisions of Section 9.1.(b). No assignment (whether voluntary, involuntary or by operation of law) and no subletting shall be valid or effective without Landlord's prior written consent and, at Landlord's election, any such assignment or subletting or attempted assignment or subletting shall constitute a material default of this Lease. Landlord shall not be deemed to have given its consent to any assignment or subletting by any other course of action, including its acceptance of any name for listing in the Building directory. To the extent not prohibited by provisions of the Bankruptcy Code, 11 U.S.C. Section 101 et seq. (the "Bankruptcy Code"), including Section 365(0(l), Tenant on behalf of itself and its creditors, administrators and assigns waives the applicability of Section 365(e) of the Bankruptcy Code unless the proposed assignee of the Trustee for the estate of the bankrupt meets Landlord's standard for consent asset forth in Section 9.1(b) of this Lease. If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, any and all monies or other considerations to be delivered in connection with the assignment shall be delivered to Landlord, shall be and remain the exclusive property of Landlord and shall not constitute property of Tenant or of the estate of Tenant within the meaning of the Bankruptcy Code. Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed to have assumed all of the obligations arising under this Lease on and after the date of the assignment, and shall upon demand execute and deliver to Landlord an instrument confirming that assumption.

(b) If Tenant desires to transfer an interest in this Lease, it shall first notify Landlord of its desire and shall submit in writing to Landlord: (i) the name and address of the proposed transferee; (ii) the nature of any proposed subtenant's or assignee's business to be carried on in the Premises; (iii) the terms and provisions of any proposed sublease or assignment, including a copy of the proposed assignment or sublease form; (iv) evidence

of insurance of the proposed assignee or subtenant complying with the requirements of Exhibit D hereto; (v) a completed Environmental Questionnaire from the proposed assignee or subtenant; and (vi) any other information requested by Landlord and reasonably related to the transfer. Except as provided in Subsection (e) of this Section, Landlord shall not unreasonably withhold its consent, provided: (1) the use of the Premises will be consistent with the provisions of this Lease; (2) the proposed assignee or subtenant has not been required by any prior landlord, lender or governmental authority to take remedial action in connection with Hazardous Materials contaminating a property arising out of the proposed assignee's or subtenant's actions or use of the property in question and is not subject to any enforcement order issued by any governmental authority in connection with the use, disposal or storage of a Hazardous Material; (3) at Landlord's election, insurance requirements shall be brought into conformity with Landlord's then current leasing practice; (4) any proposed subtenant or assignee demonstrates that it is financially responsible by submission to Landlord of all reasonable information as Landlord may request concerning the proposed subtenant or assignee, including, but not limited to, a balance sheet of the proposed subtenant or assignee as of a date within ninety (90) clays of the request for Landlord's consent and statements of income or profit and loss of the proposed subtenant or assignee for the two-year period preceding the request for Landlord's consent, and/or a certification signed by the proposed subtenant or assignee that it has not been evicted or been in arrears in rent at any other leased premises for the 3-year period preceding the request for Landlord's consent; (5) any proposed subtenant or assignee demonstrates to Landlord's reasonable satisfaction a record of successful experience in business; and (6) the proposed transfer will not impose additional burdens or adverse tax effects on Landlord. If Tenant has any exterior sign rights under this Lease, such rights are personal to Tenant and may not be assigned or transferred to any assignee of this Lease or subtenant of the Premises without Landlord's prior written consent, which may be withheld in Landlord's sole and absolute discretion.

If Landlord consents to the proposed transfer, Tenant may within ninety (90) days after the date of the consent effect the transfer upon the term described in the information furnished to Landlord; provided that any material change in the terms shall be subject to Landlord's consent as set forth in this Section. Landlord shall approve or disapprove any requested transfer within thirty (30) days following receipt of Tenant's written request, the information set forth above, and the fee set forth below.

(c) Notwithstanding the provisions of Subsection (b) above, in lieu of consenting to a proposed assignment or subletting, Landlord may elect to (i) sublease the Premises (or the portion proposed to be subleased), or take an assignment of Tenant's interest in this Lease, upon the same terms as offered to the proposed subtenant or assignee (excluding terms relating to the purchase of personal properly, the use of Tennant's name or the continuation of Tenant's business), or (ii) terminate this Lease as to the portion of the Premises proposed to be subleased or assigned with a proportionate abatement in the rent payable under this Lease, effective on the date that the proposed sublease or assignment would have become effective. Landlord may thereafter, at its option, assign or re-let any space so recaptured to any third party, including without limitation the proposed transferee of Tenant.

(d) Tenant agrees that fifty percent (50%) of any amounts paid by the assignee or subtenant, however described, in excess of (i) the Basic Rent payable by Tenant hereunder, or in the case of a sublease of a portion of the Premises, in excess of the Basic Rent reasonably allocable to such portion, plus (ii) Tenant's direct out-of-pocket costs which Tenant certifies to Landlord have been paid to provide occupancy related services to such assignee or subtenant of a nature commonly provided by landlords of similar space, shall be the property of Landlord and such amounts shall be payable directly to Landlord by the assignee or subtenant or, at Landlord's option,, by Tenant. At Landlord's request, a written agreement shall be entered into by and among Tenant, Landlord and the proposed assignee or subtenant confirming the requirements of this subsection.

(e) Tenant shall pay to Landlord a fee of Five Hundred Dollars ($500.00) if and when any transfer hereunder is requested by Tenant. Such fee is hereby acknowledged as a reasonable amount to reimburse Landlord for its costs of review and evaluation of a proposed assignee/sublessee, and Landlord shall not be obligated to commence such review and evaluation unless and until such fee is paid.

SECTION 9.2 EFFECT OF TRANSFER. No subletting or assignment, even with the consent of Landlord, shall relieve Tenant of its obligation to pay rent and to perform all its other obligations under this Lease. Moreover, Tenant shall indemnify and hold Landlord harmless, as provided in Section 10.3, for any act or omission by an assignee or subtenant. Each assignee, other than Landlord, shall be deemed to assume all obligations of Tenant under this Lease and shall be liable jointly and severally with Tenant for the payment of all rent, and for the due performance of all of Tenant's obligations, under this Lease. No transfer shall be binding on Landlord unless any document memorializing the transfer is delivered to Landlord and both the assignee/subtenant and Tenant deliver to Landlord an executed consent to transfer instrument prepared by Landlord and consistent with the

requirements of this Article. The acceptance by Landlord of any payment due under this Lease from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any transfer. Consent by Landlord to one or more transfers shall not operate as a waiver or estoppel to the future enforcement by Landlord of its rights under this Lease.

SECTION 9.3 SUBLEASE REQUIREMENTS. The following terms and conditions shall apply to any subletting by Tenant of all or any part of the Premises and shall be deemed included in each sublease:

(a) Each and every provision contained in this Lease (other than with respect to the payment of rent hereunder) is incorporated by reference into and made a part of such sublease, with "Landlord" hereunder meaning the sublandlord therein and "Tenant" hereunder meaning the subtenant therein.

(b) Tenant hereby irrevocably assigns to Landlord all of Tenant's interest in all rentals and income arising from any sublease of the Premises, and Landlord may collect such rent and income and apply same toward Tenant's obligations under this Lease; provided, however, that until a default occurs in the performance of Tenant's obligations under this Lease, Tenant shall have the right to receive and collect the sublease rentals. Landlord shall not, by reason of this assignment or the collection of sublease rentals, be deemed liable to the subtenant for the performance of any of Tenant's obligations under the sublease. Tenant hereby irrevocably authorizes and directs any subtenant, upon receipt of a written notice from Landlord stating that an uncured default exists in the performance of Tenant's obligations under this Lease, to pay to Landlord all sums then and thereafter due under the sublease. Tenant agrees that the subtenant may rely on that notice without any duty of further inquiry and notwithstanding any notice or claim by Tenant to the contrary. Tenant shall have no right or claim against the subtenant or Landlord for any rentals so paid to Landlord.

(c) In the event of the termination of this Lease, Landlord may, at its sole option, take over Tenant's entire interest in any sublease and, upon notice from Landlord, the subtenant shall attorn to Landlord. In no event, however, shall Landlord be liable for any previous act or omission by Tenant under the sublease or for the return of any advance rental payments or deposits under the sublease that have not been actually delivered to Landlord, nor shall Landlord be bound by any sublease modification executed without Landlord's consent or for any advance rental payment by the subtenant in excess of one month's rent. The general provisions of this Lease, including without limitation those pertaining to insurance and indemnification, shall be deemed incorporated by reference into the sublease despite the termination of this Lease.

SECTION 9.4 CERTAIN TRANSFERS. The sale of all or substantially all of Tenant's assets (other than bulk sales in the ordinary course of business) or, if Tenant is a corporation, an unincorporated association, or a partnership, the transfer, assignment or hypothecation of any stock or interest in such corporation, association, or partnership in the aggregate of twenty-five percent (25%) (except for publicly traded shares of stock constituting a transfer of twenty-five percent (25%) or more in the aggregate, so long as no change in the controlling interest of Tenant occurs as a result thereof) shall be deemed an assignment within the meaning and provisions of this Article. Notwithstanding the foregoing, Landlord's consent shall not be required for the assignment of this Lease as a result of a merger by Tenant with or into another entity, so long as (i) the net worth of the successor entity after such merger is at least equal to the greater of the net worth of Tenant as of the execution of this Lease by Landlord or the net worth of Tenant immediately prior to the date of such merger, evidence of which, satisfactory to Landlord, shall he presented to Landlord prior to such merger, (ii) Tenant shall provide to Landlord, prior in such merger, written notice of such merger and such assignment documentation and other information as Landlord may request in connection therewith, and (iii) all of the other terms and requirements of this Article shall apply with respect to such assignment.

ARTICLE X. INSURANCE AND INDEMNITY

SECTION 10.1 TENANT'S INSURANCE. Tenant, at its sole cost and expense, shall provide and maintain in effect the insurance described in Exhibit D. Evidence of that insurance must be delivered to Landlord prior to the Commencement Date.

SECTION 10.2 LANDLORD'S INSURANCE. Landlord may, at its election, provide any or all of the following types of insurance, with or without deductible and in amounts and coverages as may be determined by Landlord in its discretion: "all risk" property insurance, subject to standard exclusions, covering the Building, and such other risks as Landlord or its mortgagees may from time to time deem appropriate, including leasehold

improvements made by Landlord, and commercial general liability coverage. Landlord shall not be required to carry insurance of any kind on Tenant's property, including leasehold improvements, trade fixtures, furnishings, equipment, plate glass, signs and all other items of personal property, and shall not be obligated to repair or replace that property should damage occur. All proceeds of insurance maintained by Landlord upon the Building shall be the property of Landlord, whether or not Landlord is obligated to or elects to make any repairs. At Landlords option, Landlord may self-insure all or any portion of the risks for which Landlord elects to provide insurance hereunder.

SECTION 10.3 TENANT'S INDEMNITY. To the fullest extent permitted by law, Tenant shall defend, indemnify, protect, save and hold harmless Landlord, its agents, and any and all affiliates of Landlord, including, without limitation, any corporations or other entities controlling, controlled by or under common control with Landlord, from and against any and all claims, liabilities, costs or expenses arising either before or after the Commencement Date from Tenant's use or occupancy of the Premises or the Building, or from the conduct of its business, or from any activity, work, or thing done, permitted or suffered by Tenant or its agents, employees, invitees or licensees in or about the Premises or the Building, or from any default in the performance of any obligation on Tenant's part to be performed under this Lease, or from any act or negligence of Tenant or its agents, employees, visitors, patrons, guests, invitees or licensees. Landlord may, at its option, require Tenant to assume Landlord's defense in any action covered by this Section through counsel satisfactory to Landlord. The provisions of this Section shall expressly survive the expiration or sooner termination of this Lease.

SECTION 10.4 LANDLORD'S NONLIABILITY. Landlord shall not be liable to Tenant, its employees, agents and invitees, and Tenant hereby waives all claims against Landlord for loss of or damage to any property, or any injury to any person, or loss or interruption of business or income, or any other loss, cost, damage, injury or liability whatsoever (including without limitation any consequential damages and lost profit or opportunity costs) resulting from, but not limited to, Acts of God, acts of civil disobedience or insurrection, fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak or flow from or into any part of the Building or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning, electrical works or other fixtures in the Building. It is understood that any such condition may require the temporary evacuation or closure of all or a portion of the Building. Except as provided in Sections 11.1 and 12.1 below, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business (including without limitation consequential damages and lost profit or opportunity costs) arising from the making of any repairs, alterations or improvements to any portion of the Building, including repairs to the Premises, nor shall any related activity by Landlord constitute an actual or constructive eviction; provided, however, that in making repairs, alterations or improvements, Landlord shall interfere as little as reasonably practicable with the conduct of Tenant's business in the Premises. Neither Landlord nor its agents shall be liable for interference with light or other similar intangible interests. Tenant shall immediately notify Landlord in case of fire or accident in the Premises or the Building and of defects in any improvements or equipment.

SECTION 10.5 WAIVER OF SUBROGATION. Landlord and Tenant each hereby waives all rights of recovery against the other and the other's agents on account of loss and damage occasioned to the property of such waiving party to the extent only that such loss or damage is required to be insured against under any "all risk property insurance policies required by this Article X; provided however, that (i) the foregoing waiver shall not apply to the extent of Tenant's obligations to pay deductibles under any such policies and this Lease, and (ii) if any loss is due to the act, omission or negligence or willful misconduct of Tenant or its agents, employees, contractors, guests or invitees, Tenant's liability insurance shall be primary and shall cover all losses and damages prior to any other insurance hereunder. By this waiver it is the intent of the parties that neither Landlord nor Tenant shall be liable to any insurance company (by way of subrogation or otherwise) insuring the other party for any loss or damage insured against under any "all-risk" property insurance policies required by this Article, even though such loss or damage might be occasioned by the negligence of such party, its agents, employees, contractors, guests or invitees. The provisions of this Section shall not limit the indemnification provisions elsewhere contained in this Lease.

ARTICLE XI. DAMAGE OR DESTRUCTION

SECTION 11.1 RESTORATION.

(a) If the Building is damaged, Landlord shall repair that damage as soon as reasonably possible, at its expense, unless: (i) Landlord reasonably determines that the cost of repair is not covered by

Landlord's fire and extended coverage insurance plus such additional amounts Tenant elects, at its option, to contribute, excluding however the deductible (for which Tenant shall be responsible for Tenant's proportionate share); (ii) Landlord reasonably determines that the Premises cannot, with reasonable diligence, be fully repaired by Landlord (or cannot be safely repaired because of the presence of hazardous factors, including without limitation Hazardous Materials, earthquake faults, and other similar dangers) within two hundred seventy (270) days after the date of the damage; (iii) an event of default by Tenant has occurred and is continuing at the time of such damage; or (iv) the damage occurs during the final twelve (12) months of the Term. Should Landlord elect not to repair the damage for one of the preceding reasons, Landlord shall so notify Tenant in writing within sixty (60) days after the damage occurs and this Lease shall terminate as of the date of that notice.

(b) Unless Landlord elects to terminate this Lease in accordance with subsection (a) above, this Lease shall continue in effect for the remainder of the Term; provided that so long as Tenant is not in default under this Lease, if the damage is so extensive that Landlord reasonably determines that the Premises cannot, with reasonable diligence, be repaired by Landlord (or cannot be safely repaired because of the presence of hazardous factors, earthquake faults, and other similar dangers) so as to allow Tenant's substantial use and enjoyment of the Premises within two hundred seventy (270) days after the date of damage, then Tenant may elect to terminate this Lease by written notice to Landlord within the sixty (60) day period stated in subsection (a).

(c) Commencing on the date of any damage to the Building, and ending on the sooner of the date the damage is repaired or the date this Lease is terminated, the rental to be paid under this Lease shall be abated in the same proportion that the floor area of the Building that is rendered unusable by the damage from time to time bears to the total floor area of the Building, but only to the extent that any business interruption insurance proceeds and received by Landlord therefor from Tenant's insurance described in Exhibit D.

(d) Notwithstanding the provisions of subsections (a), (b) and (c) of this Section, slid subject to the provisions of Section 10.5 above, the cost of any repairs shall be borne by Tenant, and Tenant shall not be entitled to rental abatement or termination rights, if the damage Is due to the fault or neglect of Tenant or its employees, subtenants, invitees or representatives. In addition, the provisions of this Section shall not be deemed to require Landlord to repair any Improvements or fixtures that Tenant is obligated to repair or insure pursuant to any other provision of this Lease.

(e) Tenant shall fully cooperate with Landlord in removing Tenant's personal property slid silly debris from the Premises to facilitate all Inspections of the Premises and The making of any repairs. Notwithstanding anything to fire contrary contained in this Lease, If Landlord in good faith believes there is a risk of injury to persons or damage to property from entry into the Building or Premises following any damage or destruction thereto, Landlord may restrict entry into the Building or the Premises by Tenant, its employees, agents and contractors in a nondiscriminatory manner, without being deemed to have violated Tenant's rights of quiet enjoyment to, or made an unlawful detainer of, or evicted Tenant from, the Premises. Upon request, Landlord shall consult with Tenant to determine if there are safe methods of entry into the Building or the Premises solely in order to allow Tenant so retrieve files, data in computers, and necessary inventory, subject however to all indemnities and waivers of liability from Tenant to Landlord contained in this Lease and any additional indemnities and waivers of liability which Landlord may require.

SECTION 11.2 LEASE GOVERNS. Tenant agrees that the provisions of this Lease, including without limitation Section 11.1, shall govern any damage or destruction and shall accordingly supersede any contrary statute or rule of law.

ARTICLE XII. EMINENT DOMAIN

SECTION 12.1 TOTAL OR PARTIAL TAKING. If all or a material portion of the Premises is taken by any lawful authority by exercise of the right of eminent domain, or sold to prevent a taking, either Tenant or Landlord may terminate this Lease effective as of the date possession is required to be surrendered to the authority. In the event title to a portion of the Premises is taken or sold in lieu of taking, and if Landlord elects to restore the Premises in such a way as to alter the Premises materially, either party may terminate this Lease, by written notice to the other party, effective on the date of vesting of title. In the event neither party has elected to terminate this Lease as provided above, then Landlord shall promptly, alter receipt of a sufficient condemnation award, proceed to restore the Premises to substantially their condition prior to the taking, and a proportionate allowance shall be made to Tenant for the rent corresponding to the time during which, and to the part of the Premises of which, Tenant is

deprived on account of the taking and restoration. In the event of a taking, Landlord shall be entitled to the entire amount of the condemnation award without deduction for any estate or interest of Tenant; provided that nothing in this Section shall be deemed to give Landlord any interest in, or prevent Tenant from seeking any award against the taking authority for, the taking of personal property and fixtures belonging to Tenant or for relocation or business interruption expenses recoverable from the taking authority.

SECTION 12.2 TEMPORARY TAKING. No temporary taking of tine Premises shall terminate this Lease or give Tenant any right to abatement of rent, and any award specifically attributable to a temporary taking of the Premises shall belong entirely to Tenant. A temporary taking shall be deemed to be a taking of the use or occupancy of the Premises for a period of not to exceed one hundred eighty (180) days.

SECTION 12.3 TAKING OF PARKING AREA. In the event there shall be a taking of the parking area such that Landlord can no longer provide sufficient parking to comply with this Lease, Landlord may substitute reasonably equivalent parking in a location reasonably close to the Building; provided that if Landlord fails to make that substitution within one hundred eighty (180) days following the taking and if the taking materially impairs Tenant's use and enjoyment of the Premises, Tenant may, at its option, terminate this Lease by written notice to Landlord. If this Lease is not so terminated by Tenant, there shall be no abatement of rent and this Lease shall continue in effect.

ARTICLE XIII. SUBORDINATION; ESTOPPEL CERTIFICATE; FINANCIALS

SECTION 13.1 SUBORDINATION. At the option of Landlord, this Lease shall be either superior or subordinate to all ground or underlying leases, mortgages and deeds of trust, if any, which may hereafter affect the Premises, and to all renewals, modifications, consolidations, replacements and extensions thereof; provided, that so long as Tenant is not in default under this Lease, this Lease shall not be terminated or Tenant's quiet enjoyment of the Premises disturbed in the event of termination of any such ground or underlying lease, or the foreclosure of any such mortgage or deed of trust, to which Tenant has subordinated this Lease pursuant to this Section. In the event of a termination or foreclosure, Tenant shall become a tenant of and attorn to the successor-in-interest to Landlord upon the same terms and conditions as are contained in this Lease, and shall execute any instrument reasonably required by Landlord's successor for that purpose. Tenant shall also, upon written request of Landlord, execute and deliver all instruments as may be required from time to time to subordinate the rights of Tenant under this Lease to any ground or underlying lease or to the lien of any mortgage or deed of trust (provided that such instruments include the nondisturbance and attornment provisions set forth above), or, if requested by Landlord, to subordinate, in whole or in part, any ground or underlying lease or the lien of any mortgage or deed of trust to this Lease.

SECTION 13.2 ESTOPPEL CERTIFICATE.

(a) Tenant shall, at any time upon not less than ten (10) days prior written notice from Landlord, execute, acknowledge and deliver to Landlord, in any form that Landlord may reasonably require, a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of the modification and certifying that this Lease, as modified, is in full force and effect) and the dates to which the rental, additional rent and other charges have been paid in advance, if any, and (ii) acknowledging that, to Tenant's knowledge, there are no uncured defaults on the part of Landlord, or specifying each default if any are claimed, and (iii) setting forth all further information that Landlord may reasonably require. Tenant's statement may be relied upon by any prospective purchaser or encumbrancer of the Premises.

(b) Notwithstanding any other rights and remedies of Landlord, Tenant's failure to deliver any estoppel statement within the provided time shall be conclusive upon Tenant that (i) this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) there are no uncured defaults in Landlord's performance, and (iii) not more than one month's rental has been paid in advance.

SECTION 13.3 FINANCIALS.

(a) Tenant shall deliver to Landlord, prior to the execution of this Lease and thereafter at any time upon Landlords request, Tenant's current tax returns and financial statements, certified true, accurate and complete by the chief financial officer of Tenant, including a balance sheet and profit and loss statement for the most recent prior year (collectively, the "Statements"), which Statements shall accurately and completely reflect the financial condition of Tenant. Landlord agrees that it will keep the Statements confidential, except that Landlord shall have the right to deliver the same to any proposed purchaser or encumbrancer of the Premises.

(b) Tenant acknowledges that Landlord is relying on the Statements in its determination to enter into this Lease, and Tenant represents to Landlord, which representation shall be deemed made on the date of this Lease and again on the Commencement Date, that no material change in the financial condition of Tenant, as reflected in the Statements, has occurred since the date Tenant delivered the Statements to Landlord. The Statements are represented and warranted by Tenant to be correct and to accurately and fully reflect Tenant's true financial condition as of the date of submission by any Statements to Landlord.

ARTICLE XIV. DEFAULTS AND REMEDIES

SECTION 14.1 TENANT'S DEFAULTS. In addition to any other event of default set forth in this Lease, the occurrence of any one or more of the following events shall constitute a default by Tenant:

(a) The failure by Tenant to make any payment of rent or additional rent required to be made by Tenant, as and when due, where the failure continues for a period of three (3) days after written notice from Landlord to Tenant; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 and 1161(a) as amended. For purposes of these default and remedies provisions, the term "additional rent" shall be deemed to include all amounts of any type whatsoever other than Basic Rent to be paid by Tenant pursuant to the terms of this Lease.

(b) Assignment, sublease, encumbrance or other transfer of the Lease by Tenant, either voluntarily or by operation of law, whether by judgment, execution, transfer by intestacy or testacy, or other means, without the prior written consent of Landlord.

(c) The discovery by Landlord that any financial statement provided by Tenant, or by any affiliate, successor or guarantor of Tenant, was materially false.

(d) The failure of Tenant to timely and fully provide any subordination agreement, estoppel certificate or financial statements in accordance with the requirements of Article XIII.

(e) The failure or inability by Tenant to observe or perform any of the express or implied covenants or provisions of this Lease to be observed or performed by Tenant, other than as specified in any other subsection of this Section, where the failure continues for a period of thirty (30) days after written notice from Landlord to Tenant or such shorter period as is specified in any other provision of this Lease; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 and 1161(a) as amended. However, if the nature of the failure is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences the cure within thirty (30) days, and thereafter diligently pursues the cure to completion.

(f) (i) The making by Tenant of any general assignment for the benefit of creditors; (ii) the filing by or against Tenant of a petition to have Tenant adjudged a Chapter 7 debtor under the Bankruptcy Code or to have debts discharged or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within thirty (30) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, if possession is not restored to Tenant within thirty (30) days; (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where the seizure is not discharged within thirty (30) days; or (v) Tenant's convening of a meeting of its creditors for the purpose of effecting a moratorium upon or composition or its debts. Landlord shall not be deemed to have knowledge of any event described in this subsection unless notification in writing is received by Landlord, nor shall there be any presumption attributable to Landlord of Tenant's insolvency. In the event that any provision of this subsection is contrary to applicable law, the provision shall be of no force or effect.

SECTION 14.2 LANDLORD'S REMEDIES.

(a) In the event of any default by Tenant, or in the event of the abandonment of the Premises by Tenant, then in addition to any other remedies available to Landlord, Landlord may exercise the following remedies:

(i) Landlord may terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. Such termination shall not affect any accrued obligations of Tenant under this Lease. Upon termination, Landlord shall have the right to reenter the Premises and remove all persons and property. Landlord shall also be entitled to recover from Tenant:

(1) The worth at the time of award of the unpaid rent and additional rent which had been earned at the time of termination;

(2) The worth at the time of award of the amount by which the unpaid rent and additional rent which would have been earned after termination until the time of award exceeds the amount of such loss that Tenant proves could have been reasonably avoided;

(3) The worth at the time of award of the amount by which the unpaid rent and additional rent for the balance of the Term after the time of award exceeds the amount of such loss that Tenant proves could be reasonably avoided;

(4) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result from Tenant's default, including, but not limited to, the cost of recovering possession of the Premises, refurbishment of the Premises, marketing costs, commissions and other expenses of reletting, including necessary repair, the unamortized portion of any tenant improvements and brokerage commissions funded by Landlord in connection with this Lease, reasonable attorneys' fees, and any other reasonable costs; and

(5) At Landlord's election, all other amounts in addition to or in lieu of the foregoing as may be permitted by law. The term "rent" as used in this Lease shall be deemed to mean the Basic Rent and all other sums required to be paid by Tenant to Landlord pursuant to the terms of this Lease. Any sum, other than Basic Rent, shall be computed on the basis of the average monthly amount accruing during the twenty-four (24) month period immediately prior to default, except that if it becomes necessary to compute such rental before the twenty-four (24) month period has occurred, then the computation shall be on the basis of the average monthly amount during the shorter period. As used in subparagraphs (1) and (2) above, the "worth at the time of award" shall be computed by allowing interest at the rate of ten percent (10%) per annum. As used in subparagraph (3) above, the "worth at the time of award" shall be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1 %).

(ii) Landlord may elect not to terminate Tenant's right to possession of the Premises, in which event Landlord may continue to enforce all of its rights and remedies under this Lease, including the right to collect all rent as it becomes due. Efforts by the Landlord to maintain, preserve or relet the Premises, or the appointment of a receiver to protect the Landlord's interests under this Lease, shall not constitute a termination of the Tenant's right to possession of the Premises. In the event that Landlord elects to avail itself of the remedy provided by this subsection (ii), Landlord shall not unreasonably withhold its consent to an assignment or subletting of the Premises subject to the reasonable standards for Landlord's consent as are contained in this Lease.

(b) Landlord shall be under no obligation to observe or perform any covenant of this Lease on its part to be observed or performed which accrues after the date of any default by Tenant unless and until the default is cured by Tenant, it being understood and agreed that the performance by Landlord of its obligations under this Lease are expressly conditioned upon Tenant's full and timely performance of its obligations under this Lease. The various rights and remedies reserved to Landlord in this Lease or otherwise shall be cumulative and, except as otherwise provided by California law, Landlord may pursue any or all of its rights and remedies at the same time.

(c) No delay or omission of Landlord to exercise any right or remedy shall be construed as a waiver of the right or remedy or of any default by Tenant. The acceptance by Landlord of rent shall not be a (i) waiver of any preceding breach or default by Tenant of any provision of this Lease, other than the failure of

Tenant to pay the particular rent accepted, regardless of Landlord's knowledge of the preceding breach or default at the time of acceptance of rent, or (ii) a waiver of Landlord's right to exercise any remedy available to Landlord by virtue of the breach or default. The acceptance of any payment from a debtor in possession, a trustee, a receiver or any other person acting on behalf of Tenant or Tenant's estate shall not waive or cure a default under Section 14.1. No payment by Tenant or receipt by Landlord of a lesser amount then the rent required by this Lease shall be deemed to be other than a partial payment on account of the earliest due stipulated rent, nor shall any endorsement or statement on any check or letter be deemed an accord and satisfaction and Landlord shall accept the check or payment without prejudice to Landlord's right to recover the balance of the rent or pursue any other remedy available to it. No act or thing done by Landlord or Landlord's agents during the Term shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender shall be valid unless in writing and signed by Landlord. No employee of landlord or of Landlord's agents shall have any power to accept the keys to the Premises prior to the termination of this Lease, and the delivery of the keys to any employee shall not operate as a termination of the Lease or a surrender of the Premises.

SECTION 14.3 LATE PAYMENTS.

(a) Any rent due under this Lease that is not received by Landlord within five (5) days of the date when due shall bear interest at the maximum rate permitted by law from the date due until fully paid. The payment of interest shall not cure any default by Tenant under this Lease. In addition, Tenant acknowledges that the late payment by Tenant to Landlord of rent will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult and impracticable to ascertain. Those costs may include, but are not limited to, administrative, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any ground lease, mortgage or trust deed covering the Premises. Accordingly, if any rent due from Tenant shall not be received by Landlord or Landlord's designee within five (5) days after the date due, then Tenant shall pay to Landlord, in addition to the interest provided above, a late charge in a sum equal to the greater of five percent (5%) of the amount overdue or Two Hundred Fifty Dollars ($250.00) for each delinquent payment. Acceptance of a late charge by Landlord shall not constitute a waiver of Tenant's default with respect to the overdue amount, nor shall it prevent Landlord from exercising any of its other rights and remedies.

(b) Following each second consecutive installment of rent that is not paid within five (5) days following notice of nonpayment from Landlord, Landlord shall have the option (i) to require that beginning with the first payment of rent next due, rent shall no longer be paid in monthly installments but shall be payable quarterly three (3) months in advance and/or (ii) to require that Tenant increase the amount, if any, of the Security Deposit by one hundred percent (100°%). Should Tenant deliver to Landlord, at any time during the Term, two (2) or more insufficient checks, the Landlord may require that all monies then and thereafter due from Tenant be paid to Landlord by cashiers check.

SECTION 14.4 RIGHT OF LANDLORD TO PERFORM. All covenants and agreements to be performed by Tenant under this Lease shall be performed at Tenant's sole cost and expense and without any abatement of rent or right of set-off. If Tenant fails to pay any sum of money, other than rent, or fails to perform any other act on its part to be performed under this Lease, and the failure continues beyond any applicable grace period set forth in Section 14.1, then in addition to any other available remedies, Landlord may, at its election make the payment or perform the other act on Tenant's part. Landlord's election to make the payment or perform the act on Tenant's part shall not give rise to any responsibility of Landlord to continue making the same or similar payments or performing the same or similar acts. Tenant shall, promptly upon demand by Landlord, reimburse Landlord for all sums paid by Landlord and all necessary incidental costs, together with interest at the maximum rate permitted by law from the date of the payment by Landlord. Landlord shall have the same rights and remedies if Tenant fails to pay those amounts as Landlord would have in the event of a default by Tenant in the payment of rent.

SECTION 14.5 DEFAULT BY LANDLORD. Landlord shall not be deemed to be in default in the performance of any obligation under this Lease unless and until it has failed to perform the obligation within thirty (30) days after written notice by Tenant to Landlord specifying in reasonable detail the nature and extent of the failure; provided, however, that if the nature of Landlords obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if it commences performance within the thirty (30) day period and thereafter diligently pursues the cure to completion.

SECTION 14.6 EXPENSES AND LEGAL FEES. All sums reasonably incurred by Landlord in connection with any event of default by Tenant under this Lease or holding over of possession by Tenant after the

expiration or earlier termination of this Lease, including without limitation all costs, expenses and actual accountants, appraisers, attorneys and other professional fees, and any collection agency or other collection charges, shall be due and payable by Tenant to Landlord on demand, and shall bear interest at the rate of ten percent (101/6) per annum. Should either Landlord or Tenant bring any action in connection with this Lease, the prevailing party shall be entitled to recover as a part of the action its reasonable attorneys' fees, and all other costs. The prevailing party for the purpose of this paragraph shall be determined by the trier of the facts.

SECTION 14.7 WAIVER OF JURY TRIAL. LANDLORD AND TENANT EACH ACKNOWLEDGES THAT IT IS AWARE OF AND HAS HAD THE ADVICE OF COUNSEL OF ITS CHOICE WITH RESPECT TO ITS RIGHTS TO TRIAL BY JURY, AND EACH PARTY DOES HEREBY EXPRESSLY AND KNOWINGLY WAIVE AND RELEASE ALL SUCH RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER (AND/OR AGAINST ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, OR SUBSIDIARY OR AFFILIATED ENTITIES) ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE.

SECTION 14.8 SATISFACTION OF JUDGMENT. The obligations of Landlord do not constitute the personal obligations of the individual partners, trustees, directors, officers or shareholders of Landlord or its constituent partners. Should Tenant recover a money judgment against Landlord, such judgment shall be satisfied only out of the proceeds of sale received upon execution of such judgment and levied thereon against the right, title and interest of Landlord in the Building and out of the rent or other income from such property receivable by Landlord or out of consideration received by Landlord from the sale or other disposition of all or any part of Landlord's right, title or interest in the Building, and no action for any deficiency may be sought or obtained by Tenant.

SECTION 14.9 LIMITATION OF ACTIONS AGAINST LANDLORD. Any claim, demand or right of any kind by Tenant which is based upon or arises in connection with this Lease shall be barred unless Tenant commences an action thereon within six (6) months after the date that the act, omission, event or default upon which the claim, demand or right arises, has occurred.

ARTICLE XV. END OF TERM

SECTION 15.1 HOLDING OVER. This Lease shall terminate without further notice upon the expiration of the Term, and any holding over by Tenant after the expiration shall not constitute a renewal or extension of this Lease, or give Tenant any rights under this Lease, except when in writing signed by both parties. If Tenant holds over for any period after the expiration (or earlier termination) of the Term without the prior written consent of Landlord, such possession shall constitute a tenancy at sufferance only; such holding over with the prior written consent of Landlord shall constitute a month-to-month tenancy commencing on the first (1st) day following the termination of this Lease. In either of such events, possession shall be subject to all of the Terms of this Lease, except that the monthly Basic Rent shall be the greater of (a) two hundred percent (200%) of the Basic Rent for the month immediately preceding the date of termination or (b) the then currently scheduled Basic Rent for comparable space in the Building. If Tenant fails to surrender the Premises upon the expiration of this Lease despite demand to do so by Landlord, Tenant shall indemnify and hold Landlord harmless from all loss or liability, including without limitation, any claims made by any succeeding tenant relating to such failure to surrender. Acceptance by Landlord of rent after the termination shall not constitute a consent to a holdover or result in a renewal of this Lease. The foregoing provisions of this Section are in addition to and do not affect Landlord's right of re-entry or any other rights of Landlord under this Lease or at law.

SECTION 15.2 MERGER ON TERMINATION. The voluntary or other surrender of this Lease by Tenant, or a mutual termination of this Lease, shall terminate any or all existing subleases unless Landlord, at its option, elects in writing to treat the surrender or termination as an assignment to it of any or all subleases affecting the Premises.

SECTION 15.3 SURRENDER OF PREMISES; REMOVAL OF PROPERTY. Upon the Expiration Date or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the Premises to Landlord in as good order, condition and repair as when received or as hereafter may be improved by Landlord or Tenant, reasonable wear and tear and repairs which are Landlord's obligation excepted, and shall, without expense

to Landlord, remove or cause to be removed from the Premises all personal properly and debris, except for any items that Landlord may by written authorization allow to remain. Tenant shall repair all damage to the Premises resulting from the removal, which repair shall include the patching and filling of holes and repair of structural damage, provided that Landlord may instead elect to repair any structural damage at Tenant's expense. If Tenant shall fail to comply with the provisions of this Section, Landlord may effect the removal and/or make any repairs, and the cost to Landlord shall be additional rent payable by Tenant upon demand. If Tenant fails to remove Tenant's personal property from the Premises upon the expiration of the Term, Landlord may remove, store, dispose of and/or retain such personal property, at Landlord's option, in accordance with then applicable laws, all at the expense of Tenant. If requested by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an instrument in writing releasing and quitclaiming to Landlord all right, title and interest of Tenant in the Premises.

ARTICLE XVI. PAYMENTS AND NOTICES

All sums payable by Tenant to Landlord shall be paid, without deduction or offset, in lawful money of the United States to Landlord at its address set forth in Item 12 of the Basic Lease Provisions, or at any other place as Landlord may designate in writing. Unless this Lease expressly provides otherwise, as for example in the payment of rent pursuant to Section 4.1, all payments shall be due, and payable within five (5) days after demand. All payments requiring proration shall be prorated on the basis of a thirty (30) day month and a three hundred sixty (360) day year. Any notice, election, demand, consent, approval or other communication to be given or other document to be delivered by either party to the other may be delivered in person or by courier or overnight delivery service to the other party, or may be deposited in the United States mail, duly registered or certified, postage prepaid, return receipt requested, and addressed to the other party at the address set forth in Item 12 of the Basic Lease Provisions, or if to Tenant, at that address or, from and after the Commencement Date, at the Premises (whether or not Tenant has departed from, abandoned or vacated the Premises), or may be delivered by telegram, telex or telecopy, provided that receipt thereof is telephonically confirmed. Either party may, by written notice to the other, served in the manner provided in this Article, designate a different address. If any notice or other document is sent by mail, it shall be deemed served or delivered twenty-four (24) hours after mailing. If more than one person or entity is named as Tenant under this Lease, service of any notice upon any one of them shall be deemed as service upon all of them.

ARTICLE XVII. RULES AND REGULATIONS

Tenant agrees to observe faithfully and comply strictly with the Rules and Regulations, attached as Exhibit E, and any reasonable and nondiscriminatory amendments, modifications and/or additions as may be adopted and published by written notice to tenants by Landlord for the safety, care, security, good order, or cleanliness of the Premises. Landlord shall not be liable to Tenant for any violation of the Rules and Regulations or the breach of any covenant or condition in any lease by any other tenant or such tenant's agents, employees, contractors, guests or invitees. One or more waivers by Landlord of any breach of the Rules and Regulations by Tenant or by any other tenant(s) shall not be a waiver of any subsequent breach of that rule or any other. Tenant's failure to keep and observe the Rules and Regulations shall constitute a default under this Lease. In the case of any conflict between the Rules and Regulations and this Lease, this Lease shall be controlling.

ARTICLE XVIII. BROKER'S COMMISSION

The, parties recognize as the broker(s) who negotiated this Lease the firm(s), if any, whose name(s) is (are) slated in Item 10 of the Basic Lease Provisions, and agree that Landlord shall be responsible for the payment of brokerage commissions to those broker(s) unless otherwise provided in this Lease. Tenant warrants that it has had no dealings with any other real estate broker or agent in connection with the negotiation of this Lease, and Tenant agrees to indemnify and hold Landlord harmless from any cost, expense or liability (including reasonable attorneys' fees) for any compensation, commissions or charges claimed by any other real estate broker or agent employed or claiming to represent or to have been employed by Tenant in connection with the negotiation of this Lease. The foregoing agreement shall survive the termination of this Lease. If Tenant fails to take possession of the Premises or if this Lease otherwise terminates prior to the Expiration Date as the result of failure of performance by Tenant, Landlord shall be entitled to recover from Tenant the unamortized portion of any brokerage commission funded by Landlord in addition to any other damages to which Landlord may be entitled.

ARTICLE XIX. TRANSFER OF LANDLORD'S INTEREST

In the event of any transfer of Landlord's interest in the Premises, the transferor shall be automatically relieved of all obligations on the part of Landlord accruing under this Lease from and after the date of the transfer, provided that any funds held by the transferor in which Tenant has an interest shall he tuned over, subject to that interest, to the transferee and Tenant is notified of the transfer as required by law. No holder of a mortgage and/or deed of trust to which this Lease is or may be subordinate, and no landlord under a so-called sale-leaseback, shall be responsible in connection with the Security Deposit, unless the mortgagee or holder of the deed of trust or the landlord actually receives the Security Deposit. It is intended that the covenants and obligations contained in this Lease on the part of Landlord shall, subject to the foregoing, be binding on Landlord, its successors and assigns, only during and in respect to their respective successive periods of ownership.

ARTICLE XX. INTERPRETATION

SECTION 20.1 GENDER AND NUMBER. Whenever the context of this Lease requires, the words "Landlord" and "Tenant" shall include the plural as well as the singular, and words used in neuter, masculine or feminine genders shall include the others.

SECTION 20.2 HEADINGS. The captions and headings of the articles and sections of this lease are for convenience only, are not a part of this Lease and shall have no effect upon its construction or interpretation.

SECTION 20.3 JOINT AND SEVERAL LIABILITY. If more than one person or entity is named as Tenant, the obligations imposed upon each shall be joint and several and the act of or notice from, or notice or refund to, or the signature of, any one or more of them shall be binding on all of them with respect to the tenancy of this Lease, including, but not limited to, any renewal, extension, termination or modification of this Lease.

SECTION 20.4 SUCCESSORS. Subject to Articles IX and XIX, all rights and liabilities given to or imposed upon Landlord and Tenant shall extend to and bind their respective heirs, executors, administrators, successors and assigns. Nothing contained in this Section is intended, or shall be construed, to grant to any person other than Landlord and Tenant and their successors and assigns any rights or remedies under this Lease.

SECTION 20.5 TIME OF ESSENCE. Time is of the essence with respect to the performance of every provision of this Lease.

SECTION 20.6 CONTROLLING LAW. This Lease shall be governed by and interpreted in accordance with the laws of the State of California.

SECTION 20.7 SEVERABILITY. If any term or provision of this Lease, the deletion of which would not adversely affect the receipt of any material benefit by either party or the deletion of which is consented to by the party adversely affected, shall be held invalid or unenforceable to any extent, the remainder of this Lease shall not be affected and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 20.8 WAIVER AND CUMULATIVE REMEDIES. One or more waivers by Landlord or Tenant of any breach of any term, covenant or condition contained in this Lease shall not be a waiver of any subsequent breach of the same or any other term, covenant or condition. Consent to any act by one of the parties shall not be deemed to render unnecessary the obtaining of that party's consent to any subsequent act. No breach by Tenant of this Lease shall be deemed to have been waived by Landlord unless the waiver is in a writing signed by Landlord. The rights and remedies of Landlord under this Lease shall be cumulative and in addition to any and all other rights and remedies which Landlord may have.

SECTION 20.9 INABILITY TO PERFORM. In the event that either party shall be delayed or hindered in or prevented from due performance of any work or in performing any act required under this Lease by reason of any cause beyond the reasonable control of that party, then the performance of the work or the doing of the act shall be excused for the period of the delay and the time for performance shall be extended for a period equivalent to the period of the delay. The provisions of this Section shall not operate to excuse Tenant from the prompt payment of rent or from the timely performance of any other obligation under this Lease within Tenant's reasonable control.

SECTION 20.10 ENTIRE AGREEMENT. This Lease and its exhibits and other attachments cover in full each and every agreement of every kind between the parties concerning the Premises and the Building, and all preliminary negotiations, oral agreements, understandings and/or practices, except those contained in this Lease, are superseded and of no further effect. Tenant waives its rights to rely on any representations or promises made by Landlord or others which are not contained in this Lease. No verbal agreement or implied covenant shall be held to modify the provisions of this Lease, any statute, law, or custom to the contrary notwithstanding.

SECTION 20.11 QUIET ENJOYMENT. Upon the observance and performance of all the covenants, terms and conditions on Tenant's part to be observed and performed, and subject to the other provisions of this Lease, Tenant shall peaceably and quietly hold and enjoy the Premises for the Term without hindrance or interruption by Landlord or any other person claiming by or through Landlord.

SECTION 20.12 SURVIVAL. All covenants of Landlord or Tenant which reasonably would be intended to survive the expiration or sooner termination of this Lease, including without limitation any warranty or indemnity hereunder, shall so survive and continue to be binding upon and inure to the benefit of the respective parties and their successors and assigns.

ARTICLE XXI. EXECUTION AND RECORDING

SECTION 21.1 COUNTERPARTS. This Lease may be executed in one or more counterparts, each of which shall constitute an original and all of which shall be one and the same agreement.

SECTION 21.2 CORPORATE AND PARTNERSHIP AUTHORITY. If Tenant is a corporation or partnership, each individual executing this Lease on behalf of the corporation or partnership represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of the corporation or partnership, and that this Lease is binding upon the corporation or partnership in accordance with its terms. Tenant shall, at Landlord's request, deliver a certified copy of its board of directors' resolution or partnership agreement or certificate authorizing or evidencing the execution of this Lease.

SECTION 21.3 EXECUTION OF LEASE; NO OPTION OR OFFER. The submission of this Lease to Tenant shall be for examination purposes only, and shall not constitute an offer to or option for Tenant to Lease the Premises. Execution of this Lease by Tenant and its return to Landlord shall not be binding upon Landlord, notwithstanding any time interval, until Landlord has in fact executed and delivered this Lease to Tenant, it being intended that this Lease shall only become effective upon execution by Landlord and delivery of a fully executed counterpart to Tenant.

SECTION 21.4 RECORDING. Tenant shall not record this Lease without the prior written consent of Landlord. Tenant, upon the request of Landlord, shall execute and acknowledge a "short form" memorandum of this Lease for recording purposes.

SECTION 21.5 AMENDMENTS. No amendment or termination of this Lease shall he effective unless in writing signed by authorized signatories of Tenant and Landlord, or by their respective successors in interest. No actions, policies, oral or informal arrangements, business dealings or other course of conduct by or between the parties shall be deemed to modify this Lease in any respect.

SECTION 21.6 EXECUTED COPY. Any fully executed photocopy or similar reproduction of this Lease shall be deemed an original for all purposes.

SECTION 21.7 ATTACHMENTS. All exhibits, amendments, riders and addenda attached to this Lease are hereby incorporated into and made a part of this Lease.

ARTICLE XXII. MISCELLANEOUS

SECTION 22.1 NONDISCLOSURE OF LEASE TERMS. Tenant acknowledges and agrees that the terms of this Lease are confidential and constitute proprietary information of Landlord. Disclosure of the terms could adversely affect the ability of Landlord to negotiate other leases and impair Landlord's relationship with other tenants. Accordingly, Tenant agrees that it, and its partners, officers, directors, employees and attorneys, shall not intentionally and voluntarily disclose the terms and conditions of this Lease to any other tenant or apparent prospective tenant of the Landlord, either directly or indirectly, without the prior written consent of Landlord, provided, however, that Tenant may disclose the terms to prospective subtenants or assignees under this Lease.

SECTION 22.2 GUARANTY. As a condition to the execution of this Lease by Landlord, the obligations, covenants and performance of the Tenant as herein provided shall be guaranteed in writing by the Guarantor(s) listed in Item 7 of the Basic Lease Provisions, if any, on a form of guaranty provided by Landlord.

SECTION 22.3 CHANGES REQUESTED BY LENDER. If, in connection with obtaining financing for the Building, the lender shall request reasonable modifications in this Lease as a condition to the Financing, Tenant will not unreasonably withhold or delay its consent, provided that the modifications do not materially increase the obligations of Tenant or materially and adversely affect the leasehold interest created by this Lease.

SECTION 22.4 MORTGAGEE PROTECTION. No act or failure to act on the part of Landlord which would otherwise entitle Tenant to be relieved of its obligations hereunder or to terminate this Lease shall result in such a release or termination unless (a) Tenant has given notice by registered or certified mail to any beneficiary of a deed of trust or mortgage covering the Premises whose address has been furnished to Tenant and (b) such beneficiary is afforded a reasonable opportunity to cure the default by Landlord (which in no event shall be less than sixty (60) days), including, if necessary to effect the cure, time to obtain possession of the Premises by power of sale or judicial foreclosure provided that such foreclosure remedy is diligently pursued. Tenant agrees that each beneficiary of a deed of trust or mortgage covering the Premises is an express third party beneficiary hereof, Tenant shall have no right or claim for the collection of any deposit from such beneficiary or from any purchaser at a foreclosure sale unless such beneficiary or purchaser shall have actually received and not refunded the deposit, and Tenant shall comply with any written directions by any beneficiary to pay rent due hereunder directly to such beneficiary without determining whether an event of default exists under such beneficiary's deed of trust.

SECTION 22.5 COVENANTS AND CONDITIONS. All of the provisions of this Lease shall be construed to be conditions as well as covenants as though the words specifically expressing or imparting covenants and conditions were used in each separate provision.

SECTION 22.6 SECURITY MEASURES. Tenant hereby acknowledges that Landlord shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises. Tenant assumes all responsibility for the protection of Tenant, its agents, invitees and property from acts of third parties. Nothing herein contained shall prevent Landlord, at its sole option, from providing security protection for the Premises or any part thereof, in which event the cost thereof shall be included within the definition of Building Costs.

SECTION 22.7 TERMINATION OF EXISTING LEASE. It is understood that Tenant is presently leasing ® the Premises from Landlord pursuant to an existing lease dated March 23, 1994, which lease was amended by a First ® Amendment to Lease dated January 14, 1997 (as amended, the "Existing Lease"). The parties agree that the Term of ® the Existing Lease shall expire by its terms on the day preceding the Commencement Date of this Lease. Any advance ® rental paid by Tenant under the Existing Lease shall be rebated by Landlord or applied to the rent due hereunder.

LANDLORD:

THE IRVINE COMPANY

By: /s/ Robert E. Williams

Robert E. Williams, Jr., President
Irvine Industrial Company,
a division of The Irvine Company

By: /s/ Nancy Trujillo

Nancy E. Trujillo
Assistant Secretary

TENANT:

SUNPOWER, INC.,
a California corporation

By: /s/ Richard Swanson

Name: Richard Swanson
Title: President

By:

Name:

Title:

[DRAWING OF PREMISES]

EXHIBIT A

[DRAWING OF PREMISES]

EXHIBIT A-1

EXHIBIT B

THE IRVINE COMPANY – INVESTMENT PROPERTIES GROUP

HAZARDOUS MATERIAL SURVEY FORM

The purpose of this form is to obtain information regarding the use of hazardous substances on Investment Properties Group ("IPG") property. Prospective tenants and contractors should answer the questions in light of their proposed activities on the premises. Existing tenants and contractors should answer the questions as they relate to ongoing activities on the premises and should update any information previously submitted.

If additional space is needed to answer the questions, you may attach separate sheets of paper to this form. When completed, the form should be sent to the following address:

INSIGNIA/ESG OF CALIFORNIA, INC.
1 Ada, Suite 270
Irvine, CA 92618

Your cooperation in this matter is appreciated. If you have any questions, please call your property manager at (714) 753-4744 for assistance.

1. GENERAL INFORMATION

Name of Responding Company:_____
Check all that apply: Tenant ( ) Contractor ( )
Prospective ( ) Existing ( )

Mailing Address:_____

Contact Person & Title:_____
Telephone Number: ( )_____–_____

Current TIC Tenant(s):

Address of Lease Premises:_____

Length of Lease or Contract Term:_____

Prospective TIC Tenant(s):

Address of Proposed Lease Premises:_____

Address of Current Operations:_____

Describe the proposed operations to take place on the property, including principal products manufactured or services to be conducted. Existing tenants and contractors should describe any proposed changes to ongoing operations._____
_____
_____

2. HAZARDOUS MATERIALS. For the purposes of this Survey Form, the term "hazardous material" means any raw material, product or agent considered hazardous under any state or federal law. The term does not include wastes which are intended to be discarded.

2.1 Will any hazardous materials be used or stored on site?

Chemical Products	Yes ( ) No ( )
Biological Hazards/ Infectious Wastes	Yes ( ) No ( )
Radioactive Materials	Yes ( ) No ( )
Petroleum Products	Yes ( ) No ( )

2.2 List any hazardous materials to be used or stored, the quantities that will be on-site at any given time, and the location and method of storage (e.g., bottles in storage closet on the premises).

Hazardous Materials	Location and Method of Storage	Quantity
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

2.3 Is any underground storage of hazardous materials proposed or currently conducted on the premises? Yes ( ) No ( )

If yes, describe the materials to be stored, and the size and construction of the tank. Attach copies of any permits obtained for the underground storage of such substances.

3. HAZARDOUS WASTE. For the purposes of this Survey Form, the term "hazardous waste" means any waste (including biological, infectious or radioactive waste considered hazardous under any state or federal law, and which is intended to be discarded.

3.1 List any hazardous waste generated or to be generated on the premises, and indicate the quantity generated on a monthly basis.

Hazardous Waste	Location and Method of Storage Prior to Disposal	Quantity
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

3.2 Describe the method(s) of disposal (including recycling) for each waste. Indicate where and how often disposal will take place.

Hazardous Materials	Location of Disposal Site	Disposal Method
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

3.3 Is any treatment or processing of hazardous, infections or radioactive wastes currently conducted or proposed to be conducted on the premise? Yes ( ) No ( )

If yes, please describe any existing or proposed treatment methods._____

_____

_____

3.4 Attach copies of any hazardous waste permits or licenses issued to your company with respect to its operations on the premises.

4. SPILLS

4.1 During the past year, have any spills or releases of hazardous materials occurred on the premises? Yes ( ) No ( )

If so, please describe the spill and attach the results of any testing conducted to determine the extent of such spills._____

_____

_____

4.2 Were any agencies notified in connection with such spills? Yes ( ) No ( )

If so, attach copies of any spill reports or other correspondence with regulatory agencies.

4.3 Were any clean-up actions undertaken in connection with the spills? Yes ( ) No ( )

If so, briefly describe the actions taken. Attach copies of any clearance letters obtained from any regulatory agencies involved and the results of any final soil or groundwater sampling done upon completion of the clean-up work._____

_____

_____

5. WASTEWATER TREATMENT/DISCLOSURE

5.1 Do you discharge industrial wastewater to:

____storm drain? ____sewer?
____surface water? ____no industrial discharge

5.2 Is your industrial wastewater treated before discharge? Yes ( ) No ( )

If yes, describe the type of treatment conducted._____

_____

5.3 Attach copies of any wastewater discharge permits issued to your company with respect to its operations on the premises.

6. AIR DISCHARGES

6.1 Do you have any air filtration systems or stacks that discharge into the air? Yes ( ) No ( )

6.2 Do you operate any equipment that require air emissions permits? Yes ( ) No ( )

6.3 Attach copies orally air discharge permits pertaining to these operations.

7. HAZARDOUS MATERIALS DISCLOSURES

7.1 Does your company handle an aggregate of at least 500 pounds, 55 gallons or 200 cubic feet of hazardous material at any given time? Yes ( ) No ( )

7.2. Has your company prepared a Hazardous Materials Disclosure - Chemical Inventory and Business Emergency Plan or similar disclosure document pursuant to state or county requirements? Yes ( ) No ( )

If so, attach a copy.

7.3 Are any of the chemicals used in your operations regulated under Proposition 65?

If so, describe the procedures followed to comply with these requirements._____

_____

7.4 Is your company subject to OSHA Hazard Communication Standard Requirements? Yes ( ) No ( )

If so, describe the procedures followed to comply with these requirements._____

_____

_____

8. ANIMAL TESTING

8.1 Does your company bring or intend to bring live animals onto the premises for research or development purposes? Yes ( ) No ( )

If so, describe the activity._____

_____

_____

8.2 Does your company bring or intend to bring animal body parts or bodily fluids onto the premises for research or development purposes? Yes ( ) No ( )

If so, describe the activity._____

_____

_____

9. ENFORCEMENT ACTIONS, COMPLAINTS

9.1 Has your company ever been subject to any agency enforcement actions, administrative orders, lawsuits, or consent orders/decrees regarding environmental compliance or health and safety? Yes ( ) No ( )

If so, describe the actions and any continuing obligations imposed as a result of these actions._____

_____

_____

9.2 Has your company ever received any request for information, notice of violation or demand letter, complaint, or inquiry regarding environmental compliance or health and safety? Yes ( ) No ( )

9.3 Has an environmental audit ever been conducted which concerned operations or activities on premises occupied by you? Yes ( ) No ( )

9.4 If you answered “yes” to any questions in this section, describe the environmental action or complaint and any continuing compliance obligation imposed ns a result of the same.

_____

_____

_____

_____

_____

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT C

HAZARDOUS MATERIALS DISCLOSURE

Tenant acknowledges the following disclosures by Landlord with respect to Hazardous Materials at the Premises. Tenant agrees to comply with the precautionary requirements and other provisions, set forth below, that are associated with these Hazardous Materials.

(1) Portions of the structures on the Premises may contain asbestos-containing materials. Accordingly, Tenant agrees that it will not make any repairs or alterations to the structures on the Premises: (a) without inquiring from Landlord whether Tenant's planned repairs or alterations are likely to disturb asbestos-containing materials in the structures, and (b) if, in Landlord's judgment, the planned repairs or alterations are likely to disturb the asbestos-containing materials, without securing Landlord's prior consent to the repairs or alterations.

(2) Portions of the groundwater in the City of Sunnyvale contain volatile organic compounds and/or solvents. These substances may be present in the groundwater beneath the Premises.

Landlord is unaware of any practical impediment to the use or occupancy of the Premises due to this condition.

(3) Tenant agrees that its exemption in Section 5.3(f) of the Lease from liability or responsibility with respect to the Hazardous Materials described in this Exhibit C shall not extend to any such Hazardous Materials whose initial presence was caused or permitted by Tenant, its agents, employees, contractors, licensees, or invitees.

/s/ Richard A. Crane

Tenant

3/23/00

Date

EXHIBIT D

TENANT'S INSURANCE

The following standards for Tenant's insurance shall be in effect at the Building. Landlord reserves the right to adopt reasonable nondiscriminatory modifications and additions to those standards. Tenant agrees to obtain and present evidence to Landlord that it has fully complied with the Insurance requirements.

1. Tenant shall, at its sole cost and expense, commencing on the dale Tenant is given access to the Premises for any purpose and during the entire Term, procure, pay for and keep in lull force and effect: (i) commercial general liability insurance with respect to the Premises and the operations of or on behalf of Tenant in, on or about the Premises, including but not limited to personal injury, owned and nonowned automobile, blanket contractual, independent contractors, broad form property damage (with an exception to any pollution exclusion with respect to damage arising out of heat, smoke or fumes from a hostile fire), fire and water legal liability, products liability (if a product is sold from the Premises), liquor law liability (if alcoholic beverages are sold, served or consumed within the Premises), and severability of interest, which policy(ies) shall be written on an "occurrence" basis and for not less than the amount set forth In Item 13 of the Basic Lease Provisions, with a combined single limit (with a $50,000 minimum limit on fire legal liability) per occurrence for bodily injury, death, and property damage liability, or the current limit of liability carried by Tenant, whichever is greater, and subject to such increases in amounts as Landlord may determine from time to time; (ii) workers' compensation insurance coverage as required by law, together with employers' liability insurance; (iii) with respect to improvements, alterations, and the like required or permitted to be made by Tenant under this Lease, builder's all-risk Insurance, in an amount equal to the replacement cost of the work; (iv) insurance against fire, vandalism, malicious mischief and such other additional perils as may be included in a standard "all risk" form in general use in the county in which the Premises are situated, insuring Tenant's leasehold improvements, trade fixtures, furnishings, equipment and items of personal property of Tenant located in the Premises, in an amount equal to not less than ninety percent (90%) of their actual replacement cost (with replacement cost endorsement); and (v) business interruption insurance in amounts satisfactory to cover one (1) year of loss. In no event shall the limits of any policy be considered as limiting the liability of Tenant under this Lease.

2. In the event Landlord consents to Tenant's use, generation or storage of Hazardous Materials on, under or about the Premises pursuant to Section 5.3 of this Lease, Landlord shall have the continuing right to require Tenant, at Tenant's sole cost and expense (provided the same is available for purchase upon commercially reasonable terms), to purchase insurance specified and approved by Landlord, with coverage not less than Five Million Dollars ($5,000,000.00), insuring (i) any Hazardous Materials shall be removed from the Premises, (ii) the Premises shall be restored to a clean, healthy, safe and sanitary condition, and (iii) any liability of Tenant, Landlord and Landlord's officers, directors, shareholders, agents, employees and representatives, arising from such Hazardous Materials.

3. All policies of insurance required to be carried by Tenant pursuant to this Exhibit D containing a deductible exceeding Ten Thousand Dollars ($10,000.00) per occurrence must be approved in writing by Landlord prior to the issuance of such policy. Tenant shall be solely responsible for the payment of all deductibles.

4. All policies of insurance required to be carried by Tenant pursuant to this Exhibit D shall be written by responsible insurance companies authorized to do business in the State of California and with a Best's rating of not less than "A" subject to final acceptance and approval by Landlord. Any insurance required of Tenant may be furnished by Tenant under any blanket policy carried by it or under a separate policy, so long as (i) the Premises are specifically covered (by rider, endorsement or otherwise), (ii) the limits of the policy are applicable on a "per location" basis to tile Premises and provide for restoration of the aggregate limits, and (iii) the policy otherwise complies with the provisions of this Exhibit D. A true and exact copy of each paid up policy evidencing the insurance (appropriately authenticated by the insurer) or a certificate of insurance, certifying that the policy has been issued, provides the coverage required by this Exhibit D and contains the required provisions, shall be delivered to Landlord prior to the date Tenant is given the right of possession of the Premises. Proper evidence of the renewal of any Insurance coverage shall also be delivered to Landlord not less than thirty (30) days prior to the expiration of the coverage. Landlord may at any time, and from time to time, inspect and/or copy any and all insurance policies required by this Lease.

5. Each policy evidencing insurance required to be carried by Tenant pursuant to this Exhibit D shall contain the following provisions and/or clauses satisfactory to Landlord: (i) a provision that the policy and the coverage provided shall be primary and that any coverage carried by Landlord shall be noncontributory with respect to any policies carried by Tenant except as to workers' compensation insurance; (ii) a provision including Landlord, the Additional Insureds identified in Item 11 of the Basic Lease Provisions, and any other parties in interest designated by Landlord as an additional insured, except as to workers' compensation insurance; (iii) a waiver by the insurer of any right to subrogation against Landlord, its agents, employees, contractors and representatives which arises or might at use by reason of any payment under the policy or by reason of any act or omission of Landlord, its agents, employees, contractors or representatives; and (iv) a provision that the insurer will not cancel or change the coverage provided by the policy without first giving Landlord thirty (30) days prior written notice.

6. In the event that Tenant fails to procure, maintain and/or pay for, at the times and for the duration specified in this Exhibit D, any insurance required by this Exhibit D, or fails to carry insurance required by any governmental authority, Landlord may at its election procure that insurance and pay the premiums, in which event Tenant shall repay Landlord all sums paid by Landlord, together with interest at the maximum role permitted by law and any related costs or expenses incurred by Landlord, within ten (10) days following Landlord's written demand to Tenant.

EXHIBIT E

RULES AND REGULATIONS

This Exhibit sets forth the rules and regulations governing Tenant's use of the Premises leased to Tenant pursuant to the terms, covenants and conditions of the Lease to which this Exhibit is attached and therein made part thereof. In the event of any conflict or inconsistency between this Exhibit and the Lease, the Lease shall control.

1. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises.

2. The walls, walkways, sidewalks, entrance passages, courts and vestibules shall not be obstructed or used for any purpose other than Ingress and egress of pedestrian travel to and from the Premises, and shall not be used for loitering or gathering, or to display, store or place any merchandise, equipment or devices, or for any other purpose. The walkways, entrance passageways, courts, vestibules and roof are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom Tenant normally deals in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. No tenant or employee or invitee of any tenant shall be permitted upon the roof of the Building.

3. No awnings or other projection shall be attached to the outside walls of the Building. No security bars or gates, curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises without the prior written consent of Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without the express written consent of Landlord.

4. Tenant shall not mark, nail, paint, drill into, or in any way deface any part of the Premises or the Building. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved by Landlord in writing. The expense of repelling any damage resulting from a violation of this rule or removal of any floor covering shall be borne by Tenant.

5. The toilet rooms, urinals, wash bowls and other plumbing apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation or this rule shall be borne by the tenant who, or whose employees or invitees, caused it.

6. Landlord shall direct electricians as to the manner and location of any future telephone wiring. No boring or cutting for wires will be allowed without the prior consent of Landlord. The locations of the telephones, call boxes and other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord.

7. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the permitted use of the Premises. No exterior storage shall be allowed at any time without the prior written approval of Landlord. The Premises shall not be used for cooking or washing clothes without the prior written consent of Landlord, or for lodging or sleeping or for any immoral or illegal purposes.

8. Tenant shall not make, or permit to be made, any unseemly or disturbing noises or disturb or interfere with occupants of this or neighboring buildings or premises or those having business with them, whether by the use of any musical instrument, radio, phonograph, noise, or otherwise. Tenant shall not use, keep or permit to be used, or kept, any foul or obnoxious gas or substance in the Premises or permit or suffer the Premises to be used or occupied in any manner offensive or objectionable to Landlord or other occupants of this or neighboring buildings or premises by reason of any odors, fumes or gases.

9. No animals shall be permitted at any time within the Premises.

10. Tenant shall not use the name of the Building. or the Project in connection with or in promoting or advertising the business of Tenant, except as Tenant's address, without the written consent of Landlord. Landlord shall have the right to prohibit any advertising by any Tenant which, in Landlord's reasonable opinion, tends to impair the reputation of the Project or its desirability for its intended uses, and upon written notice front Landlord any Tenant shall refrain from or discontinue such advertising.

11. Canvassing, soliciting, peddling, parading, picketing, demonstrating or otherwise engaging in any conduct that unreasonably impairs the value or use of the Premises or the Project are prohibited and each Tenant shall cooperate to prevent the same.

12. No equipment or any type shall be placed on the Premises which in Landlord's opinion exceeds the load limits of the floor or otherwise threatens the soundness of the structure or improvements of the Building,

13. No air conditioning unit or other similar apparatus shall he installed or used by any Tenant without the prior written consent of Landlord.

14. No aerial antenna shall be erected on the roof or exterior walls of the Premises, or on the grounds, without in each instance, the prior written consent of Landlord. Any aerial or antenna so installed without such written consent shall be subject to removal by Landlord at any time without prior notice at the expense of the Tenant, and Tenant shall upon Landlord's demand pay a removal fee to Landlord of not less than $200.00.

15. The entire Premises, including vestibules, entrances, doors, fixtures, windows and plate glass, shall at all times be maintained in a safe, neat and clean condition by Tenant. All trash, refuse and waste materials shall be regularly removed from all the Premises by Tenant and placed in the containers at the locations designated by Landlord for refuse collection. All cardboard boxes must be "broken down" prior to being placed in the trash container. All styrofoam chips must be bagged or otherwise contained prior to placement in the trash container, so as not to constitute a nuisance. Pallets may not be disposed of in the trash container or enclosures. The burning of trash, refuse or waste materials is prohibited.

16. Tenant shall use at Tenant's cost such pest extermination contractor as Landlord may direct and at such intervals as Landlord may require.

17. All keys for the Premises shall be provided to Tenant by Landlord and Tenant shall return to Landlord any of such keys so provided upon the termination of the Lease. Tenant shall not change locks or install other locks on doors of the Premises, without the prior written consent of Landlord. In the event of loss of any keys furnished by Landlord for Tenant, Tenant shall pay to Landlord the costs thereof.

18. No person shall enter or remain within the Project while intoxicated or under the influence of liquor or drugs. Landlord shall have the right to exclude or expel from the Project any person who, in the absolute discretion of Landlord, is under the influence of liquor or drugs.

Landlord reserves the right to amend or supplement the foregoing Rules and Regulations and to adopt and promulgate additional rules and regulations applicable to the Premises. Notice of such piles and regulations and amendments and supplements thereto, if any, shall be given to the Tenant.

SunPower Corporation
The Irvine Company/Insignia ESC
430 Indio Way/320 Soquel Ave.

Commencing 6/1/2000
Security Deposit of $50,160.00

Date	Amount	Aggregate Amount	Price per Foot
Jun-00	39,000.00	39,000.00	1.95 Per Square Foot
Jul-00	39,000.00	78,000.00	
Aug-00	39,000.00	111,000.00	
Sep-00	39,000.00	156,000.00	
Oct-00	39,000.00	195,000.00	
Nov-00	39,000.00	234,000:00	
Dec-00	39,000.00	273,000.00	
Jan-01	39,000.00	312,000.00	
Feb-01	39,000.00	351,000.00	
Mar-01	39,000.00	390,000.00	
Apr-01	39,000.00	429,000.00	
May-01	39,000.00	468,000.00	
Jun-01	40,600.00	508,600.00	2.03 Per Square Foot
Jul-01	40,600.00	549,200.00	
Aug-01	40,600.00	589,800.00	
Sep-01	40,600.00	630,400.00	
Oct-01	40,600.00	671,000.00	
Nov-01	40,600.00	711,600.00	
Dec-01	40,600.00	752,200.00	
Jan-02	44,600.00	792,800.00	
Feb-02	40,600.00	833,400.00	
Mar-02	40,600.00	874,000.00	
Apr-02	40,600.00	914,600.00	
May-02	40,600.00	955,200.00	
Jun-02	42,200.00	997,400.00	2.11 Per Square Foot
Jul-02	42,200.00	1,039,600.00	
Aug-02	42,200.00	1,081,800.00	
Sep-02	42,200.00	1,124,000.00	
Oct-02	42,200.00	1,166,200.00	
Nov-02	42,200.00	1,208,400.00	
Dec-02	42,204.00	1,250,600.00	
Jan-03	42,200.00	1,292,500.00	
Feb-03	42,200.00	1,335,040.04	
Mar-03	42,200.00	1,377,200.00	
Apr-03	42,200.00	1,419,400.00	
May-03	42,200.00	1,461,600.00	
Jun-03	43,800.00	1,505,400.00	2.19 Per Square Foot
Jut-03	43,800.00	1,549,200.00	
Aug-03	43,800.00	1,593,000.00	
Sep-03	43,800.00	1,636,800.00	
Oct-03	43,800.00	1,680,600.00	
Nov-03	43,800.00	1,724,400.00	
Dec-03	43,800.00	1,768,200.00	
Jan-04	43,800.00	1,812,000.00	
Feb-04	43,800.00	1,855,800.00	
Mar-04	43,800.00	1,899,600.00	
Apr-04	43,800.00	1,943,400.00	
May-04	43,800.00	1,987,200.00	

Jun-04	45,600.00	2,032,800.00	2.28 Per Square Foot
Jul-04	45,600.00	2,078,400.00	
Aug-04	45,600.00	2,124,000.00	
Sep-04	45,600.00	2,169,600.00	
Oct-04	45,600.00	2,215,200.00	
Nov-04	45,600.00	2,260,800.00	
Dec-04	45,600.00	2,306,400.00	
Jan-05	45,600.00	2,352,000.00	
Feb-05	45,600.00	2,397,600.00	
Mar-05	45,600.00	2,443,200.00	
Apr-05	45,600.00	2,488,800.00	
May-05	45,600.00	2,534,400.00	

EXHIBIT 10.6

FIRST AMENDMENT TO LEASE

I. PARTIES AND DATE.

This First Amendment to Lease (the "Amendment") dated January 20, 2005, is by and between THE IRVINE COMPANY ("Landlord"), and SUNPOWER, INC., a California corporation ("Tenant").

II. RECITALS.

On March 28, 2000, Landlord and Tenant entered into a lease ("Lease") for space in a building located at 430 Indio Way, Sunnyvale, California ("Premises").

Landlord and Tenant each desire to modify the Lease to extend the Lease Term, to adjust the Basic Rent, and to make such other modifications as are set forth in "III. MODIFICATIONS" next below.

III. MODIFICATIONS.

A. Basic Lease Provisions. The Basic Lease Provisions are hereby amended as follows.

1. Item 5 is hereby deleted in its entirety and substituted therefor shall be the following:

"5. Lease Term: The Term of this Lease shall expire at midnight on May 31, 2006"

2. Item 6 is hereby amended by adding the following:

"Commencing June 1, 2005, the Basic Rent shall be Fifteen Thousand Dollars ($15,000.00) per month, based on $.75 r rentable square foot."

3. Item 12 is hereby amended by deleting Landlord's address for payments and notices and substituted therefor shall be the following:

"LANDLORD

THE IRVINE COMPANY
550 Newport Center Drive
Newport Beach, CA 92660
Attn: Senior Vice President, Operations
Irvine Office Properties

with a copy of notices to:

THE IRVINE COMPANY
550 Newport Center Drive
Newport Beach, CA 92660
Attn: Vice President, Operations
Irvine Office Properties, Technology Portfolio"

B. Acceptance of Premises. Tenant acknowledges that the lease of the Premises pursuant to this Amendment shall be on an "as-is" basis without further obligation on Landlord's part as to improvements whatsoever.

IV. GENERAL.

A. Effect of Amendments. The Lease shall remain in full force and effect except to the extent that it is modified by this Amendment.

B. Entire Agreement. This Amendment embodies the entire understanding between Landlord and Tenant with respect to the modifications set forth in "III. MODIFICATIONS" above and can be changed only by a writing signed by Landlord and Tenant.

C. Counterparts. If this Amendment is executed in counterparts, each is hereby declared to be an original; all, however, shall constitute but one and the same amendment. In any action or proceeding, any photographic, photostatic, or other copy of this Amendment may be introduced into evidence without foundation.

D. Defined Terms. All words commencing with initial capital letters in this Amendment and defined in the Lease shall have the same meaning in this Amendment as in the Lease, unless they are otherwise defined in this Amendment.

E. Corporate and Partnership Authority. If Tenant is a corporation or partnership, or is comprised of either or both of them, each individual executing this Amendment for the corporation or partnership represents that he or she is duly authorized to execute and deliver this Amendment on behalf of the corporation or partnership and that this Amendment is binding upon the corporation or partnership in accordance with its terms.

F. Attorneys' Fees. The provisions of the Lease respecting payment of attorneys' fees shall also apply to this Amendment.

V. EXECUTION.

Landlord and Tenant executed this Amendment on the date as set forth in "I. PARTIES AND DATE." above.

LANDLORD:	TENANT:
THE IRVINE COMPANY	SUNPOWER, INC., a California corporation
By: /s/ Steven M.Case	By: /s/ Jay Peir
Steven M. Case, Senior Vice President Leasing Office Properties	Name: Jay Peir Title: CEO
By: /s/ Christopher Popma	By: /s/ Thomas H. Werner
Christopher J. Popma, Vice President Operations, Office Properties	Name: Thomas Werner Title: CEO

EXHIBIT 10.7

CONTRACT OF LEASE

KNOW ALL MEN BY THESE PRESENTS:

This Contract of Lease, made and entered into this 1 day of January 2003, in Binan, Laguna, Philippines, by and between;

CYPRESS MANUFACTURING LTD – PHIL. BRANCH, a foreign corporation licensed to do business in the Philippines, with principal address at Gateway Business Park, Gen. Trias. Cavite. represented in this act by its for Managing Diretor, Mr. Conrado Leal, hereinafter referred to as the **LESSOR**;

-and-

SUNPOWER PHILIPPINES MANUFACTURING LIMITED – PHIL. BRANCH, a foreign corporation duly licensed to do business under the laws of the Philippines, with office address at 100 Trade Avenue, Phase 4, Special Economic Zone, Laguna Technopark, Binan, Laguna, represented in this act by its Plant Manager, Gregory Reichow, hereinafter referred to as the **LESSEE**;

WITNESSETH: That

WHEREAS, the LESSOR is the registered, legal and owner of a building which has a floor area of Twenty Thousand Forty Nine and 55/100 (20.049.55) square meters located at the plant site of the Seller at 100 Trade Avenue, Phase IV, Special Economic Zone, Laguna Technopark, Binan, Laguna (the Building) and covered by Tax Declaration No. Tax Declaration No. 003-09-08872 of Binan, Laguna, dated 29 March 2000 hereinafter referred to as the “Building”;

WHEREAS, the LESSOR has likewise acquired the leasehold rights and interests (the “Leasehold Rights and Interests”) over the parcel of land on which the Building is located with an area consisting of Eighty Eight Thousand Seven Hundred Five (88.705) square meters, more or less, constituting a portion of the land (the “Leased Land”) covered by Transfer Certificate of Title No. T-433155 (the “TCT”) issued by the Registry of Deeds for the Province of Laguna, Calamba Branch, hereafter referred to as the “Premises”;

WHEREAS, the LESSEE desires to lease the above mentioned Building and Premises and the LESSOR is willing to lease the same unto the LESSEE subject to the terms and conditions herein specified.

NOW, THEREFORE, for and in consideration of the covenants and agreement hereinafter set forth, the LESSOR agrees and consents to lease unto the LESSEE with option to purchase, the aforementioned Building and Premises under the following terms and conditions:

1. PERIOD

The term of this lease shall be for a period of Three (3) years commencing on July 15, 2003 renewable thereafter on terms and conditions mutually agreed upon, provided written notice of intent to renew or extend is served by the LESSEE on the LESSOR at least sixty (60) days prior to the expiration of this Lease Contract. LESSEE is given the right to terminate the lease upon written notice served on the LESSOR at least sixty (60) days prior to termination.

For any renewal or extension after the first year, the rate shall be mutually agreed.

2. RENTAL

The rental for the use and occupancy of the Building and Premises shall be equivalent to TWENTY TWO EIGHT HUNDRED SIXTY FIVE US Dollars **(US$22,865.00)** payable at the end of each month inclusive of five percent (5%) withholding tax.

3. WATER, ELECTRICITY, TELEPHONE AND OTHER UTILITIES

The LESSEE shall be responsible for the payment of association dues, water, electricity, and other services for the maintenance of the Building and Premises for the duration of the Contract of Lease. The LESSEE warrants that payment of said utilities shall be timely made.

4. OPTION TO PURCHASE

LESSEE is given the right to purchase the Building and all Leasehold rights and interests from the LESSOR by giving written notice to LESSOR and upon mutually acceptable terms and conditions

5. USE OF THE PREMISES

The LESSEE shall use the Leased PREMISES for the manufacture of solar cells and other related activities. The LESSEE and the LESSOR shall comply with the existing rules and regulations, any and all reasonable rules and regulations which may be promulgated from time to time by the LTI Association, and will follow all the rules and regulations, ordinances and laws issued by the Health or other constituted local or national authorities arising from or regarding the use, occupancy, sanitation and safety of the Building and Premises.

6. IMPROVEMENTS AND ALTERATIONS

The LESSEE may make any major structural changes, alterations or improvements in the Building and Premises for its own account.

7. MAINTENANCE AND REPAIRS

The LESSEE shall keep the Leased PREMISES in a clean and sanitary condition and keep it all times in very good condition.

8. TAXES AND INSURANCE

During the term of this lease and any renewal or extension thereof, the LESSEE shall be liable for Real Estate Taxes up to the extent of Eight Thousand Five Hundred Eighty Eight US Dollars **($8,588)** monthly. Other government assessments, Fire Insurance of the Building and Premises shall be for the account of the Lessee.

The LESSEE shall be responsible for obtaining insurance for the property of the LESSEE placed within the Building and PREMISES.

9. SALE, TRANSFER AND MORTGAGE

The LESSOR reserves the right to sell, transfer, mortgage or otherwise dispose of the property provided the LESSEE's rights under this lease are respected. The LESSEE himself agrees to allow the LESSOR or his authorized representatives, together with the prospective buyers, to enter the PREMISES at reasonable hours and upon prior written notice and arrangement made by the LESSOR with the LESSEE. The LESSOR agrees that in the event such a sale of the Leased PREMISES occurs, the conditions embodied in this Contract of Lease shall be respected and honored by the owner.

10. MODIFICATION OF CONTRACT

This Contract shall not in any way be amended, modified or annotated except by virtue of a written instrument signed by the duly authorized representative of the LESSOR and the LESSEE.

IN WITNESS WHEREOF, the parties have caused these presents to be signed on the date and place first mentioned.

CYPRESS MANUFACTURING LTD	**SUNPOWER PHILIPPINES MFG LTD**
/s/ Conrado Leal	**/s/ Gregory Reichow**
CONRADO LEAL Lessor	**GREGORY REICHOW** Lessee

Signed in the Presence of:

/s/ illegible	/s/ illegible

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CALAMBA CITY, LAGUNA)

BEFORE ME, a Notary Public, for and in Calamba City, this 29th day of July 2004.

Name	**Identification**	**Date/Place Issued**

All of whom are known to me and to me known to be the same persons who executed this foregoing Agreement and acknowledged to me that they executed the same on their own voluntary act and deed.

This instrument refers to a CONTRACT OF LEASE consisting of four (4) pages including this page wherein the acknowledgment is written and signed by the parties and their instrumental witness on each and every page thereof:

WITNESS MY HAND AND SEAL, on the date and place first above written.

Doc. No. 545
Page No. 109
Book No. III
Series of 2004

NOTARY PUBLIC

/s/ Ricardo R. Aquino

ATTY. RICARDO R. AQUINO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2004
PTR. NO. 5737955
DEP NO. 598914
JANUARY __, 2004 / CALAMBA CITY

Exhibit 10.8

May 22, 2003

Tom Werner

Re: Employment with SunPower Corporation

Dear Tom:

On behalf of SunPower Corporation (SunPower), I am pleased to offer you the position of Chief Executive Officer (CEO). As the chief executive, your specific responsibilities shall include management of all of SunPower's operations including manufacturing, marketing, finance and R&D. You will report to the Board of Directors of SunPower.

Should you accept our offer, SunPower will compensate you $10,576.92 bi-weekly ($275,000 when computed annually) as base pay for your services in accordance with its normal payroll practices. As an employee of SunPower, you will be eligible for group insurance benefits in accordance with the terms and limitations applicable to such coverage. SunPower also provides Personal Time Off (PTO) to its employees. If you elect to join us, you will begin to accrue PTO at a rate of 4 weeks per year upon commencement of employment.

In addition to our normal benefits package that was outlined in the benefits summary that you have already received, your offer also includes the following features:

- Options to purchase 1,200,000 shares of SunPower stock as part of SunPower's employee stock option plan, subject to the approval of the SunPower Board of Directors and the authorization of sufficient new shares in SunPower's employee stock option plan. These shares will be subject to an anti-dilution provision to insure that you will have a minimum of 3% of SunPower's outstanding stock.
- You will be eligible for a variable bonus plan, to be approved by the SunPower board, that could pay up to 80% of your base pay based on company performance
- In the event SunPower is acquired, we will negotiate in good faith on an accelerated vesting clause which would be invoked if you were not retained in the acquired entity at an equivalent position
- If you are terminated by SunPower without cause you will receive the equivalent of one year base salary and benefits as severance payment

SunPower employs its employees at will, meaning that either you or the Company may terminate the employment relationship at any time, with or without cause and with or without notice.

Should you join us, SunPower will employ you on an at-will basis and apply to you the same policies and procedures applicable to its employees generally. Except for the CEO of SunPower, no manager, supervisor or other representative of the Company has authority to agree on behalf of SunPower to employ any employee for any specific period of time or to employ any employee on other than an at-will basis. Any agreement to employ an employee for a specific time or on other than an at-will basis is effective only if signed by the CEO of SunPower.

As an employee of SunPower, you may work with and/or develop information which is considered confidential by the Company. As a result, SunPower requires employees to agree not to use or disclose any such confidential information for the benefit of anyone other than SunPower. Should you accept our offer of employment, SunPower will require you to sign an agreement describing your obligations with respect to confidentiality in greater detail. A copy of the SunPower confidentiality agreement is enclosed with this letter.

Finally, SunPower Corporation requires all employees to present proof of their right to work in the United States prior to commencing work. Please be prepared to present documents demonstrating your right to work on or before you begin performing any services for SunPower. Acceptable documents are outlined on the enclosed paperwork.

This offer shall be good through close of business on May 31, 2003. We look forward to your starting full time employment at SunPower on, or about May 22nd. On your official start date, you will be entitled to participate in our benefits programs. We will provide you with full information regarding the applicable health insurance offered, as well as other pertinent information regarding the benefit package that is offered at SunPower. If you have any specific questions about the benefits offered, please feel free to contact me. My direct line is 408-470-4255.

We are excited about the prospect of working with you and hope that you will decide to join us at SunPower. In order to memorialize your acceptance of our offer, please sign and date one copy of this offer letter in the designated space below and complete the employment eligibility documents returning them to me at the address below before the above designated offer expiration date. If you have any questions about our offer or employment at SunPower in general, I encourage you to call me at your convenience at 408-470-4255. I look forward to seeing you soon.

Sincerely,

/s/ Sylvia Noland
Sylvia Noland
Human Resources Manager

/s/ Richard M. Swanson
Richard M. Swanson
President

I accept the offer of employment set forth above.

Date: 5-22-03

/s/ Thomas Werner
Signature

Confirmation

I confirm that my option granted on March 17, 2005, satisfies in full all of my rights to equity of SunPower Corporation, including without limitation, those contained in my offer letter, and terminates the company's obligations under such letter to grant me any further options.

Dated Effective: March 17, 2005

/s/ Thomas Werner

Thomas Werner

Exhibit 10.9

[SunPower Letterhead]

January 14, 2005

P.M. Pai
N-125, Panchsheel Park,
New Delhi. 110017
India,

Re: Employment with SunPower Corporation

Dear P.M.:

SunPower Corporation is embarking on a once in a lifetime, winner take all expansion in the solar power industry. We have the unique opportunity to grow a great business, and, at the same time, to help solve one of mankind's biggest challenges—environmentally friendly energy sources.

We are pleased to offer you the position of Chief Operating Officer. This position reports to Tom Werner, CEO. Your specific responsibilities shall include, but not limited to those that are outlined in the job description.

Should you accept our offer, SunPower will compensate you 9,659,100INR annually ($220,000 US equivalent) for your services in accordance with its normal payroll practices. You will also receive options to purchase 850,000 shares of SunPower stock as part of SunPower's Stock Option Plan, subject to the approval of the SunPower Board of Directors.

You will be a participant in the SunPower 2005 Key Employee Bonus Program (KEBP) at a target incentive of 50% of base salary. Your actual incentive will be based on both company and individual performance. The KEBP plan description is attached for your reference.

SunPower would also offer a foreign assignment to you to work at the SunPower Philippine's plant (SPML) for a period of up to one year. During this time, the company will provide moving and living accommodations, in addition to other incidental expenses you may incur associated with your assignment. After this assignment you would likely work from California.

For the first two months of your employment, you will be enrolled in the Cypress India payroll and benefits plans while SunPower Human Resources research the best option for your foreign assignment at SPML. The options would be for you to either remain on the India payroll and benefits, or transfer to The Philippines payroll and benefits. We will be working closely with both sites and government agencies to determine the best option.

As an employee of SunPower, you will be eligible for group insurance benefits in accordance with the terms and limitations applicable to such coverage. SunPower also provides Personal Time off (PTO) to its employees.

To attain a leadership position in the photovoltaic industry, SunPower embraces new challenges and opportunities from time to time as the company develops and grows. The Company expects the same commitment and resultant flexibility from its employees. Although the Company does not have any immediate plans to modify your defined job responsibilities or alter your specific job assignment, the Company retains the right to make such modifications in the future to satisfy ongoing developing business needs. Nothing in this letter limits the Company's ability to modify your job duties or change your assignment.

As an employee of SunPower, you may work with and/or develop information, which is considered confidential by the Company. As a result, SunPower requires employees to agree not to use or disclose any such confidential information for the benefit of anyone other than SunPower. Should you accept our offer of employment, SunPower will require you to sign an agreement describing your obligations with respect to confidentiality in greater detail.

This offer is contingent upon your ability to present documents establishing your right to work in the Philippines.

On your official start date, you will be entitled to participate in our benefits programs. We will provide you with full information regarding the applicable health insurance offered as well as other pertinent information regarding the benefit package that is offered at SunPower.

We are excited about the prospect of working with you and hope that you will decide to join us. In order to memorialize your acceptance of our offer, please sign and date one copy of this offer letter along with your expected start date. You are also welcome to fax these documents to me at 408-470-4298. If you have any questions about our offer or employment at SunPower, I encourage you to call me at your convenience at 408-470-4255.

Sincerely,

/s/ Tom Werner

Tom Werner
Chief Executive Officer

I accept the offer of employment set forth above:

14/1/2005	/s/ P.M. Pai	5/3/2005
Date	Signature	Start Date

Exhibit 10.10

[SunPower Letterhead]

April 1, 2005

Emmanuel Hernandez
3467 Malibu Terrace
Fremont, CA 94539

Re: Employment with SunPower Corporation

Dear Manny:

SunPower Corporation is embarking on a once in a lifetime, winner take all expansion in the solar power industry. We have the unique opportunity to grow a grew business, and at the same time, to help solve one of mankind's biggest challenges—environmentally friendly energy sources. Manny, we are excited to have you join SunPower and look forward to having you on our team.

We are pleased to offer you the position of Chief Financial Officer. This position reports to Tom Werner, CEO.

Should you accept our offer, SunPower will compensate you $299,520 annually, paid biweekly. This salary is consistent with the attainment revenue bonus program (10% up to 15% reduction per quarter) the CEO is participating in.

You will also receive 2% fully diluted stock option of SunPower, based on the post $58M investment of Cypress. The number of stock options this expectantly equates to is 2,083,477 shares. These options will vest over three (3) years, ratably at 1/36 per month, at a price of $1.65 per share.

All remaining unvested SunPower stock options will accelerate vesting upon the occurrence of the following conditions:

- Cypress makes a tender offer to spin the subsidiary into Cypress, pre IPO.
- Cypress sells its controlling interest in SunPower, effectively resulting in Change of Control, prior to IPO.
- Cypress buys back minority interest of SunPower, post IPO, essentially rendering the entity private again.
- Specifically excluded from the acceleration is the act by which SunPower management to conduct a leveraged buy-out, seeking Cypress as the financier of such a transaction.

You will not be eligible to participate in any future Cypress stock programs; however, your existing options will continue to vest per your exiting vesting schedule. At the SunPower IPO date you will be granted up to one (1) year to exercise any Cypress vested options, and vesting will cease at that time.

You will be a participant in the SunPower 2005 Key Employee Bonus Program (KEBP) at a target incentive of 80% of base salary beginning Q205. Your actual incentive will be based on both company and individual performance. The KEBP plan description is attached for your reference.

Your PTO wil continue to accrue at your current rate. SunPower's core benefits are the same as Cypress; you will not be required to make any changes. You will not participate in the Cypress ESPP and New Product Bonus program.

Your anticipated start date will be May 23, 2005.

As an employee of SunPower, you will be eligible for group insurance benefits in accordance with the terms and limitations applicable to such coverage. SunPower also provides Personal Time off (PTO) to its employees.

To attain a leadership position in the photovoltaic industry, SunPower embraces new challenges and opportunities from time to time as the company develops and grows. 'The Company expects the same commitment and resultant flexibility from its employees. Although the Company does not have any immediate plans to modify your defined job responsibilities or alter your specific job assignment, the Company retains the right to make such modifications in the future to satisfy ongoing developing business needs. Nothing in this letter limits the Company's ability to modify your job duties or change your assignment, except for changes that result in constructive termination.

As an employee of SunPower, you may work with and/or develop information, which is considered confidential by the Company. As a result, SunPower requires employees to agree not to use or disclose any such confidential information for the benefit of anyone other than SunPower. Should you accept our offer of employment, SunPower will require you to sign an agreement describing your obligations with respect to confidentiality in greater detail.

Manny we are look forward to your immediate contribution to SunPower, and are truly excited about you joining our leadership team and working with you.

In order to memorialize your acceptance of our offer, please sign and date one copy of this offer letter along with your expected start date. You are also welcome to fax these documents to me at 408-470-4298. If you have any questions about our offer or employment at SunPowcr, I encourage you to call me at your convenience at 408-470-4255.

Sincerely,

/s/ Tom Werner	/s/ TJ Rodgers
Tom Werner Chief Executive Officer	TJ Rodgers Chairman of the Board of Directors SunPower Corporation

I accept the offer of employment set forth above:

4/4/05	/s/ Emmanuel Hernandez	May 23, 2005
Date	Signature	Start Date

Confirmation

I confirm that my option granted on April 25, 2005, satisfies in full all of my rights to equity of SunPower Corporation, including without limitation, those contained in my April, 2005, offer letter and terminates the company's obligations under such letter to grant me any further options..

Dated Effective: April 25, 2005

/s/ Emmanuel Hernandez

Emmanuel Hernandez

Exhibit 10.11

[SunPower Letterhead]

1 January 1990

Mr. Richard M. Swanson
82 Louks Avenue
Los Altos, CA 94022

Dear Richard:

I am pleased to confirm your employment in the position of Vice President & Director of Technology for SunPower Corporation. Your compensation is $90,000 annually, paid semi-monthly.

Your position is salaried (otherwise called exempt) and includes our standard medical, dental and hospitalization benefits as well as our PTO (Personal Time Off), sick, and vacation programs. According to our current policy, your performance will be reviewed three months after the date of your hire to give you feedback on your work; your compensation and performance will be reviewed one year from the date of your hire and annually thereafter.

Subject to approval by the Board of Directors, you were granted a stock option to purchase 880,000 shares of Common Stock in SunPower at the then prevailing price. The terms of this stock option are contained in written documents which you have been given and should have read and now understand.

This letter confirms that your start date is today, January 1, 1990. You should understand that all employees are employed “at will,” which means that each employee, as well as SunPower, has the right to terminate the employment relationship at any time for any reason, with or without cause. Please confirm the information contained herein by signing and returning a copy of this letter to me at your earliest convenience.

A standard Employee Non Disclosure Agreement is on file.

Very truly yours,

SunPower Corporation

/s/ Robert E. Lorenzini

Robert E. Lorenzini
President, CEO

Accepted by:

/s/ Richard M. Swanson

Richard M. Swanson

Date: January 16, 1990

Enclosure: Duplicate Original Letter

EXHIBIT 10.21

NOTE PURCHASE AND LINE OF CREDIT AGREEMENT

This **NOTE PURCHASE AND LINE OF CREDIT AGREEMENT**, dated May 30, 2002, (this "Agreement") is entered into by and among **SUNPOWER CORPORATION** a California corporation ("Company"), with its principal executive office at 430 Indio Way, Sunnyvale, California 94086 and **CYPRESS SEMICONDUCTOR CORPORATION**, a Delaware corporation ("Purchaser").

RECITALS

A. On the terms and subject to the conditions set forth herein, the Purchaser is willing to purchase from Company, and Company is willing to sell to the Purchaser, from time to time, unsecured senior convertible promissory notes.

B. On the terms and subject to the conditions set forth herein, the Purchaser is willing to provide the Company with capital equipment, provide the Company with a line of credit, or guarantee the Company's equipment lines of credit, up to a maximum of $25,000,000.

C. Capitalized terms not otherwise defined herein shall have the meaning set forth in the form of Note (as defined below) attached hereto as Exhibit A.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing, and the representations, warranties, and conditions set forth below, the parties hereto, intending to be legally bound, hereby agree as follows:

1. **The Notes**.

(a) *Issuance of Notes.* At each Closing (as defined below), Company agrees to issue and sell to the Purchaser, and, subject to all of the terms and conditions hereof, the Purchaser agrees to purchase a Unsecured Senior Convertible Promissory Note substantially in the form of Exhibit A hereto (each a "Note") in such principal amount as may be determined under Section 1(d).

(b) *Delivery*. The sale and purchase of a Note shall take place from time to time at a closing (each a "Closing"), the first closing to be held on April 1, 2003, and on the first day of each calendar month thereafter (each a "Closing Date"), until the earlier of either (1) the Warrant Expiration Date (as defined in the Warrant to Purchase Series Two Preferred Stock issued to Purchaser (the "Series Two Warrant") or (2) the date that the Series Two Warrant is exercised. Except as set forth in (c) below, Purchaser shall have no obligation to purchase any additional Notes after the Warrant Expiration Date.

(c) *Additional Notes*. If Purchaser does not exercise the Series Two Warrant by the Warrant Expiration Date, Purchaser agrees to purchase additional Notes, at the monthly rate of one Note per

month until the total principal amount of Notes purchased under this subsection (c) equals the difference between $2,000,000 and the amount of cash on hand at the Company on the Warrant Expiration Date. At each Closing, the Company shall deliver to the Purchaser the Note to be purchased, and the Purchaser shall deliver to the Company such principal amount (the "Purchase Price"). The Note will be registered in the Purchaser's name in the Company's records.

(d) *Note Principal*. The principal amount of each Note shall be four hundred thousand dollars ($400,000); however, in the event that the Purchaser does not exercise the Series Two Warrant, the principal amount of the last Note to be purchased may be less than $400,000.

(e) *Use of Proceeds*. The proceeds of the sale and issuance of the Note shall be used for general corporate purposes.

(f) *Payments*. The Company will make all cash payments due under the Note in immediately available funds in the manner and at the address of the Purchaser or at such other address as the Purchaser may from time to time direct in writing.

2. **Line of Credit**.

(a) Prior to the Warrant Expiration Date, Purchaser may, in its sole discretion, to the extent requested by the Company, (i) provide the Company with capital equipment for the Company's planned manufacturing facility, (ii) provide the Company with a line of credit, on commercially reasonable terms, to purchase such capital equipment, or (iii) guarantee a line of credit for the Company, or (iv) any combination thereof, up to a maximum of $25,000,000. If Purchaser exercises the Series Two Warrant, Purchaser shall, to the extent requested by the Company, (i) provide the Company with such capital equipment, (ii) provide the Company with a line of credit, on commercially reasonable terms, to purchase such capital equipment, or (iii) guarantee the Company's equipment line of credit to the extent needed to build a manufacturing facility, up to a maximum of $25,000,000. To the extent that Purchaser obtains such capital equipment for the Company other than by guaranteeing a line of credit or providing a line of credit to the Company, then Purchaser shall be treated for purposes of the warrant calculation set forth in subsection 2(b) and 2(c) below as though Purchaser had guaranteed or provided an equipment line of credit to the Company in an amount equal to the budgeted cost of such equipment in the Company's capital equipment budget. If Purchaser provides the equipment, Purchaser will either lease such equipment to the Company based on the fair market value of the equipment at the time of the lease, or sell the equipment to the Company for such fair market value in cash.

(b)If, and to the extent that, Purchaser provides a line of credit or guarantees the Company's equipment line of credit prior to the date two months after the Company first manufactures cells on four inch wafers that (a) meet the IEEE 1262 Photovoltaic Module Reliability Qualification and (b) demonstrate cell efficiency of at least 19%, each as certified by an independent certified testing laboratory (the "Four-Inch Wafer Qualification"), the Company shall issue Purchaser a warrant to purchase Company common stock substantially in the form of Exhibit B hereto (each a "Warrant"). In the case of a Warrant issued pursuant to this subsection 2(b), the number of shares into which such Warrant shall be exercisable shall be equal to ten percent (10%) of the amount guaranteed by Purchaser divided by $0.70, and the per share exercise price of the Warrant shall be $0.07.

(c) If, and to the extent that, Purchaser provides a line of credit or guarantees the Company's equipment line of credit on or after the date two months after the Company meets the Four-Inch Wafer Qualification, the Company shall issue Purchaser a Warrant. In the case of a Warrant issued pursuant to this subsection 2(c), the number of shares into which such Warrant shall be exercisable shall be equal to ten percent (10%) of the amount guaranteed by Purchaser divided by $1.00, and the per share exercise price of the Warrant shall be $0.10.

3. **Representations and Warranties of Company**. Company incorporates by reference all of the representations and warranties of the Company contained in the Series One Preferred Stock Purchase Agreement of even date herewith (the "Purchase Agreement") and the Schedule of Exceptions attached as Exhibit F to the Purchase Agreement, and represents and warrants the same to the Purchaser as of the date hereof. All references therein to the "Agreement" shall be interpreted as referencing this Agreement and the transactions contemplated hereby.

4. **Representations and Warranties of Purchaser**. The Purchaser represents and warrants to Company upon the acquisition of the Note as follows:

(a) *Binding Obligation*. The Purchaser has full legal capacity, power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Each of this Agreement and the Note issued to the Purchaser is a valid and binding obligation of the Purchaser, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and general principles of equity.

(b) *Securities Law Compliance*. The Purchaser is an "accredited investor" within the meaning of Rule 501 of Regulation D of the Securities Act of 1933, as amended (the "Securities Act"), as presently in effect. The Purchaser acknowledges the Note has not been registered under the Securities Act, or any state securities laws and, therefore, cannot be resold unless it is registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. The Purchaser is aware that Company is under no obligation to effect any such registration with respect to the Note or to file for or comply with any exemption from registration. The Purchaser is purchasing the Note for its own account for investment, not as a nominee or agent, and not with a view to, or for resale in connection with, the distribution thereof. The Purchaser has sufficient knowledge and experience in financial and business matters that the Purchaser is capable of evaluating the merits and risks of such investment, is able to incur a complete loss of such investment and is able to bear the economic risk of such investment for an indefinite period of time.

(c) *Access to Information*. The Purchaser acknowledges that Company has given the Purchaser access to the corporate records and accounts of Company and to all information in its possession relating to Company, has made its officers and representatives available for interview by the Purchaser, and has furnished the Purchaser with all documents and other information required for the Purchaser to make an informed decision with respect to entering into this Agreement and committing to purchase the Notes.

5. **Conditions to Purchase of Notes**. Purchaser's obligation to purchase Notes at each Closing under this Agreement is subject to the satisfaction of all of the following conditions, any of which may be waived in whole or in part by Purchaser:

(a) *Representations and Warranties*. The representations and warranties made by the Company in Section 3 hereof, shall have been true and correct when made. Purchaser shall have received a certificate to such effect signed on behalf of the Company by the Company's Chief Executive Officer and Chief Financial Officer.

(b) *Governmental Approvals and Filings*. Except for any notices required or permitted to be filed after each Closing Date with certain federal and state securities commissions, Company shall have obtained all governmental approvals required in connection with the lawful sale and issuance of each Note.

(c) *Legal Requirements*. As of the date of disbursement of the proceeds pursuant to each Note, the sale and issuance by Company, and the purchase by the Purchaser, of the Note shall be legally permitted by all laws and regulations to which the Purchaser or Company are subject.

(d) *Note*. The Note being purchased at such Closing, in the form attached hereto as Exhibit A, shall have been duly executed and delivered by the Company.

(e) *No Material Adverse Change*. Since the date of this Agreement, there shall not have been any circumstance, event or occurrence that, individually or in the aggregate, has resulted in a material adverse change to the Company's business, assets (including intangible assets), condition (including financial condition) or results of operation, except to the extent that such change results from changes in general economic conditions that do not disproportionately affect the Company. Purchaser shall have received a certificate to such effect signed on behalf of the Company by the Company's Chief Executive Officer and Chief Financial Officer.

6. **Miscellaneous**.

(a) *Waivers and Amendments*. Any provision of this Agreement may be amended, waived or modified only upon the written consent of Company and the Purchaser.

(b) *Governing Law*. This Agreement and all actions arising out of or in connection with this Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California or of any other state.

(c) *Survival.* The representations, warranties, covenants and agreements made herein shall survive the execution and delivery of this Agreement and the Note and the purchase or transfer by the Purchaser of the Note.

(d) *Successors and Assigns*. Subject to the restrictions on transfer described in Section (e) below, the rights and obligations of Company and the Purchaser of the Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

(e) *Registration, Transfer and Replacement of the Note*. The Note issuable under this Agreement shall be a registered note. Company will keep, at its principal executive office, books for the registration and registration of transfer of the Note. Prior to presentation of the Note or any other Note issued in exchange thereof for registration of transfer, Company shall treat the Person in whose name such Note is registered as the owner and holder of such Note for all purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary. Subject to any restrictions on or conditions to transfer set forth in the Note or any other Note issued in exchange thereof, the holder of such Note, at its option, may in person or by duly authorized attorney surrender the same for exchange at Company's chief executive office, and promptly thereafter and at Company's expense, except as provided below, receive in exchange therefor a new Note, in the principal requested by such holder, dated the date to which interest shall have been paid on the Note so surrendered or, if no interest shall have yet been so paid, dated the date of the Note so surrendered and registered in the name of such Person or Persons as shall have been designated in writing by such holder or its attorney for the same aggregate principal amount as the then unpaid principal amount of the Note so surrendered. Upon receipt by Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of the Note or any other Note and issued in exchange thereof (a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it; or (b) in the case of mutilation, upon surrender thereof, the Company, at its expense, will execute and deliver in lieu thereof a new Note executed in the same manner as the Note being replaced, in the same principal amount as the unpaid principal amount of such Note and dated the date to which interest shall have been paid on such Note or, if no interest shall have yet been so paid, dated the date of such Note.

(f) *Entire Agreement*. This Agreement together with the Note constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

(g) *Notices*. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or mailed by registered or certified mail, postage prepaid, or by recognized overnight courier or personal delivery, addressed (i) if to the Purchaser, at the Purchaser's address or at such other address as the Purchaser shall have furnished to the Company in writing, or (ii) if to any other holder of a Note, to such holder at such address as furnished to the Company in writing or (iii) if to Company, at its address set forth at the beginning of this Agreement, or at such other address as Company shall have furnished to the Purchaser in writing.

(h) *Expenses*. Company shall pay on demand all reasonable fees and expenses, including reasonable attorneys' fees and expenses, incurred by Purchaser or any other Holder of a Note with respect to any amendments or waivers hereof requested by Company or in the enforcement or attempted enforcement of any of the obligations of Company to such Person under the Notes or in preserving any of such Person's rights and remedies with respect to the Notes (including, without limitation, all such fees and expenses incurred in connection with any "workout" or restructuring affecting the Notes or any bankruptcy or similar proceeding involving Company or any of its subsidiaries).

(i) *Severability of this Agreement*. Company's agreement with the Purchaser is a separate agreement and the sale of the Note to the Purchaser is a separate sale. If any provision of this Agreement shall be judicially determined to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(j) *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall be deemed to constitute one instrument.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the parties have caused this Note Purchase and Line of Credit Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date and year first written above.

COMPANY:

SUNPOWER CORPORATION
a California corporation

By: /s/ Richard Swanson

Name: Richard Swanson
Title: President

PURCHASER:

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ Emmanuel Hernandez

Name: Emmanuel Hernandez
Title: Vice President & Chief Financial Officer

Address: 3901 N. First Street
San Jose, CA 95134

Facsimile: (408) 943-2747
Telephone: (408) 943-2600

EXHIBIT A

FORM OF NOTE

THIS NOTE AND THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

SUNPOWER CORPORATION

UNSECURED SENIOR CONVERTIBLE PROMISSORY NOTE

$_____ _____[date]_____
San Jose, California

FOR VALUE RECEIVED, SUNPOWER CORPORATION, a California corporation ("Company") promises to pay to Cypress Semiconductor Corporation, a Delaware corporation. ("Holder"), or its registered assigns, the principal sum of _____ Dollars ($_____), or such lesser amount as shall equal the outstanding principal amount hereof, together with simple interest from the date of this Note on the unpaid principal balance at a rate equal to ____ percent (____%) per annum, which is equal to the short-term Applicable Federal Rate as of the date of this Note, computed on the basis of the actual number of days elapsed and a year of 360 days. All unpaid principal, together with any then accrued interest and other amounts payable hereunder, shall be due and payable on Holder's written demand which may be made on or after _____ **[fill in either (1) the actual date one year from the Warrant Expiration Date (if known at date of Note) or (2) "the date one year from the Warrant Expiration Date as defined in the Warrant to Purchase Series Two Preferred Stock issued by the Company to Holder"]**, unless this Note is converted into shares of the Company's capital stock pursuant to Section 8 hereof.

The following is a statement of the rights of Holder and the conditions to which this Note is subject, and to which Holder, by the acceptance of this Note, agrees:

1. **Definitions**. As used in this Note, the following capitalized terms have the following meanings:

(a) "Affiliate," with respect to any Person, means (i) any director, officer or employee of such Person, (ii) any Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person, and (iii) any Person beneficially owning or holding 5% or more of any class of voting securities of such Person or any corporation of which such Person beneficially owns or holds, in the aggregate, 5% or more of any class of voting securities. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. The term "Affiliate," when used herein without reference to any Person, shall mean an Affiliate of Company.

(b) "Equity Securities" of any Person shall mean (a) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

(c) "Event of Default" has the meaning given in Section 5 hereof.

(d) "GAAP" shall mean generally accepted accounting principles as in effect in the United States of America from time to time.

(e) "Holder" shall mean the Person specified in the introductory paragraph of this Note or any Person who shall at the time be the registered holder of this Note.

(f) "Indebtedness" shall mean and include the aggregate amount of, without duplication (i) all obligations for borrowed money, (ii) all obligations evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations to pay the deferred purchase price of property or services (other than accounts payable incurred in the ordinary course of business determined in accordance with GAAP), (iv) all obligations with respect to capital leases, (v) all obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, (vi) all reimbursement and other payment obligations, contingent or otherwise, in respect of letters of credit and similar surety instruments; and (vii) all guaranty obligations with respect to the types of Indebtedness listed in clauses (i) through (vi) above.

(g) "Lien" shall mean, with respect to any property, any security interest, mortgage, pledge, lien, claim, charge or other encumbrance in, of, or on such property or the income therefrom, including, without limitation, the interest of a vendor or lessor under a conditional sale agreement, capital lease or other title retention agreement, or any agreement to provide any of the foregoing, and the filing of any financing statement or similar instrument under the Uniform Commercial Code or comparable law of any jurisdiction.

(h) "Note Purchase Agreement" shall mean the Note Purchase and Line of Credit Agreement between the Company and the Holder dated April ____, 2002.

(i) "Obligations" shall mean and include all loans, advances, debts, liabilities and obligations, howsoever arising, owed by Company to Holder of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), now existing or hereafter arising under or pursuant to the terms of this Note and the Note Purchase Agreement, including, all interest, fees, charges, expenses, attorneys' fees and costs and accountants' fees and costs chargeable to and payable by Company hereunder and thereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U. S. C. Section 101 et seq.), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding.

(j) "Person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

(k) "Senior Indebtedness" shall mean, upon the consent of the Holder, the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of Company to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which sometimes engage in lending activities but which are primarily engaged in investments in Equity Securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, whether or not secured, and (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

(l) "Subsidiary" shall mean (a) any corporation of which more than 50% of the issued and outstanding Equity Securities having ordinary voting power to elect a majority of the Board of Directors of such corporation is at the time directly or indirectly owned or controlled by Company, (b) any partnership, joint venture, or other association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time directly or indirectly owned and controlled by Company, (c) any other entity included in the financial statements of Company on a consolidated basis.

2. **Interest**. Interest shall accrue on this Note until the outstanding principal amount hereof shall be paid in full or until the outstanding principal amount and accrued interest therefrom are converted per Section 8.

3. **Prepayment**. Upon ten (10) days prior written notice to Holder, Company may prepay this Note in whole or in part; provided that the Holder within that ten (10) day period may exercise its conversion right as described in Section 8. Should the Holder fully convert the unpaid principal amount and all accrued interest, then this Note will be satisfied in full. Should the Holder exercise its conversion right only on a portion of the unpaid principal amount or accrued interest therefrom, then the Company may still exercise its right to prepay this Note to the extent of the remaining balance. The Holder shall notify the Company in writing of its intent to convert within the 10 day period.

4. **Acceleration**

(a) Acquisition. If an acquisition of the Company by means of an acquisition of all or substantially all of its assets, a merger, or other form of corporate reorganization in which the shareholders of the Company do not own a majority of the outstanding shares of the surviving corporation by virtue of their shares in the Company (an "Acquisition"), occurs, then the entire outstanding principal balance and any and all accrued interest hereunder shall become immediately due and payable.

(b) Event of Default. If an Event of Default occurs, upon the election of the Holder, the entire outstanding principal balance and any and all accrued interest hereunder shall become immediately due and payable.

(c) Financing. If the Company gives notice to the Holder that an initial sale of capital stock of the Company to other than the Holder in an integrated transaction (a "Financing") has occurred or that the Company has received a signed term sheet for a Financing, then unless converted into shares of the Company's capital stock pursuant to Section 8, the lesser of: (1) the entire outstanding principal balance plus any and all accrued interest of this Note and all other Notes issued pursuant to the Note Purchase Agreement, or (2) an amount of principal and accrued interest of all Notes issued pursuant to the Note Purchase Agreement equal to one-half of the total amount raised by the Company in the Financing, shall become immediately due and payable. In the event of (2) above, then the same percentage of each Note issued pursuant to the Note Purchase Agreement shall become due and payable.

5. **Events of Default**. The occurrence of any of the following shall constitute an "Event of Default" under this Note:

(a) Failure to Pay. Company shall fail to pay when due any principal or interest payment on the due date hereunder and such payment shall not have been made within five (5) days of Company's receipt of Holder's written notice to Company of such failure to pay;

(b) Voluntary Bankruptcy or Insolvency Proceedings. Company or any of its Subsidiaries shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature, (iii) make a general assignment for the benefit of its or any of its creditors, (iv) be dissolved or liquidated, (v) become insolvent (as such term may be defined or interpreted under any applicable statute), (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it, or (vii) take any action for the purpose of effecting any of the foregoing; or

(c) Involuntary Bankruptcy or Insolvency Proceedings. Proceedings for the appointment of a receiver, trustee, liquidator or custodian of Company or any of its Subsidiaries or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to Company or any of its Subsidiaries or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within thirty (30) days of commencement.

6. **Rights of Holder upon Default**. Upon the occurrence or existence of any Event of Default other than described in Section 5(c) and at any time thereafter during the continuance of such Event of Default, Holder may by written notice to Company, declare all outstanding Obligations payable by Company hereunder to be immediately due and payable without

presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the Note Purchase Agreement to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in Section 5(c), immediately and without notice, all outstanding Obligations payable by Company hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Holder may exercise any other right power or remedy granted to it by this Note or the Note Purchase Agreement or otherwise permitted to it by law, either by suit in equity or by action at law, or both.

7. **No Subordination**. Except for Borrower's obligations for the Senior Indebtedness (as specifically defined and referenced in the Note Purchase Agreement or this Note), to which the indebtedness evidenced by this Note is expressly subordinated, the repayment obligations of Borrower set forth in this Note and the indebtedness evidenced hereby shall be senior in right of payment to, and shall not subordinate to or be subject to the prior payment of interest, principal or otherwise (whether in cash or cash equivalents), or to the maturity of, any existing or future indebtedness of Borrower. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of Company's Senior Indebtedness.

(a) Insolvency Proceedings. If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of Company, (i) no amount shall be paid by Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with Company by or on behalf of Holder of this Note which shall assert any right to receive any payments in respect of the principal of and interest on this Note except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding.

(b) Default on Senior Indebtedness. If there shall occur an event of default which has been declared in writing with respect to any Senior Indebtedness, as defined therein, or in the instrument under which it is outstanding, permitting the holder to accelerate the maturity thereof and Holder shall have received written notice thereof from the holder of such Senior Indebtedness, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note, unless within one hundred eighty (180) days after the happening of such event of default, the maturity of such Senior Indebtedness shall not have been accelerated. Not more than one notice may be given to Holder pursuant to the terms of this Section 7(b) during any 360 day period.

(c) Further Assurances. By acceptance of this Note, Holder agrees to execute and deliver customary forms of subordination agreement requested from time to time by holders of Senior Indebtedness, and as a condition to Holder's rights hereunder, Company may require that Holder

execute such forms of subordination agreement; provided that such forms shall not impose on Holder terms less favorable than those provided herein.

(d) Other Indebtedness. No Indebtedness which does not constitute Senior Indebtedness shall be senior in any respect to the indebtedness represented by this Note.

(e) Subrogation. Subject to the payment in full of all Senior Indebtedness, Holder shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 7) to receive payments and distributions of assets of Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between Company and its creditors, other than the holders of Senior Indebtedness and Holder, be deemed to be a payment by Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which Holder would be entitled except for the provisions of this Section 7 shall, as between Company and its creditors, other than the holders of Senior Indebtedness and Holder, be deemed to be a payment by Company to or on account of the Senior Indebtedness.

(f) No Impairment. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 7 to receive cash, securities or other properties otherwise payable or deliverable to Holder, nothing contained in this Section 7 shall impair, as between Company and Holder, the obligation of Company, subject to the terms and conditions hereof, to pay to Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent Holder, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(g) Lien Subordination. Any Lien of Holder, whether now or hereafter existing in connection with the amounts due under this Note, on any assets or property of Company or any proceeds or revenues therefrom which Holder may have at any time as security for any amounts due and obligations under this Note shall be subordinate to all Liens now or hereafter granted to a holder of Senior Indebtedness by Company or by law, notwithstanding the date, order or method of attachment or perfection of any such Lien or the provisions of any applicable law.

(h) Reliance of Holders of Senior Indebtedness. Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

8. **Conversion**.

(a) Voluntary Conversion. Holder has the right, at Holder's option, at any time prior to payment in full of the principal balance of this Note and any accrued interest, to convert this Note, in accordance with the provisions of Section 8(b) hereof, in whole or in part, into fully

paid and nonassessable securities of the same class and series issued in a Financing (the "Company Preferred") at the first closing of such Financing. The number of shares into which this Note may be converted (the "Conversion Shares") shall be determined by dividing the aggregate principal amount and any accrued interest by an amount equal to eighty-five percent (85%) of the price upon which the preferences for the Company Preferred is based.

(b) Conversion Procedure.

(i) Conversion Pursuant to Section 8(a). Before Holder shall be entitled to convert this Note into shares of Company Preferred, it shall surrender this Note, duly endorsed, at the office of Company and shall give written notice by registered or certified mail, postage prepaid, or overnight courier, charges prepaid to Company at its principal corporate office, of the election to convert the same pursuant to Section 8(a), and shall state therein the amount of the unpaid principal amount and all accrued interest of this Note to be converted and the name or names in which the certificate or certificates for shares of Company Preferred are to be issued. Also before Holder shall be entitled to convert this Note into shares of Company Preferred, it shall execute the stock purchase agreement and other agreements to which the lead investor of the Financing also executes, subject to such modifications to the agreements that Holder may reasonably request. Company shall, as soon as practicable thereafter, issue and deliver at such office to Holder of this Note a certificate or certificates for the number of shares of Company Preferred to which Holder shall be entitled upon conversion (bearing such legends as are required by the Note Purchase Agreement and applicable state and federal securities laws in the opinion of counsel to Company), together with a replacement Note (if any principal amount and accrued interest is not converted) and any other securities and property to which Holder is entitled upon such conversion under the terms of this Note, including a check payable to Holder for any cash amounts payable as described in Section 8(b)(ii) below. The conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note, and the Person or Persons entitled to receive the shares of Company Preferred upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Company Preferred as of such date.

(ii) Fractional Shares; Interest; Effect of Conversion. No fractional shares shall be issued upon conversion of this Note. In lieu of Company issuing any fractional shares to Holder upon the conversion of this Note, Company shall pay to Holder an amount equal to the product obtained by multiplying the Conversion Price by the fraction of a share not issued pursuant to the previous sentence. Upon conversion of this Note in full and the payment of the amounts specified in this Section 8, Company shall be forever released from all its obligations and liabilities under this Note.

9. **Successors and Assigns**. Subject to the restrictions on transfer described in Sections 11 and 12 below, the rights and obligations of Company and Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. **Waiver and Amendment**. Any provision of this Note may be amended, waived or modified upon the written consent of Company and Holder.

11. **Transfer of this Note or Securities Issuable on Conversion Hereof**. This Note or the securities issuable upon the conversion of this Note, may be transferred to an Affiliate. With respect to any other offer, sale or other disposition of this Note or securities into which such Note may be converted, Holder will give written notice to Company prior thereto, describing briefly the manner thereof, together with a written opinion of Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration or qualification (under any federal or state law then in effect). Upon receiving such written notice and reasonably satisfactory opinion, if so requested, Company, as promptly as practicable, shall notify Holder that Holder may sell or otherwise dispose of this Note or such securities, all in accordance with the terms of the notice delivered to Company. If a determination has been made pursuant to this Section 11 that the opinion of counsel for Holder is not reasonably satisfactory to Company, Company shall so notify Holder promptly after such determination has been made. Each Note thus transferred and each certificate representing the securities thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Act, unless in the opinion of counsel for Company such legend is not required in order to ensure compliance with the Act. Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of Company as provided in the Note Purchase Agreement. Prior to presentation of this Note for registration of transfer, Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and Company shall not be affected by notice to the contrary.

12. **Assignment by Company**. Neither this Note nor any of the rights, interests or obligations hereunder may be assigned, by operation of law or otherwise, in whole or in part, by Company without the prior written consent of Holder.

13. **Notices**. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or mailed by registered or certified mail, postage prepaid, or by recognized overnight courier or personal delivery at the respective addresses of the parties as set forth in the Note Purchase Agreement or on the register maintained by Company. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when received.

14. **Pari Passu Notes**. Holder acknowledges and agrees that the payment of all or any portion of the outstanding principal amount of this Note and all interest hereon shall be *pari passu* in right of payment and in all other respects to the other Notes issued pursuant to the Note Purchase Agreement or pursuant to the terms of such Notes.

15. **Payment**. Payment shall be made in lawful currency of the United States.

16. **Expenses; Waivers**. If action is instituted to collect this Note, Company promises to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred in connection with such action. Company hereby waives notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor and all other notices or demands relative to this instrument.

17. **Governing Law**. This Note and all actions arising out of or in connection with this Note shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

IN WITNESS WHEREOF, Company has caused this Note to be issued as of the date first written above.

COMPANY:

SUNPOWER CORPORATION
a California corporation

By: _____

Title: _____

HOLDER:

CYPRESS SEMICONDUCTOR CORPORATION

By: _____

Title: _____

EXHIBIT B

FORM OF WARRANT

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES AND ANY SECURITIES OR SHARES ISSUED HEREUNDER MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SECURITIES AND RESTRICTING THEIR TRANSFER OR SALE MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD HEREOF TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICES.

No. W-__

WARRANT TO PURCHASE COMMON STOCK
OF
SUNPOWER CORPORATION

This certifies that, for value received, to wit the providing or guaranteeing of a line of credit, or providing equipment pursuant to a Note Purchase and Line of Credit Agreement, CYPRESS SEMICONDUCTOR CORPORATION, a Delaware corporation ("Holder") is entitled, subject to the terms and conditions set forth below, to purchase from SUNPOWER CORPORATION, a California corporation (the "Company"), in whole or in part __**__ fully paid and nonassessable shares (the "Warrant Shares") of Common Stock of the Company ("Common Stock") at a purchase price per share of $_**_ (the "Exercise Price"). The number, character and Exercise Price of such shares of Common Stock are subject to adjustment as provided below and all references to "Warrant Shares" and "Exercise Price" herein shall be deemed to include any such adjustment or series of adjustments. The term "Warrant" as used herein shall mean this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein.

1. Term of Warrant. Subject to the terms and conditions set forth herein, this Warrant shall be exercisable, in whole or in part, during the term commencing on the date hereof and ending at 5:00 p.m., Pacific standard time, on the tenth anniversary of issue, and shall be void thereafter (the "Exercise Period").

2. Exercise of Warrant. This Warrant may be exercised by the Holder by the surrender of this Warrant to the Company, with the Notice of Exercise annexed hereto duly completed and executed on behalf of the Holder, at the office of the Company (or such other office or agency of the Company as it may designate by notice in writing to the Holder appearing on the books of the Company) during the Exercise Period, and:

A. If the Holder elects to exercise this Warrant in cash, the delivery of payment to the Company, for the account of the Company, by cash, wire transfer of immediately available funds to a bank account specified by the Company, or by certified or bank cashier's check, of the Exercise Price for the number of Warrant Shares specified in the Exercise Notice in lawful money of the United States of America; or

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

B. If the Holder elects to make a Net Issue Exercise without the payment of cash, the election to receive a number of shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled), as set forth on the Exercise Notice and calculated using the following formula:

$$X = \frac{(Y)(A - B)}{A}$$

Where:
X - The number of shares of Common Stock to be issued to Holder.
Y - The number of shares of Common Stock subject to this Warrant at the date of exercise or, if only a portion of the Warrant is being exercised, the portion of the Warrant being cancelled.
A - The fair market value of one share of Common Stock.
B - Exercise Price (as adjusted to the date of such calculations)

For purposes of this Section 2(B), if the Common Stock is traded in a public market, the fair market value of the Common Stock shall be the closing price of the Common Stock reported for the business day immediately before Holder delivers its Notice of Exercise to the Company. If the Common Stock is not traded in a public market, at least six members of the Company's Board of Directors shall determine fair market value in their good faith judgment.

The Company agrees that such Warrant Shares shall be deemed to be issued to the Holder as the record holder of such Warrant Shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for the Warrant Shares as aforesaid. A stock certificate or certificates for the Warrant Shares specified in the Exercise Form shall be delivered to the Holder as promptly as practicable, and in any event within 10 days, thereafter. If this Warrant shall have been exercised only in part, the Company shall, at the time of delivery of the stock certificate or certificates, deliver to the Holder a new Warrant evidencing the rights to purchase the remaining Warrant Shares, which new Warrant shall in all other respects be identical with this Warrant. No adjustments shall be made on Warrant Shares issuable on the exercise of this Warrant for any cash dividends paid or payable to holders of record of Common Stock prior to the date as of which the Holder shall be deemed to be the record holder of such Warrant Shares.

3. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. In lieu of any fractional share to which the Holder would otherwise be entitled, the Company shall make a cash payment equal to the Exercise Price multiplied by such fraction.

4. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

Company at its expense shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor and amount.

5. Rights of Shareholder. Subject to Sections 8 and 10 of this Warrant, the Holder shall not be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company that may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value, or change of stock to no par value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Warrant shall have been exercised as provided herein.

6. Transfer of Warrant.

A. Warrant Register. The Company will maintain a register (the "Warrant Register") containing the names and addresses of the Holder or Holders. Any Holder of this Warrant or any portion thereof may change his address as shown on the Warrant Register by written notice to the Company requesting such change. Any notice or written communication required or permitted to be given to the Holder may be delivered or given by mail to such Holder as shown on the Warrant Register and at the address shown on the Warrant Register. Until this Warrant is transferred on the Warrant Register of the Company, the Company may treat the Holder as shown on the Warrant Register as the absolute owner of this Warrant for all purposes, notwithstanding any notice to the contrary.

B. Warrant Agent. The Company may, by written notice to the Holder, appoint an agent for the purpose of maintaining the Warrant Register referred to in Section 6(A) above, issuing the Warrant Shares or other securities then issuable upon the exercise of this Warrant, exchanging this Warrant, replacing this Warrant, or any or all of the foregoing. Thereafter, any such registration, issuance, exchange, or replacement, as the case may be, shall be made at the office of such agent.

C. Transferability and Nonnegotiability of Warrant. The Holder agrees that this Warrant and the shares of Company Common Stock issuable upon exercise shall be subject to the rights, obligations and restrictions as the other shares of Company stock held by the Holder pursuant to the Co-Sale Agreement, Voting Agreement, Shareholder Agreement, and Investors' Rights Agreement, each dated as of May 24, 2002. Notwithstanding the foregoing, this Warrant may not be transferred or assigned in whole or in part without compliance with all applicable federal and state securities laws by the transferor and the transferee (including the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if such are requested by the Company). However, no investment representation letter or opinion of counsel shall be required for any transfer of this Warrant (or any portion thereof) or any shares of Common Stock issued upon exercise hereof or conversion thereof (i) in compliance with Rule 144(k) or Rule 144A of the Act, or (ii) to "affiliates" of Holder; provided that in each of the

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

foregoing cases the transferee agrees in writing to be subject to the terms of this Section 7(C). Subject to the provisions of this Warrant with respect to compliance with the Securities Act of 1933, as amended (the "Act"), title to this Warrant may be transferred by endorsement (by the Holder executing the Assignment Form annexed hereto) and delivery in the same manner as a negotiable instrument transferable by endorsement and delivery.

D. Exchange of Warrant Upon a Transfer. On surrender of this Warrant for exchange, properly endorsed on the Assignment Form and subject to the provisions of this Warrant with respect to compliance with the Act and with the limitations on assignments and transfers and contained in this Section 6, the Company at its expense shall issue to or on the order of the Holder a new warrant or warrants of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, for the number of shares issuable upon exercise hereof.

E. Compliance with Securities Laws.

i. The Holder of this Warrant, by acceptance hereof, represents that it is an "accredited investor" within the meaning of Rule 501 of Regulation D of the Securities Act of 1933, as amended, as presently in effect.

ii. The Holder acknowledges that this Warrant and the shares of Common Stock to be issued upon exercise hereof or conversion thereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any shares of Common Stock to be issued upon exercise hereof or conversion thereof except under circumstances that will not result in a violation of the Act or any applicable state securities laws. Upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of Common Stock so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment, and not with a view toward distribution or resale.

iii. This Warrant and all shares of Common Stock issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form (in addition to any legend required by state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES AND ANY SECURITIES OR SHARES ISSUED HEREUNDER MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SECURITIES AND RESTRICTING THEIR TRANSFER OR SALE MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

HOLDER OF RECORD HEREOF TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICES.

The Company agrees to remove promptly, and in no event later than ten (10) days, after the request of the holder of this Warrant and Securities issuable upon exercise of the Warrant, the legend set forth in Section 6(E)(iii) above from the documents/certificates for such securities upon full compliance with this Agreement and Rule 144.

7. Reservation of Stock. The Company covenants that during the term this Warrant is exercisable, the Company will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of this Warrant and, from time to time, will take all steps necessary to amend its Articles of Incorporation to provide sufficient reserves of shares of Common Stock issuable upon exercise of the Warrant. The Company further covenants that all shares that may be issued upon the exercise of rights represented by this Warrant, upon exercise of the rights represented by this Warrant and payment of the Exercise Price, all as set forth herein, will be free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously or otherwise specified herein).

8. Notices.

A. In case:

i. the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or other distribution, or any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right;

ii. of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation, or any conveyance of all or substantially all of the assets of the Company to another corporation;

iii. of any voluntary dissolution, liquidation or winding-up of the Company; or

iv. of the filing of the Company's first registration statement with the SEC;

then, and in each such case, the Company will mail or cause to be mailed to the Holder or Holders a notice specifying, as the case may be, (A) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

dividend, distribution or right, (B) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation, winding-up, redemption or conversion is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up, or (C) the anticipated date on which the Company expects its first registration statement with the Securities and Exchange Commission to become effective. Such notice shall be mailed at the same time it is mailed to the holders of Company Common Stock.

B. All such notices, advices and communications shall be deemed to have been received (i) in the case of personal delivery, on the date of such delivery and (ii) in the case of mailing, on the third business day following the date of such mailing if sent to a U.S. address and on the tenth (10th) business day following the date of such mailing if sent to an address outside the U.S.

9. Amendments. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the Company or the Holder of the Warrant against which enforcement of such change, waiver, discharge or termination is sought. An amendment of the Common Stock shall not be treated as an amendment of this Warrant.

10. Adjustments. The Exercise Price and the number of shares purchasable hereunder are subject to adjustment from time to time as follows:

A. Reclassification, etc. If the Company, at any time while this Warrant, or any portion thereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 10.

B. Split, Subdivision or Combination of Shares. If the Company at any time while this Warrant, or any portion thereof, remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under this Warrant exist, into a different number of securities of the same class, then (i) in the case of a split or subdivision, the Exercise Price for such securities shall be proportionately decreased and the securities issuable upon exercise of this Warrant shall be proportionately increased, and (ii) in the case of a combination, the Exercise Price for such securities shall be proportionately increased and the securities issuable upon exercise of this Warrant shall be proportionately decreased.

C. Adjustments for Dividends in Stock or Other Securities or Property. If while this Warrant, or any portion hereof, remains outstanding and unexpired the holders of the securities

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

as to which purchase rights under this Warrant exist at the time shall have received, or, on or after the record date fixed for the determination of eligible Shareholders, shall have become entitled to receive, without payment therefor, other or additional stock or other securities or property (other than cash) of the Company by way of dividend, then and in each case, this Warrant shall represent the right to acquire, in addition to the number of shares of the security receivable upon exercise of this Warrant, and without payment of any additional consideration therefor, the amount of such other or additional stock or other securities or property (other than cash) of the Company that such holder would hold on the date of such exercise had it been the holder of record of the security receivable upon exercise of this Warrant on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock available by it as aforesaid during such period, giving effect to all adjustments called for during such period by the provisions of this Section 10.

D. Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section 10, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of this Warrant a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request, at any time, of any such Holder, furnish or cause to be furnished to such Holder a like certificate setting forth: (i) such adjustments and readjustments; (ii) the Exercise Price at the time in effect; and (iii) the number of shares and the amount, if any, of other property that at the time would be received upon the exercise of the Warrant.

E. No Impairment. The Company will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 10 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against impairment.

11. Miscellaneous.

A. This Warrant shall be governed by the internal laws of the State of California as applied to agreements entered into in the State of California by and among residents of the State of California, without reference to the conflicts of laws provisions therein.

B. In the event of a dispute with regard to the interpretation of this Warrant, the prevailing party may collect the cost of attorney’s fees, litigation expenses or such other expenses as may be incurred in the enforcement of the prevailing party’s rights hereunder.

C. This Warrant shall be exercisable as provided for herein, except that in the event that the expiration date of this Warrant shall fall on a Saturday, Sunday and or United States federally recognized Holiday, the expiration date for this Warrant shall be extended to 5:00 p.m. Pacific standard time on the business day following such Saturday, Sunday or recognized Holiday.

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

D. This Warrant and any document or agreements executed by the parties pursuant to this Warrant constitute the full and complete understanding of the parties hereto with respect to the subject matter hereof and supersede all previous agreements or understandings, written or oral, between the parties with respect thereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

IN WITNESS WHEREOF, SUNPOWER CORPORATION has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: _____, ____

COMPANY:

SUNPOWER CORPORATION

By: _____

Title: President

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

NOTICE OF EXERCISE

To: SUNPOWER CORPORATION

The undersigned hereby elects:

____ (a) to purchase _____ shares of Common Stock of SUNPOWER CORPORATION pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price for such shares in full; or

____ (b) to make a Net Issue Exercise without the payment of cash, as provided in Section 2(B) of the attached Warrant, to purchase _____ Shares of Common Stock of SUNPOWER CORPORATION.

In exercising this Warrant, the undersigned hereby confirms and acknowledges that the shares of Common Stock to be issued upon conversion thereof are being acquired solely for the account of the undersigned and not as a nominee for any other party, or for investment, and that the undersigned will not offer, sell or otherwise dispose of any such shares of Common Stock except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any applicable state securities laws.

Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

_____
(Name)

_____
(Name)

Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the undersigned or in such other name as is specified below:

_____
(Name)

_____ _____
(Date) (Signature)

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock set forth below:

Name of Assignee	Address	Number of Shares

and does hereby irrevocably constitute and appoint Attorney _____ to make such transfer on the books of SUNPOWER CORPORATION, maintained for the purpose, with full power of substitution in the premises.

If the Assignee is an "affiliate", as defined in Rule 405, promulgated by the SEC, please explain the basis for such determination:

_____

_____.

The undersigned also represents that, by assignment hereof, the Assignee acknowledges that this Warrant and the shares of stock to be issued upon exercise hereof are being acquired for investment and that the Assignee will not offer, sell or otherwise dispose of this Warrant or any shares of stock to be issued upon exercise hereof except under circumstances which will not result in a violation of the Securities Act of 1933, as amended, or any applicable state securities laws. Further, the Assignee has acknowledged that upon exercise of this Warrant, the Assignee shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of stock so purchased are being acquired for investment and not with a view toward distribution or resale.

Dated: _____.

_____

Signature of Holder

** As specified in Section 2 of the Note Purchase and Line of Credit Agreement

Exhibit 10.22

AMENDMENT NO. 1

TO

NOTE PURCHASE AND LINE OF CREDIT AGREEMENT

This **AMENDMENT NO. 1 TO NOTE PURCHASE AND LINE OF CREDIT AGREEMENT** (as amended, restated and otherwise modified from time to time, this "Amendment") is entered into as of May 25, 2004 and effective as of March 3, 2003 (the "Effective Date"), by and between **SUNPOWER CORPORATION** a California corporation ("Company") with its principal executive office at 430 Indio Way, Sunnyvale, California 94085 and **CYPRESS SEMICONDUCTOR CORPORATION**, a Delaware corporation ("Purchaser").

RECITALS

WHEREAS, Purchaser and Company are party to that certain Note Purchase and Line of Credit Agreement, dated as of May 30, 2002 (as amended, restated or modified from time to time, the "Agreement"), pursuant to which, among other things: (i) Purchaser agreed to purchase certain unsecured senior convertible promissory notes from Company (each a "Note" and collectively the "**Notes**") under the terms set forth in Section 1 of the Agreement; (ii) Purchaser agreed to provide Company with cash borrowings, capital equipment, lines of credit or guarantees, up to an aggregate principal amount not to exceed $25,000,000 (the "Maximum Amount"), as provided in Section 2 of the Agreement; and (iii) Company agreed to issue one or more warrants to purchase equity securities of Company under the terms and conditions set forth in the Agreement.

WHEREAS, as of the date hereof, Company has issued nine Notes in favor of Purchaser in an aggregate principal amount of $3,600,000 and pursuant to the terms of the Agreement, Company is no longer able to request borrowings from Purchaser pursuant to Section 1 of the Agreement.

WHEREAS, Purchaser has previously extended amounts pursuant to Section 2 of the Agreement pursuant to demand notes (the "Demand Notes"), which amounts are in the aggregate, in excess of the Maximum Amount, and now Company and Purchaser desire to amend certain provisions of the Agreement to: (i) increase the Maximum Amount to $30,000,000; (ii) provide for the amendment and restatement of the Demand Notes into a single new note (as amended, restated or otherwise modified from time to time, the "Line of Credit Note") to reflect the increase in the Maximum Amount, and to revise and supplement certain other terms of the Demand Notes; (iii) provide for the issuance of a warrant to purchase common stock of Company relating to the increase in the Maximum Amount and in replacement of any warrants previously issued under the Agreement and no longer outstanding; and (iv) make certain other amendments and modifications to the Agreement to reflect the terms of the lending arrangements between Company and Purchaser.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing, and the representations, covenants and conditions set forth below, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to such terms in the Agreement.

2. Amendment of Agreement. Subject to the terms and conditions hereof, effective as of the Effective Date, the Agreement is amended as follows:

(a) Recital B to the Agreement is hereby amended by replacing "$25,000,000" in the third line of the recital with "$30,000,000 (the "Maximum Principal Amount).".

(b) Section 1(a) of the Agreement is hereby amended by replacing the words "Exhibit A" at the end of the third line, with the language "Exhibit A-1".

(c) Section 2(a) of the Agreement is hereby amended by: (i) deleting the first sentence and replacing it with the following, "In addition to the Notes referred to in Section 1 hereof, Purchaser may in its sole discretion, to the extent requested by Company: (i) provide cash advances to Company; (ii) provide Company with capital equipment for Company's planned manufacturing facility ("Capital Equipment"); (iii) provide Company with a line of credit, on commercially reasonable terms, to purchase Capital Equipment; (iv) provide guarantees to the Company for (A) one or more lines of credit for Company to purchase Capital Equipment or (B) other purposes to be permitted in the sole discretion of the Purchaser; or (v) any combination of the foregoing. Each of the foregoing types of advances (each an "Advance" and collectively the "Advances") shall count towards the Maximum Principal Amount and shall be valued at the face or actual amount, including any guarantees, which shall reflect the face amount of the underlying obligations."; and (ii) deleting the remainder of Section 2(a).

(d) Section 2(b) is hereby deleted in its entirety and replaced with the following:

"(b) *Line of Credit Note*. The Advances referred to it Section 2(a), above, will be made pursuant to a promissory note to be executed by Company in favor of Purchaser in substantially the form of Exhibit A-2 to this Agreement (as amended, restated or modified from time to time, the "Line of Credit Note" and taken together with the Notes, the "Company Notes"), in an amount not to exceed the Maximum Principal Amount and containing such terms and conditions as more fully set forth in the Line of Credit Note."

(e) Section 2(c) is hereby deleted in its entirety and replaced with the following:

"(c) *Advances*. Company may request Advances under the Line of Credit Note from time to time in writing. Company may request Advances through the earlier of March 1, 2005 or the occurrence of an Event of Default (as defined in the Line of Credit Note). Advances may be repaid at any time without penalty. Advances made under Section 2(a)(i) and Section 2(a)(ii) may not be repaid and reborrowed, however, Advances under Section 2(a)(iii), (iv) or (v) (except to the extent including a portion under Sections 2(a)(i) or Section 2(a)(ii)) may be repaid reborrowed at such time that the line of credit or the obligation underlying the guarantee is repaid, released and terminated in its entirety. "

(f) A new Section 3, is hereby added as follows, and the remaining Sections of the Agreement are correspondingly renumbered:

"3. **Warrant**.

Company shall issue Purchaser a warrant (the "Warrant") to purchase Company common stock, substantially in the form of Exhibit B hereto. As more fully set forth in the Warrant, the Warrant shall be exercisable for that number of shares of Company common stock equal to the quotient obtained by dividing ten percent (10%) of the Maximum Principal Amount by $0.70, with a per share exercise price of $0.07."

(g) Section 5 (as renumbered) is hereby amended to replace any references to "Note" or "Notes", with references to "Company Notes" and with such grammatical changes as necessary to reflect such amended references.

(h) The preamble to Section 6 (as renumbered) is hereby amended and restated in its entirety to read as follows: "Purchaser's obligation to purchase Notes at each Closing and to make any Advance under the Line of Credit Note under this Agreement, is subject to the satisfaction of all of the following conditions, any of which may be waived in whole or in part by the Purchaser:".

(i) Section 6(b) (as renumbered) is hereby amended by replacing the term "Note" at the end of the Section with the language, "Company Note".

(j) Section 6(c) (as renumbered) is hereby amended by: (i) replacing the word "Note" and the beginning of the second line with the following, "Company Note" and (ii) replacing the words "the Note" at the end of the second line with the following language, "each Company Note".

(k) Section 6(d) (as renumbered) is hereby amended and restated in its entirety to read as follows:

"(d) Company Notes. Each Company Note being purchased pursuant to this Agreement, in the form attached hereto as Exhibit A-1 or Exhibit A-2, respectively, shall have been duly executed and delivered by the Company."

(l) Section 7 (as renumbered) is hereby amended replacing each reference to "Notes" with a reference to "Company Notes" with such grammatical changes as necessary to reflect such amended references.

(m) The heading to Exhibit A to the Agreement is hereby amended by replacing the words "Exhibit A" with the language "Exhibit A-1.

(n) A new Exhibit A-2, the Line of Credit Note, is hereby added as Exhibit A-2 to the Agreement, in the form attached to this Amendment as Exhibit A.

(o) Exhibit B to the Agreement is hereby deleted in its entirety and replaced with the form of Warrant attached as Exhibit B to this Amendment.

3. Line of Credit Note and Warrant. Concurrently with the execution of this Amendment, Purchaser and Company hereby agree to execute and deliver the Line of Credit Note and Company agrees to execute and deliver the Warrant.

4. Reservation of Rights. Company acknowledges and agrees that neither the execution nor delivery by Purchaser of this Amendment shall be deemed to create a course of dealing or otherwise obligate Purchaser to execute similar amendments under the same or similar circumstances in the future.

5. Limited Amendment/Execution. Except as expressly stated herein above, Company and Purchaser intend that the terms and provisions of the Agreement remain unchanged and in full force and effect.

6. Miscellaneous.

(a) This Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(b) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Transmission of signatures of any party by facsimile shall for all purposes be deemed the delivery of original, executed counterparts thereof.

(c) This Amendment may not be amended except in accordance with the provisions of Section 6(a) of the Agreement.

(d) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Agreement, respectively.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the date first written above and effective as of the Effective Date.

COMPANY:

SUNPOWER CORPORATION
a California corporation

By: /s/ Jay Peir
Name: Jay Peir
Title: Chief Financial Officer

PURCHASER:

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ Neil H. Weiss
Name: Neil H. Weiss
Title: Vice President, Treasurer

EXHIBIT A

FORM OF LINE OF CREDIT NOTE

THIS NOTE AND THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO COMPANY THAT SUCH REGISTRATION IS' NOT REQUIRED.

SUNPOWER CORPORATION

LINE OF CREDIT NOTE

This line of credit note (this "Note") amends and restates in their entirety each of those certain demand notes dated as of March 3, 2003, April 1, 2003, April 23, 2003, June 10, 2003, July 9, 2003, August 7, 2003, September 10, 2003, October 22, 2003 and January 26, 2004, issued by Company (as defined below) in favor of Holder (as defined below). This Note is the "Line of Credit Note" under the Note Purchase Agreement (as defined below) and is effective as of May 30, 2002 (the "Effective Date").

$30,000,000 May 25, 2004
San Jose, California

FOR VALUE RECEIVED, SUNPOWER CORPORATION, a California corporation ("Company") promises to pay to CYPRESS SEMICONDUCTOR CORPORATION, a Delaware corporation ("Holder"), or its registered assigns, the aggregate principal amount of Thirty Million Dollars ($30,000,000) (the "Maximum Principal Amount") or such lesser amount outstanding as of the date of payment, together with accrued interest thereon as provided in Section 3 of this Note. The aggregate outstanding principal amount of this Note plus accrued and unpaid interest thereon shall be due and payable on the earlier to occur of the Maturity Date or such time when the Obligations are accelerated in accordance with the terms of this Note following an Event of Default hereunder.

The parties hereto may from time to time indicate each Advance on Schedule I to this Note, but which shall not be dispositive evidence as to the outstanding indebtedness hereunder without the written confirmation of Holder.

1. **Definitions**. As used in this Note, the following capitalized terms have the following meanings:

(a) "Advance" has the meaning given to such term in the Note Purchase Agreement.

(b) "Affiliate," with respect to any Person, means (i) any director, officer or employee of such Person, (ii) any Person directly or indirectly controlling or controlled by or under

direct or indirect common control with such Person, and (iii) any Person beneficially owning or holding 5% or more of any class of voting securities of such Person or any corporation of which such Person beneficially owns or holds, in the aggregate, 5% or more of any class of voting securities. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

(c) "Event of Default" has the meaning given to such term in Section 6 hereof.

(d) "Holder" shall mean the Person specified in the Recitals to this Note or any Person who shall at the time be the registered holder of this Note.

(e) "Lien" shall mean, with respect to any property, any security interest, mortgage, pledge, lien, claim, charge or other encumbrance in, of, or on such property or the income therefrom, including, without limitation, the interest of a vendor or lessor under a conditional sale agreement, capital lease or other title retention agreement, or any agreement to provide any of the foregoing, and the filing of any financing statement or similar instrument under the Uniform Commercial Code of the State of California or comparable law of any jurisdiction.

(f) "Note Purchase Agreement" shall mean the Note Purchase and Line of Credit Agreement, dated May 30, 2002, as amended, modified or, supplemented from time to time, entered into by and between Company and Holder.

(g) "Obligations" shall mean and include all loans, advances, debts, liabilities and obligations, howsoever arising, owed by Company to Holder of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), now existing or hereafter arising under or pursuant to the terms of this Note and the Note Purchase Agreement, including all interest, fees, charges, expenses, attorneys' fees and costs and accountants' fees and costs chargeable to and payable by Company hereunder and thereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U.S.C. Section 101 et seq), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding.

(h) "Person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

(i) "Senior Indebtedness" shall mean the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of Company to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which sometimes engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, whether or not secured, and (ii) any such

indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

(j) "SVB Agreement" shall mean the Loan and Security Agreement dated as of September 25, 2003, entered into by and between Holder and Silicon Valley Bank.

2. **Advances**. Company may request and Holder shall make an Advance as provided in the Note Purchase Agreement. In no event will Holder be obligated to make any Advance (i) if an Event of Default has occurred and is continuing, and/or (ii) after March 31, 2005 and/or (ii) to the extent the aggregate principal amount of all outstanding Advances would exceed the Maximum Principal Amount.

3. **Interest**.

(a) General. Interest shall accrue on the outstanding principal amount of this Note at an annual rate of seven percent simple interest, until the outstanding principal amount of this Note shall be paid in full.

(b) Guarantees. Advances constituting guarantees made pursuant to Section 2(a)(iv) of the Note Purchase Agreement shall not bear interest (but shall be considered part of the aggregate principal amount hereof for all other purposes) with respect to a particular guarantee for so long as such guarantee remains undrawn and Holder is not required to make any payment or otherwise advance funds with respect thereto. At such time as Holder is required to make any payment or other advance of funds with respect such guaranty, the entire amount paid or advanced by Holder shall bear interest as provided in Section 3(a), above.

4. **Payment**. From the Effective Date through May 1, 2004, interest will accrue on this Note as provided in Section 3 hereof. Beginning on June 1, 2004 and on the first business day of each month thereafter through May 1, 2007, Company will make payments to Holder of accrued interest on the outstanding aggregate principal amount of this Note (subject to Section 3(b)) for the preceding month, based on a month of thirty-days and a year of twelve thirty-day months. Thereafter, the outstanding principal balance under this Note plus accrued and unpaid interest thereon (subject to Section 3(b)) shall be fully amortized and payable in sixty (60) consecutive equal monthly payments. Each such principal and interest payment shall be payable on the first business day of each month commencing June 2007 with the last payment to be made on the first business day of May 2012.

5. **Prepayment**.

(a) General. Upon ten (10) days prior written notice to Holder, Company may prepay this Note in whole or in part without penalty or premium; provided, however, that Company may not make partial prepayments more frequently than once in any given calendar quarter. Any prepayment shall include the interest accumulated since the last payment under the Note on the principal being prepaid. Amounts prepaid may not be reborrowed except as provided in the Note Purchase Agreement.

(b) Optional Prepayment Upon an Equity Financing. If after the Effective Date Company raises in an equity financing gross proceeds in excess of Ten Million Dollars ($ 10,000,000) (excluding therefrom proceeds attributable to the sale of equity to Holder or any of its successors, assigns or Affiliates), then, upon the election of Holder made within ten (10) days of notice by Company to Holder of the closing of such financing, such amount of the outstanding principal balance of this Note as may be determined in the sole discretion of Holder, but not to exceed fifty percent (50%) of the net proceeds received by Company from such equity financing, shall be prepaid within five (5) days after receipt by Company of Holder's election. As used in this Section 5(b) "net proceeds" means the proceeds received by Company after deducting the fees and costs incurred by Company and paid or payable to investment banking, legal, and accounting professionals in connection with the equity financing.

6. **Events of Default**. The occurrence of any of the following shall constitute an "Event of Default" under this Note:

(a) Failure to Pay. Company shall fail to pay when due any principal or interest payment and such payment shall not have been made within five (5) days thereafter;

(b) Other Notes. A default or event of default shall occur and be continuing under any other Company Note (as defined in the Note Purchase Agreement);

(c) Voluntary Bankruptcy or Insolvency Proceedings. Company or any of its Subsidiaries shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature, (iii) make a general assignment for the benefit of its or any of its creditors, (iv) be dissolved or liquidated, (v) become insolvent (as such term may be defined or interpreted under any applicable statute), (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it, or (vii) take any action for the purpose of effecting any of the foregoing;

(d) Involuntary Bankruptcy or Insolvency Proceedings. Proceedings for the appointment of a receiver, trustee, liquidator or custodian of Company or any of its Subsidiaries or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to Company or any of its Subsidiaries or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within thirty (30) days of commencement;

(e) SVB Agreement Covenant Default. Company causes Holder to default on its SVB Agreement due to violating a covenant in Section 7 of the SVB Agreement; or

(f) Acquisition. If (i) Company merges with or into or consolidates with another Person in which Company is not the surviving entity (other than a merger effectuated solely for the

purpose of changing Company's jurisdiction of formation), (ii) Company sells, exclusively licenses or leases all or substantially all of Company's assets and properties, or (iii) any other form of corporate reorganization occurs in which the shareholders of Company immediately prior to such corporate reorganization do not own a majority of the outstanding shares of the surviving corporation by virtue of their shares in Company.

7. **Rights of Holder upon Default**. Upon the occurrence or existence of any Event of Default other than described in Section 6(c) or Section 6(d), and at any time thereafter during the continuance of such Event of Default, Holder may by written notice to Company, declare all outstanding Obligations payable by Company hereunder to be immediately due. Upon the occurrence or existence of any Event of Default described in Section 6(c) or Section 6(d), immediately and without notice, all outstanding Obligations payable by Company hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Holder may exercise any other right power or remedy granted to it by this Note or otherwise permitted to it by law, either by suit in equity or by action at law, or both.

8. **No Subordination**. Except for Company's obligations for the Senior Indebtedness (as specifically defined in this Note), to which the indebtedness evidenced by this Note is expressly subordinated, the repayment obligations of Company set forth in this Note and the indebtedness evidenced hereby shall be senior in right of payment to, and shall not subordinate to or be subject to the prior payment of interest, principal or otherwise (whether in cash or cash equivalents), or to the maturity of, any existing or future indebtedness of Company. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of Company's Senior Indebtedness.

(a) Insolvency Proceedings. If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of Company, (i) no amount shall be paid by Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with Company by or on behalf of Holder of this Note which shall assert any right to receive any payments in respect of the principal of and interest on this Note except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding.

(b) Default on Senior Indebtedness. If there shall occur an event of default which has been declared in writing with respect to any Senior Indebtedness, as defined therein, or in the instrument under which it is outstanding, permitting the holder to accelerate the maturity thereof and Holder shall have received written notice thereof from the holder of such Senior Indebtedness, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note, unless within one hundred eighty (180) days after the happening of such event of default, the' maturity of such Senior Indebtedness shall not have been accelerated. Not more than one notice may be given to Holder pursuant to the terms of this Section 8(b) during any 360-day period.

(c) Further Assurances. By acceptance of this Note, Holder agrees to execute and deliver customary forms of subordination agreement requested from time to time by holders of Senior Indebtedness, and as a condition to Holder's rights hereunder, Company may require that Holder execute such forms of subordination agreement; provided that such forms shall not impose on Holder terms less favorable than those provided herein.

(d) Other Indebtedness. No future indebtedness shall be senior in any respect to the indebtedness represented by this Note without the consent of Holder. Also, Company shall not enter into any debt financing representing obligations or potential obligations in excess of five hundred thousand ($500,000) without the prior written consent of Holder. Exhibit A, to this Note lists all Company debt that is senior to this Note as of the Effective Date and the date hereof.

(e) Subrogation. Subject to the payment in full of all Senior Indebtedness, Holder shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 8) to receive payments and distributions of assets of Company applicable to the Senior Indebtedness. No such payments or, distributions applicable to the Senior Indebtedness shall, as between Company and its creditors, other than the holders of Senior Indebtedness and Holder, be deemed to be a payment by Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which Holder would be entitled except for the provisions of this Section 8 shall, as between Company and its creditors, other than the holders of Senior Indebtedness and Holder, be deemed to be a payment by Company to or on account of the Senior Indebtedness.

(f) No Impairment. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 8 to receive cash, securities or other properties otherwise payable or deliverable to Holder, nothing contained in this Section 8 shall impair, as between Company and Holder, the obligation of Company, subject to the terms and conditions hereof, to pay to Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent Holder, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(g) Lien Subordination. Any Lien of Holder, whether now or hereafter existing in connection with the amounts due under this Note, on any assets or property of Company or any proceeds or revenues therefrom which Holder may have at any time as security for any amounts due and obligations under this Note shall be subordinate to all Liens now or hereafter granted to a holder of Senior Indebtedness by Company or by law, notwithstanding the date, order or method of attachment or perfection of any such Lien or the provisions of any applicable law.

(h) Reliance of Holders of Senior Indebtedness. Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness

evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

9. **Successors and Assigns**. Subject to the restrictions on transfer described in Sections 11 and 12 below, the rights and obligations of Company and Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. **Waiver and Amendment**. Any provision of this Note may be amended, waived or modified upon the written consent of Company and Holder.

11. **Transfer of this Note**. This Note may be transferred to an Affiliate of Holder. With respect to any other offer, sale or other disposition of this Note, Holder will give written notice to Company prior thereto, describing briefly the manner thereof, together with a written opinion of Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration or qualification (under any federal or state law then in effect). Upon receiving such written notice and a reasonably satisfactory opinion of counsel, if so requested, Company, as promptly as practicable, shall notify Holder that Holder may sell or otherwise dispose of this Note, all in accordance with the terms of the notice delivered to Company. If a determination has been made pursuant to this Section 12 that the opinion of counsel for Holder is not reasonably satisfactory to Company, Company shall so notify Holder promptly after such determination has been made. Upon transfer this Note shall retain the legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act of 1933, as amended (the "Act"), unless in the opinion of counsel for Company such legend is not required in order to ensure compliance with the Act. Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing, transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of Company. Prior to presentation of this Note for registration of transfer, Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and Company shall not be affected by notice to the contrary.

12. **Assignment by Company**. Neither this Note nor any of the rights, interests or obligations hereunder may be assigned, by operation of law or otherwise, in whole or in part, by Company without the prior written consent of Holder.

13. **Notices**. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or mailed by registered or certified mail, postage prepaid, or by recognized overnight courier or personal delivery at the respective addresses of the parties as set forth on the register maintained by Company. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when received.

14. **Pari Passu Notes**. Holder acknowledges and agrees that the payment of all or any portion of the outstanding principal amount of this Note and all interest hereon shall be pari passu in right of payment and in all other respects to (i) all other Company Notes (as defined in the Note

Purchase Agreement) issued pursuant to the Note Purchase Agreement and (ii) that promissory note issued by Company to Holder dated February 11, 2003 in the principal amount of $2,500,000.

15. **Payment**. Payment shall be made in lawful currency of the United States.

16. **Expenses; Waivers**. If action is instituted to collect this Note, Company promises to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred in connection with such action. Except as otherwise provided herein, Company hereby waives notice of default, presentment or demnd for payment, protest or notice of nonpayment or dishonor and all other notices or demands relative to this instrument.

17. **Governing Law**. This Note and all actions arising out of or in connection with this Note shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the undersigned have caused this Note to be issued as of the date first written above.

COMPANY:

SUNPOWER CORPORATION

By: /s/ Jay Peir
Title: Chief Financial Officer

AGREED AND ACCEPTED:

HOLDER:

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ Neil H. Weiss
Title: Vice President, Treasurer

SCHEDULE 1

To Line of Credit Note

DATE ADVANCE FUNDED	PRINCIPAL AMOUNT OF ADVANCE	COMPANY ACKNOWLEDGMENT	HOLDER ACKNOWLEDGMENT
03/03/03	530,862.00		
04/01/03	600,000.00		
04/23/03	860,000.00		
06/10/03	1,500,000.00		
07/09/03	1,100,000.00		
08/07/03	6,300,000.00		
09/10/03	4,600,000.00		
10/22/03	7,600,000.00		
1/26/04	5,500,000.00		

EXHIBIT A

SUNPOWER CORPORATION - EXISTING SENIOR INDEBTEDNESS

None.

EXHIBIT B

Warrant

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES AND ANY SECURITIES OR SHARES ISSUED HEREUNDER MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SECURITIES AND RESTRICTING THEIR TRANSFER OR SALE MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD HEREOF TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICES.

No. WC-_ 4,285,715 shares

WARRANT TO PURCHASE COMMON STOCK
OF
SUNPOWER CORPORATION

This certifies that, for value received, to wit the purchase of an unsecured promissory note dated _____, 2003 (the "Note") of SUNPOWER CORPORATION, a California corporation (the "Company"), CYPRESS SEMICONDUCTOR CORPORATION, a Delaware corporation ("Holder") is entitled, subject to the terms and conditions set forth below, to purchase from the Company, in whole or in part, up to 4,285,715 fully paid and nonassessable shares of Common Stock of the Company (the "Warrant Shares") at a purchase price per share of $0.07 (the "Exercise Price"). The rights, preferences, privileges and restrictions of the Warrant Shares are set forth in the Company's Amended and Restated Articles of Incorporation as in effect on the date hereof. The number, character and Exercise Price of such shares of Common Stock are subject to adjustment as provided below and all references to "Warrant Shares" and "Exercise Price" herein shall be deemed to include any such adjustment or series of adjustments. The term "Warrant" as used herein shall mean this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein.

1. Exercisability of Warrant. Subject to the terms and conditions set forth herein, this Warrant shall be exercisable during the term commencing on the date hereof and ending at 5:00 p.m., Pacific Standard Time, on _____, 2113 (the "Warrant Expiration Date"). At any time prior to the Warrant Expiration Date, this Warrant may be exercised in whole or in part, cumulatively as to that percentage of the Warrant Shares equal to the quotient obtained by dividing the largest unpaid principal balance outstanding under the Note on any date subsequent to the date set forth on page 8 below by $30,000,000; provided, however, that this Warrant shall become exercisable as to all of the remaining Warrant Shares (a) if prior to the first business day in March, 2005, the Company has not requested to borrow monies from Holder under the Note such that if Holder had acceded to such requests the largest unpaid principal balance under the Note from the date of the Note through the first business day in March, 2005, would be $30,000,000 or (b) if, prior to the first business day in March, 2005, either the Company conducts an initial public offering of its stock registered with the SEC or all or substantially all of the assets of the Company or more than eighty percent (80%) of the outstanding stock of the Company is sold, including via merger, to a person or entity other than Cypress or an affiliate of Cypress as the term affiliate is defined in SEC Rule 405.

2. Exercise of Warrant. This Warrant may be exercised by the Holder by the surrender of this Warrant to the Company, with the Notice of Exercise annexed hereto duly completed and executed on behalf of the Holder, at the office of the Company (or such other office or agency of the Company as it may designate by notice in writing to the Holder appearing on the books of the Company) during the Exercise Period, and:

A. If the Holder elects to exercise this Warrant in cash, the delivery of payment to the Company, for the account of the Company, by cash, wire transfer of immediately available funds to a bank account specified by the Company, or by certified or bank cashier's check, of the Exercise Price for the number of Warrant Shares specified in the Exercise Notice in lawful money of the United States of America; or

B. If the Holder elects to make a Net Issue Exercise without the payment of cash, the election to receive a number of shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled), as set forth on the Exercise Notice and calculated using the following formula:

$$X = \frac{(Y)(A - B)}{A}$$

Where:
X - The number of shares of Common Stock to be issued to Holder.
Y - The number of shares of Common Stock subject to this Warrant at the date of exercise or, if only a portion of the Warrant is being exercised, the portion of the Warrant being cancelled.
A - The fair market value of one share of Common Stock.
B - Exercise Price (as adjusted to the date of such calculations)

For purposes of this Section 2(B), if the Common Stock is traded in a public market, the fair market value of the Common Stock shall be the closing price of the Common Stock reported for the business day immediately before Holder delivers its Notice of Exercise to the Company. If the Common Stock is not traded in a public market, the Company's Board of Directors shall determine fair market value in their good faith judgment.

The Company agrees that such Warrant Shares shall be deemed to be issued to the Holder as the record holder of such Warrant Shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for the Warrant Shares as aforesaid. A stock certificate or certificates for the Warrant Shares specified in the Exercise Form shall be delivered to the Holder as promptly as practicable, and in any event within 10 days, thereafter. If this Warrant shall have been exercised only in part, the Company shall, at the time of delivery of the stock certificate or certificates, deliver to the Holder a new Warrant evidencing the rights to purchase the remaining Warrant Shares, which new Warrant shall in all other respects be identical with this Warrant. No adjustments shall be made on Warrant Shares issuable on the exercise of this Warrant for any cash dividends paid or payable to holders of record of Common Stock prior to the date as of which the Holder shall be deemed to be the record holder of such Warrant Shares.

3. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at its expense shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor and amount.

4. Rights of Warrant Holder. Subject to Sections 7 and 9 of this Warrant, the Holder shall not be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company that may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value, or change of stock to no par value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Warrant shall have been exercised as provided herein.

5. Transfer of Warrant.

A. Warrant Register. The Company will maintain a register (the "Warrant Register") containing the name and address of the Holder. The Holder of this Warrant may change its address as shown on the Warrant Register by written notice to the Company requesting such change. Any notice or written communication required or permitted to be given to the Holder may be delivered or given by mail to such Holder as shown on the Warrant Register and at the address shown on the Warrant Register. Until this Warrant is transferred on the Warrant Register of the Company, the Company may treat the Holder as shown on the Warrant Register as the absolute owner of this Warrant for all purposes, notwithstanding any notice to the contrary.

B. Warrant Agent. The Company may, by written notice to the Holder, appoint an agent for the purpose of maintaining the Warrant Register referred to in Section 5(A) above, issuing the Warrant Shares or other securities then issuable upon the exercise of this Warrant, exchanging this Warrant, replacing this Warrant, or any or all of the foregoing. Thereafter, any such registration, issuance, exchange, or replacement, as the case may be, shall be made at the office of such agent.

C. Transferability and Nonnegotiability of Warrant. This Warrant may be transferred to a wholly owned subsidiary of Holder, and, with the prior written consent of the Company, which may be granted or withheld in the sole discretion of the Company, to other entities or persons. This Warrant may not be transferred or assigned without compliance with all applicable federal and state securities laws by the transferor and the transferee (including the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if such are requested by the Company). However, no investment representation letter

or opinion of counsel shall be required for any transfer of this Warrant or any shares of Common Stock issued upon exercise hereof or conversion thereof in compliance with Rule 144 or Rule 144A of the Securities Act of 1933, as amended (the "Securities Act"). Subject to the provisions of this Warrant with respect to compliance with the Securities Act, title to this Warrant may be transferred by endorsement (by the Holder executing the Assignment Form annexed hereto) and delivery in the same manner as a negotiable instrument transferable by endorsement and delivery.

D. Exchange of Warrant Upon a Transfer. On surrender of this Warrant for exchange, properly endorsed on the Assignment Form and subject to the provisions of this Warrant with respect to compliance with the Securities Act and with the limitations on assignments and transfers as contained in this Section 5, the Company at its expense shall issue to or on the order of the Holder a new warrant or warrants of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, for the number of Warrant Shares issuable upon exercise hereof.

E. Compliance with Securities Laws.

i. The Holder of this Warrant, by acceptance hereof, represents that it is an "accredited investor" within the meaning of Rule 501 under the Securities Act, as presently in effect.

ii. The Holder acknowledges that this Warrant and the shares of Common Stock to be issued upon exercise thereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any shares of Common Stock to be issued upon exercise thereof except under circumstances that will not result in a violation of the Securities Act or any applicable state securities laws. Upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of Common Stock so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment, and not with a view toward distribution or resale.

iii. This Warrant and all shares of Common Stock issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form (in addition to any legend required by state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES AND ANY SECURITIES OR SHARES ISSUED HEREUNDER MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SECURITIES AND RESTRICTING THEIR TRANSFER OR SALE MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD HEREOF TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICES.

The Company agrees to remove promptly, upon the request of the holder of this Warrant and Securities issuable upon exercise of the Warrant, the legend set forth in Section 5(E)(iii) above from the documents/certificates for such securities upon full compliance with this Agreement and Rules 144 and 145.

6. Reservation of Stock. The Company represents, warrants and covenants that:

A. The Company has reserved from its authorized and unissued shares of Common Stock (or other shares issuable upon exercise of the Warrant) a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of this Warrant.

B. Upon issuance by the Company of the Warrant Shares pursuant to exercise of this Warrant as provided herein and receipt by the Company of the Exercise Price, the Warrant Shares so purchased and issued shall be fully paid, non-assessable and free from all taxes, liens and charges in respect of the issue thereof (provided that the Holder shall bear any taxes in respect of any contemporaneously occurring transfer thereof effected at the request of the Holder).

C. This Warrant has been duly authorized and executed by the Company, and is a valid and binding obligation of the Company enforceable in accordance with its terms. The Company will not amend the rights, preferences, privileges or restrictions of the Common Stock without the affirmative consent of the Holder.

7. Notices.

A. Whenever the Exercise Price or number of shares purchasable hereunder shall be adjusted pursuant to Section 9 hereof, the Company shall issue a certificate signed by its Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first-class mail, postage prepaid) to the Holder of this Warrant.

B. In case:

i. the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or other distribution, or any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right;

ii. of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation, or any conveyance of all or substantially all of the assets of the Company to another corporation;

iii. of any voluntary dissolution, liquidation or winding-up of the Company;

iv. of the filing of the Company's first registration statement with the U.S. Securities and Exchange Commission (the "SEC");

then, and in each such case, the Company will mail or cause to be mailed to the Holder or Holders a notice specifying, as the case may be, (A) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, (B) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation, winding-up, redemption or conversion is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up, or (C) the anticipated date on which the Company expects its first registration statement with the SEC to become effective. Such notice shall be mailed at least fifteen (15) days prior to the date therein specified.

C. All such notices, advices and communications shall be deemed to have been received (i) in the case of personal delivery, on the date of such delivery and (ii) in the case of mailing, on the third business day following the date of such mailing if sent to a U.S. address and on the tenth (10th) business day following the date of such mailing if sent to an address outside the U.S.

8. Amendments. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the Company or the Holder of the Warrant against which enforcement of such change, waiver, discharge or termination is sought.

9. Adjustments. The Exercise Price and the number of Warrant Shares purchasable hereunder are subject to adjustment from time to time as follows:

A. Reclassification, etc. If the Company, at any time while this Warrant remains outstanding and unexpired by reclassification of securities or otherwise, shall change the Common Stock into the same or a different number of securities of any other class or classes, the Warrant shall thereafter be similarly changed, subject to further adjustment as provided in this Section 9.

B. Split, Subdivision or Combination of Shares. If the Company at any time while this Warrant remains outstanding and unexpired shall split, subdivide or combine the Common Stock into a different number of securities of the same class, then (i) in the case of a split or subdivision, the Exercise Price shall be proportionately decreased and the securities issuable upon exercise of this Warrant shall be proportionately increased, and (ii) in the case of a combination, the Exercise Price shall be proportionately increased and the securities issuable upon exercise of this Warrant shall be proportionately decreased.

C. Adjustments for Dividends in Stock or Other Securities or Property. If while this Warrant remains outstanding and unexpired the holders of the securities as to which purchase rights under this Warrant exist at the time shall have received, or, on or after the record date fixed for the determination of eligible shareholders, shall have become entitled to receive,

without payment therefor, other or additional stock or other securities or property (other than cash) of the Company by way of dividend, then and in each case, this Warrant shall represent the right to acquire, in addition to the number of shares of the security receivable upon exercise of this Warrant, and without payment of any additional consideration therefor, the amount of such other or additional stock or other securities or property (other than cash) of the Company that such holder would hold on the date of such exercise had it been the holder of record of the security receivable upon exercise of this Warrant on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock available by it as aforesaid during such period, giving effect to all adjustments called for during such period by the provisions of this Section 9.

D. Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section 9, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of this Warrant a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request, at any time, of any such Holder, furnish or cause to be furnished to such Holder a like certificate setting forth: (i) such adjustments and readjustments; (ii) the Exercise Price at the time in effect; and (iii) the number of shares and the amount, if any, of other property that at the time would be received upon the exercise of the Warrant.

E. No Impairment. The Company will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 9 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holders of this Warrant against impairment.

10. Miscellaneous.

A. This Warrant shall be governed by the laws of the State of California as applied to agreements entered into in the State of California by and among residents of the State of California, without regard to the principles of conflict of laws thereof.

B. In the event of a dispute with regard to the interpretation of this Warrant, the prevailing party may collect the cost of attorney’s fees, litigation expenses or such other expenses as may be incurred in the enforcement of the prevailing party’s rights hereunder.

C. The holder hereof agrees to be bound by such market standoff provisions (i.e., restrictions on stock resale provisions following the Company’s sale of securities in the public market) as contained in the Company’s Investors Rights Agreement dated May 30, 2002.

D. This Warrant shall be exercisable as provided for herein, except that in the event that the Warrant Expiration Date shall fall on a Saturday, Sunday or United States federally recognized holiday, the Warrant Expiration Date shall be extended to 5:00 p.m. Pacific time on the business day following such Saturday, Sunday or recognized holiday.

E. This Warrant and any document or agreements executed by the parties pursuant to this Warrant constitute the full and complete understanding of the parties hereto with respect to

the subject matter hereof and supersede all previous agreements or understandings, written or oral, between the parties with respect thereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, SUNPOWER CORPORATION has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: _____, 2003

COMPANY:

SUNPOWER CORPORATION

By: _____

Title: _____

NOTICE OF EXERCISE

To: SUNPOWER CORPORATION

The undersigned hereby elects to purchase _____ shares of Common Stock of SUNPOWER CORPORATION pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price for such shares in full.

In exercising this Warrant, the undersigned hereby confirms and acknowledges that the shares of Common Stock to be issued upon exercise hereof are being acquired solely for the account of the undersigned and not as a nominee for any other party, or for investment, and that the undersigned will not offer, sell or otherwise dispose of any such shares of Common Stock except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any applicable state securities laws.

Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

_____
(Name)

_____
(Name)

_____ _____
(Date) (Signature)

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under the within Warrant.

Name of Assignee Address

and does hereby irrevocably constitute and appoint _____ to make such transfer on the books of SUNPOWER CORPORATION, maintained for the purpose, with full power of substitution in the premises.

The undersigned also represents that, by assignment hereof, the Assignee acknowledges that this Warrant and the shares of stock to be issued upon exercise hereof are being acquired for investment and that the Assignee will not offer, sell or otherwise dispose of this Warrant or any shares of stock to be issued upon exercise hereof except under circumstances which will not result in a violation of the Securities Act of 1933, as amended, or any applicable state securities laws. Further, the Assignee has acknowledged that upon exercise of this Warrant, the Assignee shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of stock so purchased are being acquired for investment and not with a view toward distribution or resale.

Dated: _____

_____

[CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION]

SUPPLY AGREEMENT

This Agreement is made as of April 14th, 2005 (the "Effective Date") between Solon AG für Solartechnik (hereinafter "Solon") and SunPower Corporation and its affiliates including SunPower Technology Limited (hereinafter "SunPower").

Recitals

Whereas, SunPower desires to supply solar cells to Solon for its general use during calendar years 2006 through 2010;

Whereas, in exchange for SunPower's supply of the solar sells, Solon desires to provide SunPower with customer advances in the aggregate amount of €*** (the "Advances"), which SunPower will use to fund facilities and equipment to manufacture the solar cells; and

Whereas, SunPower is willing to supply the solar cells to Solon and Solon is willing to provide the Advances to SunPower upon the terms and conditions provided herein.

NOW, THEREFORE, in furtherance of the foregoing Recitals and in consideration of the mutual covenants and obligations set forth in this Agreement, the Parties hereby agree as follows:

1 - Definitions

The following terms used in this Agreement shall have the meanings set forth below:

1.1 "Agreement" shall mean this Supply Agreement and all appendices annexed to this Agreement as the same may be amended from time to time in accordance with the provisions hereof.

1.2 "Competitor" shall mean any manufacturer of crystal or silicon solar cells with annual revenue of US$*** million or more in either of the two (2) previous calendar years.

1.3 "Equipment" shall mean the solar cell manufacturing equipment listed on Appendix 1, which will be purchased by SunPower using funds from the Advances and installed in SunPower's manufacturing facility in The Philippines.

1.4 "Facilities" shall mean the facilities required for the installation and operation of the Equipment.

1.5 "Minimum Monthly Quantity of Product" shall mean *** MWp per month.

1.6 "Product" shall mean the A-300 solar cells manufactured by SunPower and sold to Solon pursuant to this Agreement.

1.7 "Term" shall mean the period during which this Agreement is in effect, as more specifically set forth in Section 6 of this Agreement.

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION

2 - Ordering

2.1 On the first working day of each calendar month, Solon shall issue a purchase order ("Order") to SunPower covering the next six (6) months of requirements for Product in which the first three (3) months are binding and the following three (3) months may be modified by no more than twenty-five percent (25%) ("rolling forecast"). SunPower shall acknowledge each Order and confirm the scheduled delivery date within three (3) business days from the date of receipt of the Order. Notwithstanding the foregoing, Solon shall be obligated to Order the Minimum Monthly Quantity of Product each month during the Term of this Agreement.

3 - Reserved Capacity and Supply Obligations

3.1 For calendar years 2006 through 2010, SunPower agrees to reserve for the benefit of Solon (the "Reserved Capacity") a manufacturing capacity of at least ***MWp per year with the understanding that if the installed Equipment is capable of producing more than this quantity, Solon will have first priority on this additional capacity so long as Solon provides proper notice of its intention to purchase all or part of this additional capacity through the Orders described in Section 2.1.

3.2 The Reserved Capacity is subject to SunPower receiving the Advances to fund the Facilities and the Equipment in its manufacturing facility located in The Philippines.

3.3 The Parties agree that if at the end of the year 2010 Solon has not Ordered or SunPower has not delivered at least ***MWp of Product, then this Agreement will be automatically extended until the earlier of December 31, 2011 or such time as Solon takes delivery of ***MWp of Product in the aggregate if there is an absence of material breach by SunPower during the Agreement's duration.

3.4 Notwithstanding the foregoing, if, at any given time, Solon is not fully utilizing the production capacity of the Equipment, SunPower will be free to use the excess capacity of the Equipment to serve other customers, subject to maintaining priority on the Reserved Capacity.

3.5 Subject to Solon Ordering the Minimum Monthly Quantity of Product each month during the term of this Agreement, SunPower shall deliver pursuant to this Agreement at least *** MWp of Product during every three month Order period (the "Minimum Supply Amount"); provided however, that if SunPower fails to deliver the Minimum Supply Amount, then SunPower may deliver any deficiency during the following three months (in addition to the Minimum Supply Amount for such following three month period) without breaching this section.

4 - Price, Rebate and Delivery

4.1 SunPower agrees to supply the Product to Solon at a price of €***/Wp during calendar year 2006. For each calendar year following 2006 up to and including 2010, SunPower shall reduce the price of the Product by *** and *** percent (***%) from the previous year's price. If, however, Solon purchases less than *** MWp of Product in any calendar year (where *** MWp less the procured amount is the "Carry-Over Amount"), then the price reduction for the following year shall be deferred until Solon purchases the Carry-Over Amount. In calculating whether such *** MWp test has been fulfilled in any year, any purchases in that year to cover a prior year's Carry-Over Amount shall not be counted.

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4.2 The Parties agree that, starting in 20***, if silicon prices increase or decrease beyond a band of plus or minus *** percent (+/-***%), there will be a sharing of such increase or decrease beyond that band. For purposes of determining this "adjustment", the Parties have assumed that the price (the "Assumed Price") of silicon per kilogram will be as follows:

- 20***: €***
- 20***: €***
- 20***: €***

If, during any calendar quarter in the years shown above, the actual price of silicon is greater than *** percent (***%) of the Assumed Price for such year or less than *** percent (***%) of such Assumed Price, then the amount of adjustment will be applied to the price for the Product or shared by some other mechanism to be determined by the Parties so that the Parties share equally the difference beyond such +/-***% variance.

4.3 In consideration of the Advances provided by Solon to SunPower, SunPower will provide Solon a rebate equal to €***/Wp (the "Rebate"). By the fifteenth day of each calendar month, SunPower will provide Solon with a check in the amount of the total Rebates for deliveries of Product that Solon received in the prior month. In no event shall the total of all Rebates under this Agreement exceed the amounts received by SunPower from the Advances.

4.4 The prices for the Products do not include any excise, sales, use, import, export or other taxes, which taxes will be invoiced to and paid by Solon, provided that Solon is legally or contractually obliged to pay such taxes. SunPower and Solon will work together to eliminate the possibility of taxes, but if there are any assessed, SunPower shall promptly remit to Solon in full any such taxes paid by Solon which are refunded to SunPower in whole or in part. In any event SunPower understands and agrees that the Products will be purchased for resale. Solon shall be responsible for all transportation charges, duties or charges for shipping and handling; thus, the price for the Products shall not include any such charges.

4.5 SunPower shall not be responsible for loading the Products on any vehicle provided by Solon or for clearing the Products for export, unless otherwise agreed. Solon shall bear all costs and risks involved in loading and transporting the Products from SunPower's premises to Solon's desired destination. Title to the Products shall transfer ex works SunPower's factory.

4.6 SunPower shall invoice Solon at or after the time of each shipment of Products to Solon. Taxes, customs and duties, if any, will be identified as separate items on SunPower invoices. All invoices shall be sent to Solon's location indicated in the Order. Payment terms for all invoiced amounts shall be thirty (30) days from date of shipment. All payments shall be made in Euros. Unless specifically agreed to in writing by Solon, no advance payments shall be made or C.O.D. shipments accepted.

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5 - Advances

5.1 Provided that SunPower is not in material breach under this Agreement, Solon shall make Advances to SunPower in the aggregate amount of €*** to be disbursed to SunPower as set forth on Appendix 2.

5.2 SunPower's repayment of principal on the Advances shall be amortized over Product deliveries at the rate described in Section 4.3. SunPower may repay all or any portion of the unpaid principal and interest on the Advances at any time without penalty.

5.3 Commencing on January 1, 2006, SunPower shall pay simple interest on any remaining unpaid balance of the Advances at an annual interest rate of *** and *** percent (***%), which interest shall be paid on a per-unit-of-Product-delivered basis (Wp) assuming that SunPower delivers ***MWp of Product per year, and, provided further, that interest shall only be paid on the first ***MWp of Product deliveries per year. The amount of interest per unit to be paid will be determined at the beginning of each calendar year by calculating the interest on the projected average unpaid principal amount of Advances for such year and dividing such amount by ***MWp. By the fifteenth day of each calendar month, SunPower will provide Solon with a check in the amount of the interest accrued in the prior month.

6 - Term and Termination

6.1 Subject to Section 3.3, the term of this Agreement shall begin on the Effective Date and provided that the first delivery of the Product under this Agreement shall occur in 2006, and unless previously terminated as herein after set forth, shall remain in force for the years 2006 through 2010 or as extended pursuant to section 3.3.

6.2 Each Party may, at its discretion, upon written notice to the other Party, and in addition to its rights and remedies provided under this Agreement and at law or in equity, terminate this Agreement in the event of any of the following:

(a) Upon a breach of the other Party of any material provision in this Agreement, and failure of the other Party to cure such material default within sixty (60) days after written notice thereof;

(b) Upon the voluntary or involuntary initiation of bankruptcy or insolvency proceedings against the other Party; provided, that for an involuntary bankruptcy or insolvency proceeding, the party subject to the proceeding shall have sixty (60) working days within which to dissolve the proceeding or demonstrate to the terminating Party's satisfaction the lack of grounds for the initiation of such proceeding; or

(c) In accordance with the provisions of Section 9 below.

6.3 SunPower may, at its discretion, upon written notice to Solon, and in addition to its rights and remedies provided under this Agreement and at law or in equity, terminate this Agreement in the event that a *** of *** percent (***%) or more of the *** of *** or if *** percent (***%) or more of the *** of a ***.

6.4 If any of the events in Sections 6.2 and 6.3 occurs with a party, the defaulting party shall give notice of such event to the other party as soon as practicable, and in any event within three (3) business days of such occurrence.

6.5 Upon the expiration or termination of this Agreement howsoever arising and subject always to the provisions of Section 6.6 below, the following Sections shall survive such expiration or termination: Sections 1 (Definitions); Section 4.5 (Delivery); Sections 6.5, 6.6 and 6.7 (Term, Termination and Advance Payment); Section 7 (Limited Power Warranty); Section 8 (Limitation of Liability); and Section 10 (General Provisions).

6.6 Upon expiration or termination of this Agreement for any reason, all outstanding Orders placed prior to such expiration or termination shall be completed by SunPower and for this purpose and to that extent, the provisions of this Agreement shall continue in full force and effect. The foregoing shall not apply for the Order(s) that is (are) terminated at the same time as the Agreement.

6.7 If Solon terminates this Agreement pursuant to Section 6.2(a), then SunPower shall repay to Solon any remaining unpaid principal and accrued and unpaid interest on the Advances as if Solon continued to take delivery of ***MWp of Product per year; provided however that if Solon is in material breach of this Agreement at the time it terminates this Agreement, then SunPower shall not be required to repay any remaining unpaid principal and accrued and unpaid interest on the Advances. If this Agreement is terminated for any other reason, then SunPower shall not be required to repay any remaining unpaid principal and accrued and unpaid interest on the Advances. Notwithstanding the foregoing, if Solon terminates this Agreement pursuant to Section 6.2(a) because SunPower intentionally and substantially favors another customer over Solon in terms of allocating Product deliveries (up to the Reserved Capacity), then ***% of all unpaid principal and accrued and unpaid interest on the Advances shall be immediately due and payable.

7 - Limited Power Warranty

If, on or before December 31, 2009, modules made by Solon using the Product exhibit an average power degradation vs. initial measured power of ***% or greater than the average degradation vs. initial power measured on modules made by Solon using similar module materials and manufacturing processes and utilized in similar applications (e.g., trackers) but utilizing solar cells from other manufacturers ***, then the Limited Power Warranty set forth in Appendix 4 shall apply to the Product; *provided however* that this limited warranty shall apply only to power degradation that is determined by SunPower (in its reasonable discretion) to be due to defects in design. If the condition set forth in the prior sentence is not satisfied, then the Limited Power Warranty shall not apply to any Product.

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8 - Liability

8.1 IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR FOR EXEMPLARY OR PUNITIVE DAMAGES, EVEN IF SOLON OR SUNPOWER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

8.2 EXCEPT FOR REPAYMENT OF THE ADVANCE, NEITHER PARTY'S TOTAL LIABILITY TO THE OTHER FOR ANY KIND OF LOSS, DAMAGE OR LIABILITY ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT, UNDER ANY THEORY OF LIABILITY, SHALL EXCEED IN THE AGGREGATE THE PURCHASE PRICE OF THE PRODUCTS PURCHASED BY SOLON FROM SUNPOWER FOR THE MOST RECENT TWELVE (12) MONTHS PRIOR TO THE EVENT GIVING RISE TO THE LOSS, DAMAGE OR LIABILITY.

9 - Force Majeure

Neither Party shall be liable to the other Party for failure of or delay in performance of any obligation under this Agreement, directly, or indirectly, owing to acts of God, war, war-like condition, embargoes, riots, strike and other events beyond its reasonable control. If such failure or delay occurs, the affected Party (i.e., the party that is unable to perform) shall notify the other Party of the occurrence thereof as soon as possible, and the Parties shall discuss the best way to resolve the event of force majeure. If the conditions of force majeure apply for a period of more than two (2) consecutive calendar months, the non-affected Party shall be entitled to terminate this Agreement by written notice to the other Party.

10 - General Provisions

10.1 This Agreement shall be construed under and governed by the laws of the State of New York.

10.2 Upon notice from one Party to the other of a dispute hereunder, the Parties agree to hold a meeting within thirty (30) days of receipt of such notice with at least one (1) representative from each Party who has decision-making authority for such company. At this meeting, the Parties will attempt to resolve the dispute in good faith. If, after the meeting, the dispute has not been resolved, only then may a Party resort to litigation. Any proceeding to enforce or to resolve disputes relating to this Agreement shall be brought before a state or Federal court of competent jurisdiction in the Borough of Manhattan, State of New York. In any such proceeding, neither Party shall assert that such a court lacks jurisdiction over it or the subject matter of the proceeding. The Parties expressly waive any right to a jury trial and agree that any proceeding hereunder shall be tried by a judge without a jury.

10.3 This Agreement, in whole or in part, shall not be assigned to a third party without prior written consent of the other Party; *provided however* that either Party may assign this Agreement to any of its wholly-owned affiliates as long as such Party unconditionally guarantees the performance of such wholly-owned affiliate. If this Agreement is assigned effectively to the third party, this Agreement shall bind upon successors and assigns of the parties hereto.

10.4 Except as provided elsewhere in this Agreement, a notice is effective only if the Party giving or making the notice has complied with this Section 10.4 and if the addressee has received the notice. A notice is deemed to have been received as follows:

(i) If a notice is delivered in person, or sent by registered or certified mail, or nationally or internationally recognized overnight courier, upon receipt as indicated by the date on the signed receipt;

(ii) If a notice is sent by facsimile, upon receipt by the Party giving the notice of an acknowledgment or transmission report generated by the machine from which the facsimile was sent indicating that the facsimile was sent in its entirety to the addressee's facsimile number; or

(iii) If a notice is sent by e-mail, upon receipt by the Party giving the notice of an acknowledgement or transmission report indicating that the e-mail was sent in its entirety to the addressee's e-mail address.

Each Party giving a notice shall address the notice to the appropriate person at the receiving Party at the address listed below or to a changed address as the Party shall have specified by prior written notice:

Solon:
Solon AG für Solartechnik
Ederstr. 16
D – 12059 Berlin, Germany
Facsimile: +49 / 30 / 818 79 - 110
Attention: Mr. Thomas Krupke, CFO
E-mail: t.krupke@solonag.com

SunPower:
SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
Facsimile: (408) 739-7713
Attention: Peter Aschenbrenner,
E-mail: peter.aschenbrenner@sunpowercorp.com
With a copy to:
Cypress Semiconductor Corporation
3901 North First Street
San Jose, California 95134-1599
Facsimile: (408) 943-6869
Attention: Laura Norris, Director, Legal Department
E-mail: xle@cypress.com

10.5 The waiver by either Party of the remedy for the other Party's breach of or its right under this Agreement will not constitute a waiver of the remedy for any other similar or subsequent breach or right.

10.6 If any provision of this Agreement is or becomes, at any time or for any reason, unenforceable or invalid, no other provision of this Agreement shall be affected thereby, and the remaining provisions of this Agreement shall continue with the same force and effect as if such unenforceable or invalid provisions had not been inserted in this Agreement.

10.7 No changes, modifications or alterations to this Agreement shall be valid unless reduced to writing and duly signed by respective authorized representatives of the Parties.

10.8 No employment, agency, trust, partnership or joint venture is created by, or shall be founded upon, this Agreement. Each Party further acknowledges that neither it nor any Party acting on its behalf shall have any right, power or authority, implied or express, to obligate the other Party in any way.

10.9 Neither Party shall make any announcement or press release regarding this Agreement or any terms thereof without the other Party's prior written consent.

10.10 SunPower shall disclose to Solon, upon Solon's request, any publicly disclosed information regarding Cypress' or SunPower's financial condition; provided however, that SunPower shall be deemed to have disclosed to Solon any information that has been filed electronically with the United States Securities and Exchange Commission.

10.11 This Agreement constitutes the entire agreement between the Parties and supersedes all prior proposal(s) and discussions, relative to the subject matter of this Agreement and neither of the Parties shall be bound by any conditions, definitions, warranties, understandings or representations with respect to such subject matter other than as expressly provided herein. No oral explanation or oral information by either party hereto shall alter the meaning or interpretation of this Agreement.

10.12 The headings are inserted for convenience of reference and shall not affect the interpretation and or construction of this Agreement.

10.13 Words expressed in the singular include the plural and vice-versa.

10.14 The parties recognize that there are certain system configuration requirements for reliable long-term operation of A-300 solar cells. To this end, attached hereto as Appendix 3 (Technical Issues) is a compilation of both parties current understanding of the technical issues.

11 - Secured Amount

11.1 SunPower acknowledges that Solon is providing the Advances for the sole purpose of providing SunPower money to fund the Facilities and to purchase the Equipment to be owned by SunPower technology Limited. SunPower represents that it will only use the funds from the Advances for the purpose of funding the Facilities and purchasing the Equipment to create the Reserved Capacity described in Section 3.1.

11.2 In order to secure Solon's investment in the Equipment through the Advances made to SunPower under this Agreement, SunPower and Solon agree that the Advances shall be secured by the Equipment. In that regard, SunPower and Solon agree that the amount being secured will be an amount equal to the total amount provided to SunPower from the Advances less the total amount of Rebate remitted by SunPower to Solon (the "Secured Amount"). The Equipment shall serve as collateral to secure repayment of the Secured Amount in the event of a default in payment by SunPower under this Agreement. The Parties shall enter in a mutually acceptable mortgage agreement by May 30th 2005.

For Solon AG für Solartechnik:

Name: Alexander Voigt

Title: Chief Executive Officer

Date: April 14th 2005

Signature: /s/ Alexander Voigt

Name: Thomas Krupke

Title: Chief Financial Officer

Date: April 14th 2005

Signature: /s/ Thomas Krupke

For SunPower Corporation:

Name: Thomas Werner

Title: Chief Executive Officer

Date: April 14th 2005

Signature: /s/ Thomas Werner

For SunPower Technology Limited:

Name: Thomas Werner

Title: _____

Date: April 14th 2005

Signature: /s/ Thomas Werner

APPENDIX 1

Equipment

- *** (2)
  - Asset #'s – M10200000011, M10700000004
- *** (3)
  - Asset #'s – M10500000012, M11200000004, M11700000004
- *** (3)
  - Asset #'s – M10900000005, M10900000006, M11300000004
- *** (7)
  - Asset #'s – M10300000005, M10600000006, M10800000008, M10800000009, M10800000010, M11400000004, M11400000005
- *** (4)
  - Asset #'s – M10400000008, M11000000005, M11100000011, M11500000004, M11500000005
- *** (2)
  - Asset #'s – M23000000007, M23000000008
- ***
  - Asset #'s – M11600000004
- ***
  - Asset #'s – M11800000006
- ***
  - Asset #'s – M19900000051 to M19900000056

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APPENDIX 2

Advances

1st payment	*** 14th 200***	€ ***.-
2nd payment	*** 2nd 200***	€ ***.-
3rd payment	*** 15th 200***	€ ***.-
4th payment	*** 15th 200***	€ ***.-

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APPENDIX 3

Technical Issues

Annex 3a: Common understanding of the "***" issue

Annex 3b: Specification of the current product "A-300"

Annex 3c: Agreement about product design change

Annex 3d: Report about Greg Reichows visit to Berlin (March 31st)

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Annex 3a: Common understanding of the "*" issue**

Here is the today's understanding in detail:

i. Solon was able to find the same *** in ***. However, the effect was small and slower that reported by Sunpower. Solon was also able to *** the effect by ***

ii. However, it does not seem that there is any *** above which the ***, but it is more likely that the product "***" is important (and also ***, especially ***). The *** could also be found already starting after a few days at ***

iii. All results from *** confirm the *** the the *** is due to a *** where *** is involved

Still to do:

- As soon as *** in ***, the *** of *** at the *** will be recorder, and will be recorded again after ***. By this test we will try to *** the *** in the ***.
- Solon will start a *** with *** (which is the *** level of ***)
- Sunpower will periodically report on the results of their own *** in ***.

It seems that the *** of the *** is ***, and there is a *** which generally seems to *** any *** in *** (introducing a *** in the *** range between ***).

On this basis Solon engineers will develop *** for the *** which is supposed to be used at the *** in 200***. Sunpower technicians will review this solution, and they will confirm that due to their understanding the solution is *** to *** any ***.

In the case that in *** any *** is observed, chapter *** of the contract is dealing with the ***.

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Annex 3b: Specification of the current product “A-300”

- datasheet
- drawings and description
- definition of power classes
- Visual and electrical binning criteria

[GRAPHICS OMITTED]

[SunPower Logo]
THE CELL PERFORMANCE LEADER

A-300
Single-Crystal Silicon Solar Cell

Construction:	All-back contact
Dimensions:	125 mm x 125 mm - nominal
Thickness:	250 μm ± 30 μm

Typical Electrical Performance

Open Circuit Voltage	0.665 V
Short Circuit Current:	5.75 A
Maximum Power Voltage:	0.560 V
Maximum Power Current:	5.35 A
Rated Power	3.0 W
Efficiency:	20.0% minimum

Temperature Coefficients

Voltage:	-1.9 mV / °C
Power:	-0.38 % / °C

Attributes

- High efficiency reduces module assembly and system installation costs
- Uniform front appearance — no contact grid
- Minimal bypass diode requirements
- Back contact design simplifies circuit assembly
- Lower temperature coefficient improves energy delivery

Packaging

- Cells are packed in boxes of 250 each grouped in shrink-wrapped stacks of 50 with interleaving.
- Ten boxes are packed in a water-resistant “Master Carton” containing 2,500 cells suitable for air transportation
- Master Cartons are permanently labeled with cell tracking information and date of manufacture

SunPower Corporation . 430 Indio Way . Sunnyvale, CA 94085 . Phone: (408) 991-0900 . Fax: (408) 739-7713. Email:sales@sunpowercorp.com
www.sunpowercorp.com

[Graphic Omitted]

SunPower A-300 solar cell binning (typical data) date: 01/05/05

Bin	Jsc (mA/cm2	Voc (V)	Impp (A)	Jmpp (mA/cm2)	Vmpp (V)	Pmpp (W)	FF	Eff (%)
E	***	***	***	***	***	***	***	***
F	***	***	***	***	***	***	***	***
G	***	***	***	***	***	***	***	***
H	***	***	***	***	***	***	***	***
I	***	***	***	***	***	***	***	***
J	***	***	***	***	***	***	***	***
K	***	***	***	***	***	***	***	***

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SunPower A-300 solar cell binning (typical data) (only bin D) date: 02/18/05

Bin	Jsc (mA/cm2	Voc (V)	Impp (A)	Jmpp (mA/cm2)	Vmpp (V)	Pmpp (W)	FF	Eff (%)
D1	***	***	***	***	***	***	***	***
D2	***	***	***	***	***	***	***	***
D3	***	***	***	***	***	***	***	***
D4	***	***	***	***	***	***	***	***
D5	***	***	***	***	***	***	***	***
D6	***	***	***	***	***	***	***	***

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[SUNPOWER LOGO]
SunPower Corporation, 430 Indio Way, Sunnyvale, CA 94085

TITLE: Visual and Electrical Binning Criteria for A-300 Cells

1. PURPOSE AND SCOPE
   - 1.1. Purpose: This document describes the mechanical, cosmetic and electrical criteria for the purpose of sorting and classifying A-300 cells before shipment.
   - 1.2. Scope: This document:
     - 1.2.1. objectively defines the internal requirements for mechanical, cosmetic and electrical binning and inspection of A-300 cells.
     - 1.2.2. applies to all A-300 cells manufactured by SunPower regardless of the manufacturing location.
     - 1.2.3. includes definitions necessary to specify the defects that are acceptable and rejectable.
     - 1.2.4. does not pertain to ink pattern defects, experimental cells or dummy cells.
2. RESPONSIBILITIES
   - 2.1. R&D / Engineering is responsible for defining the criteria for visual and electrical binning in accordance with the EROS for A300 cells.
   - 2.2. Each manufacturing site must write their own visual inspection and electrical testing work instructions ensuring that the criteria in this document are followed.
3. REFERENCED DOCUMENTS
   - 3.1. 02-4001 Document Control and Records
   - 3.2. 75-0003 A-300 External Requirements Objective Specification
   - 3.3. 42-0025 Outgoing Visual Inspection procedure for SPML
4. MATERIALS AND EQUIPMENT
   - 4.1. For Visual Inspection:
     - 4.1.1. Bright tungsten halogen lighting (approx. 10,000 Lux)
     - 4.1.2. Fluorescent room lighting (approx. 500 Lux)
     - 4.1.3. Black background for inspection table(s)

4.1.4. A set of SunPower “Rosetta Cells,” marked with a “Rosetta Cell” label on the back, should be used for comparison and proper distinction between acceptable and unacceptable cells. Rosetta Cells should be arranged in the sort area such that inspectors may lay production cells next to Rosetta Cells for color comparison and defect recognition

4.1.5. A soft cosmetic brush or compressed air gun should be used to brush or blow off loosely adhered particles on the ARC side of the cells.

4.1.6. Plastic tweezers

4.1.7. Razor blade for removing metal ring

4.1.8. Thickness Gauge set to 1.1 mm.

4.2. For Electrical Testing:

4.2.1. A calibrated cell tester should be used for electrical testing.

5. SAFETY-N/A

6. OPERATING PROCEDURES AND RESPONSIBILITIES

6.1. Cell Handling

6.1.1. Cells should always be handled with plastic tweezers, gloves or finger cots. Operators should make sure that gloves are always clean. Unclean or sweaty gloves leave marks, similar to those left by a bare finger on the front ARC surface.

6.1.2. Cells should only be picked up with plastic tweezers or clean gloved hands. Conventional tweezers leave marks on the front surface. They can easily scratch the ARC side.

6.1.3. If using a soft brush to remove particles, the cell should not be brushed too hard as it can leave brush marks. Brushes should be replaced or cleaned frequently.

6.2. Cosmetic and Mechanical Binning - The following bins should be used for sorting the cells mechanically and cosmetically.

6.2.1. *** - Cells passing the *** criteria outlined in Section 9.1 for the *** bin should be grouped together. These cells will be used for modules with a ***.

6.2.2. *** - Cells passing the *** criteria outlined in Section 9.1 for the *** bin should be grouped together. These cells will be used for modules with a ***.

6.2.3. *** - Cells failing *** criteria for *** or *** bins should be grouped together. These cells will be used for customers who are insensitive to ***.

6.2.4. Scrap - Cells with through-edge chips, cracks, excessive bow, and *** as defined in Section 6.4 should be scrapped.

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6.3. Electrical Binning- 10 bins should be used for sorting the cells electrically. The bins should include

Bin Name	Current Density at 0.555V (mA/cm^2)		Current (A) at 555mV	
	Lower (≥)	Upper (<)	Lower (≥)	Upper (<)
Eff Reject	***	***	***	***
Low Eff	***	***	***	***
D	***	***	***	***
E	***	***	***	***
F	***	***	***	***
G	***	***	***	***
H	***	***	***	***
I	***	***	***	***
J	***	***	***	***
K	***	***	***	***

6.3.1. Accuracy of voltage meas. ± ***mV (variation in temperature, contact resistance)

6.3.2. Accuracy of current meas. ± ***mA/cm^2 (variation in area, simulator intensity and color)

6.3.3. Use a “log 50” method to optimize data gathering near max. power. Assure that a load voltage of ***mV is repeatedly available.

6.4. MECHANICAL INSPECTION

6.4.1. * on the edge**

6.4.1.1. If a *** around the outside edge of the wafer is visible, it should be *** off. *** can come off during module assembly and *** the cell. The *** must be *** off by holding the cell at the edge with one hand and *** the *** with the other hand.

6.4.1.2. The residual portion of the *** should be *** (if necessary) with a ***. The *** can chip the cell so extreme care must be taken while using the ***.

6.4.1.3. If *** extends more than *** mm onto the sunny side of the cell, this is considered as excessive *** and should be scrapped. (Figure 1)

Figure 1. Excessive ***

[Graphic Omitted]

6.4.2. Chipped and Cracked cells

6.4.2.1. Cells should be very carefully inspected for any chips on the edges that extend through the entire cell thickness. These through-edge chips weaken the cell and increase the chances of cell breakage during stringing and lamination. Chips are best detected by moving a gloved finger around the full perimeter of the cell.

6.4.2.2. Cells with through-edge chips should be scrapped.

6.4.2.3. Cells should also be inspected for cracks very carefully. Under bright halogen lighting and at oblique angles, cracks become visible. Cells with any form of crack should be scrapped.

6.43. Bowed cells

6.4.3.1. Bowed cells do not lie flat on a flat surface (see Figure 2).

6.4.3.2. To measure bow, set thickness gauge to *** mm. Bow is acceptable if gauge doesn’t pass through the gap on both sides. (see Figure 3)

6.4.3.3. Bow of cells can be sampled instead of ***% measured. Manufacturing may determine the sample size to ensure less than *** % of shipped cells have more than *** mm bow. Measured cells that have more than *** mm of bow should be scrapped.

Figure 2 - Bowed cell

[Graphic Omitted]

Figure 3 -Bow Measurement

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[Graphic Omitted]

6.5. DEFINITIONS FOR COSMETIC INSPECTION

6.5.1. Residual ***

6.5.1.1. After the *** removal process, there is residual *** to the edge of the cell. There are no *** or *** of ***.

6.5.2. Excessive ***

6.5.2.1. *** extending over the sunny side surface of the cell.

6.5.3. Scratches on the ARC Surface

6.5.3.1. Deep scratches appear bright white under regular room lighting.

6.5.3.2. Light scratches are not white, and are usually very thin. They are invisible or faint under regular room lighting. They become easily visible under bright halogen lighting.

6.5.4. Stains

6.5.4.1. Blurred areas, spots or streaks on the wafer caused by water, or chemicals.

6.5.4.2. Light stains are invisible or faint under regular room lighting.

6.5.4.3. Severe stains appear under regular room lighting. They are usually white in color.

6.5.5. Streaks and Haziness

6.5.5.1. Light haziness or streaks are invisible or faint under regular room lighting. They are visible under halogen lighting. It may spread across the whole front surface of the cell.

6.5.5.2. Severe haziness or streaks are visible under regular room lighting. They appear over a large area of the cell.

6.5.6. Edge Effects

6.5.6.1. There are various effects seen on cell edges. These are best inspected under regular room lighting.

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6.5.6.1.1. Whitish edges

6.5.6.1.2. Semicircular gray marks at edges

6.5.6.1.3. Shiny blue spots at edges

6.5.7. Other Effects

6.5.7.1. There are various other marks or defects seen on the cells. These are best inspected under regular room lighting.

6.5.7.1.1. *** marks along one or two sides of cells. They are roughly 0.5 cm wide and appear dark gray under regular room lighting.

6.5.7.1.2. Vacuum cup marks are circular and 1.5 cm in diameter. The circles have ‘spokes’ resembling a wheel. They are difficult to see under regular room lighting.

6.5.7.1.3. Gray, shiny blue or *** colored spots anywhere on the cell. They generally have an area of 1 - 5 mm2.

6.5.8. Tweezer Marks

6.5.8.1. Handling cells with conventional tweezers leaves marks on them. In addition, handling cells with special plastic tipped tweezers can leave marks at certain steps of the process. Tweezer marks appear as a concentrated field of flecks usually in one corner or along one edge of the wafer. Typical length is approximately l cm and width can be up to 5 mm.

6.5.8.1.1. Bright white tweezer marks appear as a composite of bright white flecks in the general shape of a tweezer tip. They are easily visible under regular room lighting.

6.5.8.1.2. Light tweezer marks are not as dense and don’t appear bright white. They are faintly visible under regular room lighting.

6.5.9. Flecks

6.5.9.1. Small flecks of *** or white-colored metal. These flecks shine when light falls on them, even after lamination. Flecks are not the same as debris which should be removed with a soft brush or a compressed air gun.

6.5.10. Color Variations The thickness and uniformity of ARC (SiN) and oxide (SiO2) coating on the cells leads to color variations. The ideal color is a deep and even dark blue. The simplest way to distinguish acceptable from unacceptable cell color is to place a production cell next to a “Rosetta Cell” against a black backsheet under halogen lighting. The color of the cell can be distinctly classified into 2 categories.

6.5.10.1. **Dark Blue** - A distinct and uniform dark navy blue color. When light falls on these cells, the color does not fade out into any other color, but instead appears dense throughout.

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6.5.10.2. **Off-Color**

6.5.10.2.1. **Light Blue** - Light blue, with no detectable grey color. Under a halogen lamp, the cell carries a dark blue color with light blue streaks.

6.5.10.2.2. **Grey** - As light falls on the cell, the color fades out into a very thin layer of light blue color, which fades out into white towards the corners of the cell. In the absence of halogen light, the cell gives an appearance of a grey color with white corners and edges.

6.5.10.2.3. **Other** - Any other color of cell.

6.5.11. Surface Chips

6.5.11.1. Areas (usually near the cell edge) where the ARC coating has chipped off. The underlying gray silicon is visible. Surface edge chips to not go through the full thickness of the cell.

6.6. COSMETIC INSPECTION CRITERIA

6.6.1. Every cell must be cosmetically inspected according to the criteria in Section 9.1 Cosmetic Inspection Criteria (except 'Bow' which may be sample inspected). Only the front (ARC) surface needs to be inspected, however, manufacturing may choose to implement a brief cosmetic check of the backside to provide feedback to earlier steps.

6.6.2. Cosmetically acceptable cells are binned as *** or *** according to the criteria below. These are used for the majority of customers.

6.6.3. Cells that fail the criteria for *** or ***, but which are not scrap should be placed in bin - ***.

6.6.4. *** cells should be disposed of or otherwise unmistakably and individually marked as ***.

6.7. ELECTRICAL TESTING

6.7.1. Three cosmetic bins (***) should all be sent through electrical test for electrical binning.

6.7.2. Cells from different cosmetic bins must be sent through electrical test separately to avoid bin mixing.

6.7.3. Cells need to be electrically tested on a calibrated cell tester after all other processes are done. The tested cells should be placed in their respective bins as defined above in section 6.3.

6.7.4. Cells will be identified as being in one of *** bins (***for cosmetic criteria and *** electrical bins).

7. RECORDS - N/A

8. POSTING SHEETS AND FORMS: - N/A

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9. APPENDIX / GENERAL INFORMATION / PROCESS MAP:

9.1. Cosmetic Inspection Criteria

Defect	Method	***	***	***	***	
Bow	O (sample)	***	***	***	***	
Through-edge Chips	O					X
Residual ***	R	No *** on edge	Residual ***			
Excessive ***	R					X
Scratches	R	Light Scratches	Light Scratches	Deep, bright white scratches		
Stains	R	Light Stains	Light Stains and up to *** severe stains less than *** mm in diameter or *** less than *** in diam.	More than *** severe stains less than 5mm in diameter or any greater than ***. in diam.		
Streaks	R	Light streaks or haziness	Light streaks or haziness	Severe streaks or haziness		
Edge Effects	R	Up to two edge spots (gray or shiny blue) < ***	Light white edges.	Severe white edges, more than two edge spots or any edge spot > ***.		
Other Effects,	R	Faint vacuum marks & *** marks / Up to *** gray or colored spots < ***	Faint vacuum marks & *** marks / Up to *** gray or colored spots < ***	Bright white vacuum or *** marks. Gray or colored spots > ***.		
Tweezer mark	R	none	Up to *** that is not bright white	bright white		
Flecks	H	Up to *** flecks after debris removal	Up to *** flecks after debris removal	More than *** flecks		
Dark Blue	H	Dark Blue Uniform Color	Dark Blue Uniform Color			
Off-Color	H		Light Blue	Gray or other color		
Surface chips	H	Up to *** surface chip ***	Up to *** surface chips, ***	*** or more chips, or any		

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		mm.	or. one chip up to ***	chip ***
Crack	H			X

Note: Rosetta cells identified by defect and classification (***) must be available at all inspection stations. `Method' refers to inspection method. R = Room lighting, H = Halogen lighting, O = Other.

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Annex 3c: product design changes

The Sunpower A-300 solar cell is a very unique product which requires specially designed production equipment. Solon already spent a lot of effort and money to develop a prototype of stringer, and in order to be capable to process the amount of cells from 200***, Solon has to invest in more equipment.

In order to protect Solon's investment, SunPower agrees to inform Solon in advance of any product change concerning product form, fit or function, and agrees not to make such changes without written approval of Solon. Solon agrees not to unreasonably withhold such approval and agrees to respond to requests for product changes within ***.

Sunpower already announced that they want to introduce ***. Solon already agrees to this product design change, up to using *** of ***. The design of the *** must remain in order to ensure, that the same type of *** can be used. However, Sunpower has to announce the first shipment of the *** at least *** weeks in advance.

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Annex 3d: Report about ***

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APPENDIX 4

Limited Power Warranty

1. SunPower warrants that if, within *** (***)***from date of delivery to Solon: (A) any Product exhibits power degradation of greater than ***% of the Minimum Peak Power as specified in SunPower's Product datasheet on the date hereof or (B) modules made by Solon using the Product exhibit an average power degradation vs. initial measured power that is greater than the average degradation vs. initial power measured on modules made by Solon using similar module materials and manufacturing processes but utilizing solar cells from other manufacturers *** (whichever is greater of (A) or (B)), then SunPower will at its option: (i) replace such loss in power (above such threshold) by either providing to Solon additional Product to make up such loss in power (above such threshold) or by providing monetary compensation equivalent to the cost of additional Product required to make up such loss in power (above such threshold); (ii) pay Solon an amount equal to the actual wholesale price of such loss in power (above such threshold) or (iii) repair or replace the defective Product; *provided however* that this limited warranty shall apply only to power degradation that is determined by SunPower (in its reasonable discretion) to be due to defects in design.

2. SunPower warrants that if, within *** (***) *** from date of delivery to Solon: (A) any Product exhibits power degradation of greater than ***% of the Minimum Peak Power as specified in SunPower's Product datasheet on the date hereof or (B) modules made by Solon using the Product exhibit an average power degradation vs. initial measured power that is greater than the average degradation vs. initial power measured on modules made by Solon using similar module materials and manufacturing processes but utilizing solar cells from other manufacturers *** (whichever is greater of (A) or (B)), then SunPower will at its option: (i) replace such loss in power (above such threshold) by either providing to Solon additional Product to make up such loss in power (above such threshold) or by providing monetary compensation equivalent to the cost of additional Product required to make up such loss in power (above such threshold); (ii) pay Solon an amount equal to the actual wholesale price of such loss in power (above such threshold) or (iii) repair or replace the defective Product; *provided however* that this limited warranty shall apply only to power degradation that is determined by SunPower (in its reasonable discretion) to be due to defects in design.

3. The limited warranties set forth herein shall be based on the average power output of all Product delivered to Solon prior to the applicable measurement date.

4. Warranty claims must in any event be filed within the applicable Warranty period.

5. The limited warranties set forth herein do not apply to any Product which in SunPower's reasonable discretion has been subjected to: misuse, abuse, neglect or accident; alteration, improper installation or application; improper module design or module misassembly; non-observance of SunPower's installation, users and/or maintenance instructions; repair or modifications by someone other than an approved service technician of SunPower; power failure surges, lightning, flood, fire, accidental breakage or other events outside SunPower's control.

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6. The limited warranties set forth herein do not cover any transportation costs for return of the Product, or for reshipment of any repaired or replaced Product, or cost associated with installation, removal or reinstallation of the Product.

7. Warranty claims will not apply if the type or serial number of the Product is altered, removed or made illegible.

8. THE LIMITED WARRANTIES SET FORTH HEREIN ARE EXPRESSLY IN LIEU OF AND EXCLUDE ALL OTHER EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY AND OF FITNESS FOR PARTICULAR PURPOSE, USE, OR APPLICATION, AND ALL OTHER OBLIGATIONS OR LIABILITIES ON THE PART OF SUNPOWER.

Exhibit 10.24

[CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION]

April 17, 2004

Supply Agreement

for the Supply of Modules

between

SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
USA

hereinafter called “SunPower”

and

Conergy AG
Anckelmannsplatz 1
20537 Hamburg
Germany

hereinafter called “Conergy”

(SunPower and Conergy are hereinafter collectively referred to as the “Parties” and individually as a “Party”)

PREAMBLE

SunPower established under the laws of the United States is a leading manufacturer for ultra-high-efficiency silicon cells. SunPower is a subsidiary of Cypress Semiconductor Corp., USA (NYSE: CY). SunPower has recently started up production of high-efficiency solar cells, intends to further increase its production capacity and has started to secure production capacity for solar modules.

Conergy is a company established under the laws of Germany with the reg. no. HRB 77717 at Amtsgericht Hamburg, Germany. Conergy is one of the leading system integrators in Europe with major activities in the German market. With its subsidiaries SunTechnics, AET and voltwerk as well as with its own brand, Conergy serves the market through distinct and well positioned brands in different sales channels.

The Parties intend to enter into cooperation to their mutual commercial benefit regarding the supply and distribution of high-efficiency solar modules, where SunPower is a supplier of solar modules to Conergy and Conergy shall purchase solar modules from SunPower.

The Parties intend to cooperate within the area of module development. Such cooperation shall have the goal of reducing the cost of PV power delivered to the consumer, focusing on PV cost related to the solar module, BOS components (such as mounting structures etc.) and energy output. It is the Parties’ intention that such cooperation shall be exclusive for the European market.

It is the Parties’ intention to extend the cooperation beyond the terms of this Agreement.

The Parties agree as follows:

QUANTITY AND PRODUCT SPECIFICATION

1. Conergy shall order and SunPower shall deliver in the years 200*** and 200*** solar modules with a total targeted nominal output of *** MWp according to the following terms and conditions:

   a. In the year 200***: *** MWp (*** Megawatts peak) of the module type(s) as set forth in "Appendix A" (hereinafter called the "200*** volume").

   b. In the year 200***: *** MWp (*** Megawatts peak) of the module type(s) as set forth in "Appendix A", and / or for module types as mutually agreed between the parties at a later date (hereinafter called the "200*** volume").

      In addition, Conergy has the option to purchase up to an additional *** MWp of the same module type(s) as set forth in "Appendix A", and / or for module types as mutually agreed between the parties at a later date, for delivery in 200*** (hereinafter called the "200*** Option"). Conergy is entitled to exercise the 200*** option fully or in part by written notification to SunPower before January 31, 200*** (hereinafter called the "200*** closing date").

   c. SunPower provides Conergy and its subsidiaries the exclusive right to market and sell all products using the A-300 solar cell within the European Union through December 31, 200***, with the following exceptions:

      i. *** with white back-sheet and rated output *** for off-grid markets

      ii. *** i.e. defined as following a) glass-glass modules b) *** with rated power *** c) *** designed for curtain wall installations only

      iii. Opto-electronics, consumer products and ***.

      iv. Modules for use in ***

      For point i ii, and iv parties agree to discuss exclusivity for the German and/or European market based on business performance at a later time. For the purposes of this agreement, the European Union is defined as countries who are full members of the EU as of March 31, 2004.

      SunPower agrees to implement reasonable and customary systems to track and identify product sold outside of the EU and transshipped to customers within the EU by 3rd parties ("grey market modules"), and to use its best efforts to resolve grey market module issues as and when they arise.

   d. Laminates (frameless modules) according to specifications in "Appendix A" will be available with a lead time specified by SunPower and with a price reduction as mutually agreed upon. If laminates are produced by SunPower and delivered to Conergy, the volume of framed modules shall be adjusted accordingly.

2. All modules delivered under section 1 above will comply with the following minimum specification:

   (i) Usage of the A-300 125 x 125 mm-cell as described in Appendix B with a cell efficiency > 20% under STC (Standard Test Conditions: 1000 W/m^2, 1.5 Am, 25° C cell temperature);

   (ii) All modules delivered will carry the label "***";

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(iii) Tolerance of actual power of -0 % (minimum factory test power of each module [3] nominal rated module output power) under Standard Test Conditions (1000 W/m^2, 1.5 Am, 25° C cell temperature) for all modules delivered;

(iv) Frame configuration mutually accepted by Conergy and SunPower in writing;

(v) Using solar glass with 4 mm thickness;

(vi) Blue and red solar Radox wire of 4 mm^2 cross sectional area and a minimum length according to Conergy's specification each using MC-III-connectors

(vii) Junction box according to IP 65 standards with height of box less than frame height;

(viii) Maximum rated system voltage of 1,000 volts and Safety-Class II certified by TÜV Rheinland for all modules delivered;

(ix) A mutually agreed set of cosmetic and other manufacturing defect criteria, (sample format shown in "Appendix C") which can be modified if both parties agree upon on the basis of a production audit in a later time.

(x) A detailed list stating all components and their specifications will be provided by SunPower before start of deliveries;

(xi) Individual output data for all modules, showing Impp, Umpp, Isc, Voc and Pmpp, will be compiled in an Excel file and sent by email which will arrive latest at the time of the modules' arrival at either Conergy's warehouse or Conergy's client. During production audit at SunPower's module factory the parties will discuss the possibilities to have the individual measurement reports in a removeable cover on the outside of each palette.

(xii) Branding, labeling and packaging of the modules and the carton as outlined in "Appendix G" will be mutually agreed upon by the parties at no additional costs other than those outlined in section 10 of this Agreement.

3. All modules delivered under this Agreement will be tested and certified under IEC 61215 and "Safety class II" of German TÜV Rheinland before start of deliveries. An extension of the certificates for each module chosen by Conergy will be provided by SunPower.

4. SunPower grants (i) an output warranty of 25 years at 80 % and 12 years at 90 % of the rated module power and (ii) a product warranty (freedom of defects in materials and workmanship) of 10 years as set forth in "Appendix D", SunPower's standard warranty statement.

5. The Parties realize that product quality is regarded as a critical factor for success in the market. The Parties thus agree to focus on this issue in order to deliver the right product to the end customer:

a. Before the start of deliveries, SunPower will provide Conergy with a copy of its calibration and module output test QA procedure. This calibration procedure shall be based on the measurements of Fraunhofer ISE, Freiburg, Germany, or on another mutually agreed primary international test laboratory.

b. SunPower will conduct a round robin test with standard modules as described in Appendix A including Fraunhofer ISE, Freiburg, German TÜV and other international test laboratories. The results of this round robin test will be shared with Conergy.

c. Quality check criteria and procedures will be developed jointly between the Parties, and implemented during production start-up in May/June 200***. SunPower shall produce and ship modules only according to agreed criteria. Conergy shall without unnecessary delay inform SunPower of any issues related to quality and transportation resulting in non-conformity of agreed specification and quality check criteria.

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TERMS OF DELIVERY AND SHIPMENTS

6. Shipments in 200*** shall be made as from July ***, 200*** until December ***, 200*** in accordance with section 1 a.

   Shipments in 200*** shall be made between January ***, 200*** and December ***, 200*** in accordance with section 1 b.

7. Monthly forecast: On the 15th of each month, a three month rolling-forecast shall be provided by Conergy to SunPower to secure the production in the said period. All quantities for the month x+1 (e.g. April if the forecast has been provided on March 1) are regarded as fixed quantities and hereinafter referred to as a firm delivery commitment if delivery of such volume is confirmed in writing by SunPower.

8. Basis of any delivery is a written call-purchase-order of Conergy sent to SunPower by fax. SunPower shall confirm the purchase order by a written fixed order acknowledgement, including volumes to be delivered and delivery dates, sent by fax (+49 6897 8106 ***) to Conergy within 5 working days after the receipt of the purchase order.

PRICES, ADJUSTMENTS AND FINANCIAL CONDITIONS

9. The price for modules supplied under this contract shall be *** €/Wp (*** Euros per watt peak) during 200*** and *** €/Wp (*** Euros per watt peak) for the 200*** volume.

10. For the 200*** Option the parties will discuss the price before the 200*** closing date (as defined under point 1 of this agreement).

11. All prices and deliveries under this Agreement will be made FCA SunPower factory located in *** with a minimum individual shipment volume of *** kWp.

12. Should at any time during the validity of this contract any competing standard module with equivalent technical specifications (e.g. > 180 watt rated power, IEC 61215, Safety class II certification, etc.) and higher gross module efficiency become commercially available on the European market, Conergy may request that SunPower reduce module price by *** €/Wp. If SunPower agrees, all other conditions of this agreement shall continue. If SunPower refuses, Conergy has the option to cancel the agreement with 180 day notice, but shall honor firm delivery commitments then in place as described in sections 8 and 9.

13. Conergy shall pay all invoices at the latest *** after the date of shipment from SunPower factory located in Germany. If payment is received by SunPower's bank within *** after the date of shipment a cash rebate of *** % of the invoice total may be taken and deducted from outstanding payments by Conergy.

PENALTIES

14. In the event of delayed shipment of more than *** calendar days beyond the shipment date confirmed by SunPower, SunPower shall pay to Conergy a penalty as follows:

    a. If the delay was communicated to Conergy at least *** prior to the confirmed shipment date, a penalty of *** Euro/Wp/*** as from shipment should have taken place until shipment takes place. The penalty on one purchase order shall in any event not exceed *** Euro/Wp (equivalent to *** penalty).

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b. If the delay is communicated less than *** but more than *** before the confirmed shipment date, the penalty shall increase to *** Euro/Wp/***. The maximum penalty shall increase correspondingly to *** Euro/Wp.

c. If the delay is communicated less than *** before the confirmed shipment date, the penalty shall increase to *** Euro/Wp/***. The maximum penalty shall increase correspondingly to *** Euro/Wp.

When determining penalties as outlined in c above, a grace period of *** shall be included to allow for delays that are proven to be caused by events and actions outside the control of SunPower (e.g. delay of trucks etc.).

Delivery of modules not complying with the mutually agreed specifications in section 2 and Appendix A shall be regarded as delayed delivery as defined in section 16a.

However if such non-compliance relates to non-critical defects Conergy can decide to be compensated by obtaining reduced prices for these modules. In this case the penalty will not apply in addition.

Any claims and payments due in subsection a-c above shall be properly documented by Conergy and may, once agreed upon between the Parties, be directly deducted by Conergy from any invoiced amount due.

15. In the event of delayed payment by more than *** days after the date at which payment is due, Conergy shall pay SunPower a late penalty as follows:

a. If Conergy pays an invoice *** after receipt of merchandise, an interest-rate of *** % for the *** will be charged separately by SunPower.

b. If Conergy pays an invoice *** after receipt of merchandise, an interest-rate of *** % for *** will be charged separately by SunPower.

c. If payment is not received by SunPower's bank within *** after the date of shipment, SunPower shall have the right to stop all further deliveries until payment has been made or the parties have agreed to an alternative resolution.

16. If the product volume delivered to Conergy in 200*** under a mutually agreed delivery schedule as defined in sections 7 and 8 is less than *** MWp Conergy will receive at the end of 200*** a price rebate of *** % for all volumes purchased to compensate its marketing efforts.

17. If (i) the original IEC and Safety class certificates as defined in point 3 are not issued before August 31, 200*** or/and (ii) the related OEM certificates are not issued before September 30, 200***, Conergy is entitled to reduce all invoices received under this Agreement by *** % as a security-discount for all delivered modules by direct reduction of amounts due. This security-discount will be paid back without unreasonable delay at the time the documents are issued.

CANCELLATION

18. If the documents as defined in point 3 are not supplied within a period of *** months after the start of delivery Conergy (i) is allowed to cancel the contract, (ii) can make all delivered modules available to the supplier at their present location, and (iii) will be credited by SunPower for the original purchase price.

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19. Before the 200*** closing date the parties agree to discuss prices and volumes for the 200*** option as defined under points 1 and 10 in order to secure the exclusivity as stated under point 1c. If (i) the 200*** option agreed by Conergy before the 200*** closing date is below *** MWp and (ii) the parties cannot agree to maintain the exclusivity of this contract on the basis of a reduced total volume for 200***, then SunPower is entitled to cancel the exclusivity of this contract with a written pre-notification of 90 days. In the event that SunPower decides to cancel exclusivity as described in points i and ii above, the parties agree that there shall be two distinct phases of such cancellation. In the first phase, SunPower may cancel Conergy's exclusive rights to sell product in ***. The parties will then negotiate in good faith a reduced 200*** option volume and/or price that Conergy must meet to preserve their exclusive sales rights within ***. In the event that the parties cannot agree on a reduced 200*** option volume or price for the *** market, SunPower may decide to cancel Conergy's exclusive sales rights within ***. In this case SunPower will be free to sell products without limitation in ***, except that SunPower agrees hereby not to sell modules of the same configuration sold to Conergy to other customers through December 31, 200***. In any case the other contract terms and conditions will continue to be valid.

20. Should Conergy determine that the (i) reputation of the supplier or (ii) commercial conditions in the market place (i.e. change of the German EEG law etc.) do not allow the marketing of modules as anticipated by this contract Conergy may request in writing to modify the minimum volume targets and prices set forth in sections 1 and 9. In this event the parties agree to negotiate in good faith a mutually acceptable modification to this agreement (i.e. adjustment of price and quantities). If a mutually acceptable contract modification cannot be reached within 30 days of Conergy's written notice, the parties agree that the contract shall be cancelled with a notice of 180 days. During this 180 day time period the provisions of the original contract shall be maintained in force. As adverse conditions covered by point (i) qualify, inter alia, prolonged technical deficiencies, quality problems (especially continued problems to fulfil the technical standards as Appendix C. As adverse conditions covered by point (ii) qualify, inter alia, the direct delivery by SunPower of PV modules covered under the exclusivity provisions of this agreement to any other customer in ***.

21. The parties understand and agree that final module power specification will be determined following sample testing at NREL, TÜV and/or Fraunhofer ISE. This testing will take place during April 200***. For a period of 10 days after the officially handout of test results from SunPower to Conergy, in the event that the resultant module power specification is considered unacceptable (e.g. average module efficiency is below *** %) by either party to fulfill the objectives of this agreement, either party may cancel the agreement by four weeks written notice.

22. SunPower agrees to grant Conergy an option with respect to continuation of exclusive sales rights stipulated in section 1c for periods beyond December ***, 200***. This option is contingent on the parties reaching mutually agreeable commercial terms for the extension of such exclusivity. The parties agree to meet on or around June ***, 200*** to discuss such extension of exclusive sales rights beyond 200***.

23. Conergy may by a ***(***) weeks written notice to SunPower unilaterally terminate this Agreement only upon one or more of the following events:

    a. SunPower fails to achieve the IEC Certification (as set forth under section 3. and 18.) within the *** month period stipulated in section 18, or

    b. SunPower fails (i) to provide Conergy with a copy of its calibration and module output test QA procedure as stipulated in section 5a prior to start of product supply, or

c. the module power rating as determined by independent laboratory testing is considered unacceptable by Conergy as stipulated in section 21.

24. The parties will aim to harmonize production and demand situation in good faith. As minimum delivery quantity the parties define in Q*** 200*** ***%, in Q*** 200*** ***%, in Q*** 200*** ***% and in Q*** 200*** ***% of the 200*** quantity, as shown in the following table under the heading "Minimum Target". If Conergy places in any one quarter orders for delivery of less than ***% of the minimum target quantity within the quarter (shown in the table below as "Threshold Volume") SunPower may unilaterally cancel Conergy's exclusivity provisions or sales rights. In this case SunPower will be free to sell products without limitation in ***, except that SunPower agrees hereby not to sell modules of the same configuration sold to Conergy to other customers through December ***, 200***. The other contract terms and conditions will continue to be valid. The parties agree to negotiate any eventual delivery schedule pertaining to the 200*** option on or around the 200*** closing date.

Delivery Period	***	***	***	***
Minimum Target	*** MW	*** MW	*** MW	*** MW
Threshold Volume	*** MW	*** MW	*** MW	*** MW

25. Cancellation of this agreement for any reason will eliminate any exclusive sales rights granted by SunPower to Conergy.

NON-DISCLOSURE

26. The parties agree to execute a mutually acceptable non-disclosure agreement governing the treatment of proprietary information before April ***, 200***.

27. Prior to the execution of the NDA referenced in section 26 and finalization of the co-branding agreement stipulated in section 29, the parties agree not to release to any 3rd parties any information relating to the existence or details of this agreement except by mutual written agreement.

OTHER REGULATIONS

28. A mutually agreeable milestone plan for product launch will be defined as outlined as Appendix E.

29. The parties will coordinate their marketing activities in the best way to promote the products of SunPower to be sold through Conergy into the European market, and agree to implement a mutually agreeable co-branding program prior to May ***, 200***.

30. Representatives

Conergy AG	SunPower
CEO: Hans-Martin Rüter	CEO: Tom Werner
Director: Thomas-Tim Sävecke	VP Sales: Peter Aschenbrenner
Purchasing: Monika Leiner	Key-Account Manager: Jörn Jürgens

31. Once a year (for the first time in April 2004) or after major quality problems have occurred, experts from Conergy will be allowed and fully supported to conduct a production audit at SunPower's module production facilities in order to (i) detect probable quality problems, (ii) define an extended minimum technical standard of products if necessary (Appendix B) and (iii) propose steps to avoid quality problems.

32. Conergy is allowed to arrange for production visits for a reasonable number of its main customers.

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33. This Agreement replaces all previous contracts, Agreements and communication between the Parties.

34. If a provision of this Agreement proves to be ineffective in full or in part, this shall not affect the validity of the other provisions. In such a case, the Parties undertake to replace the ineffective provision by an effective provision matching the economic purpose of the ineffective provision as closely as possible.

35. Force Majeure. Conergy and SunPower shall not be liable for any failures to comply with its obligations under this Agreement due to Force Majeure. By way of example, but not by way of limitation, the causes of Force Majeure could be: war, civil disturbance, fire, floods, earthquakes and any other natural event of an exceptional nature and strike as well as changes in legislation and law. A Force Majeure event must be immediately reported to the other Party and duly documented. In any case, events of Force Majeure must always be reported to the other Party in writing together with appropriate documentary evidence within 15 days of the occurrence of the event. If the Force Majeure event should continue beyond 30 days, then the Parties shall meet to agree on how to proceed or on whether to suspend or cancel the Agreement. The Parties undertake to re-establish the performance of the Agreement with all technically and economically reasonable means.

36. This Agreement shall be construed and enforced in accordance with the laws of the state of New York, USA. Any disputes arising hereunder shall be submitted to non-binding arbitration in accordance with the Arbitration rules of the International Chamber of Commerce. Arbitration will be held in London, UK and conducted in English. Prior to the institution of arbitration, a party alleging a dispute shall send a written notice to the other party describing the dispute. Within ten days of receipt of the notification, the non-alleging party shall initiate a procedure by which the managers of both parties shall, in good faith, negotiate a resolution of the dispute. If the dispute is not settled within sixty (60) days of the initial written notice, a party may initiate arbitration proceedings. Notwithstanding any provision herein, a party shall have the right to seek injunctive or other equitable relief in a court of competent jurisdiction.

Hamburg, 17.04.2004

Conergy AG

/s/ Hans-Martin Rüter

Hans-Martin Rüter, CEO

/s/ Thomas-Tim Sävecke*

Thomas-Tim Sävecke, Director

* by power of attorney

Sunnyvale, 17.04.2004

SunPower

/s/ Peter C. Aschenbrenner

Peter C. Aschenbrenner
Vice President, Sales & Marketing

APPENDIX A: Data sheet and specification

Preliminary technical specifications of SunPower 72 cell module:

Solar Cells: 72 x SunPower A-300
Strings: 6 strings of 12 cells each, laminate edge gap 16mm

Electrical specificationa

Voc:	47.9 V	preliminary
Isc:	5.6 A	preliminary
Vmp:	40.3 V	preliminary
Imp:	5.2 V	preliminary
Pmp:	210 V	preliminary
Voltage:	-1.9mV /°C	preliminary
Current:	-0.35% /°C	preliminary

Module specifications

Glass:	***, 4mm thickness
Backsheet:	*** TPE, black, 1000 V_{dc} proof
J-box:	*** Junction box, IP65, 1000 V_{dc} proof
Diodes:	3 x IR 80sq045 shottky diode
Wire:	Huber&Suhner Radox 4mm^2, length 1000mm
Connectors:	Multi-Contact type MC-KST3 and MC-KBT3
Size:	1558 x 798 x 30 mm
Frame:	*** aluminum frame (black anodized) Or mutual agreeable alternative

*** frame profile :

Weight:	about 17kg (exact weight to be determined)
Certification:	modules to be certified according to IEC61215 and SKII, 1000 Vdc
Drawings:	see next page
Graphic:	Engineering Schematic

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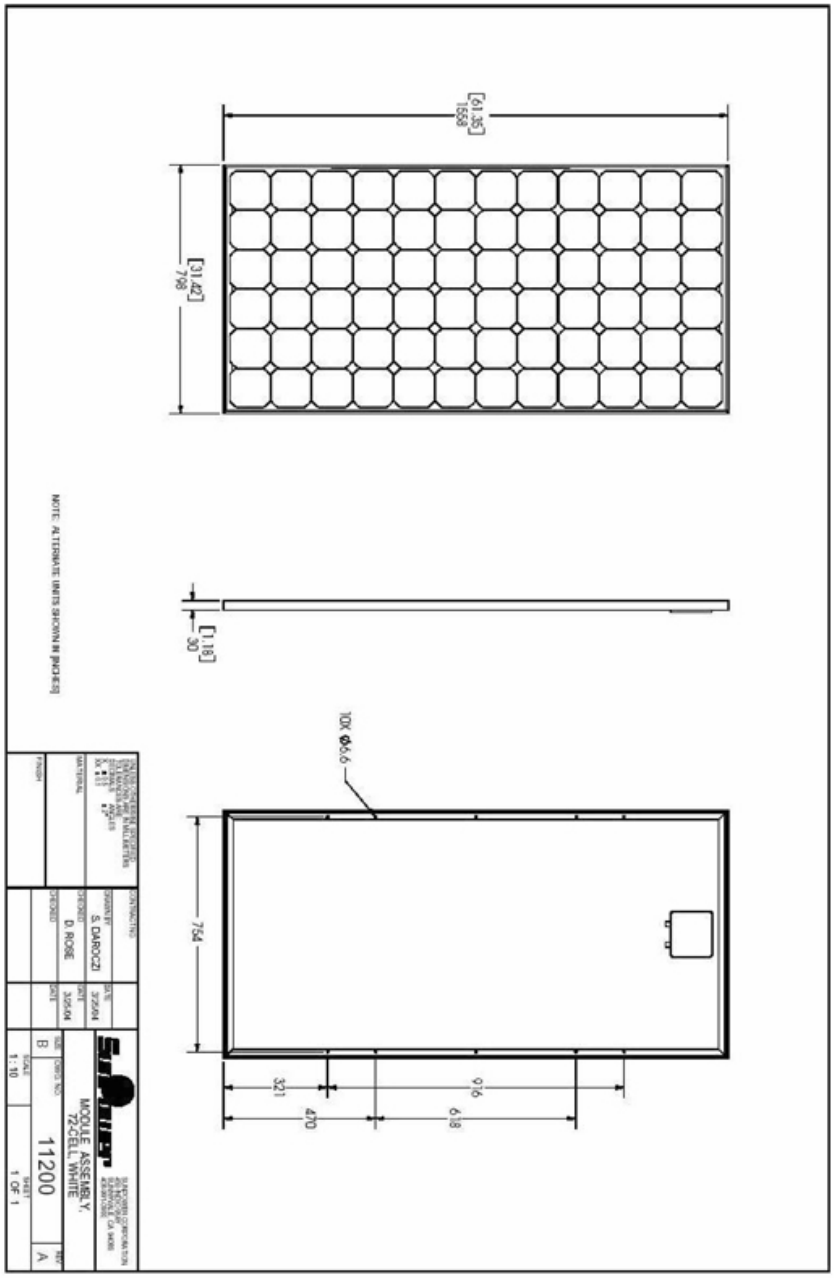
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S. CAROCZI
D. ROSE

APPENDIX B: Data sheet and specification of the A-300 solar cell

[SunPower Logo]

A-300
Single-Crystal Silicon Solar Cell

A-300 Cell Performance – Typical I-V Curve

[graph]

Voltage (V)

Cell Backside View
(Dimensions in mm)

[cell graphic]

Construction:	All-back contact	
Dimensions:	125 mm x 125 mm – normal	
Thickness:	250 µm ± 30µm	

Typical Electrical Performance

Open Circuit Voltage:		0.665 V
Short Circuit Current:	5.75 A	
Maximum Power Voltage:	.560 V	
Maximum Power Current:	5.35 A	
Rated Power:	3.0 W	
Efficiency:		20.0% minimum

Temperature Coefficients

Voltage:	-1.9 mV /ºC
Power:	-0.38 % /ºC

Attributes

- High efficiency reduces module assembly and system installation costs
- Uniform front appearance—no contact grid
- Back contact design simplifies circuit assembly
- Lower temperature coefficient improves energy delivery

Packaging

- Cells are packed in boxes of 250 each grouped in shrink-wrapped stacks of 50 with interleaving
- Ten boxes are packed in a water-resistant “Master Carton” containing 2,500 cells suitable for air transportation
- Master Cartons are permanently labeled with cell tracking information and date of manufacture

APPENDIX C: Minimum technical standard

The Parties shall jointly develop a detailed Product Qualification and Quality Reporting, and agree on the detailed description of quality standards and defects. Defects shall jointly be described and classified related to severity.

Based on the above and the production audit to be carried out by Conergy in April-2004 a detailed Product Qualification and Quality Reporting will be set up and attached to this Agreement.

Modules delivered under this Agreement will according to the minimum technical standard not be allowed to show one of the following (draft) defects.

CODE	DRAFT DESCRIPTION OF INTOLERABLE DEFECTS
A	***
B	***
C	***
D	***
E	***
F	***
G	***
H	***
I	***
J	***
K	***
N	***
O	***
P	***
R	***
S	***
T	***

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APPENDIX D: Output and Product Warranty

APPENDIX E: Action and milestone plan

See Next Page

*** * ***

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APPENDIX F: Branding and labeling

Appendix
to the
Supply Agreement
for the Supply of Modules

between

SunPower Corporation 430 Indio Way
Sunnyvale, CA 94085 USA

hereinafter called “SunPower” and

Conergy AG
Anckelmannsplatz 1 20537 Hamburg
Germany

hereinafter called “Conergy”

(SunPower and Conergy are hereinafter collectively referred to as the “Parties” and individually as a “Party”)

Further to what is set forth in the Supply Agreement dated and signed April 17, 2004 the parties agree as follows:

1. SunPower will *** in October 200*** (delivery of *** kWp until December 15, 200***) and the actual deliveries of *** kWp for the same period. Such *** will be effected by reducing the price of the first ***kW (the “compensation volume”) of product delivered in 200*** as shown below:

	200*-Price**	**Price for compensation volume (***%)**
STM 210 F	*** /Wp	*** /Wp
STM 210/5 F	*** /Wp	*** /Wp
STM 190F/5/W	*** /Wp	*** /Wp
STM 200 F	*** /Wp	*** /Wp
STM 200/5 F	*** /Wp	*** /Wp

2. The baseline delivery volume for 200*** will be *** MWp as shown in the table below. A volume is defined as delivered once it is provided to Conergy FCA SunPower’s factory in Germany. The related deliveries will take place between January and December 15, 200***. In the event that Sunpower is unable to deliver the target Q***-Q*** module volume, Conergy shall have the option of purchasing A-300 solar cells in equivalent volume at a price to be negotiated in good faith.

200* Period**	**MW Module Delivery**
Q1	***
Q2	***
Q3	***
Q4	***

3. The target volume for Q*** is *** modules. In the event that air-freighting of laminates from China is necessary to achieve this delivery volume, SunPower agrees to share ***% of the incremental air-freight expense up to a total contribution of €***.
4. The price for the baseline volume (excluding the “compensation volume” under paragraph 1) will be at *** €/ Wp.
5. The parties agree to a bi-directional price incentive relating to total 200*** volume supply. Products supplied in addition to the baseline 200*** supply volume will be invoiced at an *** cent / watt premium over the baseline price. In the event that the actual total 200*** supply volume is less than *** MW (as defined by mutually agreed accounting of 200*** product delivery) SunPower will reimburse Conergy for the

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shortfall in the form of a true-up payment to be made in January of 200***. The true-up payment may be deducted from invoices coming due in January 200***. The true-up will be calculated on the basis of *** cents per watt for each watt that the actual total 200*** product supply is less than *** MW, up to a limit of €***. The limit of €*** will not apply if the total 200*** supply quantity to Conergy is less than ***% of SunPower's actual 200*** total production volume (in module equivalent terms).

6. The attached Quality-Specification is binding for all deliveries taking place from January 01, 200***. Any module or amounts delivered being outside of such specification and/or showing either one of the non-tolerable defects will be rejected and regarded as not delivered unless Conergy has given written approval to any such deviation.
7. For all modules *** product-specification of the STM 210F, STM 200F, and STM200FW, Conergy will receive a first-pick-option on a monthly basis on a mutually acceptable pricing schedule to be defined.
8. The parties agree that modules made completely in *** may be supplied in place of modules finished in ***.
9. Conergy agrees to waive their option for an additional *** MW of product as specified in section 1b of the supply agreement.
10. Conergy and SunPower intend to negotiate in good faith to grant SunPower the exclusive rights on the complete *** rights.
11. All other stipulations of the Supply Agreement dated and signed April 17, 2004 will remain valid.

Hamburg, January 31, 2005

Conergy AG

/s/ Angiolo Laviziano
Angiolo Laviziano
Board Member

/s/ Thomas-Tim Sävecke
Thomas-Tim Sävecke
Director * by power of attorney

Hamburg, January 31, 2005

SunPower

/s/ Peter C. Aschenbrenner
Peter C. Aschenbrenner
Vice President, Sales & Marketing

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Second Appendix
to the
Supply Agreement
for the Supply of Modules

between

SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
USA

hereinafter called “SunPower”

and

Conergy AG
Anckelmannspiatz 1
20537 Hamburg
Germany

hereinafter called “Conergy”

(SunPower and Conergy are hereinafter collectively referred to as the “Parties” and individually as a “Party”)

Further to what is set forth in the Supply Agreement dated and signed April 17, 2004 and the Appendix to this Supply Agreement dated and signed February 01, 2005 the parties agree as follows:

1. From Q***-0*** onwards, SunPower will ship STM modules to Conergy in ocean freight containers on a regular basis from ***, ***. Shipments of 40’ containers will take place on a weekly basis according to the agreed Q*** shipping plan and for all further deliveries, subject to full container loads.
2. Conergy will provide purchase orders for each container shipment according to the shipping plan with showing shipping terms: “FCA ***” on the purchase order. The freight forwarder of Conergy’s choice will provide the container for loading the modules in time and pick up the container from the loading dock in China upon request of SunPower.
3. The actual baseline pricing for shipments CFA to Conergy is set at *** €/Wp for A/class and *** €/Wp for B/class modules. For compensation of the transportation cost from *** to a sea port in Europe (including insurance), a price of *** €/Wp will be deducted from the baseline price. In the following, Conergy will take over responsibility for all shipments from *** loading dock to the Conergy warehouse.

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4. The pricing mentioned in (3) is translated into the following pricing table:

Conergy pricing table Q* -200***

Modules shipped FCA *** by ocean to Conergy				***/class pricing	
actual module type	**Wp**	**price/Wp**	**price/pc**	**price/WP**	**price/pc**
STM 210 F	210	***€	***€	***€	***€
STM 200 FW	200	***€	***€	***€	***€
STM 190 FW	190	***€	***€	***€	***€
STM 210 FB	210	***€	***€	***€	***€
STM 200 F	200	***€	***€	***€	***€
STM 190 FB	190	***€	***€	***€	***€

5. Modules shipped to Conergy in 40” containers will be palletized. Each container will hold about 420 modules
6. In order to minimize shipping cost, SunPower will carry out a test shipment within Q*** in order to prove, that the method of hand stacking the container and palletizing on site at the European port will save significant cost. SunPower will organize the whole shipment and monitor the first hand stacking action for quality assurance purposes. In the case that shipping cost will be significantly reduced by this method and modules will arrive palletized at the Conergy warehouse in good shape, Conergy agrees to re-adjust pricing upon the possible change or the shipping method.
7. The original payment terms of *** shall be corrected to *** in order to accommodate the time of shipping on the water.
8. All other stipulations of the Supply Agreement dated and signed April 17, 2004 and the Appendix to this Supply Agreement dated and signed February 01, 2005 will remain valid and unchanged.

Hamburg, May 12, 2005

Conergy AG

/s/ Thomas-Tim Savecke*
Thomas-Tim Savecke
Director

* by power of attorney

/s/ Edmund Stassen
Dr. Edmund Stassen
Board

Hamburg, May 12, 2005

SunPower Corp.

/s/ Peter C. Aschenbrenner
Peter C. Aschenbrenner
Vice President, Sales & Marketing

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Exhibit 21.1

SUNPOWER CORPORATION

LIST OF SUBSIDIARIES

SunPower Manufacturing Philippines, Ltd.	**Cayman Islands**
SunPower Technology, Ltd.	**Cayman Islands**
SunPower Corporation (Switzerland) Ltd.	**Switzerland**

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Registration Statement on Form S-1 of our reports dated August 25, 2005 relating to the financial statements of SunPower Corporation, which appear in such Registration Statement. We also consent to the references to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
San Jose, California
August 25, 2005

2475 Hanover Street
Palo Alto, CA 94304-1114

Tel 650.233.4500
Fax 650.233.4545
www.pillsburylaw.com

August 25, 2005

Davina K. Kaile
dkaile@pillsburylaw.com

Via Overnight Mail

Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: SunPower Corporation
Registration Statement on Form S-1

Dear Ladies and Gentlemen:

On behalf of SunPower Corporation (the "Registrant"), transmitted herewith for filing with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), is one conformed copy of the Registrant's Registration Statement on Form S-1, together with the exhibits thereto (except for exhibits that will be filed by amendment). Manually executed signature pages and consents have been executed prior to the time of this electronic filing and will be retained by Registrant for five (5) years.

The filing fee of $13,536 has been calculated pursuant to Rule 457(o) of the General Rules and Regulations under the Act and has been sent by wire transfer to the Commission's lockbox at The Mellon Bank in Pittsburgh, Pennsylvania as required by Rule 13(c) of Regulation S-T. The wire was sent on Friday, August 19, 2005.

The representatives of the underwriters have advised us that the proposed offering will be reviewed by representatives of the National Association of Securities Dealers, Inc. (the "NASD") and that copies of the Registration Statement and Underwriting Agreement are being forwarded to the NASD.

The Registrant and the managing underwriters have authorized us to advise you that, as contemplated by Rule 461(a) under the Act, they may make oral requests for the acceleration of the Registration Statement's effectiveness and that they are aware of their respective obligations under the Act.

Please direct any questions or information regarding this filing to the undersigned at (650) 233-4564.

Very truly yours,

/s/ Davina K. Kaile

Davina K. Kaile

cc: The Nasdaq Stock Market, Inc.
Mr. Thomas Werner
Mr. Emmanuel T. Hernandez
Mr. Matthew W. Sonsini
Mr. Thomas J. Ivey