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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

Commission file number 000-51593

SunPower Corporation
(Exact name of registrant as specified in its charter)

Delaware	**94-3008969**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3939 North First Street, San Jose, California 95134
(Address of principal executive offices and zip code)

(408) 240-5500
(Registrant's telephone number, including area code)

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The total number of outstanding shares of the registrant's class A common stock as of November 2, 2007 was 39,278,279.
The total number of outstanding shares of the registrant's class B common stock as of November 2, 2007 was 44,533,287.

SunPower Corporation

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SunPower Corporation

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

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 407,177	$ 165,596
Short-term investments	58,570	16,496
Accounts receivable, net	82,794	51,680
Costs and estimated earnings in excess of billings	79,410	—
Inventories	99,940	22,780
Deferred project costs	11,474	—
Prepaid expenses and other current assets	35,667	16,655
Current portion of advances to suppliers	16,637	15,394
Total current assets	791,669	288,601
Restricted cash	29,203	—
Property, plant and equipment, net	348,189	202,428
Goodwill	179,843	2,883
Intangible assets, net	58,078	14,049
Advances to suppliers, net of current portion	94,559	62,242
Other long-term assets	35,221	6,633
Total assets	$ 1,536,762	$ 576,836
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 102,841	$ 26,534
Accounts payable to Cypress	1,881	2,909
Accrued liabilities	56,542	18,585
Billings in excess of costs and estimated earnings	19,997	—
Current portion of customer advances	8,742	12,304
Total current liabilities	190,003	60,332
Convertible debt	425,000	—
Deferred tax liability	10,393	46
Customer advances, net of current portion	61,052	27,687
Other long-term liabilities	8,717	—
Total liabilities	695,165	88,065
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.001 par value per share; 10,042,490 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value; 375,000,000 shares authorized; 84,299,860 and 69,849,369 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	84	70
Additional paid-in capital	866,968	522,819
Accumulated other comprehensive income (loss)	2,236	(2,101)
Accumulated deficit	(27,691)	(32,017)
Total stockholders' equity	841,597	488,771

Total liabilities and stockholders' equity	$ 1,536,762	$ 576,836

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

SunPower Corporation

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Revenue:				
Systems	$ 157,734	$ —	$ 340,266	$ —
Components	76,600	65,348	210,181	162,001
	234,334	65,348	550,447	162,001
Costs and expenses:				
Cost of systems revenue	135,111	—	289,095	—
Cost of components revenue	60,818	50,164	160,730	129,678
Research and development	3,902	2,536	9,659	7,120
Sales, general and administrative	27,708	6,206	76,188	15,572
Purchased in-process research and development	—	—	9,575	—
Impairment of acquisition-related intangibles	—	—	14,068	—
Total costs and expenses	227,539	58,906	559,315	152,370
Operating income (loss)	6,795	6,442	(8,868)	9,631
Interest income	4,609	3,874	8,789	7,125
Interest expense	(1,372)	(434)	(3,576)	(1,282)
Other income (expense), net	(205)	518	(448)	1,008
Income (loss) before income taxes	9,827	10,400	(4,103)	16,482
Income tax provision (benefit)	1,396	832	(8,429)	1,275
Net income	$ 8,431	$ 9,568	$ 4,326	$ 15,207
Net income per share:				
Basic	$ 0.11	$ 0.14	$ 0.06	$ 0.24
Diluted	$ 0.10	$ 0.13	$ 0.05	$ 0.22
Weighted-average shares:				
Basic	77,693	68,947	75,516	64,704
Diluted	82,610	73,899	80,526	70,080

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

SunPower Corporation

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

	Nine Months Ended	
	September 30, 2007	October 1, 2006
Cash flows from operating activities:		
Net income	$ 4,326	$ 15,207
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	17,727	11,647
Amortization of intangibles	21,408	3,526
Amortization of debt issuance costs	999	—
Impairment of acquisition-related intangibles	14,068	—
Stock-based compensation	37,197	3,706
Purchased in-process research and development	9,575	—
Gain on sale of fixed assets	—	(16)
Deferred income taxes and other tax liabilities	(10,532)	682
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	10,347	(21,569)
Costs and estimated earnings in excess of billings	(69,766)	—
Inventories	(48,028)	(12,831)
Prepaid expenses and other assets	(8,062)	(1,925)
Deferred project costs	14,637	—
Advances to suppliers	(33,560)	(19,443)
Accounts payable and other accrued liabilities	9,823	21,163

Accounts payable to Cypress	(1,029)	1,371
Billings in excess of costs and estimated earnings	(17,490)	—
Advances from customers	29,803	3,097
Net cash provided by (used in) operating activities	(18,557)	4,615
Cash flows from investing activities:		
Increase in restricted cash	(24,492)	—
Purchase of property, plant and equipment	(162,480)	(64,618)
Purchase of available-for-sale securities	(58,570)	(25,897)
Proceeds from sale of available-for-sale securities	16,496	6,000
Proceeds from sale of fixed assets	—	91
Note receivable from SP Systems	—	(10,000)
Cash paid for acquisition, net of cash acquired	(98,645)	—
Net cash used in investing activities	(327,691)	(94,424)
Cash flows from financing activities:		
Proceeds from issuance of convertible debt	425,000	—
Convertible debt issuance costs	(10,942)	—
Principal payments on line of credit and notes payable	(3,563)	—
Proceeds from issuance of common stock, net	167,379	197,431
Proceeds from exercise of stock options	6,868	2,521
Net cash provided by financing activities	584,742	199,952
Effect of exchange rate changes on cash and cash equivalents	3,087	—
Net increase in cash and cash equivalents	241,581	110,143
Cash and cash equivalents at beginning of period	165,596	143,592
Cash and cash equivalents at end of period	$ 407,177	$ 253,735
Non-cash investing and financing activities:		
Issuance of common stock for purchase acquisition	$ 111,266	—
Stock options assumed in relation to acquisition	21,280	—
Change in goodwill relating to adjustments to acquired net assets	1,798	—

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

SunPower Corporation

Notes to Condensed Consolidated Financial Statements

Note 1. The Company and Basis of Presentation

The Company

SunPower Corporation (together with its subsidiaries, the “Company” or “SunPower”), a majority-owned subsidiary of Cypress Semiconductor Corporation (“Cypress”), was originally incorporated in the State of California on April 24, 1985. In October 1988, the Company organized as a business venture to commercialize high-efficiency solar cell technologies. The Company designs, manufactures and markets high-performance solar electric power technologies. The Company’s solar cells and solar panels are manufactured using proprietary processes and technologies based on more than 15 years of research and development. The Company’s solar power products are sold through the components business segment.

On November 10, 2005, the Company reincorporated in Delaware and filed an amendment to its certificate of incorporation to effect a 1-for-2 reverse stock split of the Company’s outstanding and authorized shares of common stock. All share and per share figures presented herein have been adjusted to reflect the reverse stock split.

In November 2005, the Company raised net proceeds of $145.6 million in an initial public offering (the “IPO”) of 8.8 million shares of class A common stock at a price of $18.00 per share. In June 2006, the Company completed a follow-on public offering of 7.0 million shares of its class A common stock, at a per share price of $29.50, and received net proceeds of $197.4 million. In July 2007, the Company completed a follow-on public offering of 2.7 million shares of its class A common stock, at a discounted per share price of $64.50, and received net proceeds of $167.4 million.

In February 2007, the Company issued $200.0 million in principal amount of its 1.25% senior convertible debentures to Lehman Brothers Inc. (“Lehman Brothers”) and lent 2.9 million shares of its class A common stock to an affiliate of Lehman Brothers. Net proceeds from the issuance of senior convertible debentures in February 2007 were $194.0 million. The Company did not receive any proceeds from the 2.9 million lent shares of its class A common stock, but received a nominal lending fee (see Note 15). In July 2007, the Company issued $225.0 million in principal amount of its 0.75% senior convertible debentures to Credit Suisse Securities (USA) LLC (“Credit Suisse”) and lent 1.8 million shares of its class A common stock to an affiliate of Credit Suisse. Net proceeds from the issuance of senior convertible debentures in July 2007 were $220.1 million. The Company did not receive any proceeds from the 1.8 million lent shares of class A common stock, but received a nominal lending fee (see Note 15).

In January 2007, the Company completed the acquisition of PowerLight Corporation (“PowerLight”), a privately-held company which developed, engineered, manufactured and delivered large-scale solar power systems for residential, commercial, government and utility customers worldwide. These activities are now performed by the Company’s systems business segment. As a result of the acquisition, PowerLight became an indirect wholly owned subsidiary of the Company. In June 2007, the Company changed PowerLight’s name to SunPower Corporation, Systems (“SP Systems”), to capitalize on SunPower’s name recognition. The Company believes the acquisition will enable it to develop the next generation of solar products and solutions that will accelerate reduction in solar system cost to compete with retail electric rates without incentives and simplify and improve customer experience. The total consideration for the transaction was $334.4 million, consisting of $120.7 million in cash and $213.7 million in common stock and related acquisition costs (see Note 6).

Cypress made a significant investment in the Company in 2002. On November 9, 2004, Cypress completed a reverse triangular merger with the Company in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of the Company's then outstanding shares of capital stock but leaving its unexercised warrants and options outstanding. After completion of the Company's IPO in November 2005, Cypress held, in the aggregate, 52,033,287 shares of class B common stock. On May 4, 2007, Cypress completed the sale of 7,500,000 shares of the Company's class B common stock in an offering pursuant to Rule 144 of the Securities Act. Such shares converted to 7,500,000 shares of class A common stock upon the sale. As of September 30, 2007, including the effect of the sale completed in May 2007, the public offerings of class A common stock in June 2006 and July 2007, and issuance of senior convertible debentures in February 2007 and July 2007, Cypress owned 44,533,287 shares of the Company's class B common stock, which represented approximately 57% of the total outstanding shares of the Company's common stock, or approximately 53% of such shares on a fully diluted basis after taking into account outstanding stock options (or 50% of such shares on a fully diluted basis after taking into account outstanding stock options and loaned shares to underwriters of the Company's convertible indebtedness), and 90% of the voting power of the Company's total outstanding common stock.

The financial statements include allocations of certain Cypress expenses, including 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 consider to be a reasonable reflection 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, 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 8 for additional information on the transactions with Cypress.

As of September 30, 2007, the Company had an accumulated deficit of $27.7 million and, with the exception of fiscal 2006, the quarter ended April 1, 2007, and the quarter ended September 30, 2007, has a history of operating losses. The Company is subject to a number of risks including, but not limited to, an industry-wide shortage of polysilicon, potential downward pressure on product pricing as new polysilicon manufactures begin operating and the worldwide supply of solar cells and panels increases, the possible reduction or elimination of government and economic incentives that encourage industry growth, the challenges to reducing costs of installed solar systems by 50% by 2012 to maintain competitiveness, difficulties in maintaining or increasing the Company's growth rate and managing such growth, and accurately predicting warranty claims. Please see "PART II – OTHER INFORMATION, Item 1A. Risk Factors" for additional information on risks.

Fiscal Year

The Company reports on a fiscal-year basis and ends its quarters on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year, in which case the additional week falls into the fourth quarter of that fiscal year. Both fiscal 2006 and 2007 consist of 52 weeks. The third quarter of fiscal 2007 ended on September 30, 2007 and the third quarter of fiscal 2006 ended on October 1, 2006.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in the Company's Form 10-K for the year ended December 31, 2006 and have not changed materially as of September 30, 2007, with the exception of the following:

In connection with the acquisition of SP Systems on January 10, 2007, the following accounting policies were adopted as of the quarter ended April 1, 2007:

Revenue and Cost Recognition for Construction Contracts

The Company recognizes revenues from fixed price contracts under AICPA Statement of Position ("SOP") 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," using the percentage-of-completion method of accounting. Under this method, revenue is recognized as work is performed based on the percentage of incurred costs to estimated total forecasted costs utilizing the most recent estimates of forecasted costs.

Incurred costs include all direct material, labor, subcontract costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Job material costs are included in incurred costs when the job materials have been installed. Where contracts stipulate that title to job materials transfers to the customer before installation has been performed, revenue is deferred and recognized upon installation, in accordance with the percentage-of-completion method of accounting. Job materials are considered installed materials when they are permanently attached or fitted to the solar power system as required by the job's engineering design.

Due to inherent uncertainties in estimating cost, job costs estimates are reviewed and/or updated by management working within the systems segment. The systems segment determines the completed percentage of installed job materials at the end of each month; generally this information is also reviewed with the customer's on-site representative. The completed percentage of installed job materials is then used for each job to calculate the month-end job material costs incurred. Direct labor, subcontractor, and other costs are charged to contract costs as incurred. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable. Contracts may include profit incentives such as milestone bonuses. These profit incentives are included in the contract value when their realization is reasonably assured.

As of September 30, 2007, the asset "Costs and estimated earnings in excess of billings," which represents revenues recognized in excess of amounts billed, was $79.4 million. The liability "Billings in excess of costs and estimated earnings," which represents billings in excess of revenues recognized, was $20.0 million. Ending balances in "Costs and estimated earnings in excess of billings" and "Billings in excess of costs and estimated earnings" are highly dependent on contractual billing schedules which are not necessarily related to the timing of revenue recognition.

Cash in Restricted Accounts

As of September 30, 2007, the Company provided security for advance payments made by NorSun AS (“NorSun”) in the form of $20.0 million held in an escrow account. Commencing in 2010 and continuing through 2019, the balance in the escrow account will be reduced as the advance payments are to be applied as a credit against NorSun’s polysilicon purchases from the Company. The funds held in the escrow account may be released in exchange for letters of credit issued under the secured letter of credit facility at any time. In addition, the Company enters into various contractual agreements to build turnkey photovoltaic projects for developers in Europe, Korea and the United States. As part of the contractual agreements with the developers in Europe and Korea, the Company may receive advance payments that are secured by providing letters of credit issued by Wells Fargo Bank, National Association (“Wells Fargo”) to the developers. In certain developer contracts, the Company is required to provide construction period letters of credit to assure the developers of contract completion, for a period of approximately one year. In many cases, the Company is also asked to issue warranty period letters of credit to assure the developers that the Company will meet its warranty obligations, typically for the first two years after the project is installed. The Company issues letters of credit for such purposes through its line of credit facility with Wells Fargo. The credit agreement with Wells Fargo requires the Company to collateralize the full value of letters of credit issued under the secured letter of credit facility for such purposes with cash placed in an interest bearing restricted account with Wells Fargo. As long as the secured letters of credit are outstanding, the Company will not be able to withdraw the associated funds in the restricted account, though all interest earned on such restricted funds can be withdrawn periodically. As of September 30, 2007, outstanding secured letters of credit issued by Wells Fargo that related to contractual agreements with the developers in Europe and Korea totaled $9.2 million (see Note 14).

Deferred Project Costs

Deferred project costs represent uninstalled materials on contracts for which title had transferred to the customer and are recognized as deferred assets until installation. As of September 30, 2007, deferred project costs totaled $11.5 million.

Foreign Currency Translation

Assets and liabilities of the Company’s wholly-owned foreign subsidiaries are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchange rates prevailing during the applicable period. The resulting translation adjustment as of September 30, 2007 was a $5.4 million gain which is reflected as a component of accumulated other comprehensive income (loss) in stockholders’ equity.

Basis of Presentation

The accompanying Condensed Consolidated Interim Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. The year-end Condensed Balance Sheet data was derived from audited financial statements. Accordingly, these financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Financial Statements and Notes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2006. In the opinion of management, the accompanying Condensed Consolidated Financial Statements contain all adjustments, consisting only of normal recurring adjustments, which the Company believes are necessary for a fair statement of the Company’s financial position as of September 30, 2007 and its results of operations for the three and nine months ended September 30, 2007 and October 1, 2006, respectively. These Condensed Consolidated Financial Statements are not necessarily indicative of the results to be expected for the entire year.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, and Related Implementation Issues” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company’s financial statements in accordance with FASB 109, “Accounting for Income Taxes.” FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted FIN 48 in the first quarter of fiscal 2007 (see Note 11).

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value instruments. This statement does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this

statement is initially applied, with any transition adjustment recognized as a cumulative effect adjustment to the opening balance of retained earnings. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Company has not determined the effect, if any, the adoption of this statement will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” (“SFAS No. 159”), which provides companies an option to report selected financial assets and liabilities at fair value. SFAS No. 159 requires companies to provide information helping financial statement users to understand the effect of a company’s choice to use fair value on its earnings, as well as to display the fair value of the assets and liabilities a company has chosen to use fair value for on the face of the balance sheet. Additionally, SFAS No. 159 establishes presentation and disclosure requirements designed to simplify comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The statement is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. The Company has not determined the effect, if any, the adoption of this statement will have on its consolidated financial statements.

In September 2007, the FASB issued a proposed FASB Staff Position APB 14-a, which clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion. The proposed guidance, if issued in final form, would significantly impact the accounting for instruments commonly referred to as Instruments B and Instruments C from Emerging Issue Task Force (“EITF”) Issue No. 90-19, “Convertible Bonds with Issuer Option to Settle for Cash upon Conversion,” and any other convertible debt instruments that allow settlement in any combination of cash and shares at the issuer’s option. The proposed guidance would require the issuer to separately account for the liability and equity components of the instrument in a manner that reflects interest expense equal to the issuer’s non-convertible debt borrowing rate. The proposed guidance, if approved, would be effective for fiscal years beginning after

December 15, 2007, and retrospective application would be required for all periods presented. The proposed guidance, if issued in final form, would have a significant impact on the Company's outstanding convertible debt balance of $425.0 million (see Note 15). The Company is currently evaluating the potential impact of this proposed guidance on its results of operations and financial condition.

Note 2. Balance Sheet Components

(In thousands)	September 30, 2007	December 31, 2006
Inventories:		
Raw materials*	$ 62,101	$ 8,703
Work-in-process	2,399	79
Finished goods	35,440	13,998
	$ 99,940	$ 22,780

* Raw materials include solar panels purchased from third-party vendors, installation materials for systems projects, polysilicon and other raw materials for solar cell manufacturing as of September 30, 2007.

Prepaid expenses and other current assets:		
Deferred tax asset, current portion	$ 10,372	$ 1,446
Note receivable from SP Systems	—	10,000
VAT receivable, current portion	4,950	48
Prepaid materials	3,211	—
Unbilled earned rebates	2,666	—
Other receivables	9,673	3,556
Other prepaid expenses	4,795	1,605
	$ 35,667	$ 16,655
Property, plant and equipment, net:		
Land and buildings	$ 7,482	$ 7,304
Manufacturing equipment	164,430	120,104
Computer equipment	9,791	2,496
Furniture and fixtures	180	83
Leasehold improvements	112,245	45,175
Construction-in-process (manufacturing facility in the Philippines)	97,836	53,252
	391,964	228,414
Less: Accumulated depreciation and amortization	(43,775)	(25,986)
	$ 348,189	$ 202,428
Intangible assets:		
Patents and purchased technology	$ 51,398	$ 21,950
Tradenames	1,603	1,603
Backlog	11,787	—
Customer relationships and other	23,193	463
	87,981	24,016
Accumulated amortization of intangible assets:		
Patents and purchased technology	(17,459)	(8,973)
Tradenames	(743)	(548)
Backlog	(8,513)	—
Customer relationships and other	(3,188)	(446)
	(29,903)	(9,967)
	$ 58,078	$ 14,049

The estimated future amortization expense related to intangible assets as of September 30, 2007 is as follows:

2007 (remaining three months)	$ 6,858
2008	15,350
2009	14,740
2010	13,228
2011 and beyond	7,902
	$ 58,078

(In thousands)	September 30, 2007	December 31, 2006
Other long-term assets:		
VAT receivable, net of current portion	$ 19,731	$ —
Debt issuance costs	9,943	—
Investment in joint venture	4,560	4,994
Other	987	1,639
	$ 35,221	$ 6,633
Accrued liabilities:		

Income taxes payable	$ 10,872	$ 1,995
Employee compensation and employee benefits	9,093	3,961
Warranty reserve, current portion	8,983	3,446
Foreign exchange derivative liability	8,411	4,849
VAT payable	7,772	575
Sales tax payable	1,151	426
Other	10,260	3,333
	$ 56,542	$ 18,585
Long-term liabilities:		
Warranty reserve, net of current portion	$ 5,928	$ —
Other	2,789	—
	$ 8,717	$ —

Note 3. Investments

Cash and cash equivalents, short-term investments and restricted cash classified as available-for-sale securities were comprised of the following:

	September 30, 2007				December 31, 2006			
		Unrealized				Unrealized		
(In thousands)	**Cost**	**Gross Gains**	**Gross Losses**	**Fair Value**	**Cost**	**Gross Gains**	**Gross Losses**	**Fair Value**
Money market securities	$ 354,702	$ —	$ —	$ 354,702	$ 135,298	$ —	$ —	$ 135,298
Corporate securities	45,642	9	—	45,651	13,400	—	—	13,400
Commercial paper	65,521	1	—	65,522	28,739	—	(4)	28,735
Government sponsored agencies	5,000	1	—	5,001	—	—	—	—
Total available-for-sale securities	$ 470,865	$ 11	$ —	$ 470,876	$ 177,437	$ —	$ (4)	$ 177,433

The classification and contractual maturities of available-for-sale securities is as follows:

(In thousands)	**September 30, 2007**	**December 31, 2006**
Included in:		
Cash and cash equivalents	$ 383,264	$ 160,937
Short-term investments	58,570	16,496
Restricted cash	29,042	—
	$ 470,876	$ 177,433
Contractual maturities:		
Due in less than one year	$ 443,426	$ 164,033
Due from one to 30 years	27,450	13,400
	$ 470,876	$ 177,433

From time to time the Company invests in auction rate securities, which are bought and sold in the marketplace through a bidding process sometimes referred to as a “Dutch Auction,” and which are classified as short-term investments and carried at their

market values. After the initial issuance of the securities, the interest rate on the securities resets periodically, at intervals set at the time of issuance (e.g., every seven, twenty-eight, or thirty-five days; every six months; etc.), based on the market demand at the reset period. The “stated” or “contractual” maturities for these securities, however, generally are 20 to 30 years. Despite the long-term maturities, the Company has the ability and intent, if necessary, to liquidate any of these investments in order to meet its working capital needs within its normal operating cycles. At September 30, 2007, the Company had $27.5 million invested in auction rate securities as compared to $13.4 million invested in auction rate securities at December 31, 2006.

The Company classifies these investments as available-for-sale securities under SFAS No. 115 “Accounting for Investment in Certain Debt and Equity Securities” (“SFAS No. 115”). As these securities trade at their par values, no gains or losses are recorded in comprehensive income.

Note 4. Net Income per Share

Basic net income 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. Potentially dilutive securities include stock options, restricted stock and convertible debentures.

Holders of the Company’s senior convertible debentures may, under certain circumstances at their option, convert the senior convertible debentures into cash and, if applicable, shares of the Company’s class A common stock at the applicable conversion rate, at any time on or prior to maturity (see Note 15). Pursuant to EITF 90-19, “Convertible Bonds with Issuer Options to Settle for Cash upon Conversion,” the senior convertible debentures are included in the calculation of diluted net income per share if their inclusion is dilutive under the treasury stock method.

The following is a summary of all outstanding anti-dilutive potential common shares:

	As of	
(In thousands)	**September 30, 2007**	**October 1, 2006**
Stock options	18	74
Restricted stock	421	—
July 2007 debentures	449	—

The following table sets forth the computation of basic and diluted weighted-average common shares:

(In thousands)	Three Months Ended September 30, 2007	Three Months Ended October 1, 2006	Nine Months Ended September 30, 2007	Nine Months Ended October 1, 2006
Basic weighted-average common shares	77,693	68,947	75,516	64,704
Effect of dilutive securities:				
Stock options	3,826	4,845	4,402	5,318
Restricted stock	398	107	341	58
February 2007 debentures	693	—	267	—
Weighted-average common shares for diluted computation	82,610	73,899	80,526	70,080

Basic weighted-average common shares includes 1.1 million shares of class A common stock issued in relation to the acquisition of SP Systems which are subject to certain transfer restrictions and a repurchase option by the Company, both of which lapse semi-annually over a two-year period by one quarter of the shares every six months. In addition, basic weighted-average common shares excludes 2.9 million shares of class A common stock lent to an affiliate of Lehman Brothers in connection with the Company's issuance of $200.0 million in principal amount of its 1.25% senior convertible debentures in February 2007 and 1.8 million shares of class A common stock lent to an affiliate of Credit Suisse in connection with the Company's issuance of $225.0 million in principal amount of its 0.75% senior convertible debentures in July 2007 (see Note 15).

Dilutive potential common shares includes approximately 0.7 million and 0.3 million shares for the three and nine months ended September 30, 2007, respectively, for the impact of $200.0 million in principal amount of the Company's 1.25% senior convertible debentures issued in February 2007 as the Company has experienced a substantial increase in its common stock price. Under the treasury stock method, such senior convertible debentures will generally have a dilutive impact on net income per share if the Company's average stock price for the period exceeds the conversion price for the senior convertible debentures.

As of September 30, 2007, anti-dilutive potential common shares includes approximately 0.4 million shares for the impact of the Company's 0.75% senior convertible debentures issued in July 2007 as the Company's average stock price for the period did not exceed the conversion price for the senior convertible debentures. Therefore, such senior convertible debentures are excluded from the summary of all outstanding dilutive potential common shares.

Note 5. Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income includes unrealized gains and losses on the Company's available-for-sale investments, derivatives and cumulative translation adjustments.

The components of comprehensive income, net of tax, were as follows:

(In thousands)	Three Months Ended September 30, 2007	Three Months Ended October 1, 2006	Nine Months Ended September 30, 2007	Nine Months Ended October 1, 2006
Net income	$ 8,431	$ 9,568	$ 4,326	$ 15,207
Cumulative translation adjustment	3,498	—	5,395	—
Unrealized gain (loss) on derivatives, net of tax	(1,862)	1,326	(1,058)	(979)
Total comprehensive income	$ 10,067	$ 10,894	$ 8,663	$ 14,228

Note 6. Business Combinations

PowerLight Acquisition

On January 10, 2007, the Company completed its acquisition of PowerLight. The results of PowerLight have been included in the consolidated results of the Company from January 10, 2007. As a result of the PowerLight acquisition, all of the outstanding shares of PowerLight, and a portion of each vested option to purchase shares of PowerLight, were cancelled, and all of the outstanding options to purchase shares of PowerLight (other than the portion of each vested option that was cancelled) were assumed by the Company in exchange for aggregate consideration of (i) approximately $120.7 million in cash plus (ii) a total of 5,708,723 shares of the Company's class A common stock, inclusive of (a) 1,601,839 shares of the Company's class A common stock which may be issued upon the exercise of assumed vested and unvested PowerLight stock options, which options vest on the same schedule as the assumed PowerLight stock options, and (b) 1,145,643 shares of the Company's class A common stock issued to employees of PowerLight in connection with the acquisition which, along with 530,238 of the shares issuable upon exercise of assumed PowerLight stock options, are subject to certain transfer restrictions and a repurchase option by the Company, both of which lapse over a two-year period following the acquisition under the terms of certain equity restriction agreements. The Company under the terms of the acquisition agreement also issued an additional 204,623 shares of restricted class A common stock to certain employees of PowerLight, which shares are subject to certain transfer restrictions which will lapse over 4 years. In June 2007, the Company changed PowerLight's name to SunPower Corporation, Systems ("SP Systems"), to capitalize on SunPower's name recognition.

The total consideration related to the acquisition is as follows:

(In thousands)	Shares	Fair Value at January 10, 2007
Purchase consideration:		
Cash	—	$ 120,694
Common stock	2,961	111,266
Stock options assumed that are fully vested	618	21,280
Direct transaction costs	—	2,958
Total purchase consideration	3,579	256,198
Future stock compensation:		

Restricted stock	1,146	43,046
Stock options assumed that are unvested	984	35,126
Total future stock compensation	2,130	78,172
Total purchase consideration and future stock compensation	5,709	$ 334,370

Purchase Price Allocation

Under the purchase method of accounting, the total purchase price as shown in the table above was allocated to SP Systems' net tangible and intangible assets based on their estimated fair values as of January 10, 2007. The purchase price has been allocated based on management's best estimates. The fair value of the Company's class A common stock issued was determined based on the average closing prices for a range of trading days around the announcement date (November 15, 2006) of the transaction. The fair value of stock options assumed was estimated using the Black-Scholes model with the following assumptions: volatility of 90%, expected life ranging from 2.7 years to 6.3 years, and risk-free interest rate of 4.6%.

The allocation of the purchase price and the estimated useful lives associated with certain assets on January 10, 2007 was as follows:

(In thousands)	Amount	Estimated Useful Life
Net tangible assets	$ 13,925	n.a.
Patents and purchased technology	29,448	4 years
Tradenames	15,535	5 years
Backlog	11,787	1 year
Customer relationships	22,730	6 years
In-process research and development	9,575	n.a.
Unearned stock compensation	78,172	n.a.
Deferred tax liability	(21,964)	n.a.
Goodwill	175,162	n.a.
Total purchase consideration and future stock compensation	$ 334,370	

Net tangible assets acquired on January 10, 2007 consisted of the following:

(In thousands)	Amount
Cash and cash equivalents	$ 22,049
Restricted cash	4,711
Accounts receivable, net	40,080
Costs and estimated earnings in excess of billings	9,136
Inventories	28,146
Deferred project costs	24,932
Prepaid expenses and other assets	23,740
Total assets acquired	152,794
Accounts payable	(60,707)
Billings in excess of costs and estimated earnings	(35,887)
Other accrued expenses and liabilities	(42,275)
Total liabilities assumed	(138,869)
Net assets acquired	$ 13,925

Acquired identifiable intangible assets. The fair value attributed to purchased technology and patents was determined using the relief from royalty method, which calculated the present value of the royalty savings by applying a royalty rate of 2.5% and a discount rate of 25% to the appropriate revenue streams. The fair value of purchased technology and patents is being amortized over 4 years on a straight-line basis. Amortization expense for the three and nine months ended September 30, 2007 was as follows:

(In thousands)	Three Months Ended	Nine Months Ended
Cost of systems revenue	$ 4,787	$ 15,297
Selling, general and administrative	947	2,736
Total amortization expense	$ 5,734	$ 18,033

The fair value of tradenames was determined using the royalty savings approach method, using a royalty rate of 1% and a discount rate of 25%. The fair value of tradenames was valued at $15.5 million and ascribed a useful life of 5 years. The determination of the fair value and useful life of the tradename was based on the Company's strategy of continuing to market its systems products and services under the PowerLight brand. Based on the Company's change in branding strategy and changing PowerLight's name to

SunPower Corporation, Systems, during the quarter ended July 1, 2007, the Company recognized an impairment charge of $14.1 million, which represented the net book value of the PowerLight tradename.

The fair value attributed to customer relationships was determined using the multi-period excess earnings method with a discount rate of 22%. The fair value of customer relationships is being amortized over 6 years on a straight-line basis.

The fair value attributed to order backlog was determined using the multi-period excess earnings method with a discount rate of 20%. The fair value of order backlog is being amortized over 1 year on a straight-line basis.

In-process research and development. SP Systems' in-process research and development consisted of two components: design automation tool and tracking systems and other, which have not yet reached technological feasibility and have no alternative future uses.

Goodwill. Approximately $177.0 million had been allocated to goodwill within the systems segment, which represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets of SP Systems. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that management determines that the value of goodwill has become impaired, the Company will incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made. During the nine months ended September 30, 2007, the Company recorded an adjustment of $1.8 million to increase goodwill acquired in connection with the purchase of SP Systems on January 10, 2007. This adjustment was recorded to reflect an additional loss provision on a construction project that was contracted as of the acquisition date and which has subsequently been determined to have a larger loss than originally estimated as well as adjustments to the value of certain acquired assets and liabilities. Goodwill that resulted from the acquisition of SP Systems is not deductible for tax purposes.

Of the cash and shares issued in the acquisition, approximately $24.2 million in cash and 724,000 shares, with a total aggregate value of $84.2 million as of September 30, 2007, are being held in escrow as security for the indemnification obligations of certain former SP Systems shareholders and will be released over a period of five years ending January 10, 2012. In addition, the Company issued an additional 204,623 shares of restricted class A common stock to certain employees of SP Systems, which shares are subject to certain transfer restrictions that lapse over a period of four years ending January 10, 2011.

In conjunction with the acquisition, Cypress entered into a commitment letter with the Company during the fourth quarter of fiscal 2006 under which Cypress agreed to lend to the Company up to $130.0 million in cash to be used to facilitate the financing of the acquisition or working capital requirements. In February 2007, Cypress and the Company mutually terminated the commitment letter. No borrowings were outstanding at the termination date.

The Company accounted for its acquisition of SP Systems in accordance with SFAS No. 141, "Business Combinations" ("SFAS No. 141"). Accordingly, all intercompany receivables and payables related to SP Systems were eliminated in purchase accounting effective January 10, 2007.

Supplemental information on an unaudited pro forma basis, as if the acquisition of SP Systems were completed at the beginning of the years 2007 and 2006, is as follows:

	Three Months Ended		Nine Months Ended	
(In thousands, except per share amounts)	**September 30, 2007**	**October 1, 2006**	**September 30, 2007**	**October 1, 2006**
Revenue	$ 234,334	$ 121,076	$ 552,761	$ 278,092
Net income (loss)	$ 8,431	$ (7,671)	$ 2,218	$ (49,175)
Basic net income (loss) per share	$ 0.11	$ (0.11)	$ 0.03	$ (0.73)
Diluted net income (loss) per share	$ 0.10	$ (0.11)	$ 0.03	$ (0.73)

The unaudited pro forma supplemental information is based on estimates and assumptions, which the Company believes are reasonable. The unaudited pro forma supplemental information includes non-recurring in-process research and development charge of $9.6 million recorded in the first quarter ended April 1, 2007 and April 2, 2006. The unaudited pro forma supplemental information prepared by management is not necessarily indicative of the Condensed Consolidated Financial position or results of income in future periods or the results that actually would have been realized had the Company and SP Systems been a combined company during the specified periods.

In-Process Research and Development ("IPR&D") Charge

In connection with the acquisition of SP Systems, the Company recorded an IPR&D charge of $9.6 million in the first quarter of fiscal 2007, as technological feasibility associated with the in-process research and development projects had not been established and no alternative future use existed.

The Company identified in-process research and development projects in areas for which technological feasibility had not been established and no alternative future use existed. These in-process research and development projects consisted of two components: design automation tool and tracking systems and other. In assessing the projects, the Company considered key characteristics of the technology as well as its future prospects, the rate technology changes in the industry, product life cycles, and various projects' stage of development.

The value of in-process research and development was determined using the income approach method, which calculated the sum of the discounted future cash flows attributable to the projects once commercially viable using a 40% discount rate, which were derived from a weighted-average cost of capital analysis and adjusted to reflect the stage of completion of the projects and the level of risks associated with the projects. The percentage of completion for each project was determined by identifying the research and development expenses invested in the project as a ratio of the total estimated development costs required to bring the project to technical and commercial feasibility. The following table summarizes certain information of each significant project:

Design Automation Tool	**Stage of Completion**	**Total Cost Incurred to Date**	**Total Remaining Costs**	**Completion Date**
As of January 10, 2007 (acquisition date)	5%	$ 0.2 million	$ 2.4 million	December 2010
As of September 30, 2007	30%	$ 0.8 million	$ 1.8 million	June 2009

Tracking System and Other	**Stage of Completion**	**Total Cost Incurred to Date**	**Total Remaining Costs**	**Completion Date**
As of January 10, 2007 (acquisition date)	30%	$ 0.2 million	$ 0.6 million	July 2007
As of September 30, 2007	100%	$ 0.8 million	$ —	June 2007

Status of In-Process Research and Development Projects:

As of September 30, 2007, the Company has incurred total post-acquisition costs of approximately $0.6 million related to the design automation tool project and estimates that an additional investment of $1.8 million will be required to complete the project. The Company expects to complete the design automation tool project by June 2009, approximately one and a half years earlier than the original estimate.

During the second quarter of fiscal 2007, the Company had completed the tracking systems project and incurred total project costs of $0.8 million, of which $0.6 million was incurred after the acquisition.

The development of the design automation tool remains a significant risk due to factors including the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for new products, and competitive threats. The nature of the efforts to develop these technologies into commercially viable products consists primarily of planning, designing, experimenting, and testing activities necessary to determine that the technologies can meet market expectations, including functionality and technical requirements. Failure to bring these products to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets and could have a material adverse impact on the Company's business and operating results.

Note 7. Advances to Suppliers and Other Current Assets

The Company has entered into agreements with various polysilicon, ingot, wafer, solar cells and solar module vendors and manufacturers. These agreements specify future quantities and pricing of products to be supplied by the vendors for periods up to 13 years. Certain agreements also provide for penalties or forfeiture of advanced deposits in the event the Company terminates the arrangements (see Note 13).

Furthermore, under certain of these agreements, the Company is required to make prepayments to the vendors over the terms of the arrangements. In the third quarter of fiscal 2007, the Company paid advances totaling $15.0 million in accordance with the terms of existing supply agreements. The Company may also, from time to time, make advance payments in connection with purchases of

services and manufacturing equipment from a variety of vendors and suppliers. As of September 30, 2007, advances to suppliers totaled $111.2 million, the current portion of which is $16.6 million.

The Company's future prepayment obligations related to these agreements as of September 30, 2007 are as follows (in thousands):

2007 (remaining three months)	$	50,490
2008		58,359
2009		48,840
2010		11,100
	$	168,789

On October 4, 2007, the Company paid an additional advance of $44.9 million in accordance with the terms of existing supply agreements.

Note 8. Transactions with Cypress

Purchases of Imaging and Infrared Detector Products from Cypress

The Company purchases wafers from Cypress at intercompany prices which are consistent with Cypress' internal transfer pricing methodology. The Company is evaluating various strategic alternatives relating to its future plans for this business.

Manufacturing Services in Texas

The Company originally made its imaging and infrared detector and solar power products at its former 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 for materials and Cypress personnel to operate the facility which made the Company's pre-commercial 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.

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 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. In the case of the Philippines subsidiary, which entered into a services agreement for such secondments and other consulting services in January 2005, the Company pays the fully-burdened compensation plus 10%. Amounts paid for these services are recorded as general and administrative expenses in the accompanying statements of operations.

Leased Facility in the 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. The Company entered into a lease agreement for this facility, which expires in July 2021. Under the lease, the Company will pay Cypress at a rate equal to the cost to Cypress for that facility (including taxes, insurance, repairs and improvements) until the earlier of November 2015 or a change in control of the Company occurs, which includes such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of the Company's common stock then outstanding. Thereafter, the Company will pay market rate rent for the facility. The Company will have the right to purchase the facility from Cypress at any time at Cypress' original purchase price of approximately $8.0 million, plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to the Company, unless such purchase option is exercised after a change of control of the Company, in which case the purchase price shall be at a market rate, as reasonably determined by Cypress. The lease agreement also contains certain indemnification and exculpation provisions by the Company for the benefit of Cypress as lessor.

Leased Facility in California

On May 15, 2006, the Company entered into a lease agreement for its 43,732 square foot headquarters, which is located in a building owned by Cypress in San Jose, California, for $6.0 million over the five-year term of the lease. On July 1, 2007, the Company entered into an amendment to the lease agreement, increasing the rentable square footage and the total lease obligations to 51,228 and $6.9 million, respectively, over the five-year term of the lease. In the event Cypress decides to sell the building, the Company has the right of first refusal to purchase the building at a fair market price which will be based on comparable sales in the area.

Purchases of imaging and infrared detector products from Cypress, manufacturing services provided by Cypress in Texas, administrative services provided by Cypress and the facilities leased from Cypress in the Philippines and in California aggregated $1.6 million and $6.1 million for the three and nine months ended September 30, 2007, respectively, and $3.5 million and $9.6 million for the three and nine months ended October 1, 2006, respectively.

2005 Separation and Service Agreements

On October 6, 2005, the Company entered into a series of separation and services agreements with Cypress. Among these agreements are a master separation agreement, a sublease of the land and a lease for the building in the Philippines (see above); a three-year wafer manufacturing agreement for detector products at inter-company pricing; a three-year master transition services agreement under which Cypress would allow the Company to continue to utilize services provided by Cypress such as corporate accounting, legal, tax, information technology, human resources and treasury administration at Cypress' cost; an asset lease under which Cypress will lease certain manufacturing assets from the Company; an employee matters agreement under which the Company's employees would be allowed to continue to participate in certain Cypress health insurance and other employee benefits plans; an indemnification and insurance matters agreement; an investor rights agreement; and a tax sharing agreement. All of these agreements, except the tax sharing agreement and the manufacturing asset lease agreement, became effective at the time of completion of the Company's initial public offering in November 2005.

Master Separation Agreement

In October 2005, the Company entered into a master separation agreement containing the framework with respect to the Company's separation from Cypress. The master separation agreement provides for the execution of various ancillary agreements that further specify the terms of the separation.

Wafer Manufacturing Agreement

The Company has entered into an agreement with Cypress to continue to make infrared and imaging detector products for the Company at prices consistent with the then current Cypress transfer pricing, which is equal to the forecasted cost to Cypress to manufacture the wafers, for the earlier of the next three years or until a change in control of the Company occurs, which includes until such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of the Company common stock then outstanding, after which a new supply agreement may be negotiated or the Company and Cypress will negotiate a reasonable winding-up procedure. In addition, the Company may use other Cypress fabs for development work on a cost per activity basis.

The Company will indemnify Cypress for any liabilities that arise only to the extent that they are based on claims of infringement based on the Company's design specifications that the Company submits to Cypress for the manufacture of the Company's products. Cypress will indemnify the Company for liabilities that arise only to the extent that they are based on claims that the manufacturing, assembling, product testing or packaging process that Cypress uses for the Company's products infringes or violates upon the intellectual property rights of third parties or Cypress' unauthorized use of the Company's design specifications or proprietary information.

Master Transition Services Agreement

The Company has also entered into a master transition services agreement which would govern the provisions of services to SunPower by Cypress, such as: financial services, human resources, legal matters, training programs, and information technology.

For a period of three years following the Company's November 2005 initial public offering of 8.8 million shares of class A common stock ("IPO") or earlier if a change of control of the Company occurs, Cypress would provide these services and the Company would pay Cypress for services provided to the Company, at Cypress' 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 the Company with those services) or at the rate negotiated with Cypress. Cypress will have the ability to deny requests for services under this agreement if, among other things, the provisions of such services creates a conflict of interest, causes an adverse consequence to Cypress, requires Cypress to retain

additional employees or other resources or the provision of such services become impracticable as a result or cause outside of the control of Cypress. In addition, Cypress will incur no liability in connection with the provision of these services. The master transition services agreement also contains certain indemnification provisions by the Company for the benefit of Cypress.

Lease for Manufacturing Assets

In 2005 the Company entered into a lease with Cypress under which Cypress leases from the Company certain manufacturing assets owned by the Company and located in Cypress' Texas manufacturing facility. The term of the lease is 27 months and it expires on December 31, 2007. Under this lease, Cypress is reimbursing the Company's cost of approximately $0.7 million divided over the life of the leasehold improvements.

Employee Matters Agreement

The Company entered into an employee matters agreement with Cypress to allocate assets, liabilities and responsibilities relating to its current and former U.S. and international employees and its employees' participation in the employee benefits plans that Cypress sponsors and maintains.

The Company's eligible employees generally remain able to participate in Cypress' benefit plans, as they may change from time to time. The Company is responsible for all liabilities incurred with respect to the Cypress plans by the Company as a participating company in such plans. The Company intends to have its own benefit plans established by the time its employees no longer are eligible to participate in Cypress' benefit plans. Once the Company has established its own benefit plans, the Company will have the ability to modify or terminate each plan in accordance with the terms of those plans and the Company's policies. It is the Company's intent that employees not receive duplicate benefits as a result of participation in its benefit plans and the corresponding Cypress benefit plans.

All of the Company's eligible employees are able to continue to participate in Cypress' health plans, life insurance and other benefit plans as they may change from time to time, until the earliest of, (1) a change of control of the Company occurs, which includes such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of the Company's common stock then outstanding, (2) such time as the Company's status as a participating company under the Cypress plans is not permitted by a Cypress plan or by applicable law, (3) such time as Cypress determines in its reasonable judgment that the Company's status as a participating company under the Cypress plans has or will adversely affect Cypress, or its employees, directors, officers, agents, affiliates or its representatives, or (4) such earlier date as the Company and Cypress mutually agree. However, to avoid redundant benefits, the Company's employees will generally be precluded from participating in Cypress' stock option plans and stock purchase plans.

With respect to the Cypress 401(k) Plan, the Company is obligated to establish its own 401(k) Plan within 90 days of separation from Cypress, and Cypress will transfer all accounts in the Cypress 401(k) Plan held by the Company's employees to the Company's 401(k) Plan.

Indemnification and Insurance Matters Agreement

The Company 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 the Company's facilities, or arising out of operations occurring at any of the Company's facilities, including the California facilities, whether prior to or after the separation; existing on, under, about or in the vicinity of the Philippines facility which the Company occupies, 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 the Company; 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 by any of the Company's operations or the Company's California and Philippines facilities prior to the separation; and arising out of the construction activity conducted by or on behalf of the Company at Cypress' Texas facility.

The indemnification and insurance matters agreement and the master transition services agreement also contain provisions governing the Company's insurance coverage, which are under the Cypress insurance policies (other than the Company's directors and officers insurance, for which the Company has its own separate policy) until the earliest of (1) a change of control of the Company, which includes such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of the Company's common stock then outstanding, (2) the date on which Cypress' insurance carriers do not permit the Company to remain on Cypress policies, (3) the date on which Cypress' cost of insurance under any particular insurance policy increases, directly or indirectly, due to the Company's inclusion or participation in such policy, (4) the date on which the Company's coverage under the Cypress policies causes a real or potential conflict of interest or hardship for Cypress, as determined solely by Cypress or (5) the date

on which Cypress and the Company mutually agree to terminate this arrangement. Prior to that time, Cypress will maintain insurance policies on the Company's behalf, and the Company shall reimburse Cypress for expenses related to insurance coverage during this period. The Company will work with Cypress to secure additional insurance if desired and cost effective.

Investor Rights Agreement

The Company has entered into an investor rights agreement with Cypress providing for specified (1) registration and other rights relating to the Company's shares of the Company's common stock, (2) information and inspection rights, (3) coordination of auditing practices and (4) approval rights with respect to certain transactions.

Tax Sharing Agreement

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

After the date the Company ceases to be a member of Cypress' consolidated group for federal income tax purposes or state income tax purposes, as and to the extent that the Company becomes entitled to utilize on the Company's separate tax returns portions of those credit or loss carryforwards existing as of such date, the Company will distribute to Cypress the tax effect, estimated to be 34% for federal income tax purposes, of the amount of such tax loss carryforwards so utilized, and the amount of any credit carryforwards so utilized. The Company will distribute these amounts to Cypress in cash or in the Company's shares, at the Company's option. As of December 31, 2006, the Company has $28.0 million of federal net operating loss carryforwards and approximately $4.8 million of California net operating loss carryforwards meaning that such potential future payments to Cypress, which would be made over a period of several years, would therefore aggregate approximately $10.0 million.

Upon completion of its follow-on public offering of common stock in June 2006, the Company is no longer considered to be a member of Cypress' consolidated group for federal income tax purposes. Accordingly, the Company will be subject to the obligations payable to Cypress for any federal income tax credit or loss carryforwards utilized in its federal tax returns in subsequent periods, as explained in the preceding paragraph.

The Company will continue to be jointly and severally liable for any tax liability as governed under federal, state and local law during all periods in which it is deemed to be 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 the Company is included in Cypress' consolidated group, the Company 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 the Company's 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 ("IRS") 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 the Company's voting power or economic value is acquired as part of a plan or series of related transactions that includes the distribution of the Company's stock. The tax sharing agreement includes the Company's obligation to indemnify Cypress for any liability incurred as a result of issuances or dispositions of the Company's stock after the distribution, other than liability attributable to certain dispositions of the Company's stock by Cypress, that cause Cypress' distribution of shares of the Company's stock to its stockholders to be taxable to Cypress under Section 355(e) of the Code.

The tax sharing agreement further provides 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 the Company relating to matters covered by the tax sharing agreement are subject to resolution through specific dispute resolution provisions contained in the agreement.

Note 9. Foreign Currency Derivatives

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

As of September 30, 2007, the Company's hedge instruments consisted of foreign currency option contracts and foreign currency forward exchange contracts. The Company calculates the fair value of its option and forward contracts based on market volatilities, spot rates and interest differentials from published sources.

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), the Company accounts for its hedges of forecasted foreign currency revenues as cash flow hedges and hedges of firmly committed purchase contracts denominated in foreign currency as fair value hedges.

Cash Flow Hedges: Hedges of forecasted foreign currency denominated revenues are designated as cash flow hedges and changes in fair value of the effective portion of hedge contracts are recorded in accumulated other comprehensive income (loss) in stockholders' equity in the Condensed Consolidated Balance Sheets. Amounts deferred in accumulated other comprehensive income (loss) are reclassified into the Condensed Consolidated Statement of Operations in the periods in which the hedged exposure impacts earnings. The effective portion of unrealized gains (losses) recorded in accumulated other comprehensive income (loss), net of tax, was a $1.9 million loss and a $1.3 million gain for the three months ended September 30, 2007 and October 1, 2006, respectively, and a $1.1 million loss and a $1.0 million loss for the nine months ended September 30, 2007 and October 1, 2006, respectively. As of September 30, 2007 and December 31, 2006, the Company had outstanding cash flow hedge forward contracts with an aggregate notional value of $89.6 million. As of September 30, 2007 and December 31, 2006, the Company had outstanding cash flow hedge option contracts with an aggregate notional value of $53.2 million and $16.0 million, respectively. The maturity dates of the outstanding contracts ranged from October 2007 to July 2008.

Fair Value Hedges: On occasion, the Company commits to purchase equipment in foreign currency, predominantly Euros. When these purchases are hedged and qualify as firm commitments under SFAS No. 133, they are designated as fair value hedges and changes in the fair value of the firm commitment derivative contract are recognized in the Condensed Consolidated Statement of Operations. Under fair value hedge treatment, the changes in the firm commitment on a spot to spot basis are recorded in property and equipment, net, in the Condensed Consolidated Balance Sheet and in other income (expense), net, in the Condensed Consolidated Statement of Operations. As of September 30, 2007, the Company had no outstanding fair value hedges.

Both cash flow hedges and fair value hedges are tested for effectiveness each period on a spot to spot basis using the dollar-offset method. Both the excluded time value and any ineffectiveness, which were not significant for all periods, are recorded in other income (expense), net.

In addition, the Company began hedging the net balance sheet effect of Euro denominated assets and liabilities in 2005 primarily for Euro denominated receivables from customers, prepayments to suppliers and advances received from customers. 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. The gains or losses on these contracts are substantially offset by transaction gains or losses on the underlying balances being hedged. As of September 30, 2007 and December 31, 2006, the Company held forward contracts with an aggregate notional value of $37.2 million and $37.6 million, respectively, to hedge the risks associated with Euro foreign currency denominated assets and liabilities.

Note 10. Stock-Based Compensation

The following table summarizes the consolidated stock-based compensation expense, by type of awards:

	Three Months Ended		Nine Months Ended	
(In thousands)	**September 30, 2007**	**October 1, 2006**	**September 30, 2007**	**October 1, 2006**
Employee stock options	$ 4,183	$ 918	$ 13,776	$ 3,090

Non-employee stock options	—	—	—	304
Restricted stock	9,047	260	23,595	403
Change in stock-based compensation capitalized in inventory	134	(21)	(174)	(91)
Total stock-based compensation expense	$ 13,364	$ 1,157	$ 37,197	$ 3,706

The following table summarizes the consolidated stock-based compensation expense by line item in the Consolidated Statements of Operations:

	Three Months Ended		Nine Months Ended	
(In thousands)	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Cost of revenue	$ 3,588	$ 200	$ 9,036	$ 628
Research and development	404	336	1,253	1,019
Sales, general and administrative	9,372	621	26,908	2,059
Total stock-based compensation expense	$ 13,364	$ 1,157	$ 37,197	$ 3,706

As stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"), requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Consolidated net cash proceeds from the issuance of shares under the Company's employee stock plans were $1.9 million and $6.9 million for the three and nine months ended September 30, 2007, respectively, and $0.7 million and $2.5 million for the three and nine months ended October 1, 2006, respectively. No income tax benefit was realized from stock option exercises during the three and nine months ended September 30, 2007 and October 1, 2006. As required, the Company presents excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows.

The following table summarizes the unrecognized stock-based compensation costs by type of awards:

(In thousands, except years)	As of September 30, 2007	Weighted-Average Amortization Period (in years)
Stock options	$ 27,163	1.6
Restricted stock	30,020	3.4
Shares subject to re-vesting restrictions	26,643	1.3
Total unrecognized stock-based compensation balance	$ 83,826	

Valuation Assumptions

The Company estimates the fair value of its stock-based awards using the Black-Scholes valuation model ("Black-Scholes model"). The determination of fair value of share-based payment awards on the date of grant using the Black-Scholes model is affected by the stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

Assumptions used in the determination of fair value of share-based payment awards using the Black-Scholes model were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2007*	October 1, 2006	September 30, 2007	October 1, 2006
Expected term	6.5 years	6.5 years	6.5 years	6.5 years
Risk-free interest rate	4.61%	4.60%	4.60%	4.92%
Volatility	90%	90%	90%	92%
Dividend yield	0%	0%	0%	0%

* No stock options granted in the three months ended September 30, 2007

The Company utilizes the simplified method under the provisions of Staff Accounting Bulletin No. 107 ("SAB No. 107") for estimating expected term, instead of its historical exercise data. The Company elected not to base the expected term on historical data because of the significant difference in its status before and after the effective date of SFAS No. 123(R). The Company was a privately-held company until its IPO, and the only available liquidation event for option holders was Cypress's buyout of minority interests in November 2004. At all other times, optionees could not cash out on their vested options. From the time of the Company's IPO in November 2005 through May 2006 when lock-up restrictions expired, a majority of the optionees were unable to exercise vested options.

Because of the limited history of its stock price returns, the Company does not believe that its historical volatility would be representative of the expected volatility for its equity awards. Accordingly, the Company has chosen to use the historical volatility rates for a publicly-traded U.S.-based direct competitor to calculate the volatility for its granted options.

The interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Since the Company does not pay and does not expect to pay dividends, the expected dividend yield is zero.

Equity Incentive Program

On May 4, 2007, the Company's stockholders approved an additional increase in the number of shares available for future issuance by 925,000 shares under the Company's Amended and Restated 2005 Stock Incentive Plan under which the Company may issue restricted shares, stock appreciation rights, stock units, incentive or non-statutory stock options to purchase common stock or stock purchase rights to directors, employees and consultants. The following table summarizes the Company's stock option activities:

	Shares (in thousands)	Weighted-Average Exercise Price Per Share
Options outstanding as of December 31, 2006	4,980	$ 3.97
Options exchanged/assumed in connection with SP Systems acquisition	1,602	5.54
Exercised	(720)	2.78
Forfeited	(33)	19.13
Options outstanding as of April 1, 2007	5,829	4.47
Granted	18	56.20
Exercised	(1,153)	2.57
Forfeited	(35)	10.64
Outstanding as of July 1, 2007	4,659	5.09
Granted	—	—
Exercised	(533)	3.56
Forfeited	(11)	5.87
Outstanding as of September 30, 2007	4,115	5.29
Exercisable as of September 30, 2007	1,301	3.67

Information regarding the Company's outstanding stock options as of September 30, 2007 was as follows:

	Options Outstanding				Options Exercisable			
Range of Exercise Price	Shares (in thousands)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value (in thousands)	Shares (in thousands)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value (in thousands)
$ 0.04— 0.75	707	4.42	$ 0.32	$ 58,294	255	5.17	$ 0.50	$ 21,005
0.88— 2.66	291	7.14	2.05	23,524	91	6.91	1.97	7,358
3.30— 4.95	2,368	7.10	3.32	188,240	844	7.07	3.31	67,069
7.00— 16.20	384	7.90	8.38	28,599	79	7.90	8.39	5,883
17.00— 56.20	365	8.79	26.97	20,397	32	8.67	31.06	1,676
	4,115	6.87	5.29	$ 319,054	1,301	6.77	3.67	$ 102,991

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of $82.82 at September 30, 2007, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable was 1.3 million shares as of September 30, 2007.

The following table summarizes the Company's non-vested stock options and restricted stock activities:

	Stock Options		Restricted Stock	
	Shares (in thousands)	Weighted-Average Exercise Price Per Share	Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Share
Outstanding as of December 31, 2006	3,141	$ 4.45	229	$ 35.40
Granted	1,602	5.54	270	41.68
Vested	(993)	2.75	(8)	33.34
Forfeited	(33)	2.78	(4)	39.86
Outstanding as of April 1, 2007	3,717	5.39	487	38.89
Granted	18	56.20	335	49.88
Vested	(386)	5.71	(38)	40.09
Forfeited	(35)	2.57	(15)	43.52
Outstanding as of July 1, 2007	3,314	5.66	769	43.53
Granted	—	—	212	63.33
Vested	33	3.92	(20)	37.36
Forfeited	(533)	3.56	(62)	54.39
Outstanding as of September 30, 2007	2,814	6.04	899	47.60

Stock Unit Plan:

As of September 30, 2007, the Company has granted approximately 236,000 units to approximately 2,219 employees in the Philippines at an average unit price of $39.80 in relation to its 2005 Stock Unit Plan, under which participants are awarded the right to receive cash payments from the Company in an amount equal to the appreciation in the Company's common stock between the award date and the date the employee redeems the award. A maximum of 300,000 stock units may be subject to stock unit awards granted under the 2005 Stock Unit Plan. For the three and nine months ended September 30, 2007, total compensation expense associated with the 2005 Stock Unit Plan was $0.7 million and $1.5 million, respectively.

Note 11. Income Taxes

The Company's effective rate of income tax provision (benefit) was 14.2% and (205.4)% for the three and nine months ended September 30, 2007, respectively, and the effective rate of income tax provision was 8% for each of the three and nine months ended October 1, 2006. The tax provision (benefit) for the three and nine months ended September 30, 2007 was primarily attributable to the recognition of deferred tax assets to the extent of deferred tax liabilities as a result of the Company's acquisition of SP Systems and the effect of amortization of purchased intangible assets on deferred tax liability, partially offset by non-U.S. taxes on income earned in certain countries that was not offset by current year net operating losses in other countries. The tax provision for the three and nine months ended October 1, 2006 was attributable to non-U.S. taxes on income earned in certain countries that was not offset by current year net operating losses in other countries.

Unrecognized Tax Benefits

The Company adopted the provisions of FIN 48 on January 1, 2007. As of January 1, 2007, the total amount of unrecognized tax benefits recorded in the Condensed Consolidated Balance Sheet was approximately $1.1 million, which, if recognized, would affect the Company's effective tax rate. The additional amount of unrecognized tax benefits accrued during the nine months ended September 30, 2007 was $3.2 million. Management believes that events that could occur in the next 12 months and cause a change in unrecognized tax benefits include, but are not limited to, the following:

- completion of examinations of the Company's tax returns by the U.S. or foreign taxing authorities; and

- expiration of statute of limitations on the Company's tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Uncertainties include, but are not limited to, the impact of legislative, regulatory, and judicial developments, transfer pricing and the application of withholding taxes. Management regularly assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. Management determined that an estimate of the range of reasonably possible change in the amounts of unrecognized tax benefits within the next 12 months cannot be made.

Classification of Interest and Penalties

The Company's policy is to classify interest expense and penalty, if any, as components of income tax provision in the Condensed Consolidated Statements of Operations. No material amount has been accrued through the nine months ended September 30, 2007.

Tax Years and Examination

The following table summarizes the Company's major tax jurisdictions and the tax years that remain subject to examination by these jurisdictions as of January 1, 2007:

Tax Jurisdictions	Tax Years
United States	2003 and onward
California	2002 and onward

Additionally, while years prior to 2003 for the U.S. corporate tax return are not open for assessment, the IRS can adjust net operating loss and research and development carryovers that were generated in prior years and carried forward to 2003.

The IRS is currently conducting an audit of SP Systems' federal income tax returns for fiscal 2004 and 2005. As of September 30, 2007, no material adjustments have been proposed by the IRS. Changes to SP Systems' pre-acquisition tax liabilities, if any, would be recorded as a purchase price adjustment. Management believes that the ultimate outcome of the IRS examination will not have a material impact on the Company's financial position or results of operations.

Note 12. Segment and Geographical Information

Prior to fiscal year 2007, the Company operated in one business segment comprising the design, manufacture and sale of solar electric power products, imaging and infrared detectors based on its proprietary processes and technologies. Effective January 10, 2007, the Company operated in two business segments: systems and components. The systems segment generally represents sales directly to systems owners of engineering, procurement, construction and other services relating to solar electric power systems that integrate the Company's solar panels and balance of systems components, as well as materials sourced from other manufactures. The components segment primarily represents sales of the Company's solar cells, solar panels and inverters to solar systems installers and other resellers. In addition, the components segment includes sales of imaging and infrared detectors to OEMs. The Chief Operating Decision Maker ("CODM"), as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), assesses the performance of both operating segments using information about its revenue and gross margin.

The following tables present revenue by geography and segment, gross margin by segment, revenue by significant customer and property, plant and equipment information based on geographic region. Revenue is based on the destination of the shipments. Property, plant and equipment are based on the physical location of the assets:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Revenue by geography:				
United States	56%	34%	46%	30%
Europe:				
Spain	25%	—%	28%	—%
Germany	10%	51%	10%	51%
Other	7%	11%	12%	12%
Asia and other	2%	4%	4%	7%
	100%	100%	100%	100%

Revenue by segment:				
Systems	67%	—%	62%	—%
Components	33%	100%	38%	100%
	100%	100%	100%	100%
Gross margin by segment:				
Systems	14%	—%	15%	—%
Components	21%	23%	24%	20%

Significant Customers:

		Three Months Ended		Nine Months Ended	
Customer	**Business Segment**	**September 30, 2007**	**October 1, 2006**	**September 30, 2007**	**October 1, 2006**
MMA Renewable Ventures	Systems	30%	—%	17%	—%
SolarPack	Systems	21%	—%	21%	—%
Solon AG	Components	*	24%	10%	27%
Conergy AG	Components	*	26%	*	24%
SP Systems	Components	n.a.	19%	n.a.	16%

* denotes less than 10% during the period

(In thousands)	**September 30, 2007**	**December 31, 2006**
Property, plant and equipment by geography:		
United States	$ 13,293	$ 8,051
Philippines	334,896	192,335
China	—	2,042
	$ 348,189	$ 202,428

Note 13. Commitments and Contingencies

Operating Lease Commitments

The Company leases its San Jose, California facility under a non-cancelable operating lease from Cypress, which expires on April 30, 2011 (see Note 8). The lease also requires the Company to pay property taxes, insurance and certain other costs. The Company also leases its solar cell manufacturing facility in the Philippines from Cypress, under a lease which expires in July 2021 (see Note 8). In December 2005, the Company entered into a 5-year operating lease from an unaffiliated third party for an additional building in the Philippines. The Company also has various lease arrangements for offices in Berkeley, California which expire between 2007 and 2009, as well as for a field office in New Jersey, which expires in 2011. In December 2006, the Company (through SP Systems acquired on January 10, 2007) entered into an eleven-year lease agreement for its facility in Richmond, California, which the Company expects to occupy in the first quarter of 2008. Future minimum obligations under all non-cancelable operating leases as of September 30, 2007 are as follows (in thousands):

2007 (remaining three months)	$ 862
2008	4,205
2009	4,256
2010	4,250
2011	3,102
Thereafter	19,665
	$ 36,340

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 specifications defined by the Company, or that establish parameters defining the Company's requirements. In certain instances, these agreements allow the Company the option to cancel, reschedule or adjust the Company's requirements based on its business needs prior to firm orders being placed. Consequently, only a portion of the Company's recorded purchase commitments arising from these agreements are firm, non-cancelable and unconditional commitments.

The Company also has agreements with several suppliers of polysilicon, ingots, wafers, solar cells and solar panels and which specify future quantities and pricing of products to be supplied by the vendors for periods up to 13 years and provide for certain consequences, such as forfeiture of advanced deposits and liquidated damages relating to previous purchases, in the event that the Company terminates the arrangements (see Note 7).

At September 30, 2007, total obligations related to such supplier agreements was $2.3 billion of which $250.3 million was related to a joint venture (as discussed below). The Company's non-cancelable purchase orders related to equipment and building improvements totaled approximately $93.7 million.

Future minimum obligations under supplier agreements and non-cancelable purchase orders as of September 30, 2007 are as follows (in thousands):

2007 (remaining three months)	$ 180,581
2008	277,376
2009	431,123
2010	417,371
2011	425,659

Thereafter		678,782
	$	2,410,892

Joint Ventures

In the third quarter of fiscal 2006, the Company entered into an agreement with Woongjin Coway Co., Ltd. ("Woongjin"), a provider of environmental products located in Korea, to form Woongjin Energy Co., Ltd ("Woongjin Energy"), a joint venture to manufacture monocrystalline silicon ingots. Under the joint venture, the Company and Woongjin have funded the joint venture through capital investments. In addition, Woongjin Energy obtained a $33.0 million loan originally guaranteed by Woongjin. The

Company will supply polysilicon and technology required for the silicon ingot manufacturing to the joint venture, and the Company will procure the manufactured silicon ingots from the joint venture. Woongjin Energy began manufacturing in the third quarter of fiscal 2007, and the Company expects to purchase approximately $250.3 million of silicon ingots from Woongjin Energy under a five-year agreement.

The Company has invested $4.6 million in the joint venture comprised of a 19.9% equity investment valued at $1.3 million and a $3.3 million convertible note that is convertible at the Company's option into an additional 20.1% equity ownership in the joint venture. The Company accounted for its joint venture in Woongjin Energy using the equity method of accounting, in which the entire minority investment of $4.6 million is classified as "other long-term assets" in the Consolidated Balance Sheet and the Company's share of Woongjin Energy's losses totaling $0.2 million for the three and nine months ended September 30, 2007 is included in "other income (expense), net" in the Consolidated Statements of Operations. Neither party has contractual obligations to provide any additional funding to the joint venture.

On October 18, 2007, the Company entered into an agreement with Woongjin and Woongjin Holdings Co., Ltd. ("Woongjin Holdings"), whereby Woongjin transferred its 80.1% equity investment held in Woongjin Energy to Woongjin Holdings and Woongjin Holdings assumed all rights and obligations formerly owned by Woongjin under the joint venture agreement described above, including the $33.0 million loan guarantee.

On October 1, 2007, the Company entered into an agreement with First Philippine Electric Corporation ("First Philec") to form First Philec Solar Corporation ("First Philec Solar"), a joint venture to provide wafer slicing services of silicon ingots to the Company. The Company will have a 20.0% equity investment in the joint venture and will account for its joint venture in First Philec Solar using the equity method of accounting. This joint venture will operate in the Philippines, with silicon ingots to be supplied primarily from the Company. The Company expects to purchase an aggregate quantity of silicon wafers sufficient to support up to approximately 660 megawatts annually of solar cell manufacturing production based on the Company's expected silicon utilization through the five-year wafering supply and sales agreement, which is anticipated to begin in the second half of 2008 when First Philec Solar's proposed manufacturing capacity is expected to become operational.

The Company is currently reviewing the qualitative and quantitative attributes of its joint ventures that are in the development stage to determine whether they will need to be consolidated in the Company's financial statements in the future.

Product Warranties

The Company warrants or guarantees the performance of its solar panels at certain levels of power output for extended periods, usually 25 years. It also warrants that the solar cells will be free from defects for at least ten years. 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. Warranty charges were $1.4 million and $7.0 million during the three and nine months ended September 30, 2007, respectively, and $0.8 million and $2.3 million during the three and nine months ended October 1, 2006, respectively.

The Company generally provides warranty on systems for a period of five years. The Company's estimated warranty cost for each project is accrued and the related costs are charged against the warranty accrual when incurred. It is not possible to predict the maximum potential amount of future warranty-related expenses under these or similar contracts due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular contract. Historically, warranty costs related to contracts have been within management's expectations.

The following summarizes activity within accrued warranty:

(In thousands)	Three Months Ended September 30, 2007	Three Months Ended October 1, 2006	Nine Months Ended September 30, 2007	Nine Months Ended October 1, 2006
Balance at beginning of the period	$ 14,314	$ 1,988	$ 3,446	$ 574
SP Systems accrued balance at date of acquisition	—	—	6,542	—
Accruals for warranties during the period	1,373	750	6,961	2,327
Settlements made during the period	(776)	—	(2,038)	(163)
Balance at the end of the period	$ 14,911	$ 2,738	$ 14,911	$ 2,738

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 the Company pursuant to the procedures specified in the particular contract. These procedures usually allow the Company to challenge the other party's claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third-party claims brought against the other party. Further, the Company's obligations under these agreements may be limited in terms of activity (typically to replace or correct the products or terminate the agreement with a refund to the other party), duration and/or amounts. In some instances, the Company may have recourse against third parties and/or insurance covering certain payments made by the Company.

Note 14. Line of Credit

On December 2, 2005, the Company entered into a $25.0 million three-year revolving credit facility (the "Facility") with affiliates of Credit Suisse and Lehman Brothers. The Facility was collateralized by substantially all of the Company's assets, including the stock of its foreign subsidiaries. Borrowings under the Facility were conditioned upon customary conditions as well as (1) with respect to the first $10.0 million drawn on the Facility, maintenance of cash collateral to the extent of outstanding borrowings (excluding amounts borrowed), and (2) with respect to the remaining $15.0 million of the Facility, satisfaction of a coverage test which was based on the ratio of the Company's cash flow to capital expenditures. There were no borrowings ever made under the Facility. The Company terminated its agreement with affiliates of Credit Suisse and Lehman Brothers on July 13, 2007.

In connection with the SP Systems acquisition on January 10, 2007, the Company assumed a line of credit SP Systems had with Union Bank of California, N.A. ("UBOC") with an outstanding balance of approximately $3.6 million. During the first quarter of fiscal 2007, the Company paid off the outstanding balance in full.

On January 10, 2007, the Company amended and restated the loan agreement with UBOC. The amended and restated loan agreement provided for a $10.0 million trade finance credit facility, which was scheduled to expire on April 30, 2007. This facility allowed the Company to issue commercial and standby letters of credit, but did not provide for any loans. All of the assets of SP Systems secured this trade finance facility. In addition, the agreement required that SP Systems maintain cash equal to the value of letters of credit outstanding in restricted accounts as collateral for letters of credit issued by the bank. On April 27, 2007, the Company through SP Systems entered into an amendment to the loan agreement to, among other things, extend the maturity date to July 31, 2007, and remove the requirement to have cash collateral for letters of credit. The Company guaranteed $10.5 million in connection with the April 27, 2007 amendment including the $10 million trade credit facility and a separate $0.5 million credit card facility through UBOC. The Company's line of credit with UBOC expired on July 31, 2007.

On July 13, 2007, the Company entered into a credit agreement with Wells Fargo that replaced the credit lines with Credit Suisse, Lehman Brothers, and UBOC. On August 20, 2007, the Company entered into an amendment to the credit agreement. As amended, the credit agreement provides for a $50.0 million unsecured revolving credit line, with a $40.0 million unsecured letter of credit subfeature, and a separate $50.0 million secured letter of credit facility. The Company may borrow up to $50.0 million and request that Wells Fargo issue up to $40.0 million in letters of credit under the unsecured letter of credit subfeature through July 31, 2008. Letters of credit issued under the subfeature reduce the Company's borrowing capacity under the revolving credit line. The Company may request that Wells Fargo issue up to $50.0 million in letters of credit under the secured letter of credit facility through July 31, 2012. As detailed in the agreement, the Company will pay interest on outstanding borrowings and a fee for outstanding letters of credit. The Company has the ability at any time to prepay outstanding loans. All borrowings must be repaid by July 31, 2008, and all letters of credit issued under the unsecured letter of credit subfeature shall expire on or before July 31, 2008 unless the Company provides by such date collateral in the form of cash or cash equivalents in the aggregate amount available to be drawn under letters of credit outstanding at such time. All letters of credit issued under the secured letter of credit facility shall expire no later than July 31, 2012. The Company concurrently entered into a security agreement with Wells Fargo, granting a security interest in a deposit account to secure its obligations in connection with any letters of credit that might be issued under the credit agreement. In connection with the credit agreement, SunPower North America, Inc., a wholly-owned subsidiary of the Company, and SP Systems, another wholly-owned subsidiary of the Company, entered into an associated continuing guaranty with Wells Fargo. The terms of the credit agreement include certain conditions to borrowings, representations and covenants, and events of default customary for financing transactions of this type.

As of September 30, 2007, one letter of credit totaling $20.0 million was issued by Wells Fargo under the unsecured letter of credit subfeature and five letters of credit totaling $9.2 million were issued by Wells Fargo under the secured letter of credit facility.

On September 30, 2007, cash available to be borrowed under the unsecured revolving credit line was $30.0 million and letter of credit capacities available to be issued by Wells Fargo under the unsecured letter of credit subfeature and secured letter of credit facility were $20.0 million and $40.8 million, respectively.

Note 15. Senior Convertible Debentures and Share Loan Arrangements

February 2007 Debt Issuance

In February 2007, the Company issued $200.0 million in principal amount of its 1.25% senior convertible debentures (the "February 2007 Debentures"). Interest on the February 2007 Debentures will be payable on February 15 and August 15 of each year, commencing August 15, 2007. The February 2007 Debentures will mature on February 15, 2027. Holders may require the Company to repurchase all or a portion of their February 2007 Debentures on each of February 15, 2012, February 15, 2017 and February 15, 2022, or if the Company experiences certain types of corporate transactions constituting a fundamental change. In addition, the Company may redeem some or all of the February 2007 Debentures on or after February 15, 2012. The February 2007 Debentures are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value is greater than $1,000, then the excess conversion value will be convertible into common stock. The initial effective conversion price of the February 2007 Debentures is approximately $56.75 per share, which represents a premium of 27.5% to the closing price of the SunPower common stock on the date of issuance. The applicable conversion rate will be subject to customary adjustments in certain circumstances.

The February 2007 Debentures are senior, unsecured obligations of the Company, ranking equally with all existing and future senior unsecured indebtedness of the Company. The February 2007 Debentures are effectively subordinated to the Company's secured indebtedness to the extent of the value of the related collateral and structurally subordinated to indebtedness and other liabilities of the Company's subsidiaries. The February 2007 Debentures do not contain any covenants or sinking fund requirements.

July 2007 Debt Issuance

In July 2007, the Company issued $225.0 million in principal amount of its 0.75% senior convertible debentures (the “July 2007 Debentures”). Interest on the July 2007 Debentures will be payable on February 1 and August 1 of each year, commencing February 1, 2008. The July 2007 Debentures will mature on August 1, 2027. Holders may require the Company to repurchase all or a portion of their July 2007 Debentures on each of August 1, 2010, August 1, 2015, August 1, 2020, and August 1, 2025, or if the Company is involved in certain types of corporate transactions constituting a fundamental change. In addition, the Company may redeem some or all of the July 2007 Debentures on or after August 1, 2010. The July 2007 Debentures are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value is greater than $1,000, then the excess conversion value will be convertible into cash, common stock or a combination of cash and common stock, at the Company’s election. The initial effective conversion price of the February 2007 Debentures is approximately $82.24 per share, which represents a premium of 27.5% to the closing price of the SunPower common stock on the date of issuance. The applicable conversion rate will be subject to customary adjustments in certain circumstances.

The July 2007 Debentures are senior, unsecured obligations of the Company, ranking equally with all existing and future senior unsecured indebtedness of the Company. The July 2007 Debentures are effectively subordinated to the Company’s secured indebtedness to the extent of the value of the related collateral, and structurally subordinated to indebtedness and other liabilities of the Company’s subsidiaries. The July 2007 Debentures do not contain any covenants or sinking fund requirements.

February 2007 Amended and Restated Share Loan Arrangement

Concurrent with the offering of the February 2007 Debentures, the Company lent 2.9 million shares of its class A common stock, all of which are being borrowed by an affiliate of Lehman Brothers Inc. (“LBIE”), one of the underwriters of the February 2007 Debentures. The lent shares are to be used to facilitate the establishment by investors in the February 2007 Debentures and July 2007 Debentures of hedged positions in the Company’s class A common stock. Under the share lending agreement, LBIE has the ability to offer any of the 1.0 million shares that remain in LBIE’s possession to facilitate hedging arrangements for subsequent purchasers of both the February 2007 Debentures and July 2007 Debentures and, with the Company’s consent, purchasers of securities the Company may issue in the future. The Company did not receive any proceeds from that offering of class A common stock, but received a nominal lending fee of $0.001 per share for each share of common stock that is loaned pursuant to the share lending agreement described below.

Share loans under the share lending agreement will terminate and the borrowed shares must be returned to the Company under the following circumstances: (i) LBIE may terminate all or any portion of a loan at any time; (ii) the Company may terminate any or all of the outstanding loans upon a default by LBIE under the share lending agreement, including a breach by LBIE of any of its

representations and warranties, covenants or agreements under the share lending agreement, or the bankruptcy of LBIE; or (iii) if the Company enters into a merger or similar business combination transaction with an unaffiliated third party (as defined in the agreement), all outstanding loans will terminate on the effective date of such event. In addition, LBIE has agreed to return to the Company any borrowed shares in its possession on the date anticipated to be five business days before the closing of certain merger or similar business combinations described in the share lending agreement.

Any shares loaned to LBIE will be issued and outstanding for corporate law purposes and, accordingly, the holders of the borrowed shares will have all of the rights of a holder of the Company’s outstanding shares, including the right to vote the shares on all matters submitted to a vote of the Company’s stockholders and the right to receive any dividends or other distributions that the Company may pay or make on its outstanding shares of class A common stock.

While the share lending agreement does not require cash payment upon return of the shares, physical settlement is required (i.e., the loaned shares must be returned at the end of the arrangement). In view of this and the contractual undertakings of LBIE in the share lending agreement, which have the effect of substantially eliminating the economic dilution that otherwise would result from the issuance of the borrowed shares, the Company believes that under generally accepted accounting principles of the United States, the borrowed shares will not be considered outstanding for the purpose of computing and reporting earnings per share. Notwithstanding the foregoing, the shares will nonetheless be issued and outstanding and will be eligible for trading on The Nasdaq Global Market.

July 2007 Share Loan Arrangement

Concurrent with the offering of July 2007 Debentures, the Company lent 1.8 million shares of its class A common stock, all of which are being borrowed by an affiliate of Credit Suisse Securities (USA) LLC (“CSI”), one of the underwriters of the July 2007 Debentures. The Company did not receive any proceeds from that offering of class A common stock, but received a nominal lending fee of $0.001 per share for each share of common stock that is loaned pursuant to the share lending agreement described below.

Share loans under the share lending agreement will terminate and the borrowed shares must be returned to the Company under the following circumstances: (i) CSI may terminate all or any portion of a loan at any time; (ii) the Company may terminate any or all of the outstanding loans upon a default by CSI under the share lending agreement, including a breach by CSI of any of its representations and warranties, covenants or agreements under the share lending agreement, or the bankruptcy of CSI; or (iii) if the Company enters into a merger or similar business combination transaction with an unaffiliated third party (as defined in the agreement), all outstanding loans will terminate on the effective date of such event. In addition, CSI has agreed to return to the Company any borrowed shares in its possession on the date anticipated to be five business days before the closing of certain merger or similar business combinations described in the share lending agreement. Except in limited circumstances, any such shares returned to the Company cannot be reborrowed.

Any shares loaned to CSI will be issued and outstanding for corporate law purposes and, accordingly, the holders of the borrowed shares will have all of the rights of a holder of the Company’s outstanding shares, including the right to vote the shares on all matters submitted to a vote of the Company’s stockholders and the right to receive any dividends or other distributions that the Company may pay or make on its outstanding shares of class A common stock.

While the share lending agreement does not require cash payment upon return of the shares, physical settlement is required (i.e., the loaned shares must be returned at the end of the arrangement). In view of this and the contractual undertakings of CSI in the share lending agreement, which have the effect of substantially eliminating the economic dilution that otherwise would result from the issuance of the borrowed shares, the Company believes that under generally accepted accounting principles of the United States, the borrowed shares will not be considered outstanding for the purpose of computing and reporting earnings per share. Notwithstanding the foregoing, the shares will nonetheless be issued and outstanding and will be eligible for trading on The Nasdaq Global Market.

Note 16. Subsequent Events

Joint Venture Agreement with First Philippine Electric Corporation

On October 1, 2007, the Company entered into an agreement with First Philec to form First Philec Solar, a joint venture to provide wafer slicing services of silicon ingots to the Company. The Company will have a 20.0% equity investment in the joint venture and will account for its joint venture in First Philec Solar using the equity method of accounting. This joint venture will operate in the Philippines, with silicon ingots to be supplied primarily from the Company. The Company expects to purchase an aggregate quantity of silicon wafers sufficient to support up to approximately 660 megawatts annually of solar cell manufacturing production based on the Company's expected silicon utilization through the five-year wafering supply and sales agreement, which is anticipated to begin in the second half of 2008 when First Philec Solar's proposed manufacturing capacity is expected to become operational (see Note 13).

Advances to Suppliers

On October 4, 2007, the Company paid an additional advance of $44.9 million in accordance with the terms of existing supply agreements (see Note 7).

Engineering, Procurement and Construction Agreement with Sedwick Corporate, S.L.

On October 10, 2007, the Company entered into an Engineering, Procurement and Construction Agreement with Sedwick Corporate, S.L. Under the terms of the agreement, the Company will design and construct a solar photovoltaic plant representing approximately 18 megawatts peak power in the municipality of Olivenza (Badajoz) Spain.

Joint Venture Agreement with Woongjin Holdings Co., Ltd.

On October 18, 2007, the Company entered into an agreement with Woongjin and Woongjin Holdings, whereby Woongjin transferred its 80.1% equity investment held in Woongjin Energy to Woongjin Holdings and Woongjin Holdings assumed all rights and obligations formerly owned by Woongjin under the joint venture agreement (see Note 13).

Engineering, Procurement and Construction Agreements with Corporate Affiliates of The Naturener Group

On November 6, 2007, the Company entered into Engineering, Procurement and Construction Agreements with Naturener Solar Tinajeros, S.L.U, Moralas Renovables, S.L. and Almuradiel Solar, S.L., each of which are corporate affiliates of The Naturener Group. Under the terms of the agreements, the Company will design and construct three solar photovoltaic plants representing a combined total of approximately 21 megawatts peak power in the Castilla La Mancha region of Spain. The agreements also include, to various degrees, termination rights in favor of either party in the event certain of the following conditions precedent are not met by specified deadlines: receipt of confirmation of the availability of bank financing, receipt of necessary permits, licenses or other governmental approvals, receipt of satisfactory final site reports, and/or the confirmation and review of technical specifications.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements that do not represent historical facts. We use words such as ""may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," and "continue" and similar expressions to identify forward-looking statements. Forward-looking statements in this press release include, but are not limited to, the company's plans and expectations regarding our ability to obtain polysilicon ingots or wafers, future financial results, operating results, business strategies, projected costs, products, competitive positions, management's plans and objectives for future operations, and industry trends. These forward-looking statements are based on information available to us as of the date of this release and current expectations, forecasts and assumptions and involve a number of risks and uncertainties that could cause actual results to differ materially from those anticipated by these forward-looking statements. Such risks and uncertainties include a variety of factors, some of which are beyond our control. Please see "PART II. OTHER INFORMATION, Item 1A. Risk Factors" for additional information on risks and our other filings with the Securities and Exchange Commission. These forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we are under no obligation to, and expressly disclaim any responsibility to, update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

The following information should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. Our fiscal quarters end on the Sunday closest to the end of the applicable calendar quarter. All references to fiscal periods apply to our fiscal quarters or year which ends on the Sunday closest to the calendar month end.

Overview

We design, manufacture and market high-performance solar electric power technologies. Our solar cells and solar panels are manufactured using proprietary processes and technologies based on more than 15 years of research and development. We believe our solar cells have the highest conversion efficiency, a measurement of the amount of sunlight converted by the solar cell into electricity, of all the solar cells available for the mass market. Our solar power products are sold through our components business segment, or our components segment. In January 2007, we acquired SP Systems, which developed, engineered, manufactured and delivered large-scale solar power systems. These activities are now performed by our systems business segment, or our systems segment. Our solar power systems, which generate electric energy, integrate solar cells and panels manufactured by us as well as other suppliers.

Components segment: Our components segment sells solar power products, including solar cells, solar panels and inverters, which convert sunlight to electricity compatible with the utility network. 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 that 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 sell our solar components products to installers and resellers for use in residential and commercial applications where the high efficiency and superior aesthetics of our solar power products provide compelling customer benefits. We also sell products for use in multi-megawatt solar power plant applications. In many situations, we offer a materially lower area-related cost structure for our customers because our solar panels require a substantially smaller land area than conventional solar technology and half or less of the land area of commercial solar thin film technologies. We sell our products in countries in Europe, Asia and North America, principally in regions where government incentives have accelerated solar power adoption.

We manufacture our solar cells at our manufacturing facilities in the Philippines. We currently operate four cell manufacturing lines in our first solar cell manufacturing facility, with a total rated manufacturing capacity of approximately 108 megawatts per year. In addition, we recently began operating the first two lines in a second solar cell manufacturing facility in the Philippines, which is designed to house up to twelve manufacturing lines. We expect three manufacturing lines in this new facility to be operational by the end of 2007, resulting in a total of seven manufacturing lines with an aggregate production capacity of 214 megawatts per year. By the end of 2008, we plan to operate 12 solar cell manufacturing lines with an aggregate manufacturing capacity of 306 megawatts per year. We have previously announced plans to begin production as soon as late 2009 on the first line of a third solar cell manufacturing facility designed to have an aggregate manufacturing capacity of 500 megawatts per year.

We manufacture our solar panels at our automated panel manufacturing factory located in the Philippines. Our solar panels are also manufactured for us by a third-party subcontractor in China. We currently operate one solar panel manufacturing line with a rated manufacturing capacity of 30 megawatts of solar panels per year. We plan to begin operating a second solar panel manufacturing facility by the end of 2007 that is designed to house up to ten manufacturing lines. We have ordered equipment for three new solar panel manufacturing lines that we expect to begin operating in the fourth quarter of 2007 and the first quarter of 2008. We expect to move our currently operating manufacturing line to this facility in the future. In addition, our SunPower branded inverters are manufactured for us by multiple suppliers.

Systems segment: We sell solar power systems, which may include services such as development, engineering, procurement of permits and equipment, construction management, access to financing, monitoring and maintenance, directly to system owners. Our systems segment is comprised primarily of the business we acquired from SP Systems in January 2007. Our customers include commercial and governmental entities, investors, utilities and production home builders. We work with construction, system integration and financing companies to deliver our solar power systems to customers. Our solar power systems generate electricity over a system design life typically exceeding 25 years and are principally designed to be used in large-scale applications with system ratings of more than 300 kilowatts. Worldwide, we have completed or are in the process of completing over 350 projects, rated in aggregate at over 200 megawatts peak capacity.

We have solar power system projects completed or in the process of being completed in various countries including Germany, Portugal, South Korea, Spain and the United States. In the United States, we sell distributed rooftop and ground-mounted solar power systems as well as central-station power plants. Distributed solar power systems are typically rated up to one megawatt of capacity to provide a supplemental, distributed source of electricity for a customer’s facility. Many customers choose to purchase solar electricity from our systems under a power purchase agreement with a financing company which buys the system from us. For example, we are currently constructing an approximately 15 megawatt solar power plant at Nellis Air Force Base in Nevada, which will be operated under a power purchase agreement structure. In Europe and South Korea, our products and systems are typically purchased by a financing company and operated as a central station solar power plant. These power plants are rated with capacities of approximately one to 20 megawatts, and generate electricity for sale under tariff to regional and public utilities.

We manufacture certain of our solar power system products at our manufacturing facilities in California and at other facilities located close to our customers. Some of our solar power system products are also manufactured for us by third-party suppliers.

PowerLight Acquisition

On January 10, 2007, we completed our acquisition of PowerLight. Upon the completion of the acquisition, all of the outstanding shares of PowerLight, and a portion of each vested option to purchase shares of PowerLight, were cancelled, and all of the outstanding options to purchase shares of PowerLight (other than the portion of each vested option that was cancelled) were assumed

by us in exchange for aggregate consideration of (i) approximately $120.7 million in cash plus (ii) a total of 5,708,723 shares of class A common stock, inclusive of (a) 1,601,839 shares of class A common stock which may be issued upon the exercise of assumed vested and unvested PowerLight stock options and (b) 1,145,643 shares of class A common stock issued to employees of PowerLight in connection with the acquisition which, along with 530,238 of the shares issuable upon exercise of assumed PowerLight stock options, are subject to certain transfer restrictions and a repurchase option held by us, both of which lapse over a two-year period following the acquisition under the terms of equity restriction agreements. Under the terms of the acquisition agreement, we also issued an additional 204,623 shares of restricted class A common stock to certain employees of PowerLight, which shares are subject to certain transfer restrictions which will lapse over 4 years. In June 2007, we changed PowerLight’s name to SunPower Corporation, Systems, or SP Systems, to capitalize on SunPower’s name recognition.

The total consideration related to the acquisition was as follows:

(In thousands)	**Shares**	**Fair Value at January 10, 2007**
Purchase consideration:		
Cash	—	$ 120,694

Common stock	2,961	111,266
Stock options assumed that are fully vested	618	21,280
Direct transaction costs	—	2,958
Total purchase consideration	3,579	256,198
Future stock compensation:		
Restricted stock	1,146	$ 43,046
Stock options assumed but that are unvested	984	35,126
Total future stock compensation	2,130	78,172
Total purchase consideration and future stock compensation	5,709	$ 334,370

Purchase Price Allocation

Under the purchase method of accounting, the total purchase price as shown in the table above was allocated to SP Systems' net tangible and intangible assets based on their estimated fair values as of January 10, 2007. The purchase price has been allocated based on management's best estimates. The fair value of our class A common stock issued was determined based on the average closing prices for a range of trading days around the announcement date (November 15, 2006) of the transaction. The fair value of stock options assumed was estimated using the Black-Scholes model with the following assumptions: volatility of 90%, expected life ranging from 2.7 years to 6.3 years, and risk-free interest rate of 4.6%.

The allocation of the purchase price and the estimated useful lives associated with the acquired assets and liabilities on January 10, 2007 was as follows:

(In thousands)	Amount	Estimated Useful Life
Net tangible assets	$ 13,925	n.a.
Patents and purchased technology	29,448	4 years
Tradenames	15,535	5 years
Backlog	11,787	1 year
Customer relationships	22,730	6 years
In-process research and development	9,575	n.a.
Unearned stock compensation	78,172	n.a.
Deferred tax liability	(21,964)	n.a.
Goodwill	175,162	n.a.
Total purchase consideration and future stock compensation	$ 334,370	

Relationship with Cypress Semiconductor Corporation

Cypress made a significant investment in SunPower 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 completion of our initial public offering in November 2005, Cypress held, in the aggregate, 52,033,287 shares of class B common stock.

On May 4, 2007, Cypress completed the sale of 7,500,000 shares of class B common stock in an offering pursuant to Rule 144 of the Securities Act. Such shares converted to 7,500,000 shares of class A common stock upon the sale. As of September 30, 2007, including the effect of the sale completed in May 2007, public offerings of class A common stock in June 2006 and July 2007, and issuance of senior convertible debentures in February 2007 and July 2007, Cypress owned 44,533,287 shares of class B common stock, which represented approximately 57% of the total outstanding shares of our common stock, or approximately 53% of such shares on a fully diluted basis after taking into account outstanding stock options (or 50% of such shares on a fully diluted basis after taking into account outstanding stock options and loaned shares to underwriters of our convertible indebtedness), and 90% of the voting power of our total outstanding common stock. Cypress, its successors in interest or its subsidiaries may convert their shares of class B common stock into shares of class A common stock on a one-for-one basis at any time. Cypress announced on October 6, 2006 and reiterated on October 19, 2006 that it was exploring ways in which to allow its stockholders to fully realize the value of its investment in SunPower. Cypress has made public statements since October 19, 2006 that were consistent with these announcements.

Critical Accounting Policies

Our critical accounting policies are disclosed in our Form 10-K for the year ended December 31, 2006 and have not changed materially as of September 30, 2007, with the exception of the following which were adopted as of the quarter ended April 1, 2007, in connection with the acquisition of SP Systems on January 10, 2007:

Revenue and Cost Recognition for Construction Contracts

We recognize revenues from fixed price contracts under AICPA Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," using the percentage-of-completion method of accounting. Under this method, revenue is recognized as work is performed based on the percentage of incurred costs to estimated total forecasted costs utilizing the most recent estimates of forecasted costs.

Incurred costs include all direct material, labor, subcontract costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Job material costs are included in incurred costs when the job materials have been installed. Where contracts stipulate that title to job materials transfers to the customer before installation has been performed, revenue is deferred and recognized upon installation, in accordance with the percentage-of-completion method of accounting. Job materials are considered installed materials when they are permanently attached or fitted to the solar power system as required by the job's engineering design.

Due to inherent uncertainties in estimating cost, job costs estimates are reviewed and/or updated by management working within the systems segment. The systems segment determines the completed percentage of installed job materials at the end of each month; generally this information is also reviewed with the customer's on-site representative. The completed percentage of installed job materials is then used for each job to calculate the month-end job material costs incurred. Direct labor, subcontractor, and other costs are charged to contract costs as incurred. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable. Contracts may include profit incentives such as milestone bonuses. These profit incentives are included in the contract value when their realization is reasonably assured.

As of September 30, 2007, the asset, "Costs and estimated earnings in excess of billings," which represents revenues recognized in excess of amounts billed, was $79.4 million. The liability, "Billings in excess of costs and estimated earnings," which represents billings in excess of revenues recognized, was $20.0 million. Ending balances in "Costs and estimated earnings in excess of billings" and "Billings in excess of costs and estimated earnings" are highly dependent on contractual billing schedules which are not necessarily related to the timing of revenue recognition.

Cash in Restricted Accounts

As of September 30, 2007, we provided security for advance payments made by NorSun AS, or NorSun, in the form of $20.0 million held in an escrow account. Commencing in 2010 and continuing through 2019, the balance in the escrow account will be reduced as the advance payments are to be applied as a credit against NorSun's polysilicon purchases from us. The funds held in the escrow account may be released in exchange for letters of credit issued under the secured letter of credit facility at any time. In addition, we enter into various contractual agreements to build turnkey photovoltaic projects for developers in Europe, Korea and the United States. As part of the contractual agreements with the developers in Europe and Korea, we may receive advance payments that are secured by providing letters of credit issued by Wells Fargo Bank, National Association, or Wells Fargo, to the developers. In certain developer contracts, we are required to provide construction period letters of credit to assure the developers of contract completion, for a period of approximately one year. In many cases, we are also asked to issue warranty period letters of credit to assure the developers that we will meet our warranty obligations, typically for the first two years after the project is installed. We issue letters of credit for such purposes through our line of credit facility with Wells Fargo. The credit agreement with Wells Fargo requires

us to collateralize the full value of letters of credit issued under the secured letter of credit facility for such purposes with cash placed in an interest bearing restricted account with Wells Fargo. As long as the secured letters of credit are outstanding, we will not be able to withdraw the associated funds in the restricted account, though all interest earned on such restricted funds can be withdrawn periodically. As of September 30, 2007, outstanding secured letters of credit issued by Wells Fargo that related to contractual agreements with the developers in Europe and Korea totaled $9.2 million (see Note 14 to the Condensed Consolidated Financial Statements).

Deferred Project Costs

Deferred project costs represent uninstalled materials on contracts for which title had transferred to the customer and are recognized as deferred assets until installation. As of September 30, 2007, deferred project costs totaled $11.5 million.

Foreign Currency Translation

Assets and liabilities of our wholly-owned foreign subsidiaries are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchange rates prevailing during the applicable period. The resulting translation adjustment as of September 30, 2007 was a $5.4 million gain which is reflected as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Purchase Accounting

We record all assets and liabilities acquired in purchase acquisitions, including goodwill, identified intangible assets and in-process research and development, at fair value as required by SFAS No. 141, "Business Combinations". The initial recording of goodwill, identified intangible assets and in-process research and development requires certain estimates and assumptions especially concerning the determination of the fair values and useful lives of the acquired intangible assets. The judgments made in the context of the purchase price allocation can materially impact our future results of operations. Accordingly, for significant acquisitions, we obtain assistance from third-party valuation specialists. The valuations are based on information available at the acquisition date. Goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate they may be impaired. Other identified intangible assets are amortized over their estimated useful lives and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount.

In-Process Research and Development Charge, or IPR&D Charge

In connection with the acquisition of SP Systems, we recorded an IPR&D charge of $9.6 million in the first quarter of fiscal 2007, as technological feasibility associated with the in-process research and development projects had not been established and no alternative future use existed.

We identified in-process research and development projects in areas for which technological feasibility had not been established and no alternative future use existed. These in-process research and development projects consisted of two components: design automation tool and tracking systems and other. In assessing the projects, we considered key characteristics of the technology as well as its future prospects, the rate technology changes in the industry, product life cycles, and various projects' stage of development.

The value of in-process research and development was determined using the income approach method, which calculated the sum of the discounted future cash flows attributable to the projects once commercially viable using a 40% discount rate, which were derived from a weighted-average cost of capital analysis and adjusted to reflect the stage of completion of the projects and the level of risks associated with the projects. The percentage of completion for each project was determined by identifying the research and development expenses invested in the project as a ratio of the total estimated development costs required to bring the project to technical and commercial feasibility. The following table summarizes certain information of each significant project:

Design Automation Tool	**Stage of Completion**	**Total Cost Incurred to Date**	**Total Remaining Costs**	**Completion Date**
As of January 10, 2007 (acquisition date)	5%	$ 0.2 million	$ 2.4 million	December 2010
As of September 30, 2007	30%	$ 0.8 million	$ 1.8 million	June 2009

Tracking System and Other	Stage of Completion	Total Cost Incurred to Date	Total Remaining Costs	Completion Date
As of January 10, 2007 (acquisition date)	30%	$ 0.2 million	$ 0.6 million	July 2007
As of September 30, 2007	100%	$ 0.8 million	$ —	June 2007

Status of In-Process Research and Development Projects:

As of September 30, 2007, we have incurred total post-acquisition costs of approximately $0.6 million related to the design automation tool project and estimate that an additional investment of $1.8 million will be required to complete the project. We expect to complete the design automation tool project by June 2009, approximately one and a half years earlier than the original estimate.

During the second quarter of fiscal 2007, we completed the tracking systems project and incurred total project costs of $0.8 million, of which $0.6 million was incurred after the acquisition.

The development of the design automation tool remains a significant risk due to factors including the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for new products, and competitive threats. The nature of the efforts to develop these technologies into commercially viable products consists primarily of planning, designing, experimenting, and testing activities necessary to determine that the technologies can meet market expectations, including functionality and technical requirements. Failure to bring these products to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets and could have a material adverse impact on our business and operating results.

Results of Operations for Three-month and Nine-month Periods Ended September 30, 2007 and October 1, 2006

Revenue

The following table sets forth the percentage relationship of certain items to our revenue during the periods shown:

	Three Months Ended (in thousands)		Year-over - Year Change	Nine Months Ended (in thousands)		Year-over - Year Change
	September 30, 2007	October 1, 2006		September 30, 2007	October 1, 2006	
Systems revenue	$ 157,734	$ —	n.a.	$ 340,266	$ —	n.a.
Components revenue	76,600	65,348	17%	210,181	162,001	30%
Total revenue	$ 234,334	$ 65,348	259%	$ 550,447	$ 162,001	240%

We generate revenue from two business segments, as follows:

1. Systems segment — This segment represents sales of engineering, procurement, construction and other services relating to solar electric power systems that integrate our solar panels and balance of systems components, as well as materials sourced from other manufactures. Systems segment revenues for the three and nine months ended September 30, 2007 were $157.7 million and $340.3 million, respectively, which accounted for 67% and 62%, respectively, of our total revenue. We had no systems segment revenue for the three and nine months ended October 1, 2006. Our systems segment revenue is largely dependent on the timing of revenue recognition on large construction projects and, accordingly, will fluctuate from period to period. Gross margin for the system segment was $22.6 million and $51.2 million for the three and nine months ended September 30, 2007, respectively, or 14% and 15% of systems segment revenue, respectively. Gross margin in our systems segment is affected by a number of factors, particularly the mix of projects sourced with our panels versus projects using solar panels purchased from other suppliers.

2. Components segment — This segment primarily represents sales of our solar cells, solar panels and inverters to solar systems installers and other resellers. Components segment revenues to unaffiliated customers for the three and nine months ended September 30, 2007 were $76.6 million and $210.2 million, respectively, as compared to $65.3 million and $162.0 million for the three and nine months ended October 1, 2006, respectively. The components segment accounted for 33% and 38% of our total revenue for the three and nine months ended September 30, 2007, respectively, and 100% of our revenue for each of the three and nine months ended October 1, 2006. Gross margin for the components segment was $15.8 million and $49.5 million for the three and nine months ended September 30, 2007, respectively, or 21% and 24% of components segment revenue, respectively, as compared to $15.2 million and $32.3 million for the three and nine months ended October 1, 2006, or 23% and 20% of revenue, respectively.

During the three and nine-month periods ended September 30, 2007, our revenue of approximately $234.3 million and $550.4 million, respectively, represented increases of 259% and 240%, respectively, from revenue reported in the comparable periods of 2006. The marked increase in revenue during the three and nine-month periods ended September 30, 2007 compared to the same periods of 2006 resulted from the combination of an increase in components revenue of approximately $11.3 million and $48.2

million during the three and nine-month periods ended September 30, 2007, respectively, and the addition of $157.7 million and $340.3 million in systems revenue for the three and nine-month periods ended September 30, 2007, respectively, as a result of the acquisition of SP Systems. The increase in components revenue is attributable to the continued increase in the demand for our solar cells and solar panels since we began commercial production in late 2004 and continued increases in unit production and unit shipments of both solar cells and solar panels as we have expanded our solar manufacturing capacity. During the first three quarters of 2006, we had three solar cell manufacturing lines in operation with an approximate annual production capacity of 75 megawatts. Since then, we added a fourth 33 megawatt line during the fourth quarter of 2006, and we recently began commercial production on our 5th and 6th solar cell lines during the third quarter of 2007. Each of these lines has a rated solar cell production capacity of approximately 33 megawatts per year.

From 2005 through the third quarter of 2007, our components segment has experienced a modest increase in average selling prices for our solar products, primarily relating to our solar cells and solar panels. Accordingly, our components segments' average selling prices were slightly higher during the three and nine-month periods ended September 30, 2007 compared to the same periods of 2006. However, we expect average selling prices for our solar power products to decline over time as the market becomes more competitive, as new products are introduced 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 imaging products.

We have five customers that each accounted for more than 10 percent of our total revenue in one or more of the three and nine-month periods ended September 30, 2007 and October 1, 2006, as follows:

(percentage of total revenue)

		Three Months Ended		Nine Months Ended	
Customer	**Business Segment**	**September 30, 2007**	**October 1, 2006**	**September 30, 2007**	**October 1, 2006**
MMA Renewable Ventures	Systems	30%	—%	17%	—%
SolarPack	Systems	21%	—%	21%	—%
Solon AG	Components	*	24%	10%	27%
Conergy AG	Components	*	26%	*	24%
SP Systems	Components	n.a.	19%	n.a.	16%

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* denotes less than 10% during the period

International sales comprise the majority of revenue for both our systems and components segments. International sales represented approximately 44% and 54% of our total revenue for the three and nine months ended September 30, 2007, respectively, as compared to 66% and 70% of our total revenue for the three and nine months ended October 1, 2006, respectively, and we expect international sales to remain a significant portion of overall sales for the foreseeable future. Domestic sales as a percentage of our total revenue increased approximately 22% and 16% for the three and nine months ended September 30, 2007, respectively, as compared to the three and nine months ended October 1, 2006, as a result of the inclusion of systems segment revenue in 2007.

Cost of Revenue

Cost of revenue as a percentage of revenue and the year-over-year change were as follows:

	Three Months Ended (in thousands)			Nine Months Ended (in thousands)		
	September 30, 2007	**October 1, 2006**	**Year-over - Year Change**	**September 30, 2007**	**October 1, 2006**	**Year-over - Year Change**
Cost of systems revenue	$ 135,111	$ —	n.a.	$ 289,095	$ —	n.a.
Cost of components revenue	60,818	50,164	21%	160,730	129,678	24%
Total cost of revenue	$ 195,929	$ 50,164	291%	$ 449,825	$ 129,678	247%
Total cost of revenue as a percentage of revenue	84%	77%		82%	80%	
Total gross margin percentage	16%	23%		18%	20%	

Detail to cost of revenue by segment for the three-month period ended is as follows:

	Systems (in thousands)			Components (in thousands)		
	September 30, 2007	**October 1, 2006**	**Year-over - Year Change**	**September 30, 2007**	**October 1, 2006**	**Year-over - Year Change**
Amortization of purchased intangible assets	$ 4,787	$ —	n.a.	$ 1,123	$ 1,175	(4)%
Stock-based compensation	2,049	—	n.a.	1,539	200	670%
Factory pre-operating costs	162	—	n.a.	921	—	n.a.
All other cost of revenue	128,113	—	n.a.	57,235	48,789	17%
Total cost of revenue	$ 135,111	$ —	n.a.	$ 60,818	$ 50,164	21%
Total cost of revenue as a percentage of revenue	86%	—		79%	77%	
Total gross margin percentage	14%	—		21%	23%	

Detail to cost of revenue by segment for the nine-month period ended is as follows:

	Systems (in thousands)			Components (in thousands)		
	September 30, 2007	**October 1, 2006**	**Year-over - Year Change**	**September 30, 2007**	**October 1, 2006**	**Year-over - Year Change**
Amortization of purchased intangible assets	$ 15,297	$ —	n.a.	$ 3,370	$ 3,526	(4)%
Stock-based compensation	6,235	—	n.a.	2,801	628	346%
Factory pre-operating costs	692	—	n.a.	3,185	—	n.a.
All other cost of revenue	266,871	—	n.a.	151,374	125,524	21%
Total cost of revenue	$ 289,095	$ —	n.a.	$ 160,730	$ 129,678	24%
Total cost of revenue as a	85%	—		76%	80%	

percentage of revenue				
Total gross margin percentage	15%	—	24%	20%

Overall, our cost of revenue during the three and nine months ended September 30, 2007 were substantially higher than during the three and nine months ended October 1, 2006 primarily as a result of increased cost of revenue associated with operating more production lines and producing substantially higher unit volume in our components segment, as well as the inclusion of cost of systems revenue for the period subsequent to January 10, 2007. Our cost of revenue as a percentage of revenue increased to 84% and 82% for the three and nine months ended September 30, 2007, respectively, compared to 77% and 80% for the three and nine months ended October 1, 2006, respectively. Our cost of components revenue as a percentage of revenue remained relatively stable at 79% and 76% for the three and nine months ended September 30, 2007, respectively, compared to 77% and 80% for the three and nine months ended October 1, 2006, respectively. In the first quarter of 2007, our systems segment gross margin was substantially higher than in the second and third quarter of 2007 as a result of a favorable mix of business than is typical of this business. Overall, we believe this favorable mix of business improved our overall gross margin for the nine-month period ended September 30, 2007 by approximately four percentage points above what we expected from our systems segment. In addition, during the first quarter of 2007, we received a $2.7 million settlement from one of our suppliers in connection with defective materials sold to us during 2006. This settlement was reflected as a reduction to cost of revenues in the nine-month period ended September 30, 2007.

Our cost of revenue as a percentage of revenue during the first three quarters of 2007 compared to the first three quarters of 2006 reflects improved manufacturing economies of scale associated with markedly higher production volume and improved yields, offset by higher costs of raw materials such as polysilicon and a $4.8 million and $15.3 million increase in amortization of intangible assets for the three and nine months ended September 30, 2007, respectively, associated with our acquisition of SP Systems. Additionally, in the first three quarters of 2007, we incurred pre-operating costs associated with our new solar cell and solar panel manufacturing facilities. Our solar panel facility began production in the first quarter of 2007 and our solar cell line began production in the third quarter of 2007. Such pre-operating costs totaled $1.1 million and $3.9 million in the three and nine months ended September 30, 2007, respectively, and included compensation and training costs for factory workers and utilities and consumable materials associated with preproduction activities.

Our cost of components revenue consists primarily of silicon ingots and wafers used in 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 amortization of intangible assets, depreciation, provisions for estimated warranty, salaries, personnel-related costs, facilities expenses and manufacturing supplies associated with solar cell fabrication. For our solar panels, our cost of revenue includes the cost of solar cells and raw materials such as glass, frame, backing and other materials, as well as the assembly costs we pay to our third-party subcontractor in China. Additionally, we recently began production within our own solar panel assembly facility in the Philippines which incurs labor, depreciation, utilities and other occupancy costs.

On November 9, 2004, Cypress acquired us in a transaction that effectively gave Cypress 100% ownership of all of our then outstanding shares of capital stock but left 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 a distribution agreement. The fair value for these intangibles is being amortized as an element of cost of component revenue over two to six years on a straight-line basis. During each of the first three quarters of 2007 and 2006, amortization of these intangible assets was $1.1 million and $1.2 million, respectively.

Our components segment 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, the utilization rate of our wafer fabrication facility and changes in amortization of intangible assets. To date demand for our solar power products has been robust and our production output has increased allowing us to spread a significant amount of our fixed costs over relatively high production volume, thereby reducing our per unit fixed cost. We currently operate six solar cell manufacturing lines with total production capacity of 214 megawatts per year with the 5th and 6th lines located in our second building in the Philippines that is expected to eventually house 12 solar cell production lines with a total factory output capacity of approximately 466 megawatts per year. As we build additional manufacturing lines or facilities, our fixed costs will increase, and the overall utilization rate of our wafer fabrication facilities could decline, which could negatively impact our gross profit. This decline may continue until a line's manufacturing output reaches its rated practical capacity.

From time to time, we enter into agreements whereby the selling price for certain of our solar power products is fixed over a defined period. An increase in our manufacturing costs, including raw polysilicon, 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 fluctuations in manufacturing yield rates and certain adjustments for inventory reserves. We expect our gross profit to increase over time as we improve our manufacturing processes 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 or decreased revenue.

Our cost of systems revenue consists primarily of solar panels, mounting systems, inverters and subcontractor costs. Other factors contributing to cost of revenue include amortization of intangible assets, depreciation, provisions for warranty, salaries, personnel-related costs, freight, royalties, and manufacturing supplies associated with contracting revenues. The cost of solar panels is the single largest cost element in our cost of systems revenue. We expect our cost of systems revenue to fluctuate as a percentage of revenue depending on many factors such as the cost of solar panels, the cost of inverters, subcontractor costs, freight costs, and other project related costs. In particular, our systems segment generally experiences better gross margin on construction projects that utilize SunPower solar panels compared to construction projects that utilize solar panels purchased from third parties. Over time, we expect that our systems segment will increase the percentage of its construction projects sourced with SunPower solar panels from approximately 20% to 30% in 2007 and up to as much as 50% in 2008. Accordingly, over time we expect that our systems segment will source an increasing percentage of its construction projects with SunPower solar panels. Our cost of systems revenue will also fluctuate from period to period due to the mix of projects completed and recognized as revenue, in particular between large projects and large commercial installation projects that may or may not include solar panels. Our gross profit each quarter is affected by a number of factors, including the types of projects in process and their various stages of completion, the gross margins estimated for those projects in progress, and the actual system group department overhead costs. Generally, revenues from materials-only sales contracts generate a higher gross margin percentage for our systems segment than revenue generated from construction projects.

In connection with the acquisition of SP Systems, there were $79.5 million of identifiable purchased intangible assets, of which $56.8 million was being amortized to cost of systems revenues on a straight-line basis over periods ranging from one to five years. These acquired assets include patents, technology, tradenames and backlog. Due to our new branding strategy during the quarter ended July 1, 2007, the PowerLight tradename asset with a net book value of

$14.1 million and ascribed a useful life of 5 years was written off as an impairment of acquisition-related intangible assets. As such, the remaining balance of $41.2 million relating to purchased patents, technology and backlog will be amortized to cost of systems revenue on a straight-line basis over periods ranging from one to four years.

Almost all of our system segment construction contracts are fixed price contracts. However, we have in several instances obtained change orders that reimburse us for additional unexpected costs due to various reasons. The systems segment also has long-term agreements for solar cell and panel purchases with several major solar panel manufacturers, some with liquidated damages and/or

take or pay type arrangements. An increase in project costs, including solar panel, inverter and subcontractor costs, over the term of a construction contract could have a negative impact on our system segment's overall gross profit. Our systems segment gross profit may also be impacted by certain adjustments for inventory reserves. We are seeking to improve gross profit over time as we implement cost reduction efforts, improve manufacturing processes, and seek better and less expensive materials globally, and as we grow the business to attain economies of scale on fixed costs. Any increase in gross profit based on these items, however, could be partially or completely offset by increased raw material costs or our inability to increase revenues in line with expectations, and other competitive pressures on gross margin.

Research and Development Expense and Purchased In-Process Research and Development Expense

Research and development expense and in-process research and development expense as a percentage of revenue and the year-over-year change were as follows:

	Three Months Ended (in thousands)		Year-over - Year Change	Nine Months Ended (in thousands)		Year-over - Year Change
	September 30, 2007	October 1, 2006		September 30, 2007	October 1, 2006	
Research & development expense	$ 3,902	$ 2,536	54%	$ 9,659	$ 7,120	36%
Purchased in-process research & development expense	—	—	n.a.	9,575	—	n.a.
Research & development as a percentage of revenue	2%	4%		2%	4%	
Purchased in-process research & development as a percentage of revenue	n.a.	n.a.		2%	n.a.	

During the three and nine-month periods ended September 30, 2007, our research and development expense was $3.9 million and $9.7 million, respectively, which represents increases of 54% and 36%, respectively, from research and development expense reported in the comparable periods of 2006. The increase in research and development spending during the three and nine-month periods of 2007 compared to the same periods of 2006 resulted primarily from increases in: (i) salaries, benefits and stock-based compensation costs as a result of increased headcount, including headcount additions attributable to the acquisition of SP Systems; (ii) stock-based compensation and amortization of intangibles related to the SP Systems acquisition; and (iii) additional material and equipment costs incurred for the development of our next generation of more efficient solar cells and thinner polysilicon wafers for solar cell manufacturing, as well as development of new processes to automate solar panel assembly operations. These increases were partially offset by a decrease in consulting service fees as well as by cost reimbursements received from various government entities in the U.S.

Research and development expense for the nine months ended September 30, 2007 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. Payments received under governmental research and development cost sharing contracts are credited as an offset to our research and development expense. Such billings totaled approximately $0.7 million and $1.1 million for the three and nine months ended September 30, 2007, respectively, as compared to $0.2 million and $0.7 million for the three and nine months ended October 1, 2006, respectively. Subject to final negotiations and settlement with the government agencies involved, our existing governmental contracts are expected to offset approximately $7.0 million to $10.0 million of our research and development expenses in each of 2007, 2008 and 2009.

Purchased in-process research and development expense for the nine months ended September 30, 2007 of $9.6 million resulted from the acquisition of SP Systems, as technological feasibility associated with the in-process research and development projects had not been established and no alternative future use existed.

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. In addition, in the third quarter of 2007, we signed a Solar America Initiative agreement with the U.S. Department of Energy in which we were awarded $8.5 million in the first budgetary period. Total funding for the three-year effort is estimated to be $24.7 million. Our cost share requirement under this program, including lower-tier subcontract awards, is anticipated to be $27.9 million.

Sales, General and Administrative

Sales, general and administrative expense as a percentage of revenue and the year-over-year change were as follows:

	Three Months Ended (in thousands)		Year-over - Year Change	Nine Months Ended (in thousands)		Year-over - Year Change
	September 30, 2007	October 1, 2006		September 30, 2007	October 1, 2006	
Sales, general & administrative	$ 27,708	$ 6,206	346%	$ 76,188	$ 15,572	389%
As a percentage of revenue	12%	9%		14%	10%	

During the three and nine-month periods ended September 30, 2007, our sales, general and administrative expenses were $27.7 million and $76.2 million, respectively, which represent increases of 346% and 389%, respectively, from sales, general and administrative expenses reported in the comparable periods of 2006. The increase in our sales, general and administrative expenses in both the three and nine-month periods ended September 30, 2007 compared to the same periods of 2006 is primarily the result of the acquisition and integration of SP Systems, in particular compensation related expenses, including stock-based compensation. In addition, our sales, general and administrative expenses reflect higher spending to support the growth of our business, particularly increased headcount and payroll related costs, including stock-based compensation, in all areas of sales, marketing, finance and information technology, as well as increased outside professional fees for legal and accounting services. During the three and nine-month periods ended September 30, 2007, stock-based compensation included in our sales, general and administrative expenses were $9.4 million and $26.9 million, respectively, which compares with $0.6 million and $2.1 million, respectively, included in the comparable periods of 2006. Also contributing to our increased selling, general and administrative expenses in the first three quarters of 2007 compared to the first three quarters of 2006 are substantial increases in headcount and sales and marketing spending to expand our value added reseller channel and global branding initiatives. As a percentage of revenues, sales, general and administrative expenses increased to 12% and 14% in the three and nine months ended September 30, 2007, respectively, from 9% and 10% in the three and nine months ended October 1, 2006, respectively, because these expenses increased at a substantially higher rate than the rate of growth in our revenues.

Impairment of Acquisition-Related Intangibles

Impairment of acquisition-related intangibles as a percentage of revenue and the year-over-year change were as follows:

	Three Months Ended (in thousands)		Year-over - Year Change	Nine Months Ended (in thousands)		Year-over - Year Change
	September 30, 2007	October 1, 2006		September 30, 2007	October 1, 2006	
Impairment of acquisition-related intangibles	$ —	$ —	n.a.	$ 14,068	$ —	n.a.
As a percentage of revenue	n.a.	n.a.		3%	n.a.	

During the nine-month period ended September 30, 2007, we recognized a charge for the impairment of acquisition-related intangibles of $14.1 million. In June 2007, we changed our branding strategy and consolidated all of our product and service offerings under the SunPower tradename. To reinforce the new branding strategy, we formally changed the name of PowerLight to SunPower Corporation, Systems. The fair value of PowerLight tradenames was valued at $15.5 million at the date of acquisition and ascribed a useful life of 5 years. The determination of the fair value and useful life of the tradename was based on our previous strategy of continuing to market our systems products and services under the PowerLight brand. As a result of the change in our branding strategy, during the quarter ended July 1, 2007, the net book value of the PowerLight tradename of $14.1 million was written off as an impairment of acquisition-related intangible assets. As a percentage of revenues, impairment of acquisition related intangibles was 3% for the nine-month period ended September 30, 2007.

Interest and Other Income (Expense), Net

Interest income, interest expense, and other income (expense), net as a percentage of revenue and the year-over-year change were as follows:

	Three Months Ended (in thousands)		Year-over - Year Change	Nine Months Ended (in thousands)		Year-over - Year Change
	September 30, 2007	October 1, 2006		September 30, 2007	October 1, 2006	
Interest income	$ 4,609	$ 3,874	19%	$ 8,789	$ 7,125	23%
As a percentage of revenue	2%	6%		2%	4%	
Interest expense	$ (1,372)	$ (434)	216%	$ (3,576)	$ (1,282)	179%
As a percentage of revenue	1%	1%		1%	1%	
Other income (expense), net	$ (205)	$ 518	(140)%	$ (448)	$ 1,008	(144)%
As a percentage of revenue	0%	1%		0%	1%	

Interest income during the three and nine-month periods ended September 30, 2007 and October 1, 2006, represents primarily interest income earned on our cash equivalents and short-term investments during the period. Interest expense relates to interest due on customer advance payments, convertible debt and existing notes payable. Other income and expense for all periods is primarily comprised of gains and losses from foreign currency transactions. The increase in interest income of 19% and 23% year-over-year for the three and nine months ended September 30, 2007 as compared to the three and nine months ended October 1, 2006 is primarily the effect of interest earned on $581.5 million in net proceeds from our stock and convertible debenture offerings in February and July 2007. In addition, the increase in our interest expense of 216% and 179% year-over-year for the three and nine months ended September 30, 2007 as compared to the three and nine months ended October 1, 2006 is primarily due to the interest related to the aggregate of $425.0 million in convertible debentures issued in February and July 2007. Also, as described in the section entitled "Recent Accounting Pronouncements," the FASB issued a proposed FASB Staff Position APB 14-a, which clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion. If the proposed FASB Staff Position APB 14-a were enacted, we would anticipate that the interest expense on our convertible debentures will increase markedly.

Income Taxes

Income tax provision (benefit) as a percentage of revenue and the year-over-year change were as follows:

	Three Months Ended (in thousands)		Year-over - Year Change	Nine Months Ended (in thousands)		Year-over - Year Change
	September 30, 2007	October 1, 2006		September 30, 2007	October 1, 2006	
Income tax provision (benefit)	$ 1,396	$ 832	68%	$ (8,429)	$ 1,275	(761)%
As a percentage of revenue	1%	1%		(2)%	1%	

In the nine-month period ended September 30, 2007, our income tax benefit was attributable to the net effect of foreign income taxes in jurisdictions where our operations are profitable for tax purposes, and the utilization of deferred tax assets to the extent of deferred tax liabilities created by the acquisition of SP Systems. Our interim period tax provisions are estimated based on the expected annual worldwide tax rate and takes into account the tax effect of discrete items, including the acquisition of SP Systems as well as the impairment of acquisition-related intangibles. As described in Note 8 to the Condensed Consolidated Financial Statements, we will pay federal and state income taxes in accordance with the tax sharing agreement with Cypress. Since the completion of our follow-on public offering of common stock in June 2006, we are no longer considered to be a member of Cypress' consolidated group for federal income tax purposes. Accordingly, we will be required to pay Cypress for any federal income tax credit or net operating loss carryforwards utilized in our federal tax returns in subsequent periods.

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 net deferred tax assets when management cannot conclude that it is more likely than not that all or a portion of our net deferred tax assets will be realized. As of September 30, 2007, we established a valuation allowance of $0.8 million, the extent to which deferred tax assets would have exceeded the deferred tax liability position. As of December 31, 2006, we had federal net operating loss carryforwards of $28.0 million. These federal net operating loss carryforwards expire at various dates from 2011 through 2026, if not utilized. We had California state net operating loss carryforwards of approximately $4.8 million as of December 31, 2006.

Liquidity and Capital Resources

A summary of the sources and uses of cash and cash equivalents is as follows:

	Nine Months Ended	
(In thousands)	**September 30, 2007**	**October 1, 2006**
Net cash provide by (used in) operating activities	$ (18,557)	$ 4,615
Net cash used in investing activities	(327,691)	(94,424)
Net cash provided by financing activities	584,742	199,952

From 2002 until the closing of our initial public offering of 8.8 million shares of class A common stock on November 22, 2005, we financed our operations primarily through sale of equity to and borrowings from Cypress totaling approximately $142.8 million. We received net proceeds from our IPO of approximately $145.6 million and in a follow-on offering of 7.0 million shares of common stock in June 2006 we received net proceeds of approximately $197.4 million. In February 2007, we raised $194.0 million net proceeds from the issuance of 1.25% senior convertible debentures. In July 2007, we raised $220.1 million net proceeds from the

issuance of 0.75% senior convertible debentures and $167.4 million net proceeds from the completion of a follow-on offering of 2.7 million shares of class A common stock. As of September 30, 2007, we had approximately $407.2 million in cash and cash equivalents.

Net cash used in operating activities of $18.6 million for the nine months ended September 30, 2007 was primarily the result of increases in costs and estimated earnings in excess of billings of $69.8 million related to contractual timing of system project billings, inventories of $48.0 million, advance payments to suppliers of $33.6 million related to our existing supply agreements, prepaid expenses and other assets of $8.1 million, as well as decreases in billings in excess of costs and estimated earnings of $17.5 million, accounts payable to Cypress of $1.0 million and deferred income taxes and other tax liabilities of $10.5 million. These items were partially offset by net income of $4.3 million, plus non-cash items included in net income, including depreciation of $17.7 million related to property, plant and equipment, amortization of intangibles of $21.4 million, purchased in-process research and development of $9.6 million, impairment of acquisition-related intangibles of $14.1 million and stock-based compensation expense of $37.2 million, which included $23.2 million in amortization of deferred compensation charges related to the acquisition of SP Systems. In addition, these items were offset by decreases of $10.3 million in accounts receivable and $14.6 million in deferred project costs as well as increases in accounts payable and accrued liabilities of $9.8 and in advances from customers of $29.8 million. The significant increases in substantially all of our current assets and current liabilities resulted from the acquisition of SP Systems, as well as our substantial revenue increase in the nine months ended September 30, 2007 compared to previous quarters which impacted net income and working capital.

Net cash provided by operating activities of $4.6 million for the nine months ended October 1, 2006 was primarily the result of net income of $15.2 million, plus non-cash items included in net income, including depreciation of $11.6 million related to property, plant and equipment, amortization of intangibles of $3.5 million, deferred income taxes and other tax liabilities of $0.7 million and stock-based compensation expense of $3.7 million, which was the effect of the adoption of SFAS No. 123(R) during the period. Also contributing to cash provided by operating activities were increases in accounts payable and other accrued liabilities of $21.2 million resulting from the timing of payment of inventory and capital purchases, accounts payable to Cypress of $1.4 million, as well as advances from customers of $3.1 million. These items were partially offset by advance payments to suppliers of polysilicon totaling $19.4 million as well as increases in prepaid expenses and other assets of $1.9 million, accounts receivable of $21.6 million, and inventories of $12.8 million. The significant increases in all of our current assets and current liabilities resulted from our substantial revenue increase in the nine months ended October 1, 2006 compared to previous quarters which impacted net income and working capital.

Net cash used in investing activities of $327.7 million and $94.4 million for the nine months ended September 30, 2007 and October 1, 2006, respectively, primarily relate to capital expenditures of $162.5 million and $64.6 million incurred during the nine months ended September 30, 2007 and October 1, 2006, respectively. Capital expenditures in both periods were mainly associated with manufacturing capacity expansion in the Philippines. Although the timing of our capital expansion plans may shift depending on many factors, we currently expect 2007 capital expenditures to be approximately $210 million, primarily related to continued expansion of our manufacturing capacity. During the nine months ended September 30, 2007, we used $58.6 million of cash for the purchase of available-for-sale securities and received proceeds of $16.5 million resulting from the sale of available-for-sale securities which are classified as short-term investments on our consolidated balance sheet as compared to the nine months ended October 1, 2006, wherein we used $25.9 million of cash for the purchase of available-for-sale securities and received proceeds of $6.0 million resulting from the sale of available-for-sale securities. Also during the nine months ended September 30, 2007, we had $24.5 million of restricted cash as compared to zero restricted cash in the nine months ended October 1, 2006. Additionally, during the nine months ended September 30, 2007, we paid $98.6 million in cash for the acquisition of SP Systems, net of cash acquired. Also during the nine months ended October 1, 2006, we loaned $10.0 million to SP Systems pursuant to a note receivable that was canceled upon the acquisition on January 10, 2007.

Net cash provided by financing activities for the nine months ended September 30, 2007 reflects $194.0 million in net proceeds from the issuance of $200.0 million in principal amount of 1.25% senior convertible debentures in February 2007, $220.1 million in net proceeds from the issuance of $225.0 million in principal amount of 0.75% senior convertible debentures in July 2007 and $167.4 million in net proceeds from our follow-on public offering of 2.7

million shares of our class A common stock in July 2007. Also during the nine months ended September 30, 2007, we paid $3.6 million on an outstanding line of credit and received $6.9 million in proceeds from stock option exercises.

Net cash provided by financing activities for the nine months ended October 1, 2006 reflects $197.4 million in net proceeds from our follow-on offering of 7.0 million shares of our class A common stock in June 2006 as well as $2.5 million in proceeds from the exercise of stock options.

On July 13, 2007, we entered into a credit agreement with Wells Fargo that was amended on August 20, 2007, providing for a $50.0 million unsecured revolving credit line, with a $40.0 million unsecured letter of credit subfeature, and a separate $50.0 million

secured letter of credit facility. We may borrow up to $50.0 million and request that Wells Fargo issue up to $40.0 million in letters of credit under the unsecured letter of credit subfeature through July 31, 2008. Letters of credit issued under the subfeature reduce our borrowing capacity under the revolving credit line. Additionally, we may request that Wells Fargo issue up to $50.0 million in letters of credit under the secured letter of credit facility through July 31, 2012. As detailed in the agreement, we will pay interest on outstanding borrowings and a fee for outstanding letters of credit. We have the ability at any time to prepay outstanding loans. All borrowings must be repaid by July 31, 2008, and all letters of credit issued under the unsecured letter of credit subfeature shall expire on or before July 31, 2008 unless we provide by such date collateral in the form of cash or cash equivalents in the aggregate amount available to be drawn under letters of credit outstanding at such time. All letters of credit issued under the secured letter of credit facility shall expire no later than July 31, 2012. We concurrently entered into a security agreement with Wells Fargo, granting a security interest in a deposit account to secure our obligations in connection with any letters of credit that might be issued under the credit agreement. In connection with the credit agreement, SunPower North America, Inc., our wholly-owned subsidiary, and SP Systems, another wholly-owned subsidiary of ours, entered into an associated continuing guaranty with Wells Fargo. The terms of the credit agreement include certain conditions to borrowings, representations and covenants, and events of default customary for financing transactions of this type. In connection with the entry to this credit facility, we terminated our previous credit facility with affiliates of Credit Suisse Securities (USA) LLC and Lehman Brothers, Inc. Our line of credit with Union Bank of California, N.A. expired on July 31, 2007.

As of September 30, 2007, one letter of credit totaling $20.0 million was issued by Wells Fargo under the unsecured letter of credit subfeature and five letters of credit totaling $9.2 million were issued by Wells Fargo under the secured letter of credit facility. On September 30, 2007, cash available to be borrowed under the unsecured revolving credit line was $30.0 million and letter of credit capacities available to be issued by Wells Fargo under the unsecured letter of credit subfeature and secured letter of credit facility were $20.0 million and $40.8 million, respectively.

In January 2007, we completed the acquisition of SP Systems, in which the total consideration for the transaction was $334.4 million, consisting of $120.7 million in cash and $213.7 million in common stock and related acquisition costs. In conjunction with the acquisition of SP Systems, we entered into a commitment letter with Cypress during the fourth quarter of fiscal 2006 under which Cypress agreed to lend us up to $130.0 million in cash in order to facilitate the financing of acquisitions or working capital requirements. In February 2007, the commitment letter was terminated. No borrowings were utilized and no borrowings were outstanding at the termination date.

We believe that our current cash and cash equivalents and funds available from the credit agreement with Wells Fargo will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months. However, there can be no assurance that our liquidity will be adequate over time. 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.

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 or purchase third-party solar modules and materials in advance to support systems projects. We intend to fund these activities with existing cash and cash equivalents, cash generated from operations and, if necessary, borrowings under our credit agreement with Wells Fargo. These anticipated increases 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 and capital expenditures will constitute a significant use of our cash resources.

The following summarizes our contractual obligations at September 30, 2007:

	Payments Due by Period				
(In thousands)	**Total**	**2007 (remaining three months)**	**2008 -2009**	**2010 -2011**	**Beyond 2011**
Obligation to Cypress	$ 1,881	$ 1,881	$ —	$ —	$ —
Customer advances	69,794	2,322	18,116	25,356	24,000
Interest on customer advances	2,864	412	2,163	289	—
Convertible debt	425,000	—	—	—	425,000
Interest on convertible debt	80,056	1,047	8,375	8,375	62,259
Lease commitments	36,340	862	8,461	7,352	19,665
Non-cancelable purchase orders	93,731	91,080	2,651	—	—
Purchase commitments under agreements	2,317,161	89,500	705,848	843,030	678,783
Total	$ 3,026,827	$ 187,104	$ 745,614	$ 884,402	$ 1,209,707

Purchase commitments under agreements relate to arrangements entered into with suppliers of polysilicon, ingots, wafers, solar cells and solar modules. These agreements specify future quantities and pricing of products to be supplied by the vendors for periods up to 13 years and there are certain consequences, such as forfeiture of advanced deposits and penalty payments relating to previous purchases, in the event that we terminate the arrangements (see Note 13 to the Condensed Consolidated Financial Statements). Customer advances relate to advance payments received from customers for future purchases of solar power products. Non-cancelable purchase orders relate to purchase commitments for equipment and building improvements for our manufacturing facilities. Lease commitments primarily relate to our 5-year lease agreement with Cypress for our headquarters in San Jose, California, a 15-

year lease agreement with Cypress for our manufacturing facility in the Philippines, a 5-year lease agreement with an unaffiliated third party for a second facility in the Philippines and other leases for various office space including our office in Berkeley, California.

In December 2006, we entered into an eleven-year lease agreement for a 110,522 square foot facility in Richmond, California, for office, light industrial and research and development use. In May 2007, we entered into an amendment agreement to the lease, providing an expansion of the leased premises to include approximately 65,280 additional square feet, commencing September 2007. We expect to occupy the new facility in the fourth quarter of 2007.

In July 2007, we entered into a polysilicon supply agreement with Hemlock Semiconductor Corporation, or Hemlock. Under the terms of the agreement, we will purchase, on a firm commitment basis, fixed annual quantities of polysilicon at specified prices from 2010 through 2019. The aggregate quantity of polysilicon to be purchased over the term of the agreement is expected to support more than two gigawatts of solar cell manufacturing production based on our expected silicon utilization during such period. Under the agreement, we are required to make prepayments to Hemlock prior to 2010 in the aggregate amount of $113.2 million in three equal installments, which will be credited against future purchases of polysilicon.

In July 2007, we issued and sold $225.0 million aggregate principal amount of 0.75% senior convertible debentures due in 2027, or the July 2007 Debentures. The July 2007 Debentures bear interest at a rate of 0.75% per year, payable on February 1 and August 1 of each year, commencing on February 1, 2008. The July 2007 Debentures will mature on August 1, 2027 (see Note 15 to the Condensed Consolidated Financial Statements).

In August 2007, we entered into an ingot supply agreement with NorSun AS, or Norsun. Under the terms of the ingot supply agreement, we will purchase specified annual quantities of silicon ingots at specified prices from 2007 through 2019. The aggregate quantity of silicon ingots to be purchased over the term of the agreement is expected to satisfy production requirements for up to approximately 700 megawatts of solar cell manufacturing based on our expected silicon utilization during 2007 through 2011 and for up to approximately 1.3 gigawatts of solar cell manufacturing based on our expected silicon utilization during 2012 through 2019. Concurrent with the execution of the ingot supply agreement, we entered into a polysilicon agreement. Under the terms of the polysilicon agreement, we will supply and NorSun is to purchase fixed annual quantities of polysilicon at specified prices from 2007 through 2019. Such polysilicon is expected to be used by NorSun to manufacture ingots, and potentially wafers, which are to be sold to us under the ingot supply agreement. Under the polysilicon agreement, NorSun has agreed to make material aggregate cash advance payments to us for the polysilicon, half of which was due upon signing and half of which is to be paid on or before July 1, 2008. Commencing in 2010 and continuing through 2019, these advance payments are to be applied as a credit against NorSun's polysilicon purchases from us. We are to provide security for the advance payments through bank guarantees, letters of credit and/or cash or asset collateralization.

In September 2007, we entered into a polysilicon supply agreement with Wacker Chemie AG, Wacker. Under the terms of the agreement, we will purchase, on a firm commitment basis, fixed annual quantities of polysilicon at specified prices from 2009 through 2011. The aggregate quantity of polysilicon to be purchased over the term of the agreement is expected to support approximately 53 megawatts of solar cell manufacturing production based on our expected silicon utilization during such period.

On October 1, 2007, we entered into an agreement with First Philippine Electric Corporation, or First Philec, to form First Philec Solar Corporation, or First Philec Solar, a joint venture to provide wafer slicing services of silicon ingots to us. Concurrent with the execution of the joint venture agreement, we also entered into a wafer supply and sales agreement with First Philec Solar. Under the terms of the wafering agreement, we will deliver silicon ingots to First Philec Solar that will in turn slice and deliver silicon wafers to us. We expect to purchase an aggregate quantity of silicon wafers sufficient to support up to approximately 660 megawatts annually of solar cell manufacturing production based on our expected silicon utilization during the wafering agreement's five-year term, which is anticipated to begin in the second half of 2008 when First Philec Solar's proposed manufacturing capacity is expected to become operational.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, and Related Implementation Issues", or FIN 48. FIN 48 clarifies the accounting for uncertainty in

income taxes recognized in a Company's financial statements in accordance with FASB 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted FIN 48 in the first quarter of fiscal 2007 (see Note 11 to the Condensed Consolidated Financial Statements).

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," or SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value instruments. This statement does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative effect adjustment to the opening balance of retained earnings. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. We have not determined the effect, if any, the adoption of this statement will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," or SFAS No. 159, which provides companies an option to report selected financial assets and liabilities at fair value. SFAS No. 159 requires companies to provide information helping financial statement users to understand the effect of a company's choice to use fair value on its earnings, as well as to display the fair value of the assets and liabilities a company has chosen to use fair value for on the face of the balance sheet. Additionally, SFAS No. 159 establishes presentation and disclosure requirements designed to simplify comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We have not determined the effect, if any, the adoption of this statement will have on our consolidated financial statements.

In September 2007, the FASB issued a proposed FASB Staff Position APB 14-a, which clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion. The proposed guidance, if issued in final form, would significantly impact the accounting for instruments commonly referred to as Instruments B and Instruments C from Emerging Issue Task Force Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion," and any other convertible debt instruments that allow settlement in any combination of cash and shares at the issuer's option. The proposed guidance would require the issuer to separately account for the liability and equity components of the instrument in a manner that reflects interest expense equal to the issuer's non-convertible debt borrowing rate. The proposed guidance, if approved, would be effective for fiscal years beginning after December 15, 2007, and retrospective application would be required for all periods presented. The proposed guidance, if issued in final form, would have a significant impact on our outstanding convertible debt balance of $425.0 million (see Note 15 to the Condensed Consolidated Financial Statements). We are currently evaluating the potential impact of this proposed guidance on our results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

Our exposure to market risks for changes in interest rates relates primarily to our cash equivalents and short-term investment portfolio and convertible debt.

As of September 30, 2007, our investment portfolio consisted of a variety of financial instruments, including, but not limited to, money market securities, commercial paper, corporate securities and government sponsored agencies. These investments are generally classified as available-for-sale and, consequently, are recorded on our balance sheet at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income (loss) in stockholders' equity. Due to the relatively 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.

The fair market value of our 1.25% senior convertible debentures in February 2007 and 0.75% senior convertible debentures in July 2007 is subject to interest rate and market price risk due to the convertible feature of the debentures. The fair market value of the senior convertible debentures will increase as interest rates fall and decrease as interest rates rise. In addition, the fair market value of the senior convertible debentures will increase as the market price of our class A common stock increases and decrease as the market price falls. The interest and market value changes affect the fair market value of the senior convertible debentures but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations. As of September 30, 2007, the estimated fair value of the senior convertible debentures was approximately $563.4 million based on quoted market prices. A 10%

increase in quoted market prices would increase the estimated fair value of the senior convertible debentures to approximately $619.7 million, and a 10% decrease in the quoted market prices would decrease the estimated fair value of the senior convertible debentures to $507.0 million.

Equity Price Risk

Our exposure to equity price risk relate to our equity method investments we hold, typically as the result of strategic investments in third parties that are subject to considerable market risk due to their volatility. We typically do not attempt to reduce or eliminate our market exposure in these equity method investments. At September 30, 2007, the total carrying value of our equity method investment was $4.6 million.

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. During each of the nine months ended September 30, 2007 and October 1, 2006, approximately 54% and 70%, 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 $15.0 million based on our outstanding forward contracts of $89.6 million and outstanding option contracts of $53.2 million as of September 30, 2007. We currently conduct hedging activities, which involve the use of currency forward contracts and currency option 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls are designed to meet, and management believes they met, reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation described above that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

The following discussion of risk factors contains "forward-looking statements," as discussed in "PART I. FINANCIAL INFORMATION, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations." These risk factors may be important to understanding any statement in this Quarterly Report on Form 10-Q or elsewhere. The following information should be read in conjunction with "PART I. FINANCIAL INFORMATION, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "PART I. FINANCIAL INFORMATION, Item 1. Consolidated Financial Statements" and the accompanying Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and trading price of our common stock. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may also adversely affect our business, financial condition, results of operations, cash flows, and trading price of our common stock.

Risks Related to Our Business

The solar power industry is currently experiencing an industry-wide shortage of polysilicon. This shortage poses several risks to our business, including possible constraints on revenue growth and possible decreases in our gross margins and profitability.

Polysilicon is an essential raw material in our production of 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. The ingots are sliced and the wafers are processed into solar cells in our Philippines manufacturing facility. We also purchase wafers and polysilicon from third-party vendors.

There is currently an industry-wide shortage of polysilicon, which has resulted in significant price increases. We expect that the average spot price of polysilicon will continue to increase in the near-term. Increases in polysilicon prices have in the past increased our manufacturing costs and may impact our manufacturing costs and net income in the future. Even with these price increases, demand for solar cells has increased, and many of our principal competitors have announced plans to add additional manufacturing capacity. As this manufacturing capacity becomes operational, it may increase the demand for polysilicon in the near-term and further exacerbate the current shortage. Polysilicon is also used in the semiconductor industry generally and any increase in demand from that sector will 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. We expect that polysilicon demand will continue to outstrip supply through much of 2008 and potentially for a longer period.

Although we have arrangements with vendors for the supply of what we believe will be an adequate amount of silicon ingots through 2008, our purchase orders are frequently non-binding in nature. Our estimates regarding our supply needs may not be correct and our purchase orders and many of our contracts may be cancelled by our suppliers. Additionally, the volume and pricing associated with these purchase orders and contracts may be changed by our suppliers based on market conditions or for other reasons. If our suppliers were to cancel our purchase orders or change the volume or pricing associated with them, we may be unable to meet customer demand for our products, which could cause us to lose customers, market share and revenue. This would have a material negative impact on our business and operating results. If our manufacturing yields decrease significantly, we add manufacturing capacity faster than currently planned or our suppliers cancel or fail to deliver, we may not have made adequate provision for our polysilicon needs for our manufacturing plans through 2008.

In addition, since some of our silicon ingot and wafer arrangements are with suppliers who do not themselves manufacture polysilicon but instead purchase their requirements from other vendors, these suppliers may not be able to obtain sufficient polysilicon to satisfy their contractual obligations to us.

There are a limited number of polysilicon suppliers. Many of our competitors also purchase polysilicon from our suppliers. Some of them also have inter-locking board members with their polysilicon suppliers or have entered into joint ventures or binding supply contracts with their suppliers. Additionally, a substantial amount of our future polysilicon requirements are expected to be

sourced by new suppliers that have not yet proven their ability to manufacture large volumes of polysilicon. In some cases we expect that new entrants will provide us with both polysilicon and ingots. The failure of these new entrants to produce adequate supplies of polysilicon and/or ingots in the quantities and quality we require could adversely affect our ability to grow production volumes and revenues and could also result in a decline in our gross profit margins. Since we have committed to significantly increase our manufacturing output, an inadequate supply of polysilicon would harm us more than it would harm many of our competitors.

Additionally, 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 continue to implement several measures to increase the efficient use of polysilicon in our manufacturing process. For example, we are developing processes to utilize thinner wafers which require 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 implemented production using thinner wafers and anticipate further reductions in wafer thickness, these methods may have unforeseen negative consequences on our yields or our solar cell efficiency or reliability once they are put into large-scale commercial production, or they may not enable us to realize the cost reductions we hope to achieve.

Our inability to obtain sufficient polysilicon, ingots or wafers at commercially reasonable prices or at all for any of the foregoing reasons, or otherwise, 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.

As polysilicon supply increases, the corresponding increase in the global supply of solar cells and panels may cause substantial downward pressure on the prices of SunPower products, resulting in lower revenues and earnings.

The scarcity of polysilicon has resulted in the underutilization of solar panel manufacturing capacity at many competitors or potential competitors to SunPower, particularly in China. As additional polysilicon becomes available over the next 6 to 24 months, we expect solar panel production globally to increase. Decreases in polysilicon pricing and increases in solar panel production could each result in substantial downward pressure on the price of solar cells and panels, including SunPower products. Such price reductions could have a negative impact on our revenue and earnings, and materially adversely affect our business and financial condition.

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

The market for on-grid applications, where solar power is used to supplement a customer's electricity purchased from the utility network or sold to a utility under tariff, 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 would adversely affect the growth of this market or result in increased price competition, either of which could cause our revenue to decline and harm our financial results.

Today, the cost of solar power exceeds retail electric rates in many locations. As a result, federal, state and local government bodies in many countries, most notably Germany, Japan, Spain, Italy, Portugal, France, South Korea and the United States, have provided incentives in the form of feed-in tariffs, 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, Spain has been a strong supporter of solar power products and systems and political changes in Spain could result in significant reductions or eliminations of incentives, including the reduction of feed-in tariffs more rapidly than required by current law. Some solar program incentives expire, decline over time, are limited in total funding or require renewal of authority. Net metering and other operational policies in California or other markets could limit the amount of solar power installed there. Reductions in, or eliminations or expirations of, governmental incentives could result in decreased demand for and lower revenue from our products. Changes in the level or structure of a renewable portfolio standard could also result in decreased demand for and lower revenue from our products.

During the nine months ended September 30, 2007, substantially all of systems segment revenues were derived from sales of solar power systems to companies formed to develop and operate solar power generation facilities. Such companies have been formed by third-party investors with some frequency in the United States, Spain, South Korea, and Portugal, as these investors seek to benefit from government mandated feed-in tariffs and similar legislation. Our business depends in part on the continuing formation of such companies and the potential revenue source they represent. In deciding whether to form and invest in such companies, potential investors weigh a variety of considerations, including their projected return on investment. Such projections are based on current and proposed federal, state and local laws, particularly tax legislation. Expiration of or changes to these laws, including amendments to existing tax laws or the introduction of new tax laws, tax court rulings as well as changes in interest rates, administrative guidelines, ordinances and

similar rules and regulations could result in different tax assessments and may adversely affect an investor's projected return on investment, which could have a material adverse effect on our business and results of operations.

We may be unable to achieve our goal of reducing the cost of installed solar systems by 50 percent by 2012, which may negatively impact our ability to sell our products in a competitive environment, resulting in lower revenues, gross margins and earnings.

To reduce the cost of installed solar systems by 50 percent by 2012, as compared against the cost in 2006, we will have to achieve cost savings across the entire value chain from designing to manufacturing to distributing to selling and ultimately to installing solar systems. We have identified specific areas of potential savings and are pursuing targeted goals. However, such cost savings are especially dependent upon decreasing silicon prices and lowering manufacturing costs. As part of our announced strategy, we have entered into long-term silicon supply agreements to promote an adequate supply of raw material as well as to reduce the overall cost of such raw material. Additionally, we are increasing production capacity at our existing manufacturing facilities while seeking to improve efficiencies. We also expect to develop additional manufacturing capacity. As a result, we expect these improvements will decrease our per unit production costs. However, if we are unsuccessful in our efforts to lower the cost of installed solar systems by 50 percent by 2012, our revenues, gross margins and earnings may be negatively impacted in the competitive environment and particularly in the event that governmental and fiscal incentives are reduced or an increase in the global supply of solar cells and solar panels causes substantial downward pressure on prices of our products.

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 not be able to continue to expand our business or manage future growth. We plan to significantly increase our production capacity between 2007 and 2010. To do so will require successful execution of expanding our existing manufacturing facilities, developing new manufacturing facilities, ensuring delivery of adequate polysilicon and ingots, developing more efficient wafer-slicing methods, maintaining adequate liquidity and financial resources, and continuing to increase our revenues from operations. Expanding our manufacturing facilities or developing facilities may be delayed by difficulties such as unavailability of equipment or supplies or equipment malfunction. Ensuring delivery of adequate polysilicon and ingots is subject to many market risks including scarcity, significant price fluctuations and competition. Maintaining adequate liquidity is dependent upon a variety of factors including continued revenues from operations and compliance with our indentures and credit agreements. If we are unsuccessful in any of these areas, we may not be able to achieve our growth strategy and increase production capacity as planned during the foreseeable future.

Prior to our acquisition, SP Systems experienced significant revenue growth due primarily to the development and market acceptance of its PowerGuard® roof system, the acquisition and introduction of its PowerTracker® ground and elevated parking systems, its development of other technologies and increasing global interest and demand for renewable energy sources, including solar power generation. As a result, SP Systems increased its revenues in a relatively short period of time. Its annual revenue increased from $50.9 million in 2003 to $87.6 million in 2004 to $107.8 million in 2005 to $243.4 million in 2006. As a result of our acquisition involving SP Systems, our systems segment revenue for the nine months ended September 30, 2007 was

$340.3 million. We may not experience similar growth of our total revenue or even similar growth of our systems segment revenue in future periods. Accordingly, investors should not rely on the results of any prior quarterly or annual period as an indication of our future operating performance.

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. We had approximately 3,200 full-time employees as of September 30, 2007, and we anticipate that we will need to hire a significant number of highly skilled technical, manufacturing, sales, marketing, administrative and accounting personnel. 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. 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 update and integrate our financial internal control systems in SP Systems and in our Philippines facility with those of our San Jose, 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.

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; if we are subject to warranty and product liability claims, such claims could adversely affect our business and results of operations.

The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. 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.

Our current standard product warranty for our solar panels includes a 10-year warranty period for defects in materials 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 results. 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 of the foregoing, we may be subject to unexpected warranty expense, which in turn would harm our financial results.

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. We may be subject to warranty and product liability claims in the event that our solar power systems fail to perform as expected or if a failure of our solar power systems results, or is alleged to result, in bodily injury, property damage or other damages. 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. However, a successful warranty or product liability claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages. In addition, quality issues can have various other ramifications, including delays in the recognition of revenue, loss of revenue, loss of future sales opportunities, increased costs associated with repairing or replacing products, and a negative impact on our goodwill and reputation, which could also adversely affect our business and operating results. Our exposure to warranty and product liability claims is expected to increase significantly in connection with our planned expansion into the new home development market.

Warranty and product liability claims may result from defects or quality issues in certain third-party technology and components that our systems segment incorporates into its solar power systems, particularly solar cells and panels, over which it has no control. While its agreements with its suppliers generally include warranties, such provisions may not fully compensate us for any loss associated with third-party claims caused by defects or quality issues in such products. In the event we seek recourse through warranties, we will also be dependent on the creditworthiness and continued existence of these suppliers.

Our current standard warranty for our solar power systems differs by geography and end-customer application and includes either a one, two or five year comprehensive parts and workmanship warranty, after which the customer may typically extend the period covered by its warranty for an additional fee. Due to the warranty period, we bear the risk of extensive warranty claims long after we have completed a project and recognized revenues. Future product failures could cause us to incur substantial expenses to repair or replace defective products. While we generally pass through manufacturer warranties we receive from our suppliers to our customers, we are responsible for repairing or replacing any defective parts during our warranty period, often including those covered by manufacturers' warranties. If the manufacturer disputes or otherwise fails to honor its warranty obligations, we may be required to incur substantial costs before we are compensated, if at all, by the manufacturer. Furthermore, our warranties may exceed the period of any warranties from our suppliers covering components included in our systems, such as inverters.

Prior to our acquisition of SP Systems, one of SP System's major panel suppliers at the time, AstroPower, Inc., filed for bankruptcy in February 2004. SP Systems had installed solar systems incorporating over 30,000 AstroPower panels, of which approximately 27,000 panels are still under warranty. The majority of these warranties expire by 2008, and all expire by 2010. While we have not experienced a significant number of warranty or other claims related to the installed AstroPower panels, we may in the future incur significant unreimbursable expenses in connection with the repair or replacement of these panels, which could have a material adverse effect on our business and results of operations. In addition, another major supplier of solar panels notified us of a product defect that may affect a substantial number of panels installed by SP Systems between 2002 and September 2006. If the supplier does not perform its contractual obligations to remediate the defective panels, we will be exposed to those costs it would incur under the warranty with SP Systems' customers.

Our systems segment acts as the general contractor for our customers in connection with the installations of our solar power systems and is subject to risks associated with construction, bonding, cost overruns, delays and other contingencies, which could have a material adverse effect on our business and results of operations.

Our systems segment acts as the general contractor for our customers in connection with the installation of our solar power systems. All essential costs are estimated at the time of entering into the sales contract for a particular project, and these are reflected in the overall price that we charge our customers for the project. These cost estimates are preliminary and may or may not be covered by contracts between us or the other project developers, subcontractors, suppliers and other parties to the project. In addition, we require qualified, licensed subcontractors to install most of our systems. Shortages of such skilled labor could significantly delay a project or otherwise increase our costs. Should miscalculations in planning a project or defective or late execution occur, we may not achieve our expected margins or cover our costs. Also, most systems customers require performance bonds issued by a bonding agency. Due to the general performance risk inherent in construction activities, it has become increasingly difficult recently to secure suitable bonding agencies willing to provide performance bonding. In the event we are unable to obtain bonding, we will be unable to bid on, or enter into, sales contracts requiring such bonding.

In addition, some of our larger systems customers require that we pay substantial liquidated damages for each day or other period its solar installation is not completed beyond an agreed target date. This is particularly true in Europe, where long-term, fixed feed-in tariffs available to investors are typically set during a prescribed period of project completion, but the fixed amount declines over time for projects completed in subsequent periods. In addition, investors often require that the solar power system generate specified levels of electricity in order to maintain their investment returns, allocating substantial risk and financial penalties to us if those levels are not achieved, up to and including the return of the entire project sale price. Furthermore, our customers often require protections in the form of conditional payments, payment retentions or holdbacks, and similar arrangements that condition its future payments on performance. Delays in solar panel or other supply shipments, other construction delays, unexpected performance problems in electricity generation or other events could cause us to fail to meet these performance criteria, resulting in unanticipated and severe revenue and earnings losses and financial penalties. Construction delays are often caused by inclement weather, failure to timely receive necessary approvals and permits, or delays in obtaining necessary solar panels, inverters or other materials. All such risks could have a material adverse effect on our business and results of operations.

The execution of our growth strategy for our systems segment is dependent upon the continued availability of third-party financing arrangements for our customers.

For many of our projects, our customers have entered into agreements to pay us over an extended period of time based on energy savings generated by our solar power systems, rather than pay the full capital cost of purchasing the solar power systems up front. For these types of projects, many of our customers choose to purchase solar electricity under a power purchase agreement with a financing company that purchases the system from us. These structured finance arrangements are complex and may not be feasible in many situations. In addition, customers opting to finance a solar power system may forgo certain tax advantages associated with an outright purchase on an accelerated basis which may make this alternative less attractive for certain potential customers. If customers are unwilling or unable to finance the cost of our products, or if the parties that have historically provided this financing cease to do so, or only do so on terms that are substantially less favorable for us or these customers, our growth will be adversely affected.

The success of our systems segment will depend in part on the continuing formation of such companies and the potential revenue source they represent. In deciding whether to form and invest in such companies, potential investors weigh a variety of considerations, including their projected return on investment. Such projections are based on current and proposed federal, state and local laws, particularly tax legislation. Changes to these laws, including amendments to existing tax laws or the introduction of new tax laws, tax court rulings as well as changes in administrative guidelines, ordinances and similar rules and regulations could result in different tax assessments and may adversely affect an investor's projected return on investment, which could have a material adverse effect on our business and results of operations.

A limited number of components customers are expected to continue to comprise a significant portion of our revenues and any decrease in revenue from these customers could have a material adverse effect on us.

Even though our customer base is expected to increase and our revenue streams to diversify, a substantial portion of our net revenues could continue to depend on sales to a limited number of customers. During the nine months ended September 30, 2007, sales to our top two components customers accounted for 18% of our total revenue. Currently, our largest components segment customers are Conergy AG, or Conergy, and Solon AG, or Solon. Conergy and Solon accounted for approximately 8% and 10% of our total revenue for the nine months ended September 30, 2007, respectively. The loss of sales to either 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.

Our operating results will be subject to fluctuations and are inherently unpredictable; if we fail to meet the expectations of securities analysts or investors, our stock price may decline significantly.

Our quarterly revenue and operating results will be difficult to predict and have in the past fluctuated from quarter to quarter. It is possible that our operating results in some quarters will be below market expectations. In particular, our systems segment is difficult to forecast and is susceptible to severe fluctuations in financial results. The amount, timing and mix of sales of our systems segment, often for a single medium or large-scale project, may cause severe fluctuations in our revenue and other financial results. Further, our ability to meet project completion schedules for an individual project and the corresponding revenue impact under the percentage-of-completion method of recognizing revenue, may similarly cause severe fluctuations in our revenue and other financial results. This may cause us to miss analysts' guidance or any future guidance announced by us.

In addition, our quarterly operating results will also be affected by a number of other factors, including:

- the average selling price of our solar cells, solar panels and solar power systems;
- the availability and pricing of raw materials, particularly polysilicon;
- the availability, pricing and timeliness of delivery of raw materials and components, particularly solar panels and balance of systems components, including steel, necessary for our solar power systems to function;
- the rate and cost at which we are able to expand our manufacturing and product assembly capacity to meet customer demand, including costs and timing of adding personnel;
- construction cost overruns, including those associated with the introduction of new products;
- the impact of seasonal variations in demand and/or revenue recognition linked to construction cycles and weather conditions;
- timing, availability and changes in government incentive programs;
- unplanned additional expenses such as manufacturing failures, defects or downtime;
- acquisition and investment related costs;
- 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;

- geopolitical turmoil within any of the countries in which we operate or sell products;
- foreign currency fluctuations, particularly in the Euro, Philippine peso or South Korean won;
- the effect of currency hedging activities;
- our ability to establish and expand customer relationships;
- changes in our manufacturing costs;
- changes in the relative sales mix of our systems, solar cells and solar panels;
- the availability, pricing and timeliness of delivery of other products, such as inverters and other balance of systems materials 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;
- the willingness of competing solar cell and panel suppliers to continue product sales to our systems segment;
- increases or decreases in electric rates due to changes in fossil fuel prices or other factors; and
- shipping delays.

We base our planned operating expenses in part on our expectations of future revenue, and a significant portion of our expenses will be 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 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 six solar cell production lines in production which are located in our manufacturing facilities in the Philippines, and if we experience interruptions in the operation of these production lines or are unable to add additional production lines, it would likely result in lower revenue and earnings than anticipated.

We currently have six solar cell manufacturing lines in production which are located at our manufacturing facilities in the Philippines. If our current or future production lines 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 downtime, it could cause our production lines to go down. We have started operations in our second solar cell manufacturing facility nearby our existing facility in the Philippines. This expansion has required and will continue to require significant management attention, 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 on schedule in order to expand our manufacturing facilities 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.

Our systems segment recognizes revenue on a "percent completion" basis and upon the achievement of contractual milestones and any delay or cancellation of a project could adversely affect our business.

Our systems segment recognizes revenue on a "percent completion" basis and, as a result, the revenue from this segment is driven by the performance of our contractual obligations, which is generally driven by timelines for the installation of our solar power systems at customer sites. As a consequence of our acquisition of SP Systems, we do not recognize revenue from intercompany sales by our components segment to our systems segment. Instead, the sale of our solar panels used for construction projects are included in system segment revenues. This could result in unpredictability of revenue and, in the near term, a revenue decrease. As with any project-related business, there is the potential for delays within any particular customer project. Variation of project timelines and estimates may impact our ability to recognize revenue in a particular period. In addition, certain customer contracts may include payment milestones due at specified points during a project. Because our systems segment usually must invest substantial time and incur significant expense in advance of achieving milestones and the receipt of payment, failure to achieve such milestones could adversely affect our business and results of operations.

We have recently established a captive solar panel assembly factory, and, if this panel manufacturing factory is unable to produce high quality solar panels at commercially reasonable costs, our revenue growth and gross margin could be adversely affected.

We have constructed an automated solar panel assembly factory in the Philippines with 30 megawatts of production capacity. This factory commenced commercial production during the fourth quarter of 2006. Much of the manufacturing equipment and technology in this factory is new and unproven in volume production of solar panels. In the event that this factory is unable to ramp production with commercially reasonable yields and competitive production costs, our anticipated revenue growth and gross margin will be adversely affected.

Expansion of our manufacturing capacity has and will continue to increase our fixed costs, which increase may have a negative impact on our financial condition if demand for our products decreases.

We have recently expanded, and plan to continue to expand, our manufacturing facilities. As we build additional manufacturing lines or facilities, our fixed costs will increase. If the demand for our solar power products or our production output decreases, we may not be able to spread a significant amount of our fixed costs over the production volume, thereby increasing our per unit fixed cost, which would have a negative impact on our financial condition and results of operations.

We depend on a third-party subcontractor in China to assemble a majority of 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.

Historically, we have relied on Jiawei, a third-party subcontractor in China, to assemble a majority of 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 Jiawei and we typically obtain its services based on short-term purchase orders that are generally aligned with timing specified by our customers' purchase orders and our sales forecasts. If the operations of Jiawei were disrupted or its financial stability impaired, or if it should choose not to devote capacity to our solar panels in a timely manner, our business would suffer as we may be unable to produce finished solar panels on a timely basis. In addition, we supply inventory to Jiawei and we bear the risk of loss, theft or damage to our inventory while it is held in its 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 subcontractor to perform assembly and test is limited by its available capacity. We do not have a guaranteed level of production capacity with our subcontractor, 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 Jiawei that are larger and better financed than we are, or that have long-term agreements in place, may induce Jiawei 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 or to a captive panel assembly facility could involve increased costs, resources and development time. Utilizing additional third-party subcontractors could 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 impair our revenue by significantly delaying our ability to ship products 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 recently acquired a building to house our second solar cell manufacturing facility near our existing 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 as we continue the initial migration of our manufacturing processes to thinner wafers. If we do not achieve planned yields, our product costs could increase, and product availability would decrease resulting in lower revenues than expected.

Additionally, 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, including cells or panels of third-party manufacturers, or if there is a perception that such solar cells or solar panels contain errors or defects, our credibility and the market acceptance and sales of our products could be harmed.

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 and services.

The market for electricity generation products is heavily influenced by foreign, U.S. 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 U.S. 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 network. 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.

We incurred net losses from inception through 2005 and for the quarter ended July 1, 2007 and we may not be able to generate sufficient revenue and gross margin in the future to achieve or sustain profitability.

We have incurred net losses from inception through 2005 and for the quarter ended July 1, 2007. On September 30, 2007, we had an accumulated deficit of approximately $27.7 million. To maintain our 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 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 sustain or increase profitability on a quarterly or an annual basis. If we do not sustain profitability or otherwise meet the expectations of securities analysts or investors, the market price of our common stock will likely decline.

We will continue to be dependent on a limited number of third-party suppliers for key components for our solar systems products during the near-term, which could prevent us from delivering our products to our customers within required timeframes, which could result in installation delays, cancellations, liquidated damages and loss of market share.

In addition to our reliance on a small number of suppliers for its solar cells and panels, we rely on third-party suppliers for key components for our solar power systems, such as inverters that convert the direct current electricity generated by solar panels into alternating current electricity usable by the customer. For the nine months ended September 30, 2007, one supplier accounted for most of our inverter purchases for domestic projects, two suppliers accounted for most of our inverter purchases for European projects and one supplier accounted for all of the inverter purchases for our Asia projects. In addition, one vendor supplies all of the foam required to manufacture our PowerGuard ® roof system.

If we fail to develop or maintain our relationships with our limited 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. If we cannot obtain substitute materials on a timely basis or on acceptable terms, we could be prevented from delivering our products to our customers within required timeframes, which could result in installation delays, cancellations, liquidated damages and loss of market share, any of which could have a material adverse effect on our business and results of operations.

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 have established our own wafer-slicing operations, and in the nine months ended September 30, 2007, we sliced approximately 45% of our wafers. In October, 2007, we announced our entry into a joint venture agreement to form a new company in the Philippines named First Philec Solar Corporation. This new company was formed to perform wafer-slicing operations for us. 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 have 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 were any damage to or a breakdown of our manufacturing or wafer-slicing equipment at a time when 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.

Long-term, firm commitment supply agreements with polysilicon, ingot or wafer suppliers could result in insufficient or excess inventory or place us at a competitive disadvantage.

We manufacture our solar cells utilizing ingots and wafers manufactured by third parties, which in turn use polysilicon for their manufacturing process. We are seeking to address the current polysilicon shortage by negotiating multi-year, binding contractual commitments directly with polysilicon suppliers, and supplying such polysilicon to third parties which provide us ingots and wafers. Under such polysilicon agreements, we may be required to purchase a specified quantity of polysilicon, ingots or wafers at fixed prices, in some cases subject to upward inflation-related adjustments over a set period of time, which is often a period of several years. We also may be required to make substantial prepayments to these suppliers against future deliveries. For example, in July 2007 we entered into a long-term supply agreement with Hemlock Semiconductor Corporation, or Hemlock, a manufacturer of polysilicon. The agreement requires us to purchase an amount of silicon that is expected to support more than two gigawatts of solar cell production, at fixed prices from 2010 to 2019. We are also required to make prepayments to Hemlock prior to 2010 in the aggregate amount of $113.2 million in three equal installments. Such prepayments will be used to fund the expansion of Hemlock's polysilicon

manufacturing capacity and will be credited against future deliveries of polysilicon to us. The Hemlock agreement, or any other "take or pay" agreement we enter into, allows the supplier to invoice us for the full purchase price of polysilicon we are under contract to purchase each year, whether or not we actually order the required volume. If for any reason we fail to order the required annual volume under the Hemlock or similar agreements, the resulting monetary damages could have a material adverse effect on our business and results of operations.

We do not obtain contracts or commitments from customers for solar panels manufactured with the polysilicon purchased under such firm commitment contracts. Instead, we rely on our long-term internal forecasts to determine the timing of our production schedules and the volume and mix of products to be manufactured, including the estimated quantity of polysilicon, ingots and wafers needed. The level and timing of orders placed by customers may vary for many reasons. As a result, at any particular time, we may have insufficient or excess inventory, which could render us unable to fulfill customer orders or increase our cost of production. In addition, we have negotiated the fixed prices under these supply contracts based on our long-term projections of the future price of polysilicon. If the spot price of polysilicon in future periods is less than the price we have committed to pay either because of new technological developments or any other reason, our cost of production could be comparatively higher than that of competitors who buy polysilicon on the spot market. This would place us at a competitive disadvantage to these competitors, and could materially and adversely affect our business and results of operations.

Long-term contractual commitments also expose us to specific counter-party risk, which can be magnified when dealing with suppliers without a long, stable production and financial history. For example, if one or more of our contractual counterparties is unable or unwilling to provide us with the contracted amount of polysilicon, wafers or ingots, we could be required to attempt to obtain polysilicon in the spot market, which could be unavailable at that time, or only available at prices in excess of our contracted prices. In addition, in the event any such supplier experiences financial difficulties, it may be difficult or impossible, or may require substantial time and expense, for us to recover any or all of our prepayments. Any of the foregoing could materially harm our financial condition and results of operations.

Acquisitions of other companies or investments in joint ventures with other companies 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 or engage in joint ventures in the future. Acquisitions and joint ventures involve a number of risks that could harm our business and result in the acquired business or joint venture 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 the core business to the acquired business or joint venture;
- potential failure to retain key technical, management, sales and other personnel of the acquired business or joint venture;
- difficulties in retaining relationships with suppliers and customers of the acquired business, particularly where such customers or suppliers compete with us; and
- subsequent impairment of the acquired assets, including intangible assets.

We may decide that it is in our best interests to enter into acquisitions or joint ventures that are dilutive to earnings per share or that negatively impact margins as a whole. In addition, acquisitions or joint ventures could require investment of significant financial resources and require us to obtain additional equity financing, which may dilute our stockholders' equity, or require us to incur additional indebtedness.

To the extent that we invest in upstream suppliers or downstream channel capabilities, we may experience competition or channel conflict with certain of our existing and potential suppliers and customers. Specifically, existing and potential suppliers and customers may perceive that we are competing directly with them by virtue of such investments and may decide to reduce or eliminate their supply volume to us or order volume from us. In particular, any supply reductions from our polysilicon, ingot or wafer suppliers could materially reduce manufacturing volume.

For example, as a result of our acquisition of SP Systems, formerly known as PowerLight Corporation, we now directly compete with certain suppliers of solar cells and panels. As a result, the acquisition could cause one or more solar cell and panel suppliers to reduce or terminate their business relationship with us. After the acquisition closed, we discontinued our purchasing relationship with one former supplier of panels beginning in the second quarter of 2007. Other reductions or terminations, which may be significant, could occur. Any such reductions or terminations could adversely affect our ability to meet customer demand for solar power systems, and materially adversely affect our results of operations and financial condition, which would likely materially adversely affect our results of operations and financial condition. We will use commercially reasonable efforts to replace any lost solar cells or panels with our own inventory to mitigate the impact on us. However, such replacements may not be sufficient to fully address solar supply shortfalls, and in any event could negatively impact our revenue and earnings as we forego selling such inventory to third parties.

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

For the nine months ended September 30, 2007, a substantial portion of our sales were made to customers outside of the United States. Historically, we have had significant sales in Germany, Portugal, Spain and South Korea. We currently have six solar cell production lines in operation, which are located at our manufacturing facilities in the Philippines. In addition, a majority of our assembly functions have historically been conducted by a third-party subcontractor 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 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 associated with our permanent establishment of operations in more countries;
- 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 spread of the avian flu, 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 than in the United States, wages for our employees in the Philippines are increasing, which could result in increased costs to employ our manufacturing engineers. As of September 30, 2007, approximately 88% 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.

A significant portion of our operations occur outside the United States. Currency fluctuations in the Euro, Philippine peso or the South Korean won relative to the U.S. dollar could decrease revenue or increase expenses.

During the nine months ended September 30, 2007, approximately 62% of our components segment revenue was generated outside the United States. We presently have currency exposure arising from sales, capital equipment purchases, prepayments and customer advances denominated in foreign currencies. A majority of our components segment revenue is denominated in Euros, including fixed price agreements with Conergy and Solon, and a significant portion is denominated in U.S. dollars, while a portion of our components segment costs are incurred and paid in Euros and a smaller portion of our components segment expenses are paid in Philippine pesos and Japanese yen. In addition, our prepayment to Wacker-Chemie AG, a polysilicon supplier, and our customer advances from Solon are denominated in Euros. For the nine months ended September 30, 2007, approximately 49% of our systems segment revenue was generated outside the U.S., of which 46% was denominated in Euros and a significant portion of its costs are incurred and paid in Euros.

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 international customers, thus potentially leading to a reduction in our sales and profitability. Furthermore, many of our competitors will be 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.

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

We currently benefit from income tax holiday incentives in the Philippines in accordance with our 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 under our Board of Investments non-pioneer status and Philippine Economic Zone Authority registrations, and six years under 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%. As of yet no tax benefit has been realized from the income tax holiday due to operating losses in the Philippines.

Our systems segment sales cycles for projects can be longer than our components segment sales cycle for our solar cells and panels and may require significant upfront investment which may not ultimately result in signing of a sales contract and could have a material adverse effect on our business and results of operations.

Our systems segment sales cycles, which measure the time between its first contact with a customer and the signing of a sales contract for a particular project, vary substantially and average approximately eight months. Sales cycles for our systems segment are lengthy for a number of reasons, including:

- our customers often delay purchasing decisions until their eligibility for an installation rebate is confirmed, which generally takes several months;
- the long time required to secure adequate financing for system purchases on terms acceptable to customers; and
- the customer’s review and approval processes for system purchases are lengthy and time consuming.

As a result of these long sales cycles, we must make significant upfront investments of resources in advance of the signing of sales contracts and the receipt of any revenues, most of which are not recognized for several additional months following contract signing. Accordingly, we must focus our limited resources on sales opportunities that we believe we can secure. Our inability to enter into sales contracts with potential customers after we make such an investment could have a material adverse effect on our business and results of operations.

We generally do not have long-term agreements with our customers and accordingly could lose customers without warning.

Our solar cells, solar panel and imaging detector products are generally not sold pursuant to long-term agreements with customers, but instead are sold on a purchase order basis. We typically contract to perform large projects with no assurance of repeat

business from the same customers in the future. Although we believe that cancellations on our purchase orders 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 addition to the completion and non-repetition of large systems projects, in turn could cause our operating results to fluctuate.

Our systems segment could be adversely affected by seasonal trends and construction cycles.

Our systems segment is subject to significant industry-specific seasonal fluctuations. Its sales have historically reflected these seasonal trends with the largest percentage of total revenues being realized during the last two calendar quarters. Low seasonal demand normally results in reduced shipments and revenues in the first two calendar quarters. There are various reasons for this seasonality, mostly related to economic incentives and weather patterns. For example, in European countries with feed-in tariffs, the construction of solar power systems is concentrated during the second half of the calendar year, largely due to the annual reduction of the applicable minimum feed-in tariff and the fact that the coldest winter months are January through March. In the United States, customers will sometimes make purchasing decisions towards the end of the year in order to take advantage of tax credits or for other budgetary reasons.

In addition, to the extent we are successful in implementing our strategy to enter the new home development market, we expect the seasonality of our business and financial results to become more pronounced as sales in this market are often tied to construction market demands which tend to follow national trends in construction, including declining sales during cold weather months.

The expansion of our business into the new homebuilder residential market may increase our exposure to certain risks.

Our systems segment has expanded into the residential market by selling our systems to large production homebuilders. As part of this strategy, we developed SunTile®, a product that integrates a solar panel into a roof tile. To date we have focused on large-scale commercial applications and have limited experience serving the new homebuilder residential market.

Our new residential products and services may not gain market acceptance and us may not otherwise be successful in entering the residential market, which would limit our growth and adversely affect our operating results. Furthermore, the residential construction market has peculiar characteristics that may increase our exposure to certain risks we currently face or expose us to new risks. These risks include increased seasonality, sensitivity to interest rates and other macroeconomic conditions, as well as enhanced legal exposure. In particular, new home developments often result in class action litigation when one or more homes within a development experiences construction problems. Unlike our systems segment commercial business, where we typically act as the general contractor, we will be generally acting as subcontractor to homebuilders overseeing the development projects. In many instances subcontractors may be held liable for work of the homebuilder or other subcontractors. In addition, homebuilders often require onerous indemnification obligations that effectively allocate most of the potential liability from homeowner or class action lawsuits to subcontractors, including us. Insurance policies for residential work have significant limitations on coverage that may render such policies inapplicable to these lawsuits. If we are not successful in entering the new residential construction market, or if as a result of the litigation and indemnification risks associated with such market, we incur significant costs, our business and results of operations could be materially adversely affected.

If we fail to successfully develop and introduce new products and services or increase the efficiency of our products, we will not be able to compete effectively, and our ability to generate revenues will suffer; 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.

As we introduce new or enhanced products or integrate new technology into our products, we will face risks relating to such transitions including, among other things, technical challenges, disruption in customers' ordering patterns, insufficient supplies of new products to meet customers' demand, possible product and technology defects arising from the integration of new technology and a potentially different sales and support environment relating to any new technology. Our failure to manage the transition to newer products or the integration of newer technology into our products could adversely affect our business' operating results and financial results.

The solar power market is characterized by continually changing technology requiring improved features, such as increased efficiency and higher power output and improved aesthetics. This will require 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, including thin film solar panels, concentrating solar cells or other solar technologies, 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. 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 effectively compete in the future.

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 investors can base their 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 Philippines facilities significantly beyond their 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, investors 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 programs to partially fund our research and development programs could impair our ability to commercialize our solar power products and services and increase our research and development expenses.

We intend to continue our policy of selectively pursuing contract research, product development and market development programs funded by various agencies of the federal and state governments to complement and enhance our own resources. Funding from government grants is generally recorded as an offset to our research and development expense. During the nine months ended September 30, 2007, funding from government grants, agreements and contracts offset approximately 10% our total research and development expense, excluding in-process research and development. In addition, in the third quarter of 2007, we signed a Solar America Initiative agreement with the U.S. Department of Energy in which we were awarded $8.5 million in the first budgetary period. Total funding for the three-year effort is estimated to be $24.7 million. Our cost share requirement under this program, including lower-tier subcontract awards, is anticipated to be $27.9 million.

These government agencies may not continue their commitment to programs relevant to our development projects. Moreover, we may not be able to compete successfully to obtain funding through these or other programs. A reduction or discontinuance of these programs or of our participation in these programs would materially increase our research and development expenses, which would adversely affect our profitability and could impair our ability to develop our solar power products and services. In addition, contracts involving government agencies may be terminated or modified at the convenience of the agency. Many of our systems segment government awards also contain royalty provisions that require it to pay certain amounts based on specified formulas. Government awards are subject to audit and governmental agencies may dispute its royalty calculations. Any such dispute could result in fines, increased royalty payments, cancellation of the agreement or other penalties, which could have material adverse effect on our business and results of operations.

Our systems segment government-sponsored research contracts 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 its sensitive confidential information. Moreover, the failure to provide accurate or complete reports may provide the government with rights to any intellectual property arising from the related research. Funding from government awards also may limit when and how we can deploy our products and services developed under those contracts. For example, government awards may require that the manufacturing of products developed with federal funding be substantially conducted in the United States. In addition, technology and intellectual property that we develop with government funding provides the government with “march-in” rights. March-in rights refer to the right of the government or a government agency to require us to grant a license to the developed technology or products to a responsible applicant or, if it refuses, 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. In addition, government awards may include a provision providing the government with a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced each subject invention developed under an award throughout the world by or on behalf of the government. Additional rights to technical data may be granted to the government in recognition of funding.

Because the markets in which we compete are highly competitive, we may not be able to compete successfully and we may lose or be unable to gain market share.

Our components solar products 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, Sharp Corporation, First Solar, SolarWorld AG and Suntech Power Holdings Co., Ltd. In addition, universities, research institutions and other companies such as First Solar have brought to market alternative technologies such as thin films and concentrators, which may compete with our technology in certain applications. 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.

Our systems solar power products and services also compete against other power generation sources including conventional fossil fuels supplied by utilities, other alternative energy sources such as wind, biomass, CSP and emerging distributed generation technologies such as micro-turbines, sterling engines and fuel cells. In the large-scale on-grid solar power systems market, we will face direct competition from a number of companies that manufacture, distribute, or install solar power systems. Many of these companies sell our products as well as their own or those of other manufacturers. Our systems segment primary competitors in the United States include Arizona Public Service Company, BP Solar International, Inc., a subsidiary of BP p.l.c., Conergy Inc., DT Solar, Eastwood Energy, EI Solutions, Inc., GE Energy, a subsidiary of General Electric Corporation, Global Solar Energy, Inc., a subsidiary of Solon, Power-Fab, Schott Solar, Inc., Solar Integrated Technologies, Inc., SPG Solar, Inc., Sun Edison LLC, SunTechnics Installation & Services, Inc., Thompson Technology Industries, Inc. and WorldWater & Power Corporation. Our systems segment primary competitors in Europe include BP Solar, Conergy (through its subsidiaries AET Alternitive Energie Technik GmbH, SunTechnics Solartechnik GmbH and voltwerk AG), PV-Systemtechnik Gbr, SAG Solarstrom AG, Solon AG and Taufer Solar GmbH. In addition, we will occasionally compete with distributed generation equipment suppliers such as Caterpillar, Inc. and Cummins Inc. Other existing and potential competitors in the solar power market include universities and research institutions. We also expect that future competition will include new entrants to the solar power market offering new technological solutions. As we enter new markets and pursue additional applications for our systems products and services, we expect to face increased competition, which may result in price reductions, reduced margins or loss of market share.

Competition is intense, and many of our competitors have significantly greater access to financial, technical, manufacturing, marketing, management and other resources than we do. Many also have greater name recognition, a more established distribution network and a larger installed base of customers. In addition, many of our competitors have well-established relationships with our current and potential suppliers, resellers and their customers and have extensive knowledge of our target markets. As a result, these competitors may be able to devote greater resources to the research, development, promotion and sale of their products and respond more quickly to evolving industry standards and changing customer requirements than we will be able to. Consolidation or strategic alliances among such competitors may strengthen these advantages and may provide them greater access to customers or new technologies. We may also face competition from some of our systems segment resellers, who may develop products internally that compete with our systems product and service offerings, or who may enter into strategic relationships with or acquire other existing solar power system providers. To the extent that government funding for research and development grants, customer tax rebates and other programs that promote the use of solar and other renewable forms of energy are limited, we will compete for such funds, both directly and indirectly, with other renewable energy providers and their customers.

If we cannot compete successfully in the solar power industry, our operating results and financial condition will be adversely affected. Furthermore, we expect competition in systems markets to increase, which could result in lower prices or reduced demand for our systems services and have a material adverse effect on our business and results of operations.

We expect to continue to make significant capital expenditures, particularly in our manufacturing facilities, 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 facilities, including, for example, through building purchases or long-term leases. We anticipate that our expenses will increase substantially in the foreseeable future as we expand our manufacturing operations, hire additional personnel, pay more or make advance payments for raw material, especially polysilicon, increase our sales and marketing efforts, invest in joint ventures and acquisitions, and continue our research and development efforts with respect to our products and manufacturing technologies. We expect total capital expenditures of approximately $210 million in 2007 as we continue to increase our solar cell and solar panel manufacturing capacity. These expenditures would be greater if we decide to bring capacity on line more rapidly. We believe that our current cash and cash equivalents and funds available under our credit agreement with Wells Fargo and the proceeds from our follow-on offerings completed in February and July of 2007 will be sufficient to fund our capital and operating expenditures over 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. We may also issue equity securities in the future to suppliers of raw materials in order to secure adequate materials to satisfy our production needs. The sale of additional equity securities

or convertible debt securities would result in additional dilution to our stockholders. Cypress Semiconductor Corporation, which retains voting control over us, may be unwilling to permit us to engage in dilutive financing events for tax-related or other reasons. Additional debt would result in increased expenses and could require us to abide by covenants that would restrict our operations. Our credit facilities contain customary covenants and defaults, including, among others, limitations on dividends, incurrence of indebtedness and liens and mergers and acquisitions and may restrict our operating flexibility. If adequate funds are not available on acceptable terms or terms consistent with any new our credit agreement we may enter into, 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.

The demand for products requiring significant initial capital expenditures such as our solar power products and services are affected by general economic conditions, such as increasing interest rates that may decrease the return on investment for certain customers or investors in projects, which could decrease demand for our systems products and services and which could have a material adverse effect on our business and results of operations.

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. 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.

We have benefited from historically low interest rates in recent years, as these rates have made it more attractive for our customers to use debt financing to purchase our solar power systems. Interest rates have fluctuated recently and may eventually continue to rise, which will likely increase the cost of financing these systems and may reduce an operating company’s profits and investors’ expected returns on investment. This risk is becoming more significant to our systems segment, which is placing increasing reliance upon direct sales to financial institutions which sell electricity to end customers under a power purchase agreement. This sales model is highly sensitive to interest rate fluctuations and the availability of liquidity, and would be adversely affected by increases in interest rates or liquidity constraints. Rising interest rates may also make certain alternative investments more attractive to investors, and therefore lead to a decline in demand for our solar power systems, which could have a material adverse effect on our business and results of operations.

One of our key products, the PowerTracker ®, now referred to as SunPower™ Tracker, was acquired through an assignment and acquisition of the patents associated with the product from a third-party individual, and if we are unable to continue to use this product, our business, prospects, operating results and financial condition would be materially harmed.

In September 2002, SP Systems entered into a Technology Assignment and Services Agreement and other ancillary agreements with Jefferson Shingleton and MaxTracker Services, LLC, a New York limited liability company controlled by Mr. Shingleton. These agreements form the basis for its intellectual property rights in its PowerTracker ® products. Under such agreements, as later amended, Mr. Shingleton assigned to SP Systems his MaxTracker ™, MaxRack ™, MaxRack Ballast ™ and MaxClip ™ products and all related intellectual property rights. Mr. Shingleton is obligated to provide consulting services to SP Systems related to such technology until December 31, 2012 and is required to assign to SP Systems any enhancements he makes to the technology while providing such consulting services. Mr. Shingleton retains a first security interest in the patents and patent applications assigned until the earlier of the expiration of the patents, full payment by SP Systems to Mr. Shingleton of all of the royalty obligations under the Technology Assignment and Services Agreement, or the termination of the Technology Assignment and Services Agreement. In the event of SP Systems’ default under the Technology Assignment and Services Agreement, MaxTracker Services and Mr. Shingleton may terminate the agreements and the related assignments and cause the intellectual rights assigned to it to be returned to Mr. Shingleton or MaxTracker Services, including patents related to SunPower™ Tracker. In addition, upon such termination, SP Systems must grant Mr. Shingleton a perpetual, non-exclusive, royalty-free right and license to use, sell, and otherwise exploit throughout the world any intellectual property MaxTracker Services or Mr. Shingleton developed during the provision of consulting services to SP Systems. Events of default by SP Systems which could enable Mr. Shingleton or Max Tracker Services to terminate the agreements and the related assignments and cause the intellectual rights assigned to it to be returned to Mr. Shingleton or MaxTracker Services include the following:

- if SP Systems files a petition in bankruptcy or equivalent order or petition under the laws of any jurisdiction;

- if a petition in bankruptcy or equivalent order or petition under the laws of any jurisdiction is filed against it which is not dismissed within 60 days of such filing;

- if SP Systems’ assets are assigned for the benefit of creditors;

- if SP Systems voluntarily or involuntarily dissolves;

- if SP Systems fails to pay any amount due under the agreements when due and does not remedy such failure to pay within 10 days of written notice of such failure to pay; or

- if SP Systems defaults in the performance of any of its material obligations under the agreements when required (other than payment of amounts due under the agreements), and such failure is not remedied within 30 days of written notice to it of such default from Mr. Shingleton or MaxTracker Services. However, if such a default can reasonably be cured after the 30-day period, and SP Systems commences cure of such default within 30-day period and diligently prosecutes that cure to completion, such default does not trigger a termination right unless and until SP Systems ceases commercially reasonable efforts to cure such default.

If we are unable to continue to use and sell SunPower™ Tracker as a result of the termination of the agreements and the related assignment or any other reason, our business, prospects, operating results and financial condition would be materially harmed.

We are dependent on our intellectual properties, and we may face intellectual property infringement claims that could be time-consuming and costly to defend and could result in the loss of significant rights.

From time to time, we, our respective 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 investors that we will not be subject to such claims in the future. Additionally, 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 investors that indemnification claims will not be made or that these claims will not harm our business, operating results or financial condition. Intellectual property litigation is very 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. Any of these judgments could materially damage our business. We may have to develop non-infringing technology, and our failure in doing so or in 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.

We cannot guarantee that infringement of our intellectual property by other parties 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. 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 efforts may not be successful. Our participation in intellectual property enforcement actions may negatively impact our financial results.

We may not be able to prevent others from using the SunPower and PowerLight names or similar marks 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 and the European Community 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. 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. In addition, we may have difficulty in establishing strong brand recognition with consumers if others use similar marks for similar products.

We hold registered trademarks for SunPower®, PowerLight®, PowerGuard®, PowerTracker® and SunTile® in the United States and registered trademarks for SunPower®, PowerLight®, and PowerGuard® in the European Community. We have not registered, and may not be able to register, these trademarks elsewhere.

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 or solar system components 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 and solar system components 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 September 30, 2007, including the United States and foreign countries, we owned 74 issued patents and jointly owned another three patents, and had 109 pending patent applications. These patent applications cover aspects of the technology in the solar cells we currently manufacture and market. Other than two process patents that we currently own or license-in, these do not cover the solar cells that we presently manufacture and market. Material patents that relate to our systems products and services primarily relate to PowerGuard ®, PowerTilt ™ and PowerTracker ®. We intend to continue to seek patent protection for those aspects of our technology, designs, and methodologies and processes that we believe provide significant competitive advantages.

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 our ability to effectively obtain patents is decreased due to changes in patent laws or changes in the rules propagated by the US Patent and Trademark Office, or if we need to re-file 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.

Current legislation is being considered which would make numerous changes to the patent laws, including forcing patent litigation to be filed in the defendant’s home court, reducing damage awards for infringement and require specific proof of market value of invention as compared to the closest prior art, limiting enhanced damages to only a small subset of willfully infringing actions, creating a new, expanded post-grant opposition procedure, creating expanded rights for third parties to submit prior art, changing to a first-to-file system (creating a whole new set of prior art). Additionally, current rules being promulgated by the U.S. Patent and Trademark Office may limit our ability to extract inventions from pending U.S. patent applications. Additionally, based on situations such as newly discovered prior art, we may need to re-file some of our patent applications. 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 could shorten our period of patent exclusivity. A shortened period of patent exclusivity may negatively impact our revenue protected by our patents.

Our success depends on the continuing contributions of our key personnel.

We rely heavily on the services of our key executive officers and the loss of services of any principal member of our management team 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 our key executive officers, serve at-will and may terminate their employment at any time for any reason.

We may be harmed by liabilities arising out of our acquisition of SP Systems and the indemnity the selling stockholders have agreed to provide may be insufficient to compensate us for these damages.

On January 10, 2007, we completed our previously announced acquisition, or the Acquisition, of SP Systems, formerly known as PowerLight Corporation. SP Systems’ former stockholders made representations and warranties to us in the Acquisition agreement, including those relating to the accuracy of its financial statements, the absence of litigation and environmental matters and the consents needed to transfer permits, licenses and third-party contracts in connection with our acquisition of SP Systems. To the extent that we are harmed by a breach of these representations and warranties, SP Systems’ former stockholders have agreed to indemnify us for monetary damages from an escrowed proceeds account. In most cases we are required to absorb approximately the first $2.4 million before we are entitled to indemnification. The escrowed proceeds account is limited to $24.2 million in cash and 724,000 shares of our class A common stock, of which approximately one-half of the original escrow will be released (less any pending claims) at the first anniversary of the closing date. Our rights to recover damages under several provisions of the Acquisition agreement will also expire on the first anniversary of the closing date. After the first anniversary of the closing date we will be entitled to recover only limited types of losses, and our recovery will be limited to the amount available in the escrow fund at the time of a claim. The amount available in the escrow fund will be progressively reduced to zero over the period from the first to the fifth anniversaries of the closing date. We may incur liabilities from this acquisition which are not covered by the representations and warranties set forth in the agreement or which are non-monetary in nature. Consequently, our acquisition of SP Systems may expose us to liabilities for which we are not entitled to indemnification or our indemnification rights are insufficient.

Charges to earnings resulting from the application of the purchase method of accounting to the Acquisition may adversely affect the market value of our class A common stock.

In accordance with generally accepted accounting principles in the United States, or U.S. GAAP, we accounted for the Acquisition using the purchase method of accounting. Further, a portion of the purchase price paid in the Acquisition has been allocated to in-process research and development. Under the purchase method of accounting, we allocated the total purchase price to SP Systems’ net tangible assets and intangible assets based on their fair values as of the date of completion of the Acquisition and recorded the excess of the purchase price over those fair values as goodwill. We will incur amortization expense over the useful lives of amortizable intangible assets acquired in connection with the Acquisition. In addition, to the extent the value of goodwill and long lived assets becomes impaired, we may be required to incur material charges relating to the impairment of those assets. Further, we may be impacted by nonrecurring charges related to reduced gross profit margins from the requirement to adjust SP Systems’ inventory to fair value. Finally, we will incur ongoing compensation charges associated with assumed options, equity held by employees of SP Systems and subjected to equity restriction agreements, and restricted stock granted to employees of our SP Systems business. We estimate that these charges will aggregate approximately $78.2 million, majority of which will be recognized in the first two years and lesser amounts in the succeeding two years. Any of the foregoing charges could have a material impact on our results of operations.

Our headquarters and other facilities, as well as the facilities of certain of our key subcontractors, are located in regions that are subject to earthquakes and other natural disasters.

Our headquarters, including research and development operations, our manufacturing facilities and the facilities of our 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 California, our manufacturing facilities are located in the Philippines, and the facilities of our subcontractor for assembly and test of solar panels are 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.

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, U.S. 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 operations, and we believe that we have all necessary permits to conduct their respective operations as they are 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. Under our separation agreement with Cypress, we will indemnify Cypress from any environmental liabilities associated with our operations and facilities in San Jose, California and the Philippines.

We maintain self-insurance for certain indemnities we have made to our officers and directors.

Our certificate of incorporation, by-laws and indemnification agreements require us to indemnify our officers and directors for certain liabilities that may arise in the course of their service to us. We primarily self-insure with respect to potential indemnifiable claims. Although we have insured our officers and directors against certain potential third-party claims for which we are legally or financially unable to indemnify them, we intend to primarily self-insure with respect to potential third-party claims which give rise to direct liability to such third-party or an indemnification duty on our part. If we were required to pay a significant amount on account of these liabilities for which we self-insure, our business, financial condition and results of operations could be seriously harmed.

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

We prepare our financial statements to conform with U.S. GAAP. 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 combined 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 conducts our business. For example, accounting policies affecting many aspects of our business, including rules relating to employee stock option grants and existing joint ventures, have recently been revised, or new guidance relating to outstanding convertible debt are being proposed.

The Financial Accounting Standards Board, or the FASB, and other agencies have made changes to U.S. GAAP, that required U.S. companies, starting in the 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 awards that could reduce our net income or increase our net loss. In addition, since we have historically 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.In December 2003, the FASB issued the FASB Staff Position FASB Interpretation No. 46 “Consolidation of Variable Interest Entities”, or FSP FIN 46(R). The accounting method under FSP FIN 46(R) may impact our accounting for certain existing or future joint ventures. In the event that we are deemed the primary beneficiary of a Variable Interest Entity (VIE) subject to the accounting of FSP FIN 46(R), we may have to consolidate the assets, liabilities and financial results of the joint venture. This could have an adverse impact on our financial position, gross margin and operating results.

With respect to our existing debt securities, we are not required under U.S. GAAP as presently in effect to record any interest or other expense in connection with our obligation to deliver upon conversion a number of shares (or an equivalent amount of cash) having a value in excess of the outstanding principal amount of the debentures. We refer to this obligation as our “net share obligation”. The accounting method for net share settled convertible securities such as ours is currently under consideration by the FASB. In September 2007, the FASB issued a proposed FASB Staff Position APB 14-a, which clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion. The proposed guidance, if issued in final form, would significantly impact the accounting for our existing debt securities. The proposed guidance would require us to separately account for the liability and equity components of our existing debt securities in a manner that reflects interest expense equal to our non-convertible debt borrowing rate. The proposed guidance, if approved, would be effective for fiscal years beginning after December 15, 2007, and retrospective application would be required for all periods presented. If the proposed position were adopted, it is expected to cause us to incur additional interest expense and potentially increase our cost of capital equipment and future depreciation expense due to capitalized interest, thereby reducing our operating results.

In addition, because the 1.8 million shares of class A common stock loaned to CSI in July 2007 must be returned to us prior to August 1, 2027, we believe that under U.S. GAAP as presently in effect, the borrowed shares will not be considered outstanding for the purpose of computing and reporting our earnings per share. We have a similar belief with respect to the 2.9 million shares of class A common stock we loaned to an affiliate of Lehman Brothers Inc. in connection with our February 2007 offering of 1.25% senior convertible debentures due 2027. This accounting method is also subject to change. If we become required to treat the borrowed shares as outstanding for purposes of computing earnings per share, our earnings per share would be reduced. Any reduction in our earnings per share could cause our stock price to decrease, possibly significantly.

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.

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 the effectiveness of our internal control over financial reporting. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. We are complying 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, or that we or our independent registered public accounting firm will be able to provide the attestation and opinion required under Section 404 in our Annual Reports on Form 10-K. 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 Global Market and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price.

The development of a unified system of controls over financial reporting may take a significant amount of management's time and attention and, if not completed in a timely manner, could negatively impact us.

Prior to our acquisition of SP Systems in January 2007, SP Systems was not required to report on the effectiveness of its internal controls over financial reporting because it was not subject to the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. In August 2006, the audit committee of SP Systems received a letter from that company's independent auditors identifying certain material weaknesses in that company's internal controls over financial reporting relating to that company's audits of its consolidated financial statements for 2005, 2004 and 2003. These material weaknesses included problems with financial statement close processes and procedures, inadequate accounting resources, unsatisfactory application of the percentage of completion accounting method, inaccurate physical inventory counts, incorrect accounting for complex capital transactions and inadequate disclosure of related party transactions. In addition, SP Systems had to restate its 2004 and 2003 financial statements to correct previously reported amounts primarily related to its contract revenue, contract costs, accrued warranty, California state sales taxes and inventory items. In July 2007, subsequent to our acquisition of SP Systems, its independent auditors completed their audit of SP Systems' 2006 financial statements. In connection with that audit, our audit committee received a letter from the independent auditors of SP Systems identifying significant deficiencies in SP Systems' internal controls over financial reporting.

We have begun remediation efforts with respect to the material weaknesses and significant deficiencies identified by SP Systems' independent auditors. Although initiated, our plans to improve these internal controls and processes are not complete. While we expect to complete this remediation process as quickly as possible, doing so depends on several factors beyond our control, including the hiring of additional qualified personnel and, as a result, we cannot at this time estimate how long it will take to complete

the steps identified above. Our management will continue to evaluate the effectiveness of the control environment in our systems segment and will continue to develop and enhance SP Systems' internal controls. We cannot assure investors that the measures we have taken to date or any future measures will remediate the material weaknesses reported by SP Systems' independent auditors. Additional deficiencies in our internal controls may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our prior period financial statements. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

Our report on internal controls over financial reporting in our annual report on Form 10-K for the fiscal year ended December 31, 2006 and our quarterly reports on Form 10-Q for the quarters ended April 1, 2007, July 1, 2007 and September 30, 2007 did not include an assessment of SP Systems' internal controls. We are not required to include SP Systems, which now makes up our Systems Segment, in our report on internal controls until our annual report on Form 10-K for the fiscal year ending December 28, 2008. Unanticipated factors may hinder the effectiveness or delay the integration of our combined internal control systems post-acquisition. We cannot be certain as to whether we will be able to establish an effective, unified system of internal controls over financial reporting in a timely manner, or at all.

Our credit agreement with Wells Fargo Bank, N.A. contains covenant restrictions that may limit our ability to operate our business.

Our Credit Agreement with Wells Fargo Bank, N.A. contains, and any of our other future debt agreements may contain, covenant restrictions that limit our ability to operate our business, including restrictions on our ability to:

- incur additional debt or issue guarantees;
- create liens;
- make certain investments;
- enter into transactions with our affiliates;
- sell certain assets;
- redeem capital stock or make other restricted payments;
- declare or pay dividends or make other distributions to stockholders; and
- merge or consolidate with any person.

In addition, our credit agreement contains additional affirmative and negative covenants that are more restrictive than those contained in the indenture governing the debentures. Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions.

As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, our failure to comply with these covenants could result in a default under the debentures and our other debt, which could permit the holders to accelerate such debt. If any of our debt is accelerated, we may not have sufficient funds available to repay such debt.

Risks Related to Our Debentures and Class A Common Stock

Conversion of our outstanding debentures will dilute the ownership interest of existing stockholders, including holders who had previously converted their debentures.

To the extent we issue class A common stock upon conversion of debentures, the conversion of some or all of such debentures will dilute the ownership interests of existing stockholders, including holders who had previously converted their debentures. Any sales in the public market of the class A common stock issuable upon such conversion could adversely affect prevailing market prices

of our class A common stock. In addition, the existence of our outstanding debentures may encourage short selling of our common stock by market participants who expect that the conversion of the debentures could depress the price of our class A common stock.

Substantial future sales or other dispositions of our class A common stock or other securities, or short selling activity, could cause our stock price to fall.

Sales of our class A common stock in the public market or sales of any of our other securities, or the perception that such sales could occur, could cause the market price of our class A common stock to decline. As of September 30, 2007, we had 84,299,860 shares of class A common stock outstanding, and Cypress owned the 44,533,287 outstanding shares of our class B common stock, representing approximately 57% of the total outstanding shares of our common stock. Cypress, its successors in interest and its subsidiaries may convert their shares of our class B common stock into class A common stock at any time. Subject to applicable United States 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. In late 2006, Cypress announced that it was exploring ways in which to allow its stockholders to fully realize the value of its investment in our company. Since that date, Cypress has made public statements and taken actions that are consistent with these announcements. In May 2007, Cypress sold 7.5 million shares of our class B common stock to an unaffiliated third party in an offering pursuant to Rule 144 under the Securities Act. Upon the completion of that sale, such shares automatically, by their terms, converted into 7.5 million shares of our class A common stock.

If Cypress elects to convert its shares of our class B common stock into shares of our class A common stock, an additional 44,533,287 shares of our class A common stock will be available for sale, subject to customary sales restrictions. In addition, except in limited circumstances, Cypress has the right to cause us to register the sale of its shares of our class B common stock or class A 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.

If Cypress distributes to its stockholders shares of our class B common stock that it owns, 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 class A 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 or class B common stock would be in the market at that time.

We have filed registration statements covering 2,651,454 shares of class A common stock issuable under outstanding options under various equity incentive plans and, as of September 30, 2007, have 718,000 shares reserved for future issuance under our 2005 Stock Incentive Plan. We have also registered for resale up to 4,106,884 shares of class A common stock for resale by holders of former PowerLight shares. Although some of these shares have already been sold into the market, the remaining shares are available for sale, although sales of shares held by former PowerLight shareholders who are now affiliates of SunPower are subject to sales restrictions under the Securities Act. Some of the aggregate of 4,747,132 shares of class A common stock that we lent to underwriters of our debenture offerings are being restricted by such underwriters to facilitate later hedging arrangements of future purchases for debentures in the after-market. These shares may be freely sold into the market by the underwriters at any time, and such sales could depress our stock price. In addition, any hedging activity facilitated by our debenture underwriters would involve short sales or privately negotiated derivatives transactions. These or other similar transactions could further negatively affect our stock price.

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 securities prices and trading volumes could decline.

The trading markets for our class A common stock and debentures are 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 and debenture prices 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 securities prices or trading volumes to decline.

The price of our class A common stock, and therefore of our outstanding debentures, may fluctuate significantly, and a liquid trading market for our class A common stock may not be sustained.

Our class A common stock has a limited trading history in the public markets. 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. In addition, the stock market in general, and The Nasdaq Global Market and the securities of technology companies in particular, have experienced extreme price and volume fluctuations. These trading prices and valuations, including our own market valuation and those of companies in our industry generally, 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. Because the debentures are convertible into our class A common stock, volatility or depressed prices of our class A common stock could have a similar effect on the trading price of these debentures. 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.

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

The rights of class A and class B common stock are substantially similar, except with respect to voting, conversion and other protective provisions. The class B common stock is entitled to eight votes per share and the class A common stock is 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 reduce the value of our class A common stock to the extent that any investor or potential future purchaser of our common stock ascribes value to the right of our class B common stock to eight votes per share. The existence of two classes of common stock trading simultaneously in the public markets could result in less liquidity for either class of common stock than if there were only one class of our common stock being traded.

Delaware law and our certificate of incorporation 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 and bylaws 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 10,042,490 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 successor 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: (1) adopt, amend or repeal our bylaws or certificate of incorporation; (2) appoint or remove our chief executive officer; (3) designate, appoint or allow for the nomination or recommendation for election by our stockholders of an individual to our board of directors; (4) change the size of our board of directors to be other than in the range of five to seven members; (5) 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; (6) adopt any stockholder rights plan, "poison pill" or other similar arrangement; or (7) 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, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, or the DGCL. 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.

Provisions of our outstanding debentures could discourage an acquisition of us by a third party.

Certain provisions of our outstanding debentures could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of our outstanding debentures will have the right, at their option, to require us to repurchase, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest on the debentures, all of their debentures or any portion of the principal amount of such debentures in integral multiples of $1,000. We may also be required to issue additional shares of our class A common stock upon conversion of such debentures in the event of certain fundamental changes.

We currently have a significant amount of debt outstanding. Our substantial indebtedness, along with our other contractual commitments, could adversely affect our business, financial condition and results of operations, as well as our ability to meet any of our payment obligations under the debentures and our other debt.

We currently have, and, as a result of our recent public offering will continue to have, a significant amount of debt and debt service requirements. As of September 30, 2007, after giving effect to our July 2007 offering of debentures, we had $425.0 million of outstanding debt for borrowed money.

This level of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the debentures and our other outstanding debt;

- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;

- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our new credit facility;

- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and

- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the debentures and our other debt.

In addition, we also have significant contractual commitments for the purchase of polysilicon, some of which involve prepayments, and we may enter into additional, similar agreements in the future. These commitments could have an adverse effect on our liquidity and our ability to meet our payment obligations under the debentures and our other debt.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure investors that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or any future credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under our outstanding debentures and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our

debt, including our outstanding debentures, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the debentures and our other debt and other obligations.

Our outstanding debentures are effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries.

Our outstanding debentures are our general, unsecured obligations and rank equally in right of payment with all of our existing and future unsubordinated, unsecured indebtedness. All of our $425.0 million in outstanding principal amount of debentures rate equally in right of payment. Our outstanding debentures are effectively subordinated to our existing and any future secured indebtedness we may have to the extent of the value of the assets securing such indebtedness, and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The debentures do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment.

The terms of our outstanding debentures do not contain restrictive covenants and provide only limited protection in the event of a change of control.

The indentures under which our outstanding debentures were issued do not contain restrictive covenants that would protect holders from several kinds of transactions that may adversely affect them. In particular, the indentures do not contain covenants that will limit our ability to pay dividends or make distributions on or redeem our capital stock or limit our ability to incur additional indebtedness and, therefore, may not protect holders of our debentures in the event of a highly leveraged transaction or other similar transaction. The requirement that we offer to repurchase our outstanding debentures upon a change of control is limited to the transactions specified in the definitions of a “fundamental change” in the indentures. Similarly, the circumstances under which we are required to adjust the conversion rate upon the occurrence of a “non-stock change of control” are limited to circumstances where a debenture is converted in connection with such a transaction as set forth in the indentures.

Accordingly, subject to restrictions contained in our other debt agreements, we could enter into certain transactions, such as acquisitions, refinancings or recapitalizations, that could affect our capital structure and the value of the debentures and our class A common stock but would not constitute a fundamental change under the debentures.

We may be unable to repurchase the debentures for cash when required by the holders, including following a fundamental change.

Holders of our outstanding debentures have the right to require us to repurchase such debentures on specified dates or upon the occurrence of a fundamental change prior to maturity as described in the indentures governing such debentures. We may not have sufficient funds to make the required repurchase in cash at such time or the ability to arrange necessary financing on acceptable terms. In addition, our ability to repurchase the debentures in cash may be limited by law or the terms of other agreements relating to our debt outstanding at the time, including our current credit facility which limits our ability to purchase the debentures for cash in certain circumstances. If we fail to repurchase the debentures in cash as required by the indenture governing the debentures, it would constitute an event of default under each indenture governing our outstanding debentures, which, in turn, would constitute an event of default under our credit facility and the other indenture.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase our outstanding debentures.

Upon the occurrence of a fundamental change, holders of our debentures will have the right to require us to repurchase their debentures. However, the fundamental change provisions of our indentures will not afford protection to holders of debentures in the event of certain transactions. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us, as well as stock acquisitions by certain companies, would not constitute a fundamental change requiring us to repurchase the debentures. In the event of any such transaction, holders of debentures would not have the right to require us to repurchase their debentures, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of our debentures.

The adjustment to the conversion rates of our outstanding debentures upon the occurrence of certain types of fundamental changes may not adequately compensate holders for the lost option time value of their debentures as a result of such fundamental change.

If certain types of fundamental changes occur prior to August 1, 2010 with respect to our 0.75% debentures or prior to February 13, 2012 with respect to our 1.25% debentures, we may adjust the conversion rate of the debentures to increase the number of shares issuable upon conversion. The number of additional shares to be added to the conversion rate will be determined based on the date on which the fundamental change becomes effective and the price paid per share of our class A common stock in the fundamental change as described in the indentures for such debentures. Although this adjustment is designed to compensate holders for the lost option value of their debentures as a result of certain types of fundamental changes, the adjustment is only an approximation of such lost value based upon assumptions made at the time when their debentures were issued and may not adequately compensate them for such loss. In addition, with respect to our 0.75% debentures, if the price paid per share of our class A common stock in the fundamental change is less than $64.50 or more than $155.00 (subject to adjustment), or if such transaction occurs on or after August 1, 2010, there will be no such adjustment. Moreover, in no event will the total number of shares issuable upon conversion as a result of this adjustment exceed 15.5039 per $1,000 principal amount of the 0.75% debentures, subject to adjustment for stock splits, combinations and the like. With respect to our 1.25% debentures, if the price paid per share of our class A common stock in the fundamental change is less than $44.51 or more than $135.00 (subject to adjustment), or if such transaction occurs on or after February 15, 2012, there will be no such adjustment. Moreover, in no event will the total number of shares issuable upon conversion as a result of this adjustment exceed 22.4668 per $1,000 principal amount of the 1.25% debentures, subject to adjustment for stock splits, combinations and the like.

There is currently no public market for our outstanding debentures, and an active trading market may not develop for these debentures. The failure of a market to develop for our debentures could adversely affect the liquidity and value of our debentures.

We do not intend to apply for listing of the debentures on any securities exchange or for quotation of the debentures on any automated dealer quotation system. Although we have been advised by the underwriters that the underwriters intend to make a market in the debentures, none of the underwriters is obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market, if any, for the debentures.

An active market may not develop for any of our outstanding debentures, and there can be no assurance as to the liquidity of any market that may develop for the debentures. If active, liquid markets do not develop for our debentures, the market price and liquidity of the affected debentures may be adversely affected. Any of the debentures may trade at a discount from their initial offering price.

The liquidity of the trading market and future trading prices of our debentures will depend on many factors, including, among other things, the market price of our class A common stock, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for our debentures will be subject to disruptions which may have a negative effect on the holders of these debentures, regardless of our operating results, financial performance or prospects.

Upon any conversion of our outstanding debentures, we will pay cash in lieu of issuing shares of our class A common stock with respect to an amount up to the principal amount of debentures converted. We retain the right to satisfy any remaining conversion obligation, in whole or part, in additional shares of class A common stock or, in the case of our 0.75% debentures, in cash, based upon a predetermined formula. Therefore, upon conversion, holders of our debentures may not receive any shares of our class A common stock, or may receive fewer shares than the number into which their debentures would otherwise be convertible.

Upon any conversion of debentures, we will pay cash in lieu of issuing shares of our common stock with respect to an amount up to the principal amount of debentures converted. We retain the right to satisfy any remaining conversion obligation, in whole or part, in additional shares of our class A common stock or, in the case of our 0.75% debentures, in cash, with respect to the conversion value in excess thereof, based on a daily conversion value (as defined herein) calculated based on a proportionate basis for each day of the 20 trading day conversion period. Accordingly, upon conversion of debentures, holders may not receive any shares of our class A common stock. In addition, because of the 20 trading day calculation period, in certain cases, settlement will be delayed until at least the 26th trading day following the related conversion date. Moreover, upon conversion of debentures, holders may receive less proceeds than expected because the price of our class A common stock may decrease (or not appreciate as much as they may expect) between the conversion date and the day the settlement amount of their debentures is determined. Further, as a result of cash payments, our liquidity may be reduced upon conversion of the debentures. In addition, in the event of our bankruptcy, insolvency or certain similar proceedings during the conversion period, there is a risk that a bankruptcy court may decide a holder’s claim to receive such cash and/or shares could be subordinated to the claims of our creditors as a result of such holder’s claim being treated as an equity claim in bankruptcy.

The conditional conversion features of our outstanding debentures could result in holders receiving less than the value of the class A common stock into which a debenture would otherwise be convertible.

At certain times, the debentures are convertible into cash and, if applicable, shares of our class A common stock only if specified conditions are met. If these conditions are not met, holders will not be able to convert their debentures at that time, and, upon a later conversion, holders may not be able to receive the value of the class A common stock into which the debentures would otherwise have been convertible had such conditions been met.

The conversion rate of our outstanding debentures may not be adjusted for all dilutive events that may adversely affect their trading prices or the class A common stock issuable upon conversion of these debentures.

The conversion rates of our outstanding debentures are subject to adjustment upon certain events, including the issuance of stock dividends on our class A common stock, the issuance of rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, cash dividends and issuer tender or exchange offers. The conversion rates will not be adjusted for certain other events, including, for example, upon the issuance of additional shares of stock for cash, any of which may adversely affect the trading price of our debentures or the class A common stock issuable upon conversion of the debentures. Even if the conversion price is adjusted for a dilutive event, such as a leveraged recapitalization, it may not fully compensate holders for their economic loss.

Holders of our debentures will not be entitled to any rights with respect to our class A common stock, but they will be subject to all changes made with respect to our class A common stock.

Holders of our debentures will not be entitled to any rights with respect to our class A common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our class A common stock), but they will be subject to all changes affecting our class A common stock. Holders will have rights with respect to our class A common stock only if they convert their debentures, which they are permitted to do only in limited circumstances. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery of our class A common stock to holders, they will not be entitled to vote on the amendment, although they will nevertheless be subject to any changes in the powers, preferences or rights of our class A common stock.

Our outstanding debentures may not be rated or may receive lower ratings than anticipated.

We do not intend to seek a rating on any of our outstanding debentures. However, if one or more rating agencies rates these debentures and assigns them a rating lower than the rating expected by investors, or reduces their ratings in the future, the market price of the affected debentures and our class A common stock could be reduced.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our class A common stock only if it appreciates in value.

We have never declared or paid any cash dividends on our class A common stock. For the foreseeable future, it is expected that earnings, if any, generated from our operations will be used to finance the growth of our business, and that no dividends will be paid to holders of the class A common stock. As a result, the success of an investment in our class A common stock will depend upon any future appreciation in its value. There is no guarantee that our class A common stock will appreciate in value.

Risks Related to Our Relationship with Cypress Semiconductor Corporation

As long as Cypress controls us, the ability of our other stockholders to influence matters requiring stockholder approval will be limited.

As of September 30, 2007, Cypress owned all 44,533,287 shares of outstanding our class B common stock, representing approximately 57% of the total outstanding shares of our common stock, or approximately 53% of such shares on a fully diluted basis after taking into account outstanding options (or 50% of such shares on a fully diluted basis after taking into account outstanding stock options and loaned shares to underwriters of our convertible indebtedness), and 90% of the voting power of our outstanding capital stock.

Shares of our class A common stock and our class B common stock have substantially similar rights, preferences and privileges except with respect to certain voting and conversion rights and other protective provisions. Shares of our class B common stock are entitled to eight votes per share of class B common stock, and shares of our class A common stock are entitled to one vote per share of class A common stock. Cypress, its successors in interest or its subsidiaries may convert their shares of our class B common stock into shares of our class A common stock on a one-for-one basis at any time. Prior to a tax-free distribution by Cypress of its shares of our class B common stock to its stockholders, the class B common shares will automatically convert into shares of class A common stock if such shares are transferred to a person other than Cypress, its successors in interest or its subsidiaries. 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, each outstanding share of class B common stock will automatically convert into one share of class A common stock. If Cypress completes a tax-free distribution of our class B common stock to its stockholders, the distributed class B common stock would not convert into class A common stock. Until such time as our class B common stock converts into our class A common stock or Cypress completes a tax-free distribution of our class B common stock, by virtue of the voting power afforded the shares of our class B common stock, Cypress will be able to effectively 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, by virtue of the voting power afforded the shares of our class B common stock, investors 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 the board of directors, any determination with respect to the combined company's business plans and policies, including the appointment and removal of 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;

- the payment of dividends on our class A common stock; and

- the number of shares available for issuance under our stock plans.

For the reasons described above, Cypress may be unwilling to support certain corporate transactions proposed by us that could dilute its ownership below 40%, including financings or acquisitions effected through the issuance of our securities. In addition, Cypress may have tax-related or other objectives that cause it to be unwilling to support these or other transactions that dilute its ownership below 50%. Cypress's voting control may also discourage transactions involving a change of control of SunPower, including transactions in which holders of our class A common stock might otherwise receive a premium for their shares over the then current market price. After the expiration of such period, Cypress is not prohibited from selling a controlling interest in us to a third party and may do so without approval of holders of our class A common stock and without providing for a purchase of our class A common stock. Accordingly, shares of our class A common stock may be worth less than they would be if Cypress did not maintain voting control over us.

Our ability to continue to manufacture 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 continued success of our relationship with Cypress.

We manufacture our solar cells in a Philippines manufacturing facility which we lease from Cypress, with the option to purchase the facility. We are in the process of expanding existing facilities for solar and panel assembly. 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 sustaining profitability.

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

Our historical financial information does not necessarily reflect what our financial position, results of operations or cash flows would have been had we been an independent entity. The historical costs and expenses reflected in our audited and unaudited 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 reasonable reflections of the utilization of services provided or the benefit received by us. Our 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 such historical financial information to reflect many significant changes that occurred or may yet 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.

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 initial public offering, we entered into various service agreements to retain the ability for specified periods to use these Cypress resources. These agreements will expire upon the earlier or November 2009 or a change of control of our Company. We need to create our own administrative and other support systems or contract with third parties to replace Cypress' systems. In addition, we recently established disclosure controls and procedures and internal control over financial reporting as part of our becoming a separate public company in November 2005. 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 agreements with Cypress expire, 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 or employees and performing other administrative services on a timely basis.

Our agreements with Cypress require us to indemnify Cypress for certain tax liabilities. These indemnification obligations or related considerations may limit our ability to obtain additional financing, participate in future acquisitions or pursue other business initiatives.

We have entered into a tax sharing agreement with Cypress, under which we and Cypress 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 for the entire Cypress group for any particular taxable year that we are a member of the group even though Cypress is required to indemnify us for its taxes pursuant to the tax sharing agreement. As of June 2006, we ceased to be a member of the Cypress consolidated group for federal income tax purposes or state income tax purposes. Thus, to the extent that we become entitled to utilize on our separate tax returns portions of those credit or loss carryforwards existing as of such date, we will distribute to Cypress the tax effect (estimated to be 34% for federal income tax purposes) of the amount of such tax loss carryforwards so utilized and the amount of any credit carryforwards so utilized. We will distribute these amounts to Cypress in cash or in our shares, at our option. Accordingly, we will be subject to the obligations payable to Cypress for any federal income tax credit or loss carryforwards utilized in our federal tax returns. As of December 31, 2006, we had $28.0 million of federal net operating loss carryforwards and approximately $4.8 million of California net operating loss carryforwards, meaning that such potential future payments to Cypress, which would be made over a period of several years, would therefore aggregate approximately $10.0 million.

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 Internal Revenue Code, or the Code, Cypress intends to obtain an opinion of counsel to the effect that such distribution qualifies under Section 355 of the Code. Despite such an opinion, 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 tax sharing agreement includes 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 solely 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. Under current law, following a distribution by Cypress and for up to two years thereafter (or possibly longer if we are acting pursuant to a preexisting plan), our obligation to indemnify Cypress will be triggered only if we issue stock or otherwise participate in one or more transactions other than the distribution in which 50% or more of our voting power or economic value is acquired in financing or acquisition transactions that are part of a plan or series of related transactions that includes the distribution. If such an indemnification obligation is triggered, the extent of our liability to Cypress will generally equal the product of (a) Cypress' top marginal federal and state income tax rate for the year of the distribution, and (b) the difference between the fair market value of our class B common stock distributed to Cypress stockholders and Cypress' tax basis in such stock as determined on the date of the distribution.

For example, under the current tax rules, if Cypress was to make a complete distribution of its shares of our class B common stock, and our total outstanding capital stock at the time of such distribution were 84 million shares, unless we qualified for one of

several safe harbor exemptions available under the Treasury Regulations, in order to avoid our indemnification obligation to Cypress, we could not, for up two years (or possibly longer if we are acting pursuant to a preexisting plan) from the date of Cypress' distribution, issue 84 million or more shares of our class A common stock, nor could we participate in one or more transactions (excluding the distribution itself) in which 42 million or more shares of our then-existing class A common stock were to be acquired in connection with a plan or series of related transactions that includes the distribution. In addition, these limits could be lower depending on certain actions that we or Cypress might take before or after a distribution. If we were to participate in such a transaction, assuming Cypress distributed 44,500,000 shares, Cypress' top marginal income tax rate was 40% for federal and state income tax purposes, the fair market value of our class B common stock was $80.00 per share and Cypress' tax basis in such stock was $5.00 per share on the date of their distribution, then our liability under our indemnification obligation to Cypress would be approximately $1.3 billion.

In order to preserve various options for the separation of our two companies, we and Cypress may seek to preserve Cypress' ownership of our company at certain levels. Any such effort could limit our ability to use our equity to raise capital, pursue acquisitions, compensate employees or engage in other business initiatives. In addition, our ability to use our equity to obtain additional financing or to engage in acquisition transactions for a period of time after a tax-free distribution of our shares by Cypress 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 separation agreements with Cypress, Cypress will 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 investors 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;
- pricing for transitional services;
- 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 entered 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 or their positions as executives or directors at Cypress.

Some of our directors and executive officers own Cypress common stock and/or options to purchase Cypress common stock. 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 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 is specifically applicable to the solar energy business and 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 to its stockholders or otherwise dispose of our common stock that it owns, we will continue to be subject to the risks described above relating to Cypress' control of us if Cypress does not complete such a transaction.

Cypress is not obligated to distribute to its stockholders or otherwise dispose of the shares of our class B common stock that it beneficially owns, although it might elect to do so in the future. Completion of any distribution transaction could be contingent upon, among other things, the receipt of a favorable tax ruling from the Internal Revenue Service, or IRS, and/or a favorable opinion of Cypress' tax advisor as to the tax-free nature of such a transaction for U.S. federal income tax purposes.

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 or lead to volatility in our stock price.

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. In addition, there can be no assurance that Cypress will distribute or otherwise dispose of any of its remaining shares of our class B common stock.

Cypress' ability to replace our board of directors may make it difficult for us to recruit 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 exercise significant control over our board of directors. As such, individuals who might otherwise accept a board position at SunPower may decline to serve, and Cypress may be able to control important decisions made by our Board of Directors.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of SunPower Corporation (incorporated by reference to Exhibit 3.(i)2 of Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on November 15, 2005).
3.2	By-Laws of SunPower Corporation (incorporated by reference to Exhibit 3.(ii)2 to the Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on August 25, 2005).
4.1	Form of Second Supplemental Indenture, dated July 31, 2007, between SunPower Corporation and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2007).
10.1†	Credit Agreement, dated July 13, 2007, between SunPower Corporation and Wells Fargo Bank, National Association.
10.2†	Security Agreement, dated July 13, 2007, between SunPower Corporation and Wells Fargo Bank, National Association.

10.3	Continuing Guaranty, dated July 13, 2007, between SunPower North America, Inc., SunPower Corporation, Systems, and Wells Fargo Bank, National Association.
10.4†	Long-Term Supply Agreement II, dated July 16, 2007, between SunPower Corporation and Hemlock Semiconductor Corporation.
10.5	Share Lending Agreement, dated July 25, 2007, between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2007).
10.6	Amended and Restated Share Lending Agreement, dated July 25, 2007, between SunPower Corporation and Lehman Brothers International (Europe) Limited (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2007).
10.7†	Long-Term Ingot and Wafer Supply Agreement, dated August 9, 2007, between SunPower Corporation and NorSun AS.
10.8†	Long-Term Polysilicon Supply Agreement, dated August 9, 2007, between SunPower Corporation and NorSun AS.
10.9	First Amendment to Credit Agreement, dated August 20, 2007, between SunPower Corporation and Wells Fargo Bank, National Association.
10.10	Second Amendment to Credit Agreement, dated August 31, 2007, between SunPower Corporation and Wells Fargo Bank, National Association.
10.11†	Supply Agreement, dated September 20, 2007, between SunPower Corporation and Wacker Chemie AG.
10.12†	Wafering Supply and Sales Agreement, dated October 1, 2007, between SunPower Philippines Manufacturing Ltd. and First Philec Solar Corp.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Confidential treatment has been requested for portions of this exhibit.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

SUNPOWER CORPORATION

Date November 8, 2007

/s/ EMMANUEL T. HERNANDEZ
Emmanuel T. Hernandez
Chief Financial Officer
(as the Principal Financial Officer
and Chief Accounting Officer)

Index to Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of SunPower Corporation (incorporated by reference to Exhibit 3.(i)2 of Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on November 15, 2005).
3.2	By-Laws of SunPower Corporation (incorporated by reference to Exhibit 3.(ii)2 to the Registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on August 25, 2005).
4.1	Form of Second Supplemental Indenture, dated July 31, 2007, between SunPower Corporation and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2007).

10.1†	Credit Agreement, dated July 13, 2007, between SunPower Corporation and Wells Fargo Bank, National Association.
10.2†	Security Agreement, dated July 13, 2007, between SunPower Corporation and Wells Fargo Bank, National Association.
10.3	Continuing Guaranty, dated July 13, 2007, between SunPower North America, Inc., SunPower Corporation, Systems, and Wells Fargo Bank, National Association.
10.4†	Long-Term Supply Agreement II, dated July 16, 2007, between SunPower Corporation and Hemlock Semiconductor Corporation.
10.5	Share Lending Agreement, dated July 25, 2007, between SunPower Corporation and Credit Suisse International (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2007).
10.6	Amended and Restated Share Lending Agreement, dated July 25, 2007, between SunPower Corporation and Lehman Brothers International (Europe) Limited (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2007).
10.7†	Long-Term Ingot and Wafer Supply Agreement, dated August 9, 2007, between SunPower Corporation and NorSun AS.
10.8†	Long-Term Polysilicon Supply Agreement, dated August 9, 2007, between SunPower Corporation and NorSun AS.
10.9	First Amendment to Credit Agreement, dated August 20, 2007, between SunPower Corporation and Wells Fargo Bank, National Association.
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† Confidential treatment has been requested for portions of this exhibit.

CONFIDENTIAL TREATMENT REQUESTED
—
CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") is entered into as of July 13, 2007, by and between SUNPOWER CORPORATION, a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
CREDIT TERMS

SECTION 1.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including July 31, 2008, not to exceed at any time the aggregate principal amount of Fifty Million Dollars ($50,000,000.00) ("Line of Credit"), the proceeds of which shall be used for working capital and other corporate requirements. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of July 13, 2007 ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

SECTION 1.2. LETTER OF CREDIT LINE.

(a) Letter of Credit Line. Subject to the terms and conditions of this Agreement, Bank hereby agrees to establish a letter of credit line ("Letter of Credit Line") under which Bank shall issue or cause an affiliate to issue commercial and standby letters of credit for the account of Borrower to finance working capital and other corporate requirements (each, a "Letter of Credit" and collectively, "Letters of Credit") from time to time up to and including July 31, 2010; provided however, that the aggregate of all undrawn amounts, and all amounts drawn and unreimbursed, under any Letters of Credit issued under the Letter of Credit Line shall not at any time exceed the principal amount of Fifteen Million Dollars ($15,000,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for an initial term not to exceed 365 days, as designated by Borrower; provided however, that no Letter of Credit shall have a final expiration date subsequent to July 31, 2010. Each Letter of Credit shall be subject to the additional terms of the Commercial and Standby Letter of Credit Agreements, as applicable, to be dated as of the date of their respective execution, applications thereunder, and any related documents required by Bank in connection with the issuance thereof (each, a "Letter of Credit Agreement").

(b) Repayment of Drafts. Each drawing paid under any Letter of Credit shall be repaid by Borrower in accordance with the provisions of the applicable Letter of Credit Agreement.

SECTION 1.3. INTEREST/FEES.

(a) Interest. The outstanding principal balance of each credit subject hereto shall bear interest, and the amount of each drawing paid under anyLetter of Credit shall bear interest from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest set forth in each promissory note or other instrument or document executed in connection therewith.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

(c) Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the issuance of each Letter of Credit equal to fifteen-hundredths percent (0.15%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, and (ii) fees upon the payment or negotiation of each drawing under any Letter of Credit and fees upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity. The standard fees and charges in effect as of the date hereof are set forth in Schedule 1.3 hereto.

SECTION 1.4. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all interest and fees due under each credit subject hereto by charging Borrower's deposit account number #*** with Bank of America for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

SECTION 1.5.   COLLATERAL.

As security for all indebtedness of Borrower to Bank in connection with Letters of Credit issued (or deemed issued) under the Letter of Credit Line, Borrower shall grant to Bank security interests in Debtor's deposit account #*** maintained at Bank and all renewals thereof, together with all proceeds thereof.

All of the foregoing shall be evidenced by and subject to the terms of a security agreement dated as of the date hereof. Borrower shall pay to Bank immediately upon demand the full amount of all charges, costs and expenses (to include fees paid to third parties and all allocated costs of Bank personnel), expended or incurred by Bank in connection with any of the foregoing security.

SECTION 1.6.   GUARANTIES. The payment and performance of all indebtedness and other obligations of Borrower to Bank under this Agreement shall be jointly and severally guaranteed by SunPower Corporation, Systems (formerly known as PowerLight Corporation), a Delaware corporation, and SunPower North America, Inc., a Delaware corporation in the principal amount of Fifty Million Dollars ($50,000,000.00) each, as evidenced by and subject to the terms of a guaranty in form and substance satisfactory to Bank. Borrower shall cause each newly-acquired or newly-formed Domestic Material Subsidiary (as defined in Section 2.12) to

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

execute a joinder to said guaranty within 30 days after its qualifying as a Domestic Material Subsidiary. Each Subsidiary which executes or is required to execute such guaranty or a joinder thereto shall be referred to as a "Third Party Obligor."

ARTICLE II
REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 2.1.   LEGAL STATUS. Borrower and each Third Party Obligor is a corporation, duly organized and existing and in good standing under the laws of its formation, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could not reasonably be expected to have a material adverse effect on Borrower's consolidated financial condition or operations or on the prospects of Borrower's performance of its obligations under this Agreement and the other Loan Documents (a "Material Adverse Effect").

SECTION 2.2.   AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3.   NO VIOLATION. The execution, delivery and performance by Borrower and each Third Party Obligor of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or Bylaws of such entity, or result in any breach of or default under any contract, obligation, indenture or other instrument to which such entity is a party or by which such entity may be bound.

SECTION 2.4.   LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could reasonably be expected to have a Material Adverse Effect other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5.   CORRECTNESS OF FINANCIAL STATEMENT. The annual financial statement of Borrower dated December 31, 2006, and all interim financial statements delivered to Bank since said date, true copies of which have been delivered by Borrower to Bank prior to the date hereof, (a) are complete and correct and present fairly the consolidated financial condition of Borrower, (b) disclose all consolidated liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) have been prepared in accordance with generally accepted accounting principles consistently applied ("GAAP"). Since the dates of such financial statements there has been no material adverse change in the consolidated financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

encumbered any of its assets or properties except Permitted Liens and security interests and liens in favor of Bank. "Permitted Liens" means (i) liens for taxes not yet due or that are being contested in good faith by appropriate proceedings; (ii) carriers', warehousemen's, materialmen's, repairmen's or other like liens arising in the ordinary course of business that are not overdue for a period of more than 90 days or that are being contested in good faith by appropriate proceedings; (iii) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation; (iv) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business; (v) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business that, in the aggregate are not substantial in amount and that do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries; (vi) any lien granted as a replacement or substitute for another Permitted Lien; (vii) liens existing as of the date of this Agreement and securing indebtedness of Borrower or any

Subsidiary, incurred to finance the acquisition of fixed or capital assets (including refinancings thereof); (viii) liens created pursuant to the Loan Documents; (ix) any interest or title of a lessor under any lease entered into by the Borrower or any other Subsidiary in the ordinary course of its business and covering only the assets so leased; (x) liens in favor of customers or suppliers of the Borrower and its Subsidiaries on equipment, supplies and inventory purchased with the proceeds of advances made by such customers or suppliers under, and securing obligations in connection with, supply agreements; (xi) liens in favor of customs and revenue authorities arising as a mater of law to secure payment of customs duties in connection with the importation of goods; (xii) licenses of patents, trademarks and other intellectual property rights granted by the Borrower or any of is Subsidiaries in the ordinary course of business and not interfering in any respect with the ordinary conduct of the business of the Borrower or such Subsidiary; (xiii) bankers' liens, rights of setoff and other similar liens existing solely with respect to cash and cash equivalents on deposit in one or more accounts maintained by the Borrower or any of its Subsidiaries, in each case granted or existing in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank; (xv) liens that arise by operation of law; (xvi) liens arising out of judgments or awards not resulting in a default under this Agreement; (xvii) liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by Borrower in the ordinary course of business; (xviii) existing and future liens related to or arising from rebates in the ordinary course of business; and (xix) existing and future liens in favor of the borrower's bonding company covering materials, contracts, receivables and other assets which are related to, or arise out of, contracts which are bonded by that bonding company; and (xx) other liens so long as the aggregate outstanding principal amount of the obligations secured thereby does not exceed (as to the Borrower and all Subsidiaries on a consolidated basis) Five Million Dollars ($5,000,000.00) at any one time.

SECTION 2.6. INCOME TAX RETURNS. Neither Borrower nor any Third Party Obligor has any knowledge of any pending assessments or adjustments of its income tax payable with respect to any year which could reasonably be expected to have a Material Adverse Effect.

SECTION 2.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower or a Third Party Obligor is a party or by which Borrower or a Third Party Obligor may be bound that requires the subordination in right of payment of any of Borrower's or such Third Party Obligor obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8. PERMITS, FRANCHISES. Borrower and each Third Party Obligor possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law except to the extent that non-compliance could not reasonably be expected to have a Material Adverse Effect.

SECTION 2.9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10. OTHER OBLIGATIONS. Neither Borrower nor any Third Party Obligor is in default on any obligation for borrowed money or any material purchase money obligation, lease, commitment, contract, instrument or obligation that could reasonably be expected to result in a Material Adverse Effect.

SECTION 2.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower and each or a Third Party Obligor is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower or any or a Third Party Obligor is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Neither Borrower nor any Third Party Obligor has any material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

SECTION 2.12. SUBSIDIARIES. As of the date hereof, the entities named in Schedule 2.12(a) hereto are the only entities in which Borrower, directly or indirectly, owns a controlling or majority interest, with the Borrower's direct or indirect percentage ownership interest and the state or country of formation set forth in said Schedule. Each entity (whether now existing or hereafter formed or acquired) in which Borrower, directly or indirectly, owns a controlling or majority interest, is referred to as a "Subsidiary." The term "Material Subsidiary" means any Subsidiary whose assets have a book value which exceed 10% of the book value of Borrower's consolidated assets, (based on the then most recent fiscal year end financial statement then delivered or deemed delivered to Bank hereunder). The term "Domestic" as applied to a Subsidiary means that such Subsidiary is incorporated or organized under the laws of the United States or of any state thereof. In no event shall any Special Purpose Entity be considered a Material Subsidiary for any purpose under this Agreement. For purposes of this Section 2.12, "Special Purpose Entity" shall mean an entity formed in connection with a specific

transaction with a customer, investor, lender and/or financing party of Borrower or any Subsidiary wherein such entity is used solely in connection with such transaction. Schedule 2.12(b) lists the Special Purpose Entities existing as of the date hereof. Borrower shall notify Bank of the formation, acquisition, dissolution or disposition of any Subsidiary, including Special Purpose Entities, with 30 days of such formation, acquisition, dissolution or disposition.

ARTICLE III
CONDITIONS

SECTION 3.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

(i) This Agreement and each promissory note or other instrument or document required hereby.
(ii) Corporate Resolution: Borrowing.
(iii) Corporate Resolution: Continuing Guaranty (2).
(iv) Continuing Guaranty.
(v) Joinder to Continuing Guaranty (2).
(vi) Certificate of Incumbency (3).
(vii) Disbursement Order.
(viii) Security Agreement: Deposit Agreement.
(ix) Commercial Money Market Account Agreement.
(x) Evidence of termination of the security interests held by Union Bank of California and Credit Suisse First Boston.
(xi) Such other documents as Bank may require under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower or any guarantor hereunder, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower or any such guarantor.

SECTION 3.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which

with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

ARTICLE IV
AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, and (with respect to Sections 4.2, 4.4, 4.5, 4.6 and 4.7) shall cause each Third Party Obligor to, unless Bank otherwise consents in writing:

SECTION 4.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, after reasonable notice (except during the existence of an Event of Default) and during regular business hours, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower or such Third Party Obligor. Bank's use of confidential information of Borrower shall be governed by that certain Confidentiality Agreement (the "Confidentiality Agreement"), dated June 19, 2007, by and between Bank and Borrower.

SECTION 4.3. FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 120 days after and as of the end of each fiscal year, Borrower's audited annual financial statements, prepared by a certified public accountant acceptable to Bank, to include balance sheet, income statement, statement of cash flow and footnotes, which may be in the form of Borrower's annual report on Form 10K filed with the Securities Exchange Commission ("SEC"); such report shall be deemed delivered to Bank upon filing with the SEC;

(b) not later than 45 days after and as of the end of each fiscal quarter, Borrower's quarterly financial statements, prepared by Borrower, to include balance sheet, income statement and statement of cash flow, which may be in the form of Borrower's quarterly report on From 10Q filed with the SEC; such report shall be deemed delivered to Bank upon filing with the SEC.

(c) not later than 10 days after and as of the end of each month, bank and/or brokerage statements reflecting compliance with the Liquidity covenant set forth in Section 4.9(a) below;

(d) contemporaneously with each annual and fiscal quarter end financial statement of Borrower required hereby, a certificate of the chief executive officer or chief financial officer of Borrower that said financial statements are accurate and that there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default, and with supporting calculations showing compliance with financial covenants; and

(e) from time to time such other information as Bank may reasonably request.

SECTION 4.4. COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; comply with the provisions of all documents pursuant to which Borrower or such Third Party Obligor is organized and/or which govern Borrower's or such Third Party Obligor continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower, such Third Party Obligor and/or its business, except to the extent that non-compliance could not reasonably be expected to have a Material Adverse Effect

SECTION 4.5. INSURANCE. Maintain and keep in force, for each business in which Borrower or such Third Party Obligor is engaged, insurance of the types and in amounts customarily carried in similar lines of business, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 4.6. FACILITIES. Keep all properties useful or necessary to Borrower's or such Third Party Obligor's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained, except to the extent that non-compliance could not reasonably be expected to have a Material Adverse Effect.

SECTION 4.7. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as Borrower or such Third Party Obligor may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower or such Third Party Obligor is obligated to make such payment.

SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower or any Subsidiary which is required to be disclosed to the SEC or which could reasonably be expected to have a Material Adverse Effect.

SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's consolidated financial condition as follows, using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein), with compliance determined commencing with Borrower's financial statements for the period ending September 30, 2007:

(a) Minimum Liquidity (defined as unencumbered and unrestricted cash, cash equivalents, and marketable securities acceptable to Bank, which, if cash, is U.S. Dollar denominated, and, if other than cash, consist of financial instruments or securities, acceptable to Bank, maintained in United States domiciled accounts) equal to or greater than one and one half (1.50) times the outstanding principal balance of the Line of Credit, determined as of the end of each calendar month.

(b) Total Liabilities divided by Tangible Net Worth not greater than 1.50 to 1.0, determined as of the end of each fiscal quarter, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals. Without limitation of the foregoing, Total Liabilities shall include the amount available to be drawn under all outstanding letters of credit (including Letters of Credit) issued for the account of Borrower and/or any Subsidiary.

(c) Net Income after taxes not less than $1.00 in each period of four consecutive fiscal quarters, determined as of each fiscal quarter end on a rolling 4-quarter basis, and with "Net Income" defined as net income on a GAAP basis plus amortization of intangibles and in-process research and development related to the acquisition of PowerLight Corporation, a California corporation, by Borrower on January 10, 2007.

SECTION 4.10. NOTICE TO BANK. Promptly (but in no event more than ten (10) business days after an officer Borrower first has knowledge of the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower or any Third Party Obligor; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower or any Third Party Obligor is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property which could reasonably be expected to have a Material Adverse Effect.

SECTION 4.11. DOMESTIC SUBSIDIARY ASSET LIMIT. Ensure that Domestic Subsidiaries which are not Third Party Obligors represent no more than 25% of Borrower's consolidated assets.

ARTICLE V
NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not (and, as applicable, will not cause or permit any Third Party Obligor, and as to Section 5.11, SunPower Philippines Manufacturing, Ltd. to) without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

SECTION 5.2. CAPITAL EXPENDITURES. Make any additional investment in fixed assets in fiscal year ending 2007 in excess of an aggregate of Two Hundred Twenty Million Dollars ($220,000,000.00) on a consolidated basis.

SECTION 5.3. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower or such Third Party Obligor to Bank, and (b) Permitted Indebtedness. "Permitted Indebtedness" shall mean (i) indebtedness of Borrower or a Third Party Obligor to Borrower or any Subsidiary in the ordinary course of business, (ii) indebtedness in favor of Solon AG and its affiliates under the Amended and Restated Supply Agreement, dated as of April 14, 2005, as amended, between Borrower and Solon AG fur Solartechnik; (iii) indebtedness in favor of customers and suppliers of the Borrower and its Subsidiaries in connection with supply and purchase agreements in an aggregate principal amount not to exceed Two Hundred Million Dollars ($200,000,000.00) at any one time and any refinancings, refundings, renewals or extensions thereof (without shortening the maturity thereof or increasing the principal amount thereof); (iv) 1.25% senior convertible debentures issued in February 2007 in the aggregate principal amount of Two Hundred Million Dollars ($200,000,000.00) plus accrued interest thereon; (v) unsecured contingent liabilities in favor of Union Bank of California in connection with 3 outstanding letters of credit issued by Union Bank of California, (vi) obligations owed to Travelers Casualty and Surety Company of America and St. Paul Fire and Marine Insurance Company, and their affiliates (collectively, "Travelers") in connection with obligations under the General Contract of Indemnity with Travelers, pursuant to which Travelers issues bonds or otherwise secures performance of Borrower and Subsidiaries for the benefit of their customers and contract counterparties; (vii) additional convertible debentures in the maximum aggregate principal amount of Two Hundred Fifty Million Dollars ($250,000,000.00) with an interest not to exceed 2.00% per annum, and with a maturity date no earlier than January 1, 2013; and (viii) additional indebtedness of Borrower and Third Party Obligors in an aggregate principal amount not to exceed Fifteen Million Dollars ($15,000,000.00) outstanding at any one time.

SECTION 5.4. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower or such Third Party Obligor as security for, any liabilities or obligations of any person or entity, other than (i) in the ordinary course of business, Borrower, any Third Party Obligor or any other Subsidiary, with the principal amount of such non-Third Party Obligor Subsidiaries' obligations subject hereto not to exceed an aggregate of Fifty Million Dollars ($50,000,000.00) outstanding at any time, (ii) Bank, (iii) Travelers Casualty and Surety Company of America and St. Paul Fire and Marine Insurance Company (together with their affiliates, collectively, "Travelers") in connection with obligations under the General Contract of Indemnity with Travelers, pursuant to which Travelers issues bonds or otherwise secures performance of Borrower and Subsidiaries for the benefit of their customers and contract counterparties, and (iv) guarantees and liabilities that constitute Permitted Indebtedness.

SECTION 5.5. LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity, except (a) any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof, (b) additional loans or advances by Borrower or such Third Party Obligor to employees and officers in the ordinary course of business and in amounts not to exceed an aggregate of Five Million Dollars ($5,000,000.00) outstanding at any time, (c) investments which are made in accordance with Borrower's Investment Policy as from time to time adopted by its Board of Directors, (d) investments which constitute Specified Transactions, as defined in Section 5.8, below, (e) any of the foregoing that constitute Permitted Indebtedness, (f) advances to, or investments in, a Subsidiary or in Woongjin Energy by Borrower or any Third Party Obligor in the ordinary course of business**;** (g) prepayment of

obligations to vendors and suppliers in the ordinary course in an amount not to exceed Two Hundred Million Dollars ($200,000,000.00).

SECTION 5.6. DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding (other than repurchases or the like from employees, consultants, officers, and directors in connection with Borrower's stock plan); nor agree (or cause or permit any Subsidiary to agree) with any third party to prohibit, condition or restrict the payment of dividends and distributions by such Subsidiary to Borrower or to another Subsidiary.

SECTION 5.7. PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's or such Third Party Obligor's assets (including all intellectual property) now owned or hereafter acquired, except (a) Permitted Liens, and (b) any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof; nor agree (or cause or permit any Third Party Obligor to agree) with any third party to prohibit, condition or restrict the granting of security interests or liens in the assets of Borrower or such Third Party Obligor.

SECTION 5.8. SPECIFIED TRANSACTIONS. Enter in to any Specified Transaction with respect to which the Total Non-Stock Consideration paid or payable by Borrower and/or any Subsidiary exceeds Fifty Million Dollars ($50,000,000.00); provided, however, that Borrower and any Third Party Obligor may enter into a Specified Transaction regardless of the value of Total Non-Stock Consideration so long as such Specified Transaction involves no unaffiliated third parties and involves only (i) the Borrower and one or more Subsidiaries or (ii) two or more Subsidiaries. "Specified Transaction" means any of the following, provided that the applicable transaction has been approved by the Board of Directors of the entity (i) whose assets or equity interests are being acquired, or (ii) which is merging with Borrower or a Third Party Obligor:

(a) the acquisition by Borrower or a Third Party Obligor of all or substantially all of the assets of another entity or division of such entity;

(b) the merger or consolidation of any Third Party Obligor with or into any other entity, provided that the surviving entity shall be a Third Party Obligor; and

(c) the acquisition by Borrower or any Third Party Obligor of a controlling or majority interest in any other entity;

"Total Non-Stock Consideration" means all consideration whatsoever (other than stock in Borrower or a Subsidiary) and shall include, without limitation, cash, other property, assumed indebtedness, amounts payable, whether evidenced by notes or otherwise and "earn-out" payments.

SECTION 5.9. CHANGE OF CONTROL. In no event shall Borrower (i) merge into or consolidate with any other entity; (ii) make any substantial change in the nature of Borrower's business as conducted as of the date hereof (iii) cause or permit any Third Party Obligor to engage in any material business substantially unrelated to Borrower's business; or (iv) sell, lease, transfer or otherwise dispose of all or a material portion of Borrower's consolidated assets, or cause or permit any Material Subsidiary to do so, except transfers by and among Borrower and Subsidiaries in the ordinary course of business, and with "a material portion"

defined for the purpose of this covenant as 25% or more of the book value of such consolidated assets (based on the then most recent fiscal year end financial statement then delivered or deemed delivered to Bank hereunder) in any fiscal year.

SECTION 5.10. CASH LIMIT. Cause or permit SunPower Philippines Manufacturing, Ltd.'s cash, cash equivalents and marketable securities at any time to exceed an aggregate of Twenty Million Dollars ($20,000,000.00).

ARTICLE VI
EVENTS OF DEFAULT

SECTION 6.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections (a) and (b) above), and with respect to any such default which by its nature can be cured, such default shall continue for a period of thirty (30) days from the date an officer of Borrower first learned (or had reasonable due diligence been exercised, should have learned) of its occurrence.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument (other than any of the Loan Documents) pursuant to which Borrower or any Third Party Obligor has incurred any debt or other liability to any person or entity, including Bank, and, if the debt or other liability is owed to a party other than Bank, such default accelerates or causes or permits to become immediately due and payable an amount in excess of Ten Million Dollars ($10,000,000.00).

(e) The filing of a notice of judgment lien(s) in excess of an aggregate of Ten Million Dollars ($10,000,000.00) against Borrower or any Third Party Obligor; or the recording of any abstract(s) of judgment in excess of an aggregate of Ten Million Dollars ($10,000,000.00) against Borrower or any Third Party Obligor in any county in which Borrower or such Third Party Obligor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, in excess of an aggregate of Ten Million Dollars ($10,000,000.00) against the assets of Borrower or any Third Party Obligor; or the entry of a judgment(s) in excess of an aggregate of Ten Million Dollars ($10,000,000.00) against Borrower or any Third Party Obligor.

(f) Borrower, any Subsidiary or any Third Party Obligor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower, any Subsidiary or any Third

Party Obligor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower, any Subsidiary or any Third Party Obligor, or Borrower, any Subsidiary or any Third Party Obligor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower, any Subsidiary or any Third Party Obligor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower, any Subsidiary or any Third Party Obligor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(g) Reserved.

(h) The dissolution or liquidation of Borrower or, except as otherwise permitted under this Agreement, any Third Party Obligor; or Borrower or, except as otherwise permitted under this Agreement, any such Third Party Obligor, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of Borrower or such Third Party Obligor. The dissolution of a Third Party Obligor shall not constitute an Event of Default if the assets and liabilities of such Third Party Obligor are transferred to Borrower or to another Third Party Obligor by reason of such dissolution.

(i) Any single entity or group of affiliated entities, other than Cypress Semiconductor Corp., shall acquire all or substantially all of the common stock of Borrower.

SECTION 6.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII
MISCELLANEOUS

SECTION 7.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: SUNPOWER CORPORATION
ATTN: General Counsel
3939 N. First Street
San Jose, CA 95134
Fax: (408) 240-5400

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
Peninsula RCBO
400 Hamilton Avenue
Palo Alto, CA 94301

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

SECTION 7.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interests or rights hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, any guarantor hereunder or the business of such guarantor, or any collateral required hereunder; provided, that any such prospective assignee or participant agree to be bound by the terms of the Confidentiality Agreement.

SECTION 7.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to

each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 7.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.11. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise in any way arising out of or relating to (i) any credit subject hereto, or any of the Loan Documents, and their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least One Million Dollars ($1,000,000.00) exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is Five Million Dollars ($5,000,000.00) or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than Five Million Dollars ($5,000,000.00). Any dispute in which the amount in controversy exceeds Five Million Dollars ($5,000,000.00) shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed any Loan Document, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees**.** The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

SUNPOWER CORPORATION	WELLS FARGO BANK, NATIONAL ASSOCIATION
By: /s/ EMMANUEL T. HERNANDEZ	By: /s/ MATTHEW A. SERVATIUS
Emmanuel T. Hernandez	Matthew A. Servatius
Chief Financial Officer	Vice President

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

Schedule 2.12(a) – Subsidiaries

1. SunPower North America, Inc., a Delaware corporation and wholly owned subsidiary of SunPower Corporation;
2. Pluto Acquisition Company, LLC, a Delaware limited liability company in which SunPower Corporation is the sole member;
3. SunPower Corporation, Systems, a Delaware corporation, formerly known as PowerLight Corporation, and wholly owned subsidiary of SunPower Corporation;
4. Solar Star TO, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
5. Solar Star YC, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
6. Solar Star I, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
7. Solar Star II, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
8. Solar Star MW I, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
9. Solar Star TM I, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member; and
10. Solar Star Agilent I LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member.
11. SunPower Technology, Ltd., a Cayman Islands entity and wholly owned subsidiary of SunPower Corporation;
12. SunPower Corporation (Switzerland), Ltd., a Swiss entity and wholly owned subsidiary of SunPower Technology, Ltd.;
13. SunPower Philippines Manufacturing, Ltd., a Cayman Islands entity and wholly owned subsidiary of SunPower Technology, Ltd.;
14. PowerLight Systems AG(1), a Swiss entity and wholly owned subsidiary of SunPower Corporation, Systems;
15. SunPower GmbH, a German entity and wholly owned subsidiary of PowerLight Systems AG;
16. Powerlight Energias Renovaveis Unipessoal Limitada(2), a Portuguese entity and wholly owned subsidiary of PowerLight Systems AG; and
17. SunPower Energy Systems Spain, S.L., a Spanish entity and wholly owned subsidiary of PowerLight Systems AG.

Schedule 2.12(b) – Special Purpose Entities

1. Solar Star TO, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
2. Solar Star YC, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
3. Solar Star I, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
4. Solar Star II, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
5. Solar Star MW I, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member;
6. Solar Star TM I, LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member; and
7. Solar Star Agilent I LLC, a Delaware limited liability company in which SunPower Corporation, Systems is the sole member.

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(1) SunPower intends to change the name to "SunPower System SA" or "SunPower Europe SA", depending on availability according to the government agency overseeing such.
(2) SunPower is filing with the appropriate government agency the necessary paperwork to change the name to "SPWR Energias Renovaveis Unipessoal Limitada."

Schedule 1.3 to Credit Agreement dated as of July 13, 2007
Price Schedule – Trade Services

As of April 2006

Services	**Price**
STANDBY LC	
Issuance	15 bps p.a.
Amendment-Increase	15 bps p.a.
Amendment-No Increase	$65.00 min.
Examination/Payment	15 bps, $250.00 min.
Transfer	15 bps, $250.00 min.
Assignment	$500.00 ($750.00 with LC copy)
Consultation to Structure LC	$200.00/hr
Special Handling	$250.00 min.
Cancellation	$100.00

CONFIDENTIAL TREATMENT REQUESTED
—
CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

SECURITY AGREEMENT:
(DEPOSIT ACCOUNT)

1. GRANT OF SECURITY INTEREST. For valuable consideration, the undersigned SUNPOWER CORPORATION ("Debtor"), hereby grants and transfers to WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") a security interest in Debtor's deposit account # *** maintained at Bank (the "Collateral") and all renewals thereof, together with all proceeds thereof (hereinafter called "Proceeds").

2. OBLIGATIONS SECURED. The obligations secured hereby are the payment and performance of: (a) all present and future Indebtedness of Debtor to Bank arising under or in connection with a Letter of Credit Line and all Letters of Credit issued thereunder, as such terms are defined in a Credit Agreement dated as of July 13, 2007 between Bank and Debtor (as amended, extended or renewed – the "Credit Agreement); and (b) all obligations of Debtor and rights of Bank under this Agreement. The word "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Debtor, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether Debtor may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

3. TERMINATION. This Agreement will terminate upon the performance of all obligations of Debtor to Bank, including without limitation, the payment of all Indebtedness of Debtor to Bank, and the termination of all commitments of Bank to extend credit to Debtor, existing at the time Bank receives written notice from Debtor of the termination of this Agreement.

4. REPRESENTATIONS AND WARRANTIES. Debtor represents and warrants to Bank that: (a) Debtor's legal name is exactly as set forth on the first page of this Agreement, and all of Debtor's organizational documents or agreements delivered to Bank are complete and accurate in every respect; (b) Debtor is the owner and has possession or control of the Collateral and Proceeds; (c) Debtor has the exclusive right to grant a security interest in the Collateral and Proceeds; (d) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or as heretofore disclosed by Debtor to Bank, in writing; (e) all statements contained herein and, where applicable, in the Collateral are true and complete in all material respects; and (f) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office.

5. COVENANTS OF DEBTOR.

(a) Debtor agrees in general: (i) to indemnify Bank against all losses, claims, demands, liabilities and expenses of every kind caused by property subject hereto; (ii) to pay all costs and expenses, including reasonable attorneys' fees, incurred by Bank in the perfection and preservation of the Collateral or Bank's interest therein and/or the realization, enforcement and exercise of Bank's rights, powers and remedies hereunder; (iii) to permit Bank to exercise its powers hereunder; (iv) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; and (v) to cooperate

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

with Bank in perfecting all security interests granted herein and in obtaining such agreements from third parties as Bank deems necessary, proper or convenient in connection with the preservation, perfection or enforcement of any of its rights hereunder.

(b) Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (i) that Bank is authorized to file financing statements in the name of Debtor to perfect Bank's security interest in Collateral and Proceeds; (ii) not to permit any lien on the Collateral or Proceeds, except in favor of Bank; (iii) not to withdraw any funds constituting Collateral if following any such withdrawal the principal amount of Collateral would be less than the Required Amount; and (iv) to provide any service and do any other acts which may be necessary to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims. "Required Amount" means the amount available to be drawn under outstanding Letters of Credit plus the amount drawn and not yet reimbursed under Letters of Credit.

6. POWERS OF BANK. Debtor appoints Bank its true attorney in fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Bank's officers and employees, or any of them, whether or not Debtor is in default: (a) to perform any obligation of Debtor hereunder in Debtor's name or otherwise following Debtor's failure to do so; (b) to exercise all rights, powers and remedies which Debtor would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; and (c) to do all acts and things and execute all documents in the name of Debtor or otherwise, deemed by Bank as necessary, proper and convenient in connection with the preservation, perfection or, after default, enforcement of its rights hereunder.

7. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement: (a) any defined event of default, under the Credit Agreement, as defined above; (b) any representation or warranty made by Debtor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) Debtor shall fail to observe or perform any obligation or agreement contained herein; or (d) any impairment of the rights of Bank in any Collateral or Proceeds, or any attachment or like levy on any Collateral or Proceeds.

8. REMEDIES. Upon the occurrence of any Event of Default, Bank shall have the right to declare immediately due and payable all or any Indebtedness secured hereby and to terminate any commitments to make loans or otherwise extend credit to Debtor. Bank shall have all other rights, powers, privileges and remedies granted to a secured party upon default under the California Uniform Commercial Code or otherwise provided by law, including without limitation, the right to contact all persons obligated to Debtor on any Collateral or Proceeds and to instruct such persons to deliver all Collateral and/or Proceeds directly to Bank. All rights, powers, privileges and remedies of Bank shall be cumulative. No delay, failure or discontinuance of Bank in exercising any right, power, privilege or remedy hereunder shall affect or operate as a waiver of such right, power, privilege or remedy; nor shall any single or

partial exercise of any such right, power, privilege or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power, privilege or remedy. Any waiver, permit, consent or approval of any kind by Bank of any default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing. While an Event of Default exists, Bank may, at any time and at Bank's sole option, liquidate any time deposits pledged to Bank hereunder and apply the Proceeds thereof to payment of the Indebtedness, whether or not said time deposits have

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matured and notwithstanding the fact that such liquidation may give rise to penalties for early withdrawal of funds.

9. DISPOSITION OF COLLATERAL. Any proceeds of any disposition of any Collateral or Proceeds, or any part thereof, may be applied by Bank to the payment of expenses incurred by Bank in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds may be applied by Bank toward the payment of the Indebtedness in such order of application as Bank may from time to time elect.

10. STATUTE OF LIMITATIONS. Until all Indebtedness shall have been paid in full and all commitments by Bank to extend credit to Debtor have been terminated, the power of sale or other disposition and all other rights, powers, privileges and remedies granted to Bank hereunder shall continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness or any part thereof may have become barred by any statute of limitations, or that the personal liability of Debtor may have ceased, unless such liability shall have ceased due to the payment in full of all Indebtedness secured hereunder.

11. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in any other loan documents entered into between Debtor and Bank and to Debtor at the address of its chief executive office (or principal residence, if applicable) specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

12. COSTS, EXPENSES AND ATTORNEYS' FEES. Debtor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in exercising any right, power, privilege or remedy conferred by this Agreement or in the enforcement thereof, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Debtor or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. All of the foregoing shall be paid by Debtor with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

13. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties, and may be amended or modified only in writing signed by Bank and Debtor.

14. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or any remaining provisions of this Agreement.

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15. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Debtor warrants that Debtor is an organization existing under the laws of the State of Delaware.

Debtor warrants that its chief executive office is located at the following address: 3939 N. First Street, San Jose, CA 95134.

IN WITNESS WHEREOF, this Agreement has been duly executed as of July 13, 2007.

SUNPOWER CORPORATION

By: /s/ EMMANUEL T. HERNANDEZ
Emmanuel T. Hernandez
Chief Financial Officer

Exhibit 10.3

CONTINUING GUARANTY

TO: WELLS FARGO BANK, NATIONAL ASSOCIATION

1. GUARANTY; DEFINITIONS. In consideration of any credit or other financial accommodation heretofore, now or hereafter extended or made to SUNPOWER CORPORATION (“Borrowers”), or any of them, by WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”), and for other valuable consideration, the undersigned SUNPOWER NORTH AMERICA, INC. and SUNPOWER CORPORATION, SYSTEMS (“Guarantors”), jointly and severally unconditionally guarantees and promises to pay to Bank, or order, on demand in lawful money of the United States of America and in immediately available funds, any and all Indebtedness of any of the Borrowers to Bank. The term “Indebtedness” is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrowers, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether any of the Borrowers may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable. This Guaranty is a guaranty of payment and not collection.

2. MAXIMUM LIABILITY; SUCCESSIVE TRANSACTIONS; REVOCATION; OBLIGATION UNDER OTHER GUARANTIES. The liability of Guarantor shall not exceed at any time the sum of (a) Fifty Million Dollars ($50,000,000.00), (b) all accrued and unpaid interest on any Indebtedness, and (c) all costs and expenses pertaining to the enforcement of this Guaranty and/or the collection of the Indebtedness. Notwithstanding the foregoing, Bank may permit the Indebtedness of Borrowers to exceed Guarantor’s liability. This is a continuing guaranty and all rights, powers and remedies hereunder shall apply to all past, present and future Indebtedness of each of the Borrowers to Bank, including that arising under successive transactions which shall either continue the Indebtedness, increase or decrease it, or from time to time create new Indebtedness after all or any prior Indebtedness has been satisfied, and notwithstanding the death, incapacity, dissolution, liquidation or bankruptcy of any of the Borrowers or Guarantor or any other event or proceeding affecting any of the Borrowers or Guarantor. This Guaranty shall not apply to any new Indebtedness created after actual receipt by Bank of written notice of its revocation as to such new Indebtedness; provided however, that loans or advances made by Bank to any of the Borrowers after revocation under commitments existing prior to receipt by Bank of such revocation, and extensions, renewals or modifications, of any kind, of Indebtedness incurred by any of the Borrowers or committed by Bank prior to receipt by Bank of such revocation, shall not be considered new Indebtedness. Any such notice must be sent to Bank by registered U.S. mail, postage prepaid, addressed to its office at Peninsula Technology RCBO, 400 Hamilton Avenue, Palo Alto, CA 94301, or at such other address as Bank shall from time to time designate. Any payment by Guarantor shall not reduce Guarantor’s maximum obligation hereunder unless written notice to that effect is actually received by Bank at or prior to the time of such payment. The obligations of Guarantor hereunder shall be in addition to any obligations of Guarantor under any other guaranties of any liabilities or obligations of any of the Borrowers or any other persons heretofore or hereafter given to Bank unless said other guaranties are expressly modified or revoked in writing; and this Guaranty shall not, unless expressly herein provided, affect or invalidate any such other guaranties.

3. OBLIGATIONS JOINT AND SEVERAL; SEPARATE ACTIONS; WAIVER OF STATUTE OF LIMITATIONS; REINSTATEMENT OF LIABILITY. The obligations hereunder are joint and several and independent of the obligations of Borrowers, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against any of the Borrowers or any other person, or whether any of the Borrowers or any other person is joined in any such action or actions. Guarantor acknowledges that this Guaranty is absolute and unconditional, there are no conditions precedent to the effectiveness of this Guaranty, and this Guaranty is in full force and effect and is binding on Guarantor as of the date written below, regardless of whether Bank obtains collateral or any guaranties from others or takes any other action contemplated by Guarantor. Guarantor waives the

benefit of any statute of limitations affecting Guarantor’s liability hereunder or the enforcement thereof, and Guarantor agrees that any payment of any Indebtedness or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Guarantor’s liability hereunder. The liability of Guarantor hereunder shall be reinstated and revived and the rights of Bank shall continue if and to the extent for any reason any amount at any time paid on account of any Indebtedness guaranteed hereby is rescinded or must otherwise be restored by Bank, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, all as though such amount had not been paid. The determination as to whether any amount so paid must be rescinded or restored shall be made by Bank in its sole discretion; provided however, that if Bank chooses to contest any such matter at the request of Guarantor, Guarantor agrees to indemnify and hold Bank harmless from and against all costs and expenses, including reasonable attorneys’ fees, expended or incurred by Bank in connection therewith, including without limitation, in any litigation with respect thereto.

4. AUTHORIZATIONS TO BANK. Guarantor authorizes Bank either before or after revocation hereof, without notice to or demand on Guarantor, and without affecting Guarantor’s liability hereunder, from time to time to: (a) alter, compromise, renew, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; (b) take and hold security for the payment of this Guaranty or the Indebtedness or any portion thereof, and exchange, enforce, waive, subordinate or release any such security; (c) apply such security and direct the order or manner of sale thereof, including without limitation, a non-judicial sale permitted by the terms of the controlling security agreement, mortgage or deed of trust, as Bank in its discretion may determine; (d) release or substitute any one or more of the endorsers or any other guarantors of the Indebtedness, or any portion thereof, or any other party thereto; and (e) apply payments received by Bank from any of the Borrowers to any Indebtedness of any of the Borrowers to Bank, in such order as Bank shall determine in its sole discretion, whether or not such Indebtedness is covered by this Guaranty, and Guarantor hereby waives any provision of law regarding application of payments which specifies otherwise. Bank may without notice assign this Guaranty in whole or in part. Upon Bank’s request, Guarantor agrees to provide to Bank copies of Guarantor’s financial statements.

5. REPRESENTATIONS AND WARRANTIES. Guarantor represents and warrants to Bank that: (a) this Guaranty is executed at Borrowers’ request; (b) Guarantor shall not, without Bank’s prior written consent, sell, lease, assign, encumber, hypothecate, transfer or otherwise dispose of all or a substantial or material part of Guarantor’s assets other than in the ordinary course of Guarantor’s business; (c) Bank has made no representation to Guarantor as to the creditworthiness of any of the Borrowers; and (d) Guarantor has established adequate means of obtaining from each of the Borrowers on a continuing basis financial and other information pertaining to Borrowers’ financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Guarantor’s risks hereunder, and Guarantor further agrees that Bank shall have no obligation to disclose to Guarantor any information or material about any of the Borrowers which is acquired by Bank in any manner.

6. GUARANTOR’S WAIVERS.

(a) Guarantor waives any right to require Bank to: (i) proceed against any of the Borrowers or any other person; (ii) marshal assets or proceed against or exhaust any security held from any of the Borrowers or any other person; (iii) give notice of the terms, time and place of any public or private sale or other disposition of personal property security held from any of the Borrowers or any other person; (iv) take any other action or pursue any other remedy in Bank's power; or (v) make any presentment or demand for performance, or give any notice of nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any obligations or evidences of indebtedness held by Bank as security for or which constitute in whole or in part the Indebtedness guaranteed hereunder, or in connection with the creation of new or additional Indebtedness.

(b) Guarantor waives any defense to its obligations hereunder based upon or arising by reason of: (i) any disability or other defense of any of the Borrowers or any other person; (ii) the cessation or limitation from any cause whatsoever, other than payment in full, of the Indebtedness of any of the

Borrowers or any other person; (iii) any lack of authority of any officer, director, partner, agent or any other person acting or purporting to act on behalf of any of the Borrowers which is a corporation, partnership or other type of entity, or any defect in the formation of any such Borrower; (iv) the application by any of the Borrowers of the proceeds of any Indebtedness for purposes other than the purposes represented by Borrowers to, or intended or understood by, Bank or Guarantor; (v) any act or omission by Bank which directly or indirectly results in or aids the discharge of any of the Borrowers or any portion of the Indebtedness by operation of law or otherwise, or which in any way impairs or suspends any rights or remedies of Bank against any of the Borrowers; (vi) any impairment of the value of any interest in any security for the Indebtedness or any portion thereof, including without limitation, the failure to obtain or maintain perfection or recordation of any interest in any such security, the release of any such security without substitution, and/or the failure to preserve the value of, or to comply with applicable law in disposing of, any such security; (vii) any modification of the Indebtedness, in any form whatsoever, including any modification made after revocation hereof to any Indebtedness incurred prior to such revocation, and including without limitation the renewal, extension, acceleration or other change in time for payment of, or other change in the terms of, the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; or (viii) any requirement that Bank give any notice of acceptance of this Guaranty. Until all Indebtedness shall have been paid in full, Guarantor shall have no right of subrogation, and Guarantor waives any right to enforce any remedy which Bank now has or may hereafter have against any of the Borrowers or any other person, and waives any benefit of, or any right to participate in, any security now or hereafter held by Bank. Guarantor further waives all rights and defenses Guarantor may have arising out of (A) any election of remedies by Bank, even though that election of remedies, such as a non-judicial foreclosure with respect to any security for any portion of the Indebtedness, destroys Guarantor's rights of subrogation or Guarantor's rights to proceed against any of the Borrowers for reimbursement, or (B) any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of any of the Borrowers in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrowers' Indebtedness, whether by operation of Sections 726, 580a or 580d of the Code of Civil Procedure as from time to time amended, or otherwise, including any rights Guarantor may have to a Section 580a fair market value hearing to determine the size of a deficiency following any foreclosure sale or other disposition of any real property security for any portion of the Indebtedness.

7. BANK'S RIGHTS WITH RESPECT TO GUARANTOR'S PROPERTY IN BANK'S POSSESSION. In addition to all liens upon and rights of setoff against the monies, securities or other property of Guarantor given to Bank by law, Bank shall have a lien upon and a right of setoff against all monies, securities and other property of Guarantor now or hereafter in the possession of or on deposit with Bank, whether held in a general or special account or deposit or for safekeeping or otherwise, and every such lien and right of setoff may be exercised without demand upon or notice to Guarantor. No lien or right of setoff shall be deemed to have been waived by any act or conduct on the part of Bank, or by any neglect to exercise such right of setoff or to enforce such lien, or by any delay in so doing, and every right of setoff and lien shall continue in full force and effect until such right of setoff or lien is specifically waived or released by Bank in writing.

8. SUBORDINATION. Any Indebtedness of any of the Borrowers now or hereafter held by Guarantor is hereby subordinated to the Indebtedness of Borrowers to Bank. Such Indebtedness of Borrowers to Guarantor is assigned to Bank as security for this Guaranty and the Indebtedness and, if Bank requests, shall be collected and received by Guarantor as trustee for Bank and paid over to Bank on account of the Indebtedness of Borrowers to Bank but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty. Any notes or other instruments now or hereafter evidencing such Indebtedness of any of the Borrowers to Guarantor shall be marked with a legend that the same are subject to this Guaranty and, if Bank so requests, shall be delivered to Bank. Bank is hereby authorized in the name of Guarantor from time to time to file financing statements and continuation statements and execute such other documents and take such other action as Bank deems necessary or appropriate to perfect, preserve and enforce its rights hereunder.

9. REMEDIES; NO WAIVER. All rights, powers and remedies of Bank hereunder are cumulative. No delay, failure or discontinuance of Bank in exercising any right, power or remedy

hereunder shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of this Guaranty, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing.

10. COSTS, EXPENSES AND ATTORNEYS' FEES. Guarantor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with the enforcement of any of Bank's rights, powers or remedies and/or the collection of any amounts which become due to Bank under this Guaranty, and the prosecution or defense of any action in any way related to this Guaranty, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Guarantor or any other person or entity. All of the foregoing shall be paid by Guarantor with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

11. SUCCESSORS; ASSIGNMENT. This Guaranty shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Guarantor may not assign or transfer any of its interests or rights hereunder

without Bank's prior written consent. Guarantor acknowledges that Bank has the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, any Indebtedness of Borrowers to Bank and any obligations with respect thereto, including this Guaranty. In connection therewith, Bank may disclose all documents and information which Bank now has or hereafter acquires relating to Guarantor and/or this Guaranty, whether furnished by Borrowers, Guarantor or otherwise. Guarantor further agrees that Bank may disclose such documents and information to Borrowers.

12. AMENDMENT. This Guaranty may be amended or modified only in writing signed by Bank and Guarantor.

13. OBLIGATIONS OF MARRIED PERSONS. Any married person who signs this Guaranty as a Guarantor hereby expressly agrees that recourse may be had against his or her separate property for all his or her obligations under this Guaranty.

14. APPLICATION OF SINGULAR AND PLURAL. In all cases where there is but a single Borrower, then all words used herein in the plural shall be deemed to have been used in the singular where the context and construction so require; and when there is more than one Borrower named herein, or when this Guaranty is executed by more than one Guarantor, the word "Borrowers" and the word "Guarantor" respectively shall mean all or any one or more of them as the context requires.

15. UNDERSTANDING WITH RESPECT TO WAIVERS; SEVERABILITY OF PROVISIONS. Guarantor warrants and agrees that each of the waivers set forth herein is made with Guarantor's full knowledge of its significance and consequences, and that under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any waiver or other provision of this Guaranty shall be held to be prohibited by or invalid under applicable public policy or law, such waiver or other provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such waiver or other provision or any remaining provisions of this Guaranty.

16. GOVERNING LAW. This Guaranty shall be governed by and construed in accordance with the laws of the State of California.

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17. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise, in any way arising out of or relating to this Guaranty and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least $1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is $5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than $5,000,000.00. Any dispute in which the amount in controversy exceeds $5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed this Guaranty or any other contract, instrument or document relating to any Indebtedness, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees**.** The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

IN WITNESS WHEREOF, the undersigned Guarantor has executed this Guaranty as of July 13, 2007.

SUNPOWER NORTH AMERICA, INC.

By: /s/ THOMAS H. WERNER
Thomas H. Werner
Chief Executive Officer

By: /s/ EMMANUEL T. HERNANDEZ
Emmanuel T. Hernandez
Chief Financial Officer

SUNPOWER CORPORATION, SYSTEMS

By: /s/ MICHAEL ARMSBY
Michael Armsby
Chief Financial Officer

CONFIDENTIAL TREATMENT REQUESTED
—
CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

LONG-TERM SUPPLY AGREEMENT II

HEMLOCK SEMICONDUCTOR CORPORATION, a Michigan corporation with its principal place of business at 12334 Geddes Road, Hemlock, Michigan 48626 (“HSC”), and SunPower Corporation, a United States corporation with its principal place of business at 3939 North First Street, San Jose, California 95134 (“Buyer”) hereby enter into this Long-Term Supply Agreement (the “Agreement”) effective as of the date of Buyer’s execution of this Agreement (the “Effective Date”).

WHEREAS, Buyer desires to purchase and HSC agrees to sell Products (herein defined) pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. **Products**. As used in this Agreement, “Product” or “Products” shall mean the polycrystalline silicon manufactured by HSC. The specifications for the Product are set forth in **Exhibit A**, as such specifications may be amended from time to time by mutual written agreement of the parties (the “HSC Product Specifications”). Subject only to the following two exceptions, Buyer shall utilize the Products for its manufacturing purposes and shall not, without the prior written consent of HSC, re-sell the Products, or become a re-seller or distributor of the Products; said consent as to any options of Buyer shall not be unreasonably withheld or delayed unless said options are likely to have a negative impact on HSC’s financial performance. Exceptions: (1) Buyer may re-sell or distribute the Products without prior written consent of HSC to wholly-owned or majority owned subsidiaries (hereinafter together with Buyer referred to as the “SunPower Group”; (2) Buyer may re-sell or distribute the Products without prior written consent of HSC to such enterprises that have entered into supply agreements with the SunPower Group for the sole purpose of producing ingots and/or wafers for the exclusive use of the SunPower Group. Buyer will notify HSC of the conclusion of such supply agreements and upon Buyer’s request HSC may, at its discretion, agree to drop-ship Products to such enterprises for the purpose cited above.

2. **Non-Refundable Advance Payment**. Buyer agrees to make a non-refundable, unconditional, irrevocable advance payment in the amount of $113,220,000.00 (the “Advance Payment”). One-third ($37,740,000.00) of the Advance Payment shall be paid on or before October 4, 2007, One-third ($37,740,000.00) of the Advance Payment will be paid on or before October 4, 2008, and One-third ($37,740,000.00) of the Advance Payment will be paid on or before October 4, 2009. Except as set forth in Section 15, Buyer expressly acknowledges its understanding and agrees that, once this Agreement is executed, there are no circumstances or occurrences that will require HSC to refund to Buyer all or any portion of the Advance Payment other than HSC’s failure to deliver the Products to which the Advance Payment relates, as set forth in Section 9. The Advance Payment shall be applied as a credit against the price of the Products that Buyer is required to

purchase, and HSC is required to supply, under this Agreement at the times and in the amounts shown on **Exhibit B**.

3. **Price and Quantity; Purchase Orders**.

(a) **Price and Quantity**. For the time period January 1, 2010 through December 31, 2019, HSC agrees to sell and Buyer agrees to purchase Products pursuant to the terms and conditions of this Agreement. The price and quantity of Products to be purchased by Buyer is as set forth in **Exhibit B**. As set forth in Exhibit B, Buyer retains the discretion to select among the Products listed to fulfill its annual quantity commitments. Unit prices for shipment of Product are FCA Hemlock, Michigan (Incoterms 2000). Subject only to the price adjustments set forth in Section 4, these prices are fixed for the term of this Agreement. Buyer may require an audit of the HSC’s supporting documentation validating the price adjustments permitted under **Exhibit B**. Any such audit shall be conducted by a qualified independent third party who shall be granted access, under a confidentiality agreement, to all relevant documentation it reasonably requests for such verification. Any such audit shall be paid for by Buyer.

(b) **Purchase Orders**. The parties acknowledge their standard practice in which Buyer, in connection with fulfilling its purchase commitment for any given year, periodically issues purchase orders, and occasionally change orders thereto, for Products requesting specified quantities, delivery dates and delivery locations. The parties agree that the provisions of this Section 3(b) create no legal commitment or obligations with respect to purchase orders or otherwise.

4. **Price Adjustments**. HSC may adjust prices on an annual basis to account for changes in HSC’s cost structure relative to the manufacture of the Products, including changes relating to electricity, raw materials and the Employment Cost Index. On January 1 of each year beginning with January 1, 2010, prices may be increased pursuant to the mechanism set forth in **Exhibit C**.

5. **Take or Pay Agreement**. This Agreement is a “take or pay agreement” such that Buyer is absolutely and irrevocably required to accept and pay for the contracted volume of Products per year over a 10-year period at the prices set forth in **Exhibit B**, subject to the adjustments described in Section 4 above. In the event that Buyer fails to order and take delivery of its contracted volume in a given year, HSC shall invoice Buyer for the differential at full contract price and Buyer will pay the same within 30 days of invoice date. Buyer specifically acknowledges and accepts that it will be liable for the full purchase price of volume differential between the quantity ordered and the contracted volume.

6. **Payment**. Payment terms are net 30 days from the date of the invoice. Finance charges of ***% per month (***% per annum) may be assessed on payment past due from the payment due date to the date payment is received. Failure to pay

invoices when due or finance charges when assessed may result in delayed or cancelled shipments. No unauthorized deductions from invoices are permitted.

7. **Title and Risk of Loss**. Buyer shall purchase the Products from HSC FCA Hemlock (Incoterms 2000) with title and risk of loss with respect to all Products passing to Buyer when the goods have been delivered to the carrier at Hemlock, Michigan.

8. **Term**. The term of this Agreement shall be from the Effective Date through December 31, 2019 (the "Initial Term"). The Agreement may not be terminated during the Initial Term, except as expressly set forth in Section 10.

9. **Manufacturing Facility**. Buyer acknowledges that HSC will be expanding its manufacturing facilities (the "Expanded Manufacturing Facility") in order to produce the Products to be supplied under this Agreement. The estimated completion date for 50% of the manufacturing facility capacity is January 1, 2010, with estimated capacity of 75% completed on January 1, 2011, and 100% of estimated capacity completed on January 1, 2012. Buyer acknowledges the possibility of delays in completing the manufacturing facility and expressly agrees that, so long as 50% of the manufacturing capacity commences production by June 30, 2010, HSC SHALL HAVE NO LIABILITY TO BUYER FOR ANY SUCH DELAY. The parties further agree to the following liquidated damages formula as Buyer's sole and exclusive remedy and damages for delays beyond June 30, 2010:

Liquidated Damages Calculation: $*** multiplied by the number of months delayed beyond June 30, 2010 (pro-rated for partial months). The total liquidated damages shall not exceed the amount of Buyer's Advance Payment.

HSC agrees that the Expanded Manufacturing Facility shall be subject to bi-annual inspections by Buyer. Said inspections shall be subject to HSC's confidentiality and security policies for site visits. Any fees and costs associated with such inspection shall be borne by Buyer.

10. **Termination**. Buyer understands and acknowledges that HSC is making substantial capital investments to expand its manufacturing capabilities in order to satisfy Buyer's demand for the Products. The parties acknowledge it is their express intent that Buyer is obligated to purchase the contracted volumes over the Initial Term of this Agreement. Accordingly, the basis and circumstances under which the parties can terminate this Agreement prior to the expiration of the Initial Term of this Agreement is expressly limited to the terms of this Section 10.

(a) Termination by Buyer. Buyer may, at its option, terminate this Agreement only upon the occurrence of all of the following events: (i)(1) once production of Products has commenced at the Expanded Manufacturing Facility, a failure by HSC to deliver the contracted amount of Products properly ordered by

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Buyer or (2) other material breach of this Agreement by HSC other than (A) HSC's failure to complete the Expanded Manufacturing Facility (which shall be addressed solely by the provisions of Section 9) and (B) a material breach triggered by a Force Majeure Event (which shall be solely addressed in Section 19), (ii) service of written notice of such failure to HSC, and (iii) a failure by HSC to cure such delivery deficiency or material breach within ninety (90) days of receipt of the written notice of such event. If HSC rectifies any such failure of delivery or material breach within such period, then HSC's deficiency of performance shall be deemed cured and Buyer shall not be entitled to terminate this Agreement.

(b) Termination by HSC. HSC may, at its option, terminate this Agreement only upon the occurrence of all of the following events: (i) in the event of a failure to pay (other than a failure to pay triggered by a Force Majeure Event which shall be solely addressed in Section 19) or other material breach of this Agreement by Buyer, (ii) service of written notice of such failure to Buyer, and (iii) a failure by Buyer to cure such breach within ninety (90) days after receipt of written notice of such breach. If Buyer rectifies any such payment failure or material breach within such period, then Buyer's deficiency of performance shall be deemed cured and Buyer shall not be entitled to terminate this Agreement. In the event of a termination due to Buyer's breach, in addition to any other damages that can be established by HSC, Buyer shall be liable to HSC for the purchase price of Products as set forth in Exhibit B.

11. **Confidentiality**. The parties acknowledge and agree that the terms of this Agreement and certain information exchanged between them pertaining to this Agreement, including information regarding research, technology, product developments, marketing plans or conditions, products, business strategies, and the like, constitutes "Confidential Information" of the party disclosing the information. The purpose of the exchange of the Confidential Information" is to allow the parties to meet their obligations and responsibilities under this Agreement. During the term of this Agreement, and for a period of 15 years following its termination or expiration, except as required by applicable law, regulation or rules of any securities exchange, the party receiving any Confidential Information, and its employees, attorneys, financial advisors, officers, directors and shareholders who shall receive such Confidential Information shall not, except with the prior written consent of the disclosing party, use, divulge, disclose or communicate, to any person, firm, corporation or entity, in any manner whatsoever, the terms of this Agreement or any Confidential Information of the disclosing party; provided, however, that each party may use, divulge, disclose or communicate the terms of this Agreement or Confidential Information of the disclosing party to wholly-owned or majority owned subsidiaries if such subsidiaries undertake to keep such information strictly confidential in accordance with this Section 11 and each subsidiary has a "need to know". The parties will be liable for any breach of this Section 11 by any of their respective wholly-owned or majority owned subsidiaries. Each party further agrees to use the same degree of care to avoid publication or dissemination of the Confidential Information disclosed to such party under this

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Agreement as it employs with respect to its own Confidential Information, but at all times shall use at least reasonable care to protect against disclosure. Confidential Information does not and shall not include information that:

(a) was already known to the receiving party at the time such information is disclosed by the other party;

(b) was or became publicly known through no wrongful act of the receiving party;

(c) was rightfully received from a third party without restriction;

(d) was independently developed by the receiving party;

(e) was approved for release by written authorization of the party disclosing such information under this Agreement; or

(f) was required by legal or financial reporting purposes to be disclosed; provided, however, that the party being required to disclose shall, if circumstances permit, provide advanced notice to the other party and shall allow the other party a reasonable opportunity to oppose such disclosure, if appropriate.

12. **Limited Warranty**. HSC warrants only that, upon delivery, the Products will meet the HSC Product Specifications, as set forth in **Exhibit A** (ii) the Products will be delivered free from any security interest, lien or encumbrance; and (iii) HSC will convey good title to the Products.

13. **Warranty Disclaimer**. THIS LIMITED WARRANTY IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, SAID WARRANTIES BEING EXPRESSLY DISCLAIMED.

14. **Limited Remedy**. HSC shall be given reasonable and prompt opportunity to examine any claim of defect by Buyer. Buyer agrees that its sole and exclusive remedy against HSC shall be limited to either, at HSC's sole discretion, (i) the revision, repair or replacement of non-conforming or defective Products or (ii) payment not to exceed the purchase price of the specific Products for which damages are claimed. This exclusive remedy shall not be deemed to have failed of its essential purpose so long as HSC is willing to revise, repair or replace the defective Products, or make the payment described in this Section 14.

15. **Damages Limitation**. EXCEPT FOR SITUATIONS INVOLVING (i) A DELAY IN COMPLETION OF THE MANUFACTURING FACILITY AS DESCRIBED IN SECTION 9 OF THIS AGREEMENT, OR (ii) FOR FAILURE TO DELIVER PRODUCTS TO WHICH THE ADVANCE PAYMENTS RELATE, AS DESCRIBED IN SECTION 9 OF THIS AGREEMENT, HSC SHALL NOT BE LIABLE FOR ANY LOSS, DAMAGE, OR INJURY RESULTING FROM DELAY IN DELIVERY OF THE PRODUCTS, OR FOR ANY FAILURE TO PERFORM

WHICH IS DUE TO A FORCE MAJEURE EVENT (AS DEFINED IN SECTION 19). EXCEPT FOR HSC'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 16 AND FOR EITHER PARTY'S BREACH OF SECTION 11, THE MAXIMUM AGGREGATE LIABILITY OVER THE TERM OF THIS AGREEMENT, IF ANY, FOR ALL DAMAGES, INCLUDING WITHOUT LIMITATION CONTRACT DAMAGES AND DAMAGES FOR INJURIES TO PERSONS OR PROPERTY, WHETHER ARISING FROM A PARTY'S BREACH OF CONTRACT, BREACH OF WARRANTY, NEGLIGENCE, STRICT LIABILITY, OR OTHER TORT, IS LIMITED TO, IN THE CASE OF HSC, THE REMAINING NET BALANCE OF THE ADVANCED PAYMENT AS SET FORTH IN EXHIBIT B AND, IN THE CASE OF BUYER, THE AGGREGATE PRICE FOR THE PRODUCTS COMMITTED TO BE PURCHASED BY BUYER DURING THE INITIAL TERM AS SET FORTH IN EXHIBIT B. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY INCIDENTAL, CONSEQUENTIAL, OR SPECIAL DAMAGES, INCLUDING WITHOUT LIMITATION LOST REVENUES AND PROFITS, EVEN IF IT HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. THESE LIMITATIONS SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF THE LIMITED REMEDY SET FORTH ABOVE.

16. **Patents**. If any suit is brought against Buyer for infringement of any United States Letters Patent alleging that the Products or HSC's methods of manufacturing them infringe any United States Letters Patent, HSC shall, at its own expense, defend and control the suit against these allegations only, and shall pay any award of damages assessed against Buyer in the suit to the extent only that the damages are awarded in connection specifically with the alleged infringement, provided that Buyer gives HSC prompt notice in writing of the institution of the suit and, to the full extent of Buyer's power to do so, Buyer permits HSC to defend and control the suit against these allegations. The above fully expresses Buyer's exclusive remedy and HSC's sole responsibility with respect to infringement of any patent by the Products, and HSC EXPRESSLY DISCLAIMS ANY OTHER WRITTEN OR UNWRITTEN, EXPRESS OR IMPLIED WARRANTY AGAINST INFRINGEMENT with respect to the Products. In no case shall HSC be liable to defend or pay any award of damages assessed against Buyer to the extent any suit or cause of action alleges that the nature of Buyer's use of the Products (or the use of the Products by Buyer's customers) infringes any patent.

17. **Taxes**. Any tax or other government charge now or in the future levied upon the production, sale, use or shipment of the Products (except HSC's income tax obligations) may, at HSC's option, be added to the purchase price.

18. **Fair Labor Standards Act**. HSC hereby certifies that the Products shall be produced in compliance with the Fair Labor Standards Act, as amended, and of regulations and orders of the United States Department of Labor issued under that Act.

19. **Force Majeure**. HSC shall not be liable for delays or failures in performance of an order or default in delivery arising out of or resulting from causes

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beyond its control. Such causes include, but are not limited to, acts of God, acts of Buyer, acts of the Government or the public enemy, fire, flood, epidemics, quarantine restrictions, strikes, freight embargoes, severe weather, equipment breakage or default of suppliers due to any of such causes (each a "Force Majeure Event"). In the event of any such delay of HSC's performance, Buyer shall honor its obligations hereunder as soon as HSC is able to perform. In addition, if due to a Force Majeure Event, HSC is unable to produce sufficient goods to meet all demands from customers and internal uses, HSC shall have the right to allocate production among its customers and plants in any manner in which HSC may determine to be equitable.

Buyer shall not be liable for delays or failures in meeting its payment obligations as set forth in Section 6, if such failure arises out of or results from causes beyond its control. Such causes include, but are not limited to, acts of God, acts of HSC, acts of the Government or the public enemy, fire, flood, epidemic, quarantine restrictions, strikes, freight embargoes, or severe weather (each a "Force Majeure Event"). In the event of any such delay of Buyer's performance, HSC shall honor its obligations hereunder as soon as Buyer is able to perform.

20. **Choice of Law**. The Agreement is made in, and shall be governed and controlled in all respects by the laws of the State of Michigan, USA (specifically disclaiming the U.N. Convention Contracts for the International Sale of Goods) and all disputes, including interpretation, enforceability, validity, and construction, shall be determined under the law of the State of Michigan, without regard to any conflict of law provisions.

21. **Choice of Forum**. The parties submit to the exclusive jurisdiction and venue of the U.S. District Court for the Eastern District of Michigan for all disputes arising, directly or indirectly, under this Agreement.

22. **Waiver**. Either party's failure to exercise a right or remedy or such party's acceptance of a partial or delinquent payment shall not operate as a waiver of any of such party's rights or the other party's obligations under the Agreement and shall not constitute a waiver of such party's right to declare an immediate or a subsequent default.

23. **Severability**. If one or more of the provisions of this Agreement shall be found, by a court with jurisdiction, to be illegal, invalid or unenforceable, it shall not affect the legality, validity or enforceability of any of the remaining provisions of this Agreement. The parties agree to attempt to substitute for any illegal, invalid or unenforceable provision a legal, valid or enforceable provision that achieves to the greatest extent possible the economic objectives of the illegal, invalid or unenforceable provision.

24. **Integration**. The Agreement constitutes the entire understanding between the parties with respect to the subject matter of the Agreement and supersedes any prior discussions, negotiations, agreements, memoranda of understanding and the

like. Modifications to the Agreement may be made only in writing and signed by each party.

25. **Assignments**. No assignment of the Agreement or of any right or obligation under the Agreement shall be made by either party without the prior written consent of the other party, said consent shall not be unreasonably withheld; provided, however, that each party may assign this Agreement without any such consent to its Affiliates or in connection with a merger, acquisition, change of control or sale of substantially all of the assets of the assigning party. As used herein, an "Affiliate" of a party means any other party controlling, controlled by, or under common control with, such party. In the event of a proper assignment, the Agreement shall be binding upon and inure to the benefit of the assigning party's successors and assigns.

26. **Attorney Fees and Costs**. In the event of HSC's enforcement of any term or condition in the Agreement, Buyer shall be liable to HSC for all costs, including attorney fees, incurred by HSC in enforcing the Agreement and in collecting any sums owed by Buyer to HSC.

27. **Dollars**. All references to monetary amounts shall be in U.S. Dollars.

28. **Agreement Preparation**. This Agreement shall be considered for all purposes as prepared through the joint efforts of the parties and shall not be construed against one party or the other as a result of the manner in which this Agreement was negotiated, prepared, drafted or executed.

29. **Deadline**. This Agreement must be executed and returned to HSC by July 20, 2007. If the Agreement is not executed and returned to HSC by that date, the Agreement shall be null and void.

BUYER:		**HSC:**	
SUNPOWER CORPORATION		**HEMLOCK SEMICONDUCTOR CORPORATION**	
By:	/s/ THOMAS WERNER	By:	/s/ GARY R. HOMAN
Print Name:	Thomas Werner	Print Name:	Gary R. Homan
Title:	Chief Executive Officer	Title:	Vice President
Date:	July 16, 2007	Date:	July 2, 2007

EXHIBIT A

HSC PRODUCT SPECIFICATIONS

***

Calendar Year	Shipped Quantity (FCA HSC in kilograms)	Gross Price Per Kilogram for HSC DMS (in US Dollars)	Advanced Payment Per Kilogram (in US Dollars)	Net Price Per Kilogram for HSC DMS (in US Dollars)	Net Remaining Advanced Payment at Year-End (to be Prorated based on actual volume shipped)
Total Advance Payment					$ ***
2010	***	$ ***	$ ***	$ ***	$ ***
2011	***	$ ***	$ ***	$ ***	$ ***
2012	***	$ ***	$ ***	$ ***	$ ***
2013	***	$ ***	$ ***	$ ***	$ ***
2014	***	$ ***	$ ***	$ ***	$ ***
2015	***	$ ***	$ ***	$ ***	$ ***
2016	***	$ ***	$ ***	$ ***	$ ***
2017	***	$ ***	$ ***	$ ***	$ ***
2018	***	$ ***	$ ***	$ ***	$ ***
2019	***	$ ***	$ ***	$ ***	$ ***
	Total Shipped Quantity (in kilograms): * **	**Average Gross Price Per Kilogram: $*** **		**Average Net Price Per Kilogram: $*** **	

EXHIBIT B
SOLAR-GRADE POLYSILICON ANTICIPATED DELIVERY SCHEDULE

Product	Type	Package	Price Variance ($US/kg)
HSC DMS	**Chunk**	**Bulk**	***
HSC DMS-L	**Big Piece**	**10 kg Bags**	***
HSC SGB	**Chunk**	**10 kg Bags**	***
HSC 840	**Chips**	**10 kg Bags**	***
HSC 850	**Chips**	**10 kg Bags**	***
HSC 900	**Chunk**	**Bulk**	***
HSC XXX	**Granular**	**TBD**	**TBD**

Exhibit B (Continued)
Product Pricing

Pricing for HSC DMS

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC DMS	Chunk	Bulk	$ ***	$ ***
2011	HSC DMS	Chunk	Bulk	$ ***	$ ***
2012	HSC DMS	Chunk	Bulk	$ ***	$ ***
2013	HSC DMS	Chunk	Bulk	$ ***	$ ***
2014	HSC DMS	Chunk	Bulk	$ ***	$ ***
2015	HSC DMS	Chunk	Bulk	$ ***	$ ***
2016	HSC DMS	Chunk	Bulk	$ ***	$ ***
2017	HSC DMS	Chunk	Bulk	$ ***	$ ***
2018	HSC DMS	Chunk	Bulk	$ ***	$ ***
2019	HSC DMS	Chunk	Bulk	$ ***	$ ***

Pricing for HSC DMS-L

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2011	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2012	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2013	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2014	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2015	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2016	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2017	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2018	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***
2019	HSC DMS-L	Big Piece	10 kg Bags	$ ***	$ ***

Pricing for HSC SGB

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2011	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2012	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2013	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2014	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2015	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2016	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2017	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2018	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***
2019	HSC SGB	Chunk	10 kg Bags	$ ***	$ ***

Exhibit B (Continued)
Product Pricing

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Pricing for HSC 900

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC 900	Chunk	Bulk	$ ***	$ ***
2011	HSC 900	Chunk	Bulk	$ ***	$ ***
2012	HSC 900	Chunk	Bulk	$ ***	$ ***
2013	HSC 900	Chunk	Bulk	$ ***	$ ***
2014	HSC 900	Chunk	Bulk	$ ***	$ ***
2015	HSC 900	Chunk	Bulk	$ ***	$ ***
2016	HSC 900	Chunk	Bulk	$ ***	$ ***
2017	HSC 900	Chunk	Bulk	$ ***	$ ***
2018	HSC 900	Chunk	Bulk	$ ***	$ ***
2019	HSC 900	Chunk	Bulk	$ ***	$ ***

Pricing for HSC 840*

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2011	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2012	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2013	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2014	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2015	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2016	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2017	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2018	HSC 840	Chips	10 kg Bags	$ ***	$ ***
2019	HSC 840	Chips	10 kg Bags	$ ***	$ ***

Pricing for HSC 850*

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2011	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2012	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2013	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2014	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2015	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2016	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2017	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2018	HSC 850	Chips	10 kg Bags	$ ***	$ ***
2019	HSC 850	Chips	10 kg Bags	$ ***	$ ***

Exhibit B (Continued)
Product Pricing

Pricing for HSC 890*

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2011	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2012	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2013	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2014	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2015	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2016	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2017	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2018	HSC 890	Chips/Fines	Bulk	$ ***	$ ***
2019	HSC 890	Chips/Fines	Bulk	$ ***	$ ***

Pricing for HSC SCE*

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2011	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2012	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2013	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2014	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2015	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2016	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2017	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2018	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***
2019	HSC SCE	Carbon Ends	Bulk	$ ***	$ ***

Pricing for HSC PTB*

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2011	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2012	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2013	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2014	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2015	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2016	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2017	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2018	HSC PTB	Etched TBS	Bulk	$ ***	$ ***
2019	HSC PTB	Etched TBS	Bulk	$ ***	$ ***

Exhibit B (Continued)
Product Pricing

Pricing for HSC PCE*

Calendar Year	Product	Type	Package	Gross Price Per kg	Net Price Per kg
2010	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2011	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2012	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2013	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2014	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2015	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2016	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2017	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2018	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****
2019	**HSC PCE**	**Etched CE**	**10 kg Bags**	**$ *****	**$ *****

PRODUCTS UNDER DEVELOPMENT(1)

Product	Type	Package	Price
HSC P18*	Surface Cleaned Fallout	TBD(2)	TBD
HSC P19*	Surface Cleaned Fallout	TBD	TBD
HSC PSR*	Surface Cleaned Fallout	TBD	TBD
HSC GXX*	Granular	TBD	TBD

*The available quantity of these products will be limited due to capacity and the actual fall-out quantities. Buyer may, in its sole and exclusive discretion, fulfill its quantity commitments based on any combination of available Product as determined solely by HSC. With respect to the Products listed in this Exhibit B without the asterisk (*) designation, Buyer may, in its sole and exclusive discretion, fulfill its quantity commitments based on any combination of such Products, as determined solely by Buyer.

1 The Products identified are under development by HSC. HSC makes no representation that the Products will ultimately be available for use by Buyer. If development is successful (determined in HSC's sole and exclusive discretion), these Products or other future Product generations will be made available for purchase at Buyer's discretion in fulfillment of its purchase obligations hereunder. Specifications will be developed and communicated to Buyer.
2 "TBD" means to be determined.

EXHIBIT C

Electrical Costs: The base cost (base year = 2007) will be $*** per MWh (megawatt hour) with inflation estimated at ***% per year. If the cumulative percentage increase in HSC's actual electrical rate exceeds ***% compounded annually, HSC may increase the contract price of polysilicon by $*** per kg for each whole percentage point that the cumulative actual percentage increase exceeds the cumulative compounded ***% base rate. The following table provides an example of this price adjustment mechanism:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Base Rate *	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Compounded	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Actual Rate *	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Compounded	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Price Change / KG								$ ***	$ ***	$ ***	$ ***	$ ***	$ ***

In the preceding example, HSC may choose to increase the annual contract price of polysilicon (Exhibit B) by $*** per kg in 2015 through 2017 and by $*** per kg in 2018 through 2020.

Labor Cost Inflation: The base inflation rate is estimated at ***% per year (base year = 2007). If the cumulative rate of inflation (as measured by ECI) exceeds ***% compounded annually, HSC may increase the contract price of polysilicon by $*** per kg for each whole percentage point that the cumulative percentage increase in ECI exceeds the cumulative compounded ***% base rate. The following table provides an example of this price adjustment mechanism:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Base Rate *	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Compounded	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Actual Rate *	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Compounded	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Price Change / KG						$ ***	$ ***	$ ***	$ ***	$ ***	$ ***	$ ***	$ ***

In the preceding example, HSC may choose to increase the annual contract price of polysilicon (Exhibit B) by $******* per kg in 2013 through 2016 and by $******* per kg in 2017 through 2020.

EXHIBIT C (Continued)

<u>Raw Material Cost Inflation</u>: The base cost (base year = 2007) of Metallurgical Grade Silicon Metal will be $******* per KG with inflation estimated at *******% per year. If the cumulative rate of inflation (as measured by USA CRU Spot) exceeds *******% compounded annually, HSC may increase the contract price of polysilicon by $******* per kg for each whole percentage point that the cumulative percentage increase in USA CRU Spot exceeds the cumulative compounded *******% base rate. The following table provides an example of this price adjustment mechanism:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Base Rate *	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Compounded	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Actual Rate *	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Compounded	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %	*** %
Price Change / KG								$ ***	$ ***	$ ***	$ ***	$ ***	$ ***

In the preceding example, HSC may choose to increase the annual contract price of polysilicon (Exhibit B) by $******* per kg in 2015 through 2017 and by $******* per kg in 2018 through 2020.

Inflation rate for Electrical costs shall be measured by actual $ per MWh. Inflation rate for Labor Cost Inflation shall be measured by ECI. “ECI” is the Employment Cost Index Civilian (unadjusted) as published by the U.S. Department of Labor (www.bls.gov). Inflation for metallurgical grade silicon metal shall be measured by CRU Spot price as published by CRU International LTD (by subscription only).

CONFIDENTIAL TREATMENT REQUESTED
—
CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

Long-Term Ingot and Wafer Supply Agreement

between

NorSun AS

and

SunPower Corporation

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

This Long-Term Ingot and Wafer Supply Agreement is made on August 9, 2007 (the "Effective Date") between

NorSun AS, a Norwegian company with registered address Bankplassen 1, 0151 OSLO and enterprise number 989 186 493 (hereafter referred to as "NorSun"); and

SunPower Corporation, a company with registered address 3939 North First Street, San Jose, California 95134, USA (hereafter referred to as "SunPower").

WHEREAS NorSun is active in the field of manufacture and supply of Ingots and Wafers (as defined herein);

WHEREAS SunPower procures Ingots and Wafers for its manufacture of solar cells and solar modules;

WHEREAS SunPower and NorSun (each a "Party" and collectively the "Parties") have concurrently herewith entered into a Long-Tem Polysilicon Supply Agreement (the "Polysilicon Agreement") under which SunPower shall supply NorSun with polycrystalline silicon in order to permit NorSun to partially satisfy its obligation to manufacture and supply Ingots, and potentially Wafers, to SunPower pursuant to this Agreement; and

WHEREAS SunPower desires to purchase Ingots, and potentially Wafers, from NorSun, and NorSun is willing to supply such Ingots, and potentially Wafers, to SunPower on the terms and conditions set forth herein.

NOW, THEREFORE, the Parties agree as follows:

1. DEFINITIONS

1.1 The "Agreement" shall mean this signed document and

1.1.1 Schedule 1 Specification of Ingots and Wafers, as may be updated from time to time by mutual agreement of the Parties;

1.1.2 Schedule 2 Prices, Quantities, Yield/Ratios Limits, and Delivery Schedule.

1.1.3 "Annual Quantity" shall mean annual volumes as set forth in the Delivery Schedule (Schedule 2).

1.2 "Confidential Information" shall have the meaning as set forth in Section 11.1.

1.3 "Delivery Schedule" shall mean such delivery dates and quantities applicable to certain periods set forth in Schedule 2.

1.4 "Effective Date" shall mean the first date written above.

1.5 "Fiscal Year" shall mean the period beginning on January 1st and ending on December 31st of the same year.

1.6 "Ingot" shall mean a single crystal silicon unit to be used in manufacturing of photovoltaic Wafers per SunPower specification as identified in Schedule 1.

1.7 "Wafer" shall mean a pseudo quadratic disc sliced from a single crystal silicon Ingot per SunPower specification as identified in Schedule 1.

1.8 "Products" shall mean, collectively, Ingots and Wafers as defined above.

1.9 "SunPower-Sourced Products" shall mean Products manufactured with a corresponding volume of polysilicon delivered by SunPower under the Polysilicon Agreement.

1.10 "Third Party-Sourced Products" shall mean Products manufactured with a corresponding volume of polysilicon supplied by third parties (i.e. other than SunPower) to NorSun.

2. SALE AND PURCHASE

2.1 Subject to the provisions of Section 5, NorSun shall be obligated to supply, and SunPower shall be obligated to purchase, (a) during the period commencing on the Effective Date and expiring on December 31, 2011, Ingots in the Annual Quantities as further set forth in the Delivery Schedule (Schedule 2) and (b) during the period commencing on January 1, 2012 and expiring on December 31, 2019, Ingots in the Annual Quantities as further set forth in the Delivery Schedule (Schedule 2); subject in the case of this subclause (b) to the Parties agreeing on the pricing for such quantities in accordance with Section 3.3 and volume for Third Party-Sourced Products in accordance with Section 5.2. Subject to the provisions of Sections 3.2 and 5, NorSun may supply and SunPower may purchase Wafers in lieu of Ingots in satisfaction of their Annual Quantity commitments, in each case as mutually agreed by the Parties during the Term. No inability to agree on Wafer quantities shall affect the Parties' obligations with respect to Ingots.

2.2 All sales and purchase of Products between the Parties are subject to and governed by this Agreement unless otherwise expressly agreed in writing (under purchase orders or otherwise).

2.3 Unless otherwise consented to in writing by SunPower, NorSun shall sell SunPower-Sourced Products exclusively to SunPower.

3. PRICES

3.1 The prices for Ingots delivered for the period from the Effective Date through December 31, 2011 shall be determined according to Schedule 2.

3.2 No later than December 31, 2008 the Parties shall initiate discussions on Wafer prices for NorSun's delivery of Wafers to SunPower in lieu of Ingots through 2011. Such Wafer prices shall be agreed in writing and apply from the date determined by the Parties. If the Parties are unable to agree on Wafer prices within two months after the discussions are initiated, such discussions shall cease and be reopened no later than one Fiscal Year thereafter. No inability to agree on Wafer pricing shall affect the Parties' obligations with respect to Ingots.

3.3 The prices for Products delivered for the period from January 1, 2012 through December 31, 2019 shall be determined prior to each Fiscal Year, and shall be established by mutual written agreement between the Parties. The Parties shall initiate discussions to establish such prices no later than 120 days preceding any Fiscal Year to which such prices shall apply. In the event the Parties are unable to reach agreement no later than 15 days prior to the start of the applicable Fiscal Year, (a) the Product prices for such Fiscal Year shall be the same as the Product prices in effect immediately prior to such Fiscal Year and (b) if such inability to reach agreement on pricing continues through the end of such Fiscal Year, either Party may terminate this Agreement pursuant to Section 21.

3.4 The prices in Schedule 2 include taxes and duties that may be imposed in Norway on the manufacturing of the Products, but no other taxes or duties, i.e. taxes and duties imposed on the import and sale of the Products.

3.5 In the event that the polysilicon prices described in Section 4.1 of the Polysilicon Agreement are adjusted pursuant to Section 4.2 thereof, the Parties shall adjust the prices on the SunPower-Sourced Products in an amount equal to such adjustment. Any adjustment shall apply to the SunPower-Sourced Products associated with the newly priced polysilicon.

4. PAYMENT

4.1 All payments for Products shall be made by SunPower to NorSun no later than 30 days following the date of NorSun's invoice. Payment shall be net of any and all invoice fees or other fees or charges, other than those specified in this Agreement. All invoices should be sent to SunPower at its registered office. NorSun shall specify any taxes and duties charged on the invoice.

4.2 Unless otherwise agreed by NorSun, no deductions from invoices by SunPower are permitted.

4.3 Any delayed payment under this Agreement shall carry delayed payment interest of ***% per month (***% per annum) from the due date, based on 360 interest days per year. If the due date of any payment to be made hereunder falls on a day which is not a working day in the State of California, U.S., or Norway, delayed payment interest shall commence from the first working day after the due date.

5. FIRM COMMITMENT OBLIGATIONS; ADJUSTMENTS

5.1 Subject to the provisions of this Section 5, for the period from the Effective Date through December 31, 2011, NorSun shall be obliged to supply and SunPower shall be obliged to purchase the Ingots in such Annual Quantities as set forth in the Delivery Schedule; provided, however, that NorSun's supply obligation to provide Ingots which are Third Party-Sourced Products for the years 2007 through 2009 shall be on a best efforts basis only, consistent with Section 3.3 of the Polysilicon Agreement. Subject to the provisions of this Section 5 and the Parties' agreement on Wafer pricing in accordance with Section 3.2, NorSun shall supply and SunPower shall purchase Wafers in lieu of Ingots in satisfaction of their Annual Quantity commitments. No inability to agree on Wafer quantities shall affect the Parties' obligations with respect to Ingots.

5.2 Subject to the Parties' agreement on pricing in accordance with Section 3.3, and subject to the provisions of this Section 5, for the period from January 1, 2012 through December 31, 2019, each Fiscal Year NorSun shall be obliged to supply and SunPower shall be obliged to purchase such SunPower-Sourced Product quantities as set forth in the Delivery Schedule corresponding to the column entitled "SPWR Poly Supplied" therein (i.e. *** metric tons). With respect to Third Party-Sourced Product quantities for the period from January 1, 2012 through December 31, 2019, subject to the Parties' agreement on pricing in accordance with Section 3.3, and subject to the provisions of this Section 5, such quantities for each Fiscal Year shall be established by mutual written agreement. The Parties shall initiate discussions to establish such Third Party-Sourced quantities no later than 120 days preceding any Fiscal Year to which such quantities shall apply. In the event the Parties are unable to reach agreement no later than 15 days prior to the start of the applicable Fiscal Year, (a) the Product quantities for such Fiscal Year shall be the same as the preceding Fiscal Year and (b) if such inability to reach agreement on quantities continues through the end of such Fiscal Year, either Party may terminate this Agreement pursuant to Section 21.

5.3 Notwithstanding anything to the contrary in this Agreement (including but not limited to Sections 2.1, 5.1, and 5.2, and the Delivery Schedule), SunPower may, with respect to any Product quantity that it is otherwise required to purchase pursuant to this Agreement, eliminate its firm commitment obligation to purchase such quantity if SunPower consents to NorSun's resale of such Product quantity to third parties.

5.4 Notwithstanding anything to the contrary in this Agreement (including but not limited to Sections 2.1, 5.1, and 5.2, and the Delivery Schedule):

a) If delivery of polysilicon from SunPower to NorSun under the Polysilicon Agreement is delayed, the delivery dates for a proportional amount of SunPower-Sourced Products shall be postponed for the same period accordingly without liability to either party for such delay (the amount of SunPower-Sourced Products postponed shall be proportional to the delayed amount of polysilicon in relation to NorSun's total silicon supply for all SunPower-Sourced Products for the applicable period). In no event shall any delay of delivery of polysilicon from SunPower to NorSun excuse or otherwise affect NorSun's obligations to provide Third Party-Sourced Products under this Agreement.

b) In the event that the quantity of polysilicon supply from SunPower under the Polysilicon Agreement is not sufficient for the manufacturing of the SunPower-Sourced Products to be supplied under this Agreement, NorSun's obligation to deliver, and SunPower's obligation to purchase (to the extent such shortfall results from a corresponding shortfall of polysilicon from Hemlock), SunPower-Sourced Products under this Agreement shall be reduced without liability to either Party proportionately to such shortfall in polysilicon. In no event shall any shortfall in delivery of polysilicon from SunPower to NorSun excuse or otherwise affect NorSun's obligations to provide Third Party-Sourced Products under this Agreement.

c) Until NorSun has established sufficient Wafer manufacturing capacity at its Årdal (Norway) plant, NorSun shall deliver squared Ingots to SunPower unless the Parties agree to ship as-grown or ground round Ingots in addition to, or in lieu of, squared Ingots. Subject to the Parties' ability to agree on Wafer pricing in accordance with Section 3.2 and/or 3.3 , NorSun shall deliver Wafers to SunPower when such capacity has been established. NorSun will use its best efforts to establish Wafer manufacturing capacity no later than September 30, 2008. In the event NorSun is unable to deliver Wafers per SunPower's specifications at any time during the Term, NorSun shall fulfill its Annual Quantity obligations through its delivery of Ingots. Notwithstanding anything to the contrary herein, no inability of the Parties to agree on pricing or quantities for Wafers during the Term shall affect the Parties' obligations with respect to Ingots under this Agreement.

5.5 Subject to the provisions of Sections 5.3 and 5.4, either Party shall be entitled to seek recovery of its damages for failure by the other Party to fulfill its annual firm commitment obligations to the extent described in Sections 5.1 and 5.2 with respect to any Fiscal Year.

5.6 Pursuant to the Polysilicon Agreement Section 9, NorSun has acknowledged that SunPower will be contracting with Hemlock Semiconductor Corporation ("Hemlock") to expand Hemlock's manufacturing facility (the "Expanded Manufacturing Facility") in order to produce the polysilicon to be supplied under the Polysilicon Agreement. NorSun acknowledges the possibility of delays or failures in Hemlock completing the Expanded Manufacturing Facility and expressly agrees that notwithstanding anything in this Agreement to the contrary, SunPower SHALL HAVE NO LIABILITY TO NORSUN FOR ANY SUCH DELAY OR FAILURE, including for any shortfalls in delivery of Polysilicon resulting therefrom.

6. PURCHASE ORDERS

6.1 SunPower shall no later than 30 days prior to each Fiscal Year issue purchase orders ("Purchase Orders") for a total of the Annual Quantity for such Fiscal Year.

6.2 Each month NorSun shall issue a release identifying the monthly quantities of Products to be delivered. Such release shall be consistent with the delivery schedule of Polysilicon received by SunPower from its suppliers and with the Annual Quantities set forth in Schedule 2.

6.3 The Purchase Orders shall, unless otherwise agreed in writing between the Parties be issued monthly and shall at a minimum contain the following information: (i) reference to this Agreement, (ii) identification of the Products by proper name, price, and Annual Quantity, (iii) delivery instruction and delivery place, and (iv) issue date. The Purchase Orders shall be sent by ordinary mail, and a copy shall be forwarded to NorSun on the issue date either by e-mail or telefax. For the period from January 1, 2011 through December 31, 2019, a Purchase Order shall be binding for SunPower only after it is received and its conditions have been confirmed by NorSun.

6.4 A Purchase Order shall be sent by e-mail, or alternatively telefax, and regular mail. If no objection to the Purchase Order has been raised by NorSun within 15 days after SunPower's issue date, then such Purchase Order shall be deemed accepted by NorSun.

7. DISCREPANCIES

7.1 In the event of a discrepancy between the terms and conditions of this Agreement and the individual Purchase Order, the terms and conditions of this Agreement shall prevail unless the Parties in writing expressly agree otherwise.

8. DELIVERY

8.1 The Products shall be delivered FCA Aardal, Norway (Incoterms 2000). SunPower shall instruct NorSun on the delivery location for each shipment. In the event Products are delivered more than four (4) weeks following the delivery date requested by SunPower, NorSun agrees to immediately dedicate its entire factory production to fulfilling SunPower's delivery, and ship such Products via air freight to a delivery location then requested by SunPower at NorSun's expense. If Products are not delivered within six (6) weeks following the requested delivery date, NorSun will pay SunPower liquidated damages at a rate of *** percent (***%) of the gross purchase price applicable to such shipment per week thereafter, up to a maximum of *** percent (***%) of such purchase price, provided, however, that the liquidated damages shall not apply and SunPower shall be entitled to full compensation in the event that NorSun's failure to deliver is caused by gross negligence or wilful misconduct. The foregoing liquidated damages address late delivery shipments only and are independent of NorSun's liability (if any) and SunPower's corresponding ability to recover damages, for NorSun's failure to deliver its minimum Annual Quantity commitments pursuant to Section 5.1and 5.2 of this Agreement.

8.2 Title to the Products shall pass to SunPower simultaneously with risk of loss under FCA Aardal, Norway (Incoterms 2000).

8.3 A conformance certificate shall be issued by NorSun to SunPower for each delivery of Products. The parameters shown in the delivery certificate are outlined in Schedule 1.

9. PACKAGING AND SHIPPING

9.1 NorSun shall bear all costs associated with packaging or storing the Products until delivery to SunPower pursuant to the delivery terms specified in Section 8. All Products shall be packaged, marked, and otherwise prepared in accordance with good commercial practices to reduce the risk of damage and to be packaged in the smallest commercially acceptable form in order to enable SunPower to obtain the lowest shipping rates possible (based on volume metric dimensions) and in accordance with all applicable federal, state and local packaging and transportation laws and regulations. An itemized packing list shall accompany each shipment. Other or special packaging and shipping requirements are set forth on Schedule 1.

9.2 NorSun shall establish reasonable control routines in order to ensure punctual delivery of the Products at the agreed time and without any defects or non-conformities.

9.3 A shipment notice shall be submitted from NorSun to SunPower by telefax or other means of communications, at the latest on the shipment date, including:

a) Purchase Order No.

b) Brief description of Product

c) Invoice amount

d) Number of packages

e) Gross weight (total) kilos

f) Packing List describing in detail the content of each package

9.4 A delivery certificate shall be issued by NorSun to SunPower for each shipment of Products.

10. INSPECTION

10.1 An inspection of the appearance of the package shall be made by SunPower within *** after delivery of Products. In case the package has any damage, SunPower shall notify NorSun . If NorSun has not received a written notification within *** after the delivery, the inspection of appearance of the package shall be regarded as accepted.

10.2 The final inspection of the Products will take place by SunPower within and not later than *** after the delivery date. If the Product does not meet the

Schedule 1 specifications, SunPower shall notify and submit to NorSun documentary evidence of the result of the final inspection whereupon NorSun shall have the right to undertake its own inspection.

10.3 In the event that the Products do not meet the Schedule 1 specifications, SunPower shall have the right pursuant to Section 12 to reject such defective Products and return them to NorSun. The defective Products shall be replaced by NorSun according to the Rejected Material Administration (RMA) procedure. NorSun shall examine and judge the returned Products within *** after receipt. NorSun shall bear any and all costs and expenses incurred by SunPower related to the return of the defective Products and shall provide such remedies as set forth in Section 12.2.

10.4 All manufacturing facilities of NorSun shall be subject to quality assurance audits by SunPower at all reasonable times and places. If such audit is made on NorSun's premises, NorSun shall provide without additional charge, all reasonable facilities and assistance for such audit. All quality assurance records relating to the Products shall be available to SunPower during the performance of this Agreement. Nothing herein shall require NorSun to disclose confidential information relating to technology licensed to NorSun by third parties.

11. CONFIDENTIALITY

11.1 The Parties acknowledge and agree that the terms of this Agreement and certain information exchanged between them pertaining to this Agreement, including information regarding research, technology, product developments, marketing plans or conditions, products, business strategies, and the like, constitute "Confidential Information" of the Party disclosing the information. The purpose of the exchange of the Confidential Information" is to allow the Parties to meet their obligations and responsibilities under this Agreement. During the term of this Agreement, and for a period of 15 years following its termination or expiration, except as required by applicable law, regulation or rules of any securities exchange, the Party receiving any Confidential Information, and its employees, attorneys, financial advisors, officers, directors and shareholders who shall receive such Confidential Information shall not, except with the prior written consent of the disclosing Party, use, divulge, disclose or communicate, to any person, firm, corporation or entity, in any manner whatsoever, the terms of this Agreement or any Confidential Information of the disclosing Party; provided, however, that each Party may use, divulge, disclose or communicate the terms of this Agreement or Confidential Information of the disclosing Party to wholly-owned or majority owned subsidiaries if such subsidiaries undertake to keep such information strictly confidential in accordance with this Section 9 and each subsidiary has a "need to know". The Parties will be liable for any breach of this Section 9 by any of their respective wholly-owned or majority owned subsidiaries. Each Party further agrees to use the same degree of care to avoid publication or dissemination of the Confidential Information disclosed to such Party under this Agreement as it employs with respect to its own Confidential Information, but at all times shall use at least reasonable care to protect against disclosure.

11.2 Confidential Information does not and shall not include information that:

11.2.1 was already known to the receiving Party at the time such information is disclosed by the other Party;

11.2.2 was or became publicly known through no wrongful act of the receiving Party;

11.2.3 was rightfully received from a third party without restriction;

11.2.4 was independently developed by the receiving Party;

11.2.5 was approved for release by written authorization of the Party disclosing such information under this Agreement; or

11.2.6 was required by legal or financial reporting purposes to be disclosed; provided, however, that the Party being required to disclose shall, if circumstances permit, provide advanced notice to the other Party.

12. WARRANTY

12.1 NorSun warrants that the Products will be free from defects and workmanship, and conform to the specifications set forth in Schedule 1, provided that NorSun is notified of any defects or non-conformity within thirty (30) days after delivery and that the defect or non-conformity is shown to be due to NorSun's faulty design, workmanship, material or packaging.

12.2 If any Products fail to conform to this warranty, then NorSun will, at SunPower's option, either refund or replace such Products. For valid warranty claims all associated shipping and return costs shall be paid by NorSun.

13. INDEMNIFICATION

13.1 NorSun shall indemnify SunPower against any and all costs, loss and liability for all personal injury and property damage caused by the Products (whether performed on the premises of NorSun or SunPower or elsewhere) and shall defend at its sole cost and expense any action brought against SunPower as a result of any such personal injury or property damage. NorSun shall carry and maintain insurance coverage satisfactory to cover the above, and upon SunPower's request, shall furnish SunPower with evidence of such insurance.

13.2 NorSun shall defend, at its own expense, any suit or claim that may be instituted against SunPower or any customer of SunPower for alleged infringement of patents, trade secrets, copyrights or other intellectual property rights relating to the maintenance, sale or use of the Products, and NorSun shall indemnity SunPower and its customers for all costs and damages arising out of such alleged infringement.

14. FORCE MAJEURE

14.1 Neither Party shall be liable for delays or failures in performance of their obligations

under this Agreement arising out of or resulting from acts of God, acts of the other Party, acts of the government, the public enemy or events of war, fire, flood, epidemics, quarantine restrictions, strikes, or freight embargoes (each a "Force Majeure Event").

14.2 In the event of any Force Majeure Event, the unaffected Party shall honor its obligations hereunder as soon as the affected Party is able to perform.

15. ASSIGNMENT

15.1 No assignment of the Agreement or of any right or obligation under the Agreement shall be made by either of the Parties without the prior written consent of the other Party, such consent shall not to be unreasonably withheld or delayed. In the event of a proper assignment, the Agreement shall be binding upon and inure to the benefit of the assigning Party's successors and assigns.

16. NO PARTNERSHIP OR AGENCY

16.1 Nothing in this Agreement shall constitute, or be deemed to constitute, a partnership or agency between the Parties.

17. NOTICES

17.1 Any communication which is required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, telefaxed (and with a confirmation copy also sent by mail), delivered by a reputable commercial courier service or mailed, always with receipt acknowledged, to the registered address of either Party as set forth herein or to such other registered address as follows from a prior notification to the other Party by the receiving Party.

18. ENTIRE AGREEMENT

18.1 This Agreement constitutes the entire understanding between the Parties with respect to the subject matter of the Agreement and supersedes any prior discussions, negotiations, agreements, memoranda of understanding and the like. Modifications to the Agreement may be made only in writing and signed by each Party. If one or more of the provisions of this Agreement shall be found, by a court with jurisdiction, to be illegal, invalid or unenforceable, it shall not affect the legality, validity or enforceability of any of the remaining provisions of this Agreement. The Parties agree to attempt to substitute for any illegal, invalid or unenforceable provision a legal, valid or enforceable provision that achieves to the greatest extent possible the economic objectives of the illegal, invalid or unenforceable provision.

19. POLYSILICON AGREEMENT

19.1 The Parties acknowledge that this Agreement is entered in reliance upon the execution and continuing effectiveness of the Polysilicon Agreement. Accordingly, to the extent any modifications are made to the provisions of the Polysilicon Agreement, the Parties will in good faith consider appropriate modifications to the provisions of this Agreement. The Parties also acknowledge that NorSun's obligations to deliver to SunPower Third Party-Sourced Products are independent of any reliance NorSun places upon the Polysilicon Agreement.

20. WAIVER

20.1 Either Party's failure to exercise a right or remedy or such Party's acceptance of a partial or delinquent payment or delivery shall not operate as a waiver of any of such Party's rights or the other Party's obligations under the Agreement and shall not constitute a waiver of such Party's right to declare an immediate or a subsequent default.

21. TERM AND TERMINATION

21.1 This Agreement commences on the Effective Date, and continues to remain in force and effect until December 31, 2019 (the "Term"), at which time this Agreement may be extended with the mutual agreement of both Parties.

21.2 The Parties expressly agree that NorSun is obligated to supply and SunPower is obligated to purchase the Products at the contracted prices and quantities pursuant to Sections 3.1 and 5.1 through 2011, and thereafter through 2019 as agreed to each Fiscal Year pursuant to Sections 3.2 and 5.2. Accordingly, the basis and circumstances under which the Parties can terminate this Agreement prior to the expiration of the Term of this Agreement is expressly limited to the terms of this Section 21.

21.3 Termination by NorSun. NorSun may, at its option, terminate this Agreement only upon one of the following events:

a) Upon the event of a material breach by SunPower of its obligations under this Agreement (other than a material breach triggered by a Force Majeure Event, which shall be solely addressed in Section 14), provided that (i) NorSun submits a written notice of such breach to SunPower, and (ii) SunPower fails to cure such breach within ninety (90) days of receipt of the written notice of breach. If SunPower rectifies any such breach within such period, then SunPower's breach shall be deemed cured and NorSun shall not be entitled to terminate this Agreement;

b) Upon the event that the Parties are unable to agree on pricing pursuant to Section 3.3(b) or quantities for Third Party-Sourced Products pursuant to Section 5.2(b), such termination being effective as of the expiration of the twelve-month period referenced therein; or

c) Upon the termination of the Polysilicon Agreement by NorSun pursuant to Section 10.2(a) thereof.

21.4 Termination by SunPower. SunPower may, at its option, terminate this Agreement upon one of the following events:

a) Upon the event of a material breach by NorSun of its obligations under this Agreement (other than a material breach triggered by a Force Majeure Event, which shall be solely addressed in Section 14), provided that (i) SunPower submits a written notice of such breach to NorSun, and (ii) NorSun fails to cure such breach within ninety (90) days of receipt of the written notice of breach. If NorSun rectifies any such breach within such period, then NorSun's breach shall be deemed cured and SunPower shall not be entitled to terminate this Agreement;

b) Upon the event that the Parties are unable to agree on pricing pursuant to Section 3.3(b) or quantities for Third Party-Sourced Products pursuant to Section 5.2(b), such termination being effective as of the expiration of the twelve-month period referenced therein;

c) In the event that NorSun, due to reasons not deemed as Force Majeure in accordance with Section 14, resolves to cease its Ingot or Wafer manufacturing for SunPower's benefit permanently or for a period exceeding 90 days; or

d) Upon the termination of the Polysilicon Agreement by NorSun pursuant to Section 10.2(a) thereof.

21.5 Sections 1, 4 (to the extent of any due and unpaid invoices), 11 through 18, and 20 through 25 shall survive any termination of this Agreement.

22. ATTORNEYS FEES AND COSTS

22.1 The Parties shall bear their own expenses incurred in connection with the negotiation and execution of this Agreement.

23. DOLLARS

23.1 All references to monetary amounts shall be in U.S. Dollars.

24. AGREEMENT PREPARATION

24.1 This Agreement shall be considered for all purposes as prepared through the joint efforts of the Parties and shall not be construed against one Party or the other as a

result of the manner in which this Agreement was negotiated, prepared, drafted or executed.

25. GOVERNING LAW AND DISPUTE RESOLUTION

25.1 The Agreement is made in, and shall be governed and controlled in all respects by the laws of the State of Michigan, USA (specifically disclaiming the U.N. Convention Contracts for the International Sale of Goods). All disputes, including interpretation, enforceability, validity, and construction, shall be determined under the law of the State of Michigan, USA, without regard to any conflict of law provisions.

25.2 The Parties submit to the exclusive jurisdiction and venue of the U.S. District Court for the Eastern District of Michigan for all disputes arising, directly or indirectly, under this Agreement.

* * *

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the Effective Date.

For and on behalf of	For and on behalf of
NorSun AS	**SunPower Corporation**
/s/ GRETE SONSTEBY	/s/ THOMAS WERNER
Name: Grete Sonsteby	Name: Thomas Werner
Title: Chairman of the Board	Title: Chief Executive Officer

SCHEDULE NO. 1 SPECIFICATION OF INGOTS AND WAFERS

See SunPower Squared Ingot spec #001-07689 Rev A

See SunPower Wafer spec #001-07686 Rev A.

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SCHEDULE NO. 2 PRICES , QUANTITIES, YIELD/RATIO LIMITS, AND DELIVERY SCHEDULE

Year	Month	Poly Price	Conversion Price	Conversion Ratio	SPWR Poly Supplied	Norsun Poly Supplied	Total Poly Volume	Ratio Ingot Volume to be delivered	Norsun's Price of Slabbed Ingot
2007	Oct	***	***	***	***	***	***	***	***
	Nov	***	***	***	***	***	***	***	***
	Dec	***	***	***	***	***	***	***	***
2008	Jan	***	***	***	***	***	***	***	***
	Feb	***	***	***	***	***	***	***	***
	Mar	***	***	***	***	***	***	***	***

	Apr	***	***	***	***	***	***	***	***
	May	***	***	***	***	***	***	***	***
	Jun	***	***	***	***	***	***	***	***
	Jul	***	***	***	***	***	***	***	***
	Aug	***	***	***	***	***	***	***	***
	Sept	***	***	***	***	***	***	***	***
	Oct	***	***	***	***	***	***	***	***
	Nov	***	***	***	***	***	***	***	***
	Dec	***	***	***	***	***	***	***	***
2009	Jan	***	***	***	***	***	***	***	***
	Feb	***	***	***	***	***	***	***	***
	Mar	***	***	***	***	***	***	***	***
	Apr	***	***	***	***	***	***	***	***
	May	***	***	***	***	***	***	***	***
	Jun	***	***	***	***	***	***	***	***
	Jul	***	***	***	***	***	***	***	***
	Aug	***	***	***	***	***	***	***	***
	Sept	***	***	***	***	***	***	***	***
	Oct	***	***	***	***	***	***	***	***
	Nov	***	***	***	***	***	***	***	***
	Dec	***	***	***	***	***	***	***	***
2010	Jan	***	***	***	***	***	***	***	***
	Feb	***	***	***	***	***	***	***	***
	Mar	***	***	***	***	***	***	***	***
	Apr	***	***	***	***	***	***	***	***
	May	***	***	***	***	***	***	***	***
	Jun	***	***	***	***	***	***	***	***
	Jul	***	***	***	***	***	***	***	***
	Aug	***	***	***	***	***	***	***	***
	Sept	***	***	***	***	***	***	***	***
	Oct	***	***	***	***	***	***	***	***
	Nov	***	***	***	***	***	***	***	***
	Dec	***	***	***	***	***	***	***	***
2011	Jan	***	***	***	***	***	***	***	***
	Feb	***	***	***	***	***	***	***	***
	Mar	***	***	***	***	***	***	***	***
	Apr	***	***	***	***	***	***	***	***
	May	***	***	***	***	***	***	***	***
	Jun	***	***	***	***	***	***	***	***
	Jul	***	***	***	***	***	***	***	***
	Aug	***	***	***	***	***	***	***	***
	Sept	***	***	***	***	***	***	***	***
	Oct	***	***	***	***	***	***	***	***
	Nov	***	***	***	***	***	***	***	***
	Dec	***	***	***	***	***	***	***	***
2012		***	TBN		***	TBN			TBN
2013		***	TBN		***	TBN			TBN
2014		***	TBN		***	TBN			TBN
2015		***	TBN		***	TBN			TBN
2016		***	TBN		***	TBN			TBN
2017		***	TBN		***	TBN			TBN
2018		***	TBN		***	TBN			TBN
2019		***	TBN		***	TBN			TBN

"TBN" means to be negotiated in accordance with the Agreement.

CONFIDENTIAL TREATMENT REQUESTED
—
CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

LONG-TERM POLYSILICON SUPPLY AGREEMENT

SUNPOWER CORPORATION, a Delaware corporation with its principal place of business at 3939 North First Street, San Jose, California 95134, USA ("SunPower") and NorSun AS, a Norwegian company with its principal place of business at Bankplassen 1, 0151 OSLO Norway ("NorSun") hereby enter into this Long-Term Polysilicon Supply Agreement (the "Agreement") effective as of August 9, 2007 (the "Effective Date").

WHEREAS, SunPower procures polycrystalline silicon from third parties for its manufacture of solar cells and solar modules, including but not limited to pursuant to the Long-Term Supply Agreement II entered into between SunPower and Hemlock Semiconductor Corporation ("Hemlock") on July 16, 2007 (the "Hemlock Agreement");

WHEREAS, NorSun is active in the field of manufacture and supply of monocrystalline silicon ingots ("Ingots") and wafers ("Wafers") utilizing polycrystalline silicon; and

WHEREAS, on the terms and conditions set forth herein, SunPower wishes to procure polycrystalline silicon from one or more third parties and resell the same to NorSun in order to permit NorSun to manufacture and supply Ingots and Wafers to SunPower and, to the extent permitted hereunder, to other third parties pursuant to that certain Long-Term Ingot and Wafer Supply Agreement entered into concurrently herewith ("Ingot/Wafer Supply Agreement").

NOW, THEREFORE, the parties agree as follows:

1. **Definitions**.

"Annual Quantity" shall mean annual volumes as set forth on Exhibit B.

"Fiscal Year" shall mean the period beginning on January 1st and ending on December 31st of the same year.

"Polysilicon" shall mean the polycrystalline silicon manufactured by third parties and sold to SunPower. The specifications for the Polysilicon are set forth in **Exhibit A**, as such specifications may be amended from time to time by mutual written agreement of the parties. Unless otherwise consented to in writing by SunPower, NorSun shall utilize the Polysilicon for its manufacturing purposes exclusively to produce Ingots and Wafers for SunPower pursuant to the Ingot/Wafer Agreement, and shall not re-sell the Polysilicon, or become a re-seller or distributor of the Polysilicon. Notwithstanding the foregoing, NorSun may without such consent re-sell or distribute the Polysilicon to wholly-owned or majority owned subsidiaries (hereinafter together with NorSun referred to as the

"NorSun Group") which are responsible for manufacturing Ingots or Wafers for SunPower.

"Wafer/Ingot Agreement" shall mean the Long-Term Ingot and Wafer Supply Agreement of August 9, 2007, executed by and between SunPower and NorSun.

2. **Advance Payment**.

2.1 NorSun shall make an advance payment for the Polysilicon to be purchased under this Agreement for the period from 2010 through 2019. The advance payment shall be in the amount of USD$*** (the "Advance Payment"). *** (USD$***) of the Advance Payment shall become immediately due as of the Effective Date, and *** (USD$***) of the Advance Payment will be paid on or before July 1, 2008. Notwithstanding anything herein to the contrary, NorSun expressly acknowledges its understanding and agrees that, once this Agreement is executed, there are no circumstances or occurrences that will require SunPower to refund to NorSun all or any portion of the Advance Payment other than a Repayment Event (as defined in Section 2.2).

2.2 Commencing January 1, 2010 and continuing through December 31, 2019, the Advance Payment shall be applied as a credit against the price of the Polysilicon that NorSun is required to purchase and SunPower is required to supply (in each case to the extent provided in Sections 3.1 and 3.2 below) under this Agreement at the times and in the amounts shown under the column "SunPower Poly Volume (MT)"on **Exhibit B**. Over this nine-year period NorSun shall receive a $***/kg credit against each invoice until the remaining portion of the Advance Payment is reduced to zero. The Advance Payment not credited against the price of Polysilicon shall be repaid from SunPower to NorSun only in the following events (each a "Repayment Event"):

a) The termination of this Agreement by NorSun in accordance with Section 10.2(a) as a result of SunPower's material breach of this Agreement;

b) With respect to any Fiscal Year, SunPower supplies to NorSun less than five percent of the Annual Quantity of Polysilicon required for such Fiscal Year and NorSun terminates this Agreement pursuant to Section 10.2(c);

c) SunPower's insolvency or bankruptcy;

d) The termination of this Agreement by SunPower in accordance with Section 10.3(c) based upon SunPower's termination of the Wafer/Ingot Agreement pursuant to Section 21.4(a) or (b) thereof (this clause (d) shall not limit NorSun's right to repayment of the Advance Payment under any of the other Repayment Events set forth in Section 2.2(a), (b), (c) or (e)); or

e) The termination of this Agreement by SunPower in accordance with Section 10.3(d).

If a Repayment Event has occurred, NorSun shall submit to SunPower a written notice explaining the Repayment Event and identifying the date on which the Repayment Event occurred. The repayment of the applicable portion of the Advance Payment is due ninety (90) days after the Repayment Event. Any payment after the due date shall be charged with a penalty interest of 10% per annum.

2.3 SunPower shall provide to NorSun security covering the full Advance Payment set forth in section 2.1 which remains outstanding at any time (the "Security"). SunPower shall, provide such Security by one or more of the following methods:

(i) a bank guarantee, a letter of credit from a reputable international bank or financial institution or a collateralized cash reserve account or a combination thereof, covering no less than 50% of the Advanced Payment which remains outstanding at any time; provided that SunPower may elect to have up to 50% of the amount of the Security provided under this clause (i) to take the form of a letter of credit, and

(ii) the collateralization of an adequate amount of SunPower's assets covering the value of the Advanced Payment at any time outstanding and not secured under the prior clause (i). SunPower shall be entitled to substitute the form of security permitted under this clause (ii) for the form of security permitted under the prior clause (i) from time to time, subject to the commercially reasonable acceptance of NorSun.

The Security shall be effective at all times during which the Advance Payment is outstanding and be valid until SunPower's potential obligation to repay the Advance Payment has ceased. The documented cost of providing all Security under this Section 2.3 shall be borne by NorSun. SunPower's assets that are provided as collateral to satisfy SunPower's Security obligations under clause (ii) of this Section 2.3 shall include only assets owned solely by SunPower which, subject to the laws and regulations of the country in which the assets are located, will provide satisfactory legal protection of first priority for the full amount of the Advanced Payment to be secured in accordance with (ii) above. Such assets shall be valued at book value as reported in SunPower's audited financial statements.. The book value of all assets collateralized pursuant to clause (ii) of this Section 2.3 shall exceed the amount of Security that SunPower is required to provide, less an amount equal to the value of Security provided by SunPower in accordance with clause (i) of this Section 2.3.

3. <u>Obligations to supply and purchase Polysilicon, forecasts and delivery schedule</u>

3.1 For the period from the Effective Date through 31 December 2019, the parties' obligations with respect to the supply and purchase of Polysilicon shall be as follows:

a) For the period from the Effective Date through 31 December 2009, SunPower shall be obligated to supply and NorSun shall be obligated to purchase such Annual Quantities of Polysilicon as set forth on **Exhibit B**; provided, however, that NorSun's obligation to purchase the stated Annual Quantity for 2007 shall be on a best efforts basis;

b) For the period from 1 January 2010 and until 31 December 2019, SunPower shall be obligated to supply and NorSun shall be obligated to purchase such Annual Quantities of Polysilicon as set forth on **Exhibit B;** provided however, that SunPower's obligation to supply such Annual Quantities shall apply if and only to the extent SunPower receives an adequate supply of Polysilicon from its suppliers to fulfill such obligation.

Notwithstanding the foregoing (but subject to NorSun's right to terminate this Agreement pursuant to Section 10.2(c) in the event that the Repayment Event described in Section 2.2(b) or (c) has occurred), SunPower shall be entitled to roll forward Polysilicon quantities into the next Fiscal Year, to the extent its Polysilicon suppliers rolls forward corresponding quantities into such Fiscal Years.

3.2 This Agreement is a "take or pay agreement" such that, to the extent described in Section 3.1(a) and (b) above, NorSun is absolutely and irrevocably required to accept and pay for the contracted volume set forth in the third column of **Exhibit B** per year indicated over the Term of this Agreement at the prices in **Exhibit B**, subject to the adjustments described set forth in this Agreement. In the event that NorSun fails to order and take delivery of its contracted volume in a given year, SunPower shall invoice NorSun for the differential at full contract price and NorSun will pay the same within 30 days of invoice date. NorSun specifically acknowledges and accepts that it will be liable for the full purchase price of volume differential between the quantity ordered and the contracted volume. SunPower is similarly required to provide the agreed quantities of Polysilicon under this Agreement to the extent required in Section 3.1(a) and (b) above.

3.3 The parties agree that, in order to satisfy NorSun's supply obligations under the Ingot/Wafer Supply Agreement, in addition to the Polysilicon it shall purchase from SunPower under this Agreement in the quantities set forth in the third column of **Exhibit B**, NorSun shall be required to procure from other third parties additional polysilicon in the quantities set forth in the fourth column of **Exhibit B** under the heading "NorSun Poly Volume (MT), provided, however, that for the years 2008 through 2009 NorSun's obligation to procure additional Polysilicon apply only to the extent and for the quantum of Polysilicon that are made available to NorSun (using its best efforts) from Polysilicon manufacturers in which NorSun has an equity interest. The parties further acknowledge that any shortfall in deliveries of Polysilicon from SunPower may cause a corresponding reduction of NorSun's deliveries of Wafers and Ingots under the Wafer/Ingot Agreement.

4. <u>Price and quantity</u>

4.1 The price and quantity of Polysilicon to be purchased by NorSun from SunPower for the specific years is as set forth in the first three columns of **Exhibit B**. From the Effective Date through December 31, 2009, unit prices for shipment of Polysilicon are FCA Wacker Germany or FCA Hemlock, Michigan USA (Incoterms 2000); commencing January 1, 2010, unit prices for shipment of Polysilicon are FCA Hemlock, Michigan USA (Incoterms 2000). Subject only to the price adjustments set forth in Section 4.2, prices listed in **Exhibit B** are fixed for the Term of this Agreement.

4.2 SunPower shall adjust the prices on Polysilicon equal to the adjustment in prices to be paid by SunPower to third party Polysilicon manufacturers providing SunPower with Polysilicon resold to NorSun in accordance with this Agreement. Any adjustment shall take force as from the same date as the price adjustment on the supply from such third party manufacturers.

5 <u>Purchase Orders</u>

5.1 NorSun shall no later than 30 days prior to each Fiscal Year issue purchase orders ("Purchase Orders") for a total of the Annual Quantity for such Fiscal Year.

5.2 Each month SunPower shall issue a release identifying the monthly quantities of Polysilicon to be delivered. Such release shall be consistent with the delivery schedule of Polysilicon received by SunPower from its suppliers and the Annual Quantities set forth in **Exhibit B**.

5.3 The Purchase Orders shall, unless otherwise agreed in writing between the parties, shall at a minimum contain the following information: (i) reference to this Agreement, (ii) identification of the Polysilicon by proper name, price, and Annual Quantity, (iii) delivery instruction and delivery place, and (iv) issue date. The Purchase Orders shall be sent by ordinary mail, and a copy shall be forwarded

to SunPower on the issue date either by e-mail or telefax.

5.4 Without limiting NorSun's obligations under Section 3.2, a Purchase Order shall be binding for NorSun only after it is received and its conditions have been confirmed by SunPower. A Purchase Order shall be sent by e-mail, or alternatively telefax, and regular mail. If no objection to the Purchase Order has been raised by SunPower within 15 days after NorSun's issue date, then such Purchase Order shall be deemed accepted by SunPower.

5.5 In the event of a discrepancy between the terms and conditions of this Agreement and the individual Purchase Order, the terms and conditions of this Agreement shall prevail unless the parties in writing agree otherwise.

6 **<u>Payment</u>**.

Payment terms are net 30 days from the date of the invoice. Finance charges of ***% per month (***% per annum) may be assessed on payment past due from the payment due date to the date payment is received. Failure to pay invoices when due or finance charges when assessed may result in delayed or cancelled shipments. No unauthorized deductions from invoices are permitted.

7 **<u>Title and Risk of Loss</u>**.

From the Effective Date through December 31, 2009, NorSun shall purchase the Polysilicon from SunPower FCA Wacker Germany or FCA Hemlock, Michigan USA (Incoterms 2000); commencing January 1, 2010, NorSun shall purchase the Polysilicon from SunPower FCA Hemlock, Michigan USA (Incoterms 2000). Title and risk of loss with respect to all Polysilicon shall pass to NorSun when the goods have been delivered to the carrier at the foregoing locations.

8 **<u>Term</u>**.

The term of this Agreement shall be from the Effective Date through December 31, 2019 (the "Term"). The Agreement may not be terminated during the Term, except as expressly set forth in Section 9.

9 **<u>Manufacturing Facility</u>**.

NorSun acknowledges that pursuant to the Hemlock Agreement Hemlock will be expanding its manufacturing facility (the "Expanded Manufacturing Facility") in order to produce the Polysilicon to be supplied under this Agreement. The estimated completion date for 50% of the Expanded Manufacturing Facility capacity is January 1, 2010, with estimated capacity of 75% completed on January 1, 2011, and 100% of estimated capacity completed on January 1, 2012. NorSun acknowledges the possibility of delays or failures in Hemlock completing the Expanded Manufacturing Facility and expressly agrees that notwithstanding anything in this Agreement to the contrary, SunPower SHALL HAVE NO LIABILITY TO NORSUN FOR ANY

SUCH DELAY OR FAILURE, including for any shortfalls in delivery of Polysilicon resulting therefrom.

10 **Termination**.

10.1 NorSun understands and acknowledges that SunPower is making substantial payments to expand its supplier's manufacturing capabilities in contemplation of this Agreement. Further, SunPower understands and acknowledges that NorSun is making substantial investments expanding its manufacturing capacities to comply with its obligations under this Agreement. Thus, the parties acknowledge that NorSun is obligated to purchase, and SunPower is obligated to supply, the contracted volumes over the Term of this Agreement, in each case to the extent described in Sections 3.1 and 3.2. Accordingly, the basis and circumstances under which the parties can terminate this Agreement prior to the expiration of the Term of this Agreement is expressly limited to the terms of this Section 10.

10.2 **Termination by NorSun.** NorSun may, at its option, terminate this Agreement only upon one of the following events:

(a) Upon the event of a material breach by SunPower of its obligations under this Agreement (other than a material breach triggered by a Force Majeure Event, which shall be solely addressed in Section 18), provided that (i) NorSun submits a written notice of such breach to SunPower, and (ii) SunPower fails to cure such breach within ninety (90) days of receipt of the written notice of breach. If SunPower rectifies any such breach within such period, then SunPower's breach shall be deemed cured and NorSun shall not be entitled to terminate this Agreement;

(b) In the event of a termination of the Wafer/Ingot Agreement (other than termination by SunPower pursuant to Sections 21.4(a) or (c) of the Wafer/Ingot Agreement), and SunPower is unable to secure Hemlock's consent to permit NorSun to manufacture Wafers or Ingots using the Polysilicon sold hereunder for the benefit of third parties; or

(c) Upon a Repayment Event (as defined in Section 2.2).

10.3 **Termination by SunPower**. SunPower may, at its option, terminate this Agreement upon one of the following events:

a) Upon the event of a material breach by NorSun of its obligations under this Agreement (other than a material breach triggered by a Force Majeure Event, which shall be solely addressed in Section 18), provided that (i) SunPower submits a written notice of such breach to NorSun, and (ii) NorSun fails to cure such breach within ninety (90) days of receipt of the written notice of breach. If NorSun rectifies any such breach within such period, then NorSun's breach shall be deemed cured and SunPower shall not be entitled to terminate this Agreement;

b) in the event that NorSun, due to reasons not deemed as Force Majeure in accordance with Section 18, resolves to cease its Ingot or Wafer manufacturing for SunPower's benefit permanently or for a period exceeding ninety (90) days;

c) in the event of a termination of the Wafer/Ingot Agreement (other than termination by NorSun pursuant to Section 21.3 thereof); or

d) SunPower's third party suppliers fail to supply Polysilicon to SunPower for any reason or any agreements providing for such supply terminate for any reason.

10.4 Sections 1, 6 (to the extent of any due and unpaid invoices), 7, 10 through 23, and 25 through 27 shall survive any termination of this Agreement.

11 **Confidentiality**.

The parties acknowledge and agree that the terms of this Agreement and certain information exchanged between them pertaining to this Agreement, including information regarding research, technology, product developments, marketing plans or conditions, products, business strategies, and the like, constitute "Confidential Information" of the party disclosing the information. The purpose of the exchange of the Confidential Information" is to allow the parties to meet their obligations and responsibilities under this Agreement. During the term of this Agreement, and for a period of 15 years following its termination or expiration, except as required by applicable law, regulation or rules of any securities exchange, the party receiving any Confidential Information, and its employees, attorneys, financial advisors, officers, directors and shareholders who shall receive such Confidential Information shall not, except with the prior written consent of the disclosing party, use, divulge, disclose or communicate, to any person, firm, corporation or entity, in any manner whatsoever, the terms of this Agreement or any Confidential Information of the disclosing party; provided, however, that each party may use, divulge, disclose or communicate the terms of this Agreement or Confidential Information of the disclosing party to wholly-owned or majority owned subsidiaries if such subsidiaries undertake to keep such information strictly confidential in accordance with this Section 11 and each subsidiary has a "need to know". The parties will be liable for any breach of this Section 11 by any of their respective wholly-owned or majority owned subsidiaries. Each party further agrees to use the same degree of care to avoid publication or dissemination of the Confidential Information disclosed to such party under this

Agreement as it employs with respect to its own Confidential Information, but at all times shall use at least reasonable care to protect against disclosure. Confidential Information does not and shall not include information that:

11.1 was already known to the receiving party at the time such information is disclosed by the other party;

11.2 was or became publicly known through no wrongful act of the receiving party;

11.3 was rightfully received from a third party without restriction;

11.4 was independently developed by the receiving party;

11.5 was approved for release by written authorization of the party disclosing such information under this Agreement; or

11.6 was required by legal or financial reporting purposes to be disclosed; provided, however, that the party being required to disclose shall, if circumstances permit, provide advanced notice to the other party.

12 **Pass-Through Warranty**.

12.1 NorSun's warranty claims against SunPower shall be limited in scope to the corresponding warranty claims brought by SunPower against the third party providers of the Polysilicon, provided that SunPower complies with the provisions of this Section 12 below.

12.2 SunPower shall, upon NorSun's reasonable and documented request, pursue any warranty claims against the third party Polysilicon providers. SunPower shall pursue such claims in accordance with NorSun's instructions and at NorSun's cost. SunPower may, at its option, obtain the consent from the applicable third party Polysilicon provider that the claim may be transferred to NorSun and pursued directly by NorSun against such third party; provided, however, that SunPower shall as part of any such transfer disclose to NorSun the terms of the transferred warranty.

12.3 SunPower shall identify to NorSun the third party manufacturer and, if there are several third party manufacturers, identify the origin of the Polysilicon at each delivery.

13 **Warranty Disclaimer**.

THE WARRANTIES, IF ANY, DESCRIBED ABOVE ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, SAID WARRANTIES BEING EXPRESSLY DISCLAIMED.

14 **Limited Remedy**.

SunPower and/or the third party warranty providers (as applicable) shall be given reasonable and prompt opportunity to examine any claim of defect by NorSun. NorSun agrees that its sole and exclusive remedy against such parties shall be limited to either, at SunPower's and/or the third party's sole discretion, (i) the revision, repair or replacement of non-conforming or defective Polysilicon or (ii) payment not to exceed the purchase price of the specific Polysilicon for which damages are claimed. This exclusive remedy shall not be deemed to have failed of its essential purpose so long as SunPower and/or the third party (as applicable) is willing to revise, repair or replace the defective Polysilicon, or make the payment described in this Section 14.

15 **Damages Limitation**.

EXCEPT FOR FAILURE TO DELIVER POLYSILICON TO WHICH THE ADVANCE PAYMENTS RELATE, SUNPOWER SHALL NOT BE LIABLE FOR ANY LOSS, DAMAGE, OR INJURY RESULTING FROM DELAY IN DELIVERY OF THE POLYSILICON, OR FOR ANY FAILURE TO PERFORM WHICH IS DUE TO A FORCE MAJEURE EVENT (AS DEFINED IN SECTION 18). EXCEPT FOR EITHER PARTY'S BREACH OF SECTION 11, THE MAXIMUM AGGREGATE LIABILITY OVER THE TERM OF THIS AGREEMENT, IF ANY, FOR ALL DAMAGES, INCLUDING WITHOUT LIMITATION CONTRACT DAMAGES AND DAMAGES FOR INJURIES TO PERSONS OR PROPERTY, WHETHER ARISING FROM A PARTY'S BREACH OF CONTRACT, BREACH OF WARRANTY, NEGLIGENCE, STRICT LIABILITY, OR OTHER TORT, IS LIMITED TO, IN THE CASE OF SUNPOWER, THE THEN REMAINING NET BALANCE OF THE ADVANCED PAYMENT AS SET FORTH IN SECTION 2 AND, IN THE CASE OF NORSUN, THE AGGREGATE PRICE FOR THE POLYSILICON COMMITTED TO BE PURCHASED BY NORSUN DURING THE TERM AS SET FORTH IN SECTION 2.1. IN NO EVENT SHALL SUNPOWER BE LIABLE TO THE OTHER PARTY FOR ANY INCIDENTAL, CONSEQUENTIAL, OR SPECIAL DAMAGES, INCLUDING WITHOUT LIMITATION LOST REVENUES AND PROFITS, EVEN IF EITHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. THESE LIMITATIONS SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF THE LIMITED REMEDY SET FORTH ABOVE.

16 **Patents**.

In no case shall SunPower be liable to defend or pay any award of damages assessed against NorSun in any suit or cause of action alleging that the use of the Polysilicon infringes any patent or other intellectual property right of any third party.

17 **Taxes**.

Any tax or other government charge now or in the future levied upon the production, sale, use or shipment of the Polysilicon may, at SunPower's option, be added to the purchase price.

18 **Force Majeure**.

Neither of the parties shall be liable for delays or failures in performance of their obligations under this Agreement arising out of or resulting from causes beyond its control. Such causes include, but are not limited to, acts of God, acts of the other party, acts of the government or the public enemy, fire, flood, epidemics, quarantine restrictions, strikes, freight embargoes, severe weather, or default or failure of suppliers (including any failure of SunPower's suppliers to deliver Polysilicon relevant to this Agreement, provided, however, that such non-delivery is beyond SunPower's reasonable control). In the event of any such delay of SunPower's performance, NorSun shall honor its obligations hereunder as soon as SunPower is able to perform.

19 **Choice of Law**.

The Agreement is made in, and shall be governed and controlled in all respects by the laws of the State of Michigan, USA (specifically disclaiming the U.N. Convention Contracts for the International Sale of Goods) and all disputes, including interpretation, enforceability, validity, and construction, shall be determined under the law of the State of Michigan, without regard to any conflict of law provisions.

20 **Choice of Forum**.

The parties submit to the exclusive jurisdiction and venue of the U.S. District Court for the Eastern District of Michigan for all disputes arising, directly or indirectly, under this Agreement.

21 **Waiver**.

Either party's failure to exercise a right or remedy or such party's acceptance of a partial or delinquent payment or delivery shall not operate as a waiver of any of such party's rights or the other party's obligations under the Agreement and shall not constitute a waiver of such party's right to declare an immediate or a subsequent default.

22 **Severability**.

If one or more of the provisions of this Agreement shall be found, by a court with jurisdiction, to be illegal, invalid or unenforceable, it shall not affect the legality, validity or enforceability of any of the remaining provisions of this Agreement. The parties agree to attempt to substitute for any illegal, invalid or unenforceable

provision a legal, valid or enforceable provision that achieves to the greatest extent possible the economic objectives of the illegal, invalid or unenforceable provision.

23 **Integration**.

The Agreement constitutes the entire understanding between the parties with respect to the subject matter of the Agreement and supersedes any prior discussions, negotiations, agreements, memoranda of understanding and the like. Modifications to the Agreement may be made only in writing and signed by each party.

24 **Ingot-Wafer Supply Agreement**.

The parties acknowledge that this Agreement is entered in reliance upon the execution and continuing effectiveness of the Ingot/Wafer Supply Agreement. Accordingly, to the extent any modifications are made to the provisions of the Ingot/Wafer Supply Agreement, the parties will in good faith consider appropriate modifications to the provisions of this Agreement.

25 **Assignment**.

No assignment of the Agreement or of any right or obligation under the Agreement shall be made by NorSun without the prior written consent of SunPower, said consent shall not be unreasonably withheld. In the event of a proper assignment, the Agreement shall be binding upon and inure to the benefit of the assigning party's successors and assigns.

26 **Attorney Fees and Costs**.

The parties shall bear their own expenses incurred in connection with the negotiation and execution of this Agreement.

27 **Dollars**.

All references to monetary amounts shall be in U.S. Dollars.

28 **Agreement Preparation**.

This Agreement shall be considered for all purposes as prepared through the joint efforts of the parties and shall not be construed against one party or the other as a result of the manner in which this Agreement was negotiated, prepared, drafted or executed.

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

NORSUN AS:

By: /s/ GRETE SONSTEBY
Print Name: Grete Sonsteby
Title: Chairman of the Board
Date: August 9, 2007

SUNPOWER CORPORATION

By: /s/ THOMAS WERNER
Print Name: Thomas Werner
Title: Chief Executive Officer
Date: August 9, 2007

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

EXHIBIT A

POLYSILICON SPECIFICATIONS

HSC PRODUCT SPECIFICATIONS

***

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

EXHIBIT B

PRICES, PAYMENT, and DELIVERY VOLUME

Year	Price*		SunPower Supplied Poly Volume (Metric Tons, or "MT")	NorSun Poly Volume (MT) from Third Parties	Total Poly Volume**	Comment
2007	**$**	*****/kg**	***	***	***	
2008	**$**	*****/kg**	***	***	***	
2009	**$**	*****/kg**	***	***	***	
2010	**$**	*****/kg**	***	***	***	**Beginning of Credit for Advance Payment**
2011	**$**	*****/kg**	***	***	***	
2012	**$**	*****/kg**	***	***	***	
2013	**$**	*****/kg**	***	***	***	
2014	**$**	*****/kg**	***	***	***	
2015	**$**	*****/kg**	***	***	***	
2016	**$**	*****/kg**	***	***	***	

2017	**$**	*****/kg**	***	***	***
2018	**$**	*****/kg**	***	***	***
2019	**$**	*****/kg**	***	***	***

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* The prices listed apply to the SunPower Poly Volume column and are gross (i.e. before credit of the Advance Payment). NorSun shall receive a $***/kg credit per shipment against each invoice until the remaining portion of the Advance Payment is reduced to zero.

** Total Polysilicon volumes to be converted into SunPower Ingots or Wafers. Conversion weights to be agreed to in Ingot/Wafer Supply Agreement.

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of August 20, 2007, by and between SUNPOWER CORPORATION, a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of July 13, 2007, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 1.1 is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 1.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including July 31, 2008, not to exceed at any time the aggregate principal amount of Fifty Million Dollars ($50,000,000.00) ("Line of Credit"), the proceeds of which shall be used for working capital and other corporate requirements. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of July 13, 2007 ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower (each, a "Subfeature Letter of Credit" and collectively, " Subfeature Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Subfeature Letters of Credit shall not at any time exceed Forty Million Dollars ($40,000,000.00). The form and substance of each Subfeature Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Subfeature Letter of Credit shall be issued for an initial term not to exceed three hundred sixty-five (365) days, as designated by Borrower; provided however, that if Borrower requests that Bank issue a Subfeature Letter of Credit hereunder with a final expiration subsequent to the maturity date of the Line of Credit, such Subfeature Letter of Credit shall provide

for automatic renewals of the expiration date thereof (up to the final expiration date thereof, to be agreed upon by Bank and Borrower) subject to Bank's right to prevent any such renewal from occurring by sending notice to that effect to the beneficiary not less than 60 days prior to the initial (or any extended) expiration date (the "Auto-Renewal Provision"). The undrawn amount of all Subfeature Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Subfeature Letter of Credit shall be subject to the additional terms and conditions of the Standby Letter of Credit Agreement previously executed by Borrower and of applications and any related documents required by Bank in connection with the issuance thereof. Each drawing paid under a Subfeature Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing. In the event that any Subfeature Letters of Credit remain outstanding on the maturity date of the Line of Credit (and the Line of Credit has not been renewed or extended), Borrower shall on demand by Bank deliver to Bank cash or cash equivalents acceptable to Bank, to be maintained in an account at Bank, in the aggregate amount then available to be drawn under such outstanding Subfeature Letter of Credit (plus the amount drawn and not yet reimbursed under Subfeature Letters of Credit) in which Bank is granted a possessory security interest of first priority.

(c) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above."

2. Section 1.2 is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 1.2. LETTER OF CREDIT LINE.

(a) Letter of Credit Line. Subject to the terms and conditions of this Agreement, Bank hereby agrees to establish a letter of credit line ("Letter of Credit Line") under which Bank shall

issue or cause an affiliate to issue commercial and standby letters of credit for the account of Borrower to finance working capital and other corporate requirements (each, a "Letter of Credit" and collectively, "Letters of Credit") from time to time up to and including July 31, 2012;

provided however, that the aggregate of all undrawn amounts, and all amounts drawn and unreimbursed, under any Letters of Credit issued under the Letter of Credit Line shall not at any time exceed the principal amount of Fifty Million Dollars ($50,000,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for an initial term not to exceed 365 days, as designated by Borrower; provided however, that no Letter of Credit shall have a final expiration date subsequent to the maturity date of the Letter of Credit Line, and if any Letter of Credit is issued for a term in excess of one year, it shall contain the Auto-Renewal Provision. Each Letter of Credit shall be subject to the additional terms of the Commercial and Standby Letter of Credit Agreements, as applicable, to be dated as of the date of their respective execution, applications thereunder, and any related documents required by Bank in connection with the issuance thereof (each, a "Letter of Credit Agreement").

(b) Repayment of Drafts. Each drawing paid under any Letter of Credit shall be repaid by Borrower in accordance with the provisions of the applicable "Letter of Credit Agreement."

3. Section 1.3(c) is hereby amended to read as follows:

"(c) Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the issuance of each Letter of Credit equal to fifteen-hundredths percent (0.15%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, (ii) fees upon the issuance of each Subfeature Letter of Credit equal to one percent (1.00%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, and (iii) fees upon the payment or negotiation of each drawing under any Letter of Credit or Subfeature Letter of Credit and fees upon the occurrence of any other activity with respect to any Letter of Credit or Subfeature Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit or Subfeature Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity. The standard fees and charges in effect as of the date hereof are set forth in Schedule 1.3 hereto."

4. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

5. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit

Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

SUNPOWER CORPORATION	WELLS FARGO BANK, NATIONAL ASSOCIATION
By: /s/ EMMANUEL T. HERNANDEZ	By: /s/ MATTHEW A. SERVATIUS
Emmanuel T. Hernandez	Matthew A. Servatius
Chief Financial Officer	Vice President

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of August 31, 2007, by and between SUNPOWER CORPORATION, a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of July 13, 2007, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 4.9(a) is hereby deleted in its entirety, and the following substituted therefor:

> "(a) Minimum Liquidity (defined as unencumbered and unrestricted cash, cash equivalents, and marketable securities acceptable to Bank, which, if cash, is U.S. Dollar denominated, and, if other than cash, consist of financial instruments or securities, acceptable to Bank, maintained in United States domiciled accounts) equal to or greater than one and one half (1.50) times the outstanding principal balance of the Line of Credit, including the amount available to be drawn under outstanding Subfeature Letters of Credit plus amounts drawn and not yet reimbursed thereunder, determined as of the end of each calendar month."

2. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

5. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

SUNPOWER CORPORATION	WELLS FARGO BANK, NATIONAL ASSOCIATION
By: /s/ EMMANUEL T. HERNANDEZ	By: /s/ MATTHEW A. SERVATIUS
Emmanuel T. Hernandez	Matthew A. Servatius
Chief Financial Officer	Vice President

CONFIDENTIAL TREATMENT REQUESTED
—
CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

SUPPLY AGREEMENT

between Wacker Chemie AG
Hanns-Seidel-Platz 4
81737 Munich
Federal Republic of Germany

- hereinafter referred to as "WACKER" -

and SunPower Corporation
3939 North First Street
San Jose, CA 95134
United States of America

- hereinafter referred to as "BUYER" -

Preamble

BUYER has requirements for polycrystalline Silicon. WACKER is willing to supply BUYER with polycrystalline Silicon.

Now, therefore, in consideration of the foregoing and the mutual premises hereinafter contained, WACKER and BUYER agree as follows:

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1. Product

WACKER agrees to sell and deliver and BUYER agrees to purchase and take the poly-crystalline Silicon manufactured by WACKER as defined per specification set forth in **Appendix A** (hereinafter referred to as "PRODUCT").

2. Quantities

2.1 The BUYER shall make the agreed prepayment according to the payment schedule set forth in **Appendix A.**
WACKER shall sell and deliver to BUYER and BUYER will purchase and take from WACKER the annual quantities of PRODUCT set forth in **Appendix A.**

3. Prices / Payment Terms

3.1 The prices for the PRODUCT are set forth in **Appendix A** .

3.2 The prices under Section 3.1 above shall be firm until 31.12.2011 and only subject to change, if the relevant energy price index, defined in **Appendix C**, increases or decreases by more than *** %. The agreed prices will be adjusted by the rate (Euro/kg) as specified in the table in **Appendix C**.

3.3 WACKER shall invoice BUYER with each shipment of PRODUCT. BUYER shall pay such invoices net within *** days from the date of such invoices.

4. Delivery

4.1 PRODUCT shall be delivered FCA German seaport (Incoterms 2000).

4.2 All deliveries of PRODUCT are subject to WACKER's General Conditions of Sale set forth in **Appendix B** and hereby made part of this Agreement, provided, however, that if there is any conflict between the terms of this Agreement and the said Conditions of Sale the terms of this Agreement shall prevail.

4.3 The agreed annual quantities for the years 2009, 2010 and 2011 be shipped in about equal monthly installments.

5. Quality / Inspection and Testing

5.1 The PRODUCT supplied by WACKER shall conform to the specifications set forth in **Appendix A**.

5.2 It is understood and expressly agreed that the PRODUCT delivered by WACKER hereunder are PRODUCTS of technical quality only and BUYER is exclusively responsible for fitness for purpose, handling, use and application of the PRODUCT.

5.3 Upon receipt of each shipment of PRODUCT BUYER shall inspect the PRODUCT. Unless BUYER notifies WACKER within *** days after the arrival of the shipment at Buyer´s premises or warehouse, that it does not conform to the quantity ordered or WACKER´s certificate of quality does not conform to the specifications set forth in **Appendix A**, said shipment shall be deemed to have been delivered as ordered and WACKER´s certificate of quality shall be deemed to conform to the specifications.

6. Warranty / Liability

6.1 WACKER warrants solely that the PRODUCT delivered shall conform to the specifications set forth in **Appendix A** . Except for the warranty provided above, WACKER disclaims any and all other express or implied warranties with respect to the PRODUCT, and any warranty of merchantability or fitness for a particular purpose is expressly disclaimed.

6.2 BUYER’s exclusive remedy and WACKER’s sole obligation for any claim or cause of action arising under this Agreement because of defective PRODUCT is expressly limited to either (i) the replacement of non-conforming PRODUCT or the repayment of the purchase price of the respective quantity of PRODUCT; OR (ii) payment not to exceed the purchase price of the specific quantity of PRODUCT for which damages are claimed. Any remedy is subject to BUYER giving WACKER notice as provided for in Section 5.3.

6.3 The parties agree that the remedies provided in this Agreement are adequate and that except as provided for above, neither party shall be liable to the other, whether directly or by way of indemnity or contribution for special, incidental, consequential or other damages arising from the breach of any obligation hereunder or for any other reason whatsoever, including actions for tort, strict or product liability, patent or trademark infringement except as provided for herein.

7. Confidentiality

7.1 BUYER may use all the information disclosed by WACKER under this Agreement only for the purposes contemplated herein.

7.2 BUYER agrees to keep secret such information and to take the necessary measures to prevent any disclosure to third parties.

7.3 BUYER is responsible for assuring that secrecy is maintained by its employees and agents.

7.4 The secrecy obligation does not apply to information

- where BUYER can prove that is was known to BUYER prior to its receipt;
- which is or has become generally available to the public prior to its receipt;
- which is or has become generally available to the public without being the result of a breach of this Agreement;
- which is in accordance with information BUYER received or got access to from an entitled person without any obligation of secrecy;
- where WACKER approved the disclosure in a particular case in writing.

7.5 The secrecy obligation shall survive the term of this Agreement.

8. Security Interest

BUYER hereby grants WACKER a continuing security interest in any PRODUCT and in the proceeds (including proceeds of sale or insurance) until the entire purchase price for the PRODUCT currently or previously sold to BUYER is paid and until all late payment interest, legal fees and expenses required to enforce WACKER’s rights and any costs, expenses, taxes or other charges required to be paid by BUYER to WACKER have been paid in full. BUYER specifically agrees that WACKER may file one or more financing statements or other documents and take all necessary or appropriate in order to create, perfect, preserve or enforce WACKER’s security interest in the PRODUCT pursuant to the Uniform Commercial Code and other applicable law, and hereby grants to WACKER a power of attorney to execute such statements or documents in BUYER’s name. WACKER’s reasonable costs and expenses (including, but not limited to, attorney’s fees and expenses for pursuing, searching for, receiving, taking, keeping, storing, advertising and selling the PRODUCT shall be paid by BUYER who shall remain liable for any deficiency resulting from a sale of the PRODUCT and shall pay any deficiency forthwith on demand. The requirement of reasonable notice of sale shall be met if such notice is mailed and addressed to BUYER at its last address appearing on WACKER's records at least 30 days prior to the date of sale.

9. Force Majeure

9.1 If either party should be prevented or restricted directly or indirectly by an event of Force Majeure as hereinafter defined from performing all or any of its obligations under this Agreement, the party so affected will be relieved of performance of its obligations hereunder during the period that such event and its consequences will continue, but only to the extent so prevented, and will not be liable for any delay or failure in the performance or any of its obligations hereunder or loss or damage whether direct, general, special or consequential which the other party may suffer due to or resulting from such delay or failure, provided always that prompt notice is given by the affected party to the unaffected party by facsimile or telephone of the occurrence of the event constituting the Force Majeure, together with details thereof and an estimate of the period of time for which it will continue.

9.2 The term Force Majeure shall include without limitation strike, labour dispute, lock out, fire, explosion, flood, war (accident), act of god or any other cause beyond the reasonable control of the affected party, whether similar or dissimilar to the causes enumerated above.

10. Assignment

This Agreement or any part thereof is not assignable by either party without the prior written consent of the other party.

11. Entire Agreement

11.1 This Agreement constitutes the whole agreement between the parties as to the subject matter thereof and no agreements, representations or warranties between the parties other than those set out herein are binding on the parties.

11.2 No waiver, alteration, or modification of this Agreement shall be valid unless made in writing and signed by authorized representatives of the parties.

12. Severability

In the event, any provision of this Agreement shall be declared invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

13. Headings

The headings of the articles of this Agreement are inserted for convenience only and shall not be deemed to constitute a part of this Agreement or to affect the construction hereof.

14. Duration / Termination

14.1 This Agreement will commence on the 01.10.2007 and will endure for a defined period of 4 (four) years and 3 (three) month.

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15. Applicable Law / Jurisdiction

This Agreement shall be construed and the legal relations between the parties hereto shall be determined in accordance with the laws of Germany; the application of the 1980 United Nations Convention on Contracts for the International Sale of Goods is expressly excluded.

Exclusive place of jurisdiction shall be Munich.

Wacker Chemie AG
WACKER POLYSILICON

SunPower Corporation

Date: 20 September 2007

Date:

/s/ DR. KONRAD BACHHUBER
Dr. Konrad Bachhuber
Vice President
Production Polysilicon

/s/ MATHIAS BREMER
Mathias Bremer
Director Asia
Sales Polysilicon

/s/ PETER ASCHENBRENNER

Appendix A

Solargrade Polysilicon

Specification PCL-NCS (B)

Calendar year	Annual quantity in kg	Price Euro/kg FOB German Seaport
2009	***	***
2010	***	***
2011	***	***

Prepayment schedule

The BUYER will prepay the amount of *** for the total above agreed contract quantity. The invoices, regarding deliveries up to the annual agreed quantity, will be reduced by *** with each shipment. So WACKER´s invoice will state the above agreed prices on the invoice, but will make note, that the BUYER has only to pay the invoice amount reduced by ***.

Regarding to the agreed annual quantities the total prepayment amount of Euro *** has to be paid according to the following schedule on the account of Wacker Chemie AG :

January 15th, 2008   Euro ***

In case the BUYER does fail to take the full amount of the agreed annual quantity in one respective calendar year, WACKER does not have to repay the not absorbed outstanding prepayment (regarding the respective calendar year), BUYER also doesn't have the right to set this prepayment against deliveries of the following year.

Appendix B
General Conditions of Sale

1. Generally:

All our supplies and services as well as all contracts concluded with us are exclusively subject to the following conditions of sale. Terms of the Purchaser which contradict or which deviate from our sales terms and which are not expressly recognised by us are not valid even if we do not expressly object to them. Where a continuing business relationship exists, all future contracts, supplies and services are also subject to our conditions' of sale

2. Offer, Conclusion of Contract:

Our offers are subject to change and non-binding Orders are only valid if confirmed by us in writing or if recognised by us through the act of delivery. Any additional verbal agreements, supplements and modifications are also only valid if confirmed in writing.

3. Delivery, Default:

3.1 Unless otherwise agreed, any dates quoted for delivery are non-binding.

3.2 We are entitled to make partial deliveries as far as the Purchaser must reasonably accept this in the circumstances of an individual case. The corresponding invoices issued are payable without regard to whether complete delivery has been made.

3.3 In the event delivery is delayed, the Purchaser may set us a reasonable grace period with the notice that he rejects the acceptance of the delivery item after expiry of the grace period. After the expiry of the grace period the Purchaser is entitled to cancel the contract of sale through written notice or to request damages instead of performance. At our request the Purchaser is obligated to state within a reasonable period whether he cancels the contract due to delay in delivery, seeks damages instead of performance or insists on performance.

3.4 Our liability is set forth in para. 9. Furthermore in the event of slight negligence, our liability is limited to the invoice value of the respective delivery item.

4. Return of loan packaging:

In the event of delayed return (meaning in the event normal unloading times are exceeded) of loading equipment, loading tanks and other loan packaging we reserve the right to charge the Purchaser for the costs incurred by us.

5. Prices:

5.1 Unless otherwise expressly agreed, prices are quoted “ex works#, excluding packaging and plus delivery and shipping costs as well as plus any applicable Value Added Tax.

5.2 The prices valid on the day of dispatch shall apply. Should the latter be higher than the contractual price, the Purchaser is entitled to cancel the contract with regard to the quantities still to be delivered. Cancellation shall be made within 14 days after notification of said price increase

6. Payment;

6.1 The payment shall be made in Euro to one of our bank accounts indicated on the reverse side.

6.2 Should Purchaser be in arrears with payment, interest for default shall be due and payable at *** %, but at least *** % above the respective base interest rate. We reserve the right to claim further damages. If the interest we claim is higher than the statutory interest for delayed payment, the Purchaser has the right to demonstrate lower damages just as we have the right to show that greater damages were incurred.

6.3 Should Purchaser be in arrears with payment or should there be reasonable doubts as to Purchaser’s solvency or credit rating, we are -without prejudice to our other rights - entitled to require payment in advance for deliveries not yet made, and to require immediate payment of all our claims arising from the business relation.

6.4 Bills of exchange and cheques shall be accepted upon separate agreement and only by way of payment. All expenses incurred in this regard shall be borne by the Purchaser.

6.5 Only uncontested or legally proved claims shall entitle the Purchaser to set-off or withhold payment.

7. Force Majeure:

Events of Force Majeure, in particular strikes, lock outs, operator or transport interruptions, including at our suppliers, shall suspend the contractual obligations of each party for the period of the disturbance and to the extent of its effects. Should the delays caused exceed a period of 6 weeks, both parties shall be entitled to cancel the contract with respect to the contractual performance affected by such delays. No other claims exist.

8. Quality:

8.1 All our data, especially data relating to product suitability, processing and use, as well as to technical support, have been compiled to the best of our knowledge. The Purchaser, however, must still perform his own inspections and preliminary trials.

8.2 The Purchaser undertakes to examine the goods immediately after delivery with respect to any defects concerning quality and suitability of purpose and object to ascertainable defects. Sample testing shall also be performed if this can be reasonably expected of the Purchaser. Failure to proceed in aforesaid manner shall result in the goods being regarded as accepted.

8.3 Complaints must be made within 8 days after receipt of the goods. In case of hidden faults, however, complaints are to be made immediately on discovery, within one year after receipt at the very latest. Said claims shall only be taken into consideration if and when made in writing and with the relevant documentation attached. To comply with the time limit it shall be sufficient if the complaint is sent in good time.

8.4 We are not liable on the basis of public statements by us, the manufacturer or his agents, if we were not aware of the statement or were not required to have knowledge thereof, the statement was already corrected at the time of the purchase decision or the Purchaser cannot show that the statement influenced his purchase decision.

8.5 We are not liable for defects which only marginally reduce the value or the suitability of the object. A marginal defect exists in particular if the defect can be removed by the Purchaser himself with insignificant effort.

8.6 If the Purchaser requests replacement performance due to a defect, we may choose whether we remove the defect ourselves or deliver a defect-free object as a replacement. The right to reduce the price or cancel the contract in the event of unsuccessful replacement performance shall remain unaffected.

8.7 Where complaints are justified, the goods may only be returned to us at our expense if after we receive notice of the defect we do not offer to collect or dispose of the goods.

8.8 If increased costs arise because the Purchaser has transferred the goods to a place other than his commercial place of business, we shall charge the Purchaser for the increased costs in connection with the remedying of the defect, unless the transfer corresponds to the designated use of the object.

8.9 Damage and claims for reimbursement of expenses shall remain unaffected as far as not excluded by para. 9.

8.10 All claims due to a defect are subject to a limitation period of one year after delivery of the object. No warranty is made for used objects. The statutory limitation period for objects which are used for a building structure in accordance with their usual manner of use, and which cause the defectiveness thereof, shall remain unaffected.

8.11 The rights of the Purchaser under §§ 478, 479 German Civil Code remain unaffected.

9. Liability:

Our liability is excluded, regardless of the legal grounds. This shall not apply in the event of intentional actions or gross negligence by us or our legal representatives or agents or in the event of breach of material contractual duties.

In the event of a slightly negligent breach of material contractual duties our liability is limited to twice the invoice value of the respective delivery item. For damages due to delayed performance para 3.4 shall also apply. Our liability for damages due to injury to life, the body or health, the liability based on a guarantee and under mandatory statutory provisions, in particular the Product Liability Act, remain unaffected.

10. Reservation of Ownership:

10.1 The goods that have been sold remain our sole property until all outstanding debts arising from the business connection with the Purchaser have been paid in full. The Purchaser has power of disposal of the purchased goods in the ordinary course of business, or he may process the goods until revocation by us.

10.2 Reservation of ownership and power of disposal, as laid down in clause 10.1, also apply to the full value of the manufactured goods produced by processing, mixing and blending or combining our goods. In each case we qualify as the manufacturer. In cases where the goods are processed, mixed and blended or combined with those of a third party, and where the reservation of the latter continues to apply then we acquire joint ownership in proportion to the invoice value of those processed goods. If security rights of a third party are in fact or in law below that share, the difference will be to our benefit.

10.3 If the Purchaser resells our goods to third parties he hereby assigns the entire resulting payment claim - or in the amount of our joint share therein (see para. 10.2) - to us. In the event the parties agree on a current account, the respective balance amounts shall be assigned. However, the Purchaser shall be entitled to collect such payment claim on our behalf until we revoke such right or until his payments are discontinued. The Purchaser is only authorized to make assignment of these claims - even only for the purpose of collection by way of factoring - with our express written consent.

10.4 The Purchaser shall immediately give notice to us if any third party raises any claim with respect to such goods or claims which are owned by us.

10.5 It the value of the collateral exceeds our accounts receivable by more than 20% then we will release collateral on demand and at our discretion.

10.6 We are also entitled to take back goods on the basis of the reservation of title, even if we have not previously cancelled the contract. If products are taken back by way of the exercise of the reservation of ownership, this shall not constitute cancellation of the contract.

10.7 If the laws of the country in which the goods are located after delivery do not permit the Vendor to retain the title to said goods, but allow the retention of other similar rights to the delivery item, the Purchaser shall provide us with such other equivalent right. The Purchaser undertakes to assist us in the fulfilment of any form requirements necessary for such purpose.

11. Place of Fulfilment, Applicable Law and Jurisdiction:

11.1 The originating point of the goods shall, in each case, be the place of fulfillment for the delivery. Munich shall be the place of fulfillment for payment.

11.2 Exclusively the laws of the Federal Republic of Germany shall apply between the parties. The application of the 1980 United Nations Convention on Contracts for the International Sale of Goods is expressly excluded.

11.3 If the Purchaser is a merchant or does not have a general place of jurisdiction in Germany, the place of jurisdiction is Munich. We shall, however, have the right to also bring a claim against the Purchaser at his general place of jurisdiction.

Munich, 15th May 2002

Appendix C , page 1 of 2

Relevant Energy Price index:

„BAFA Grenzübergangspreis” for natural gas

Source:
http://www.bmwi.de/BMWi/Navigation/Energie/Energiestatistiken/energiesta- tistiken,did=53736.html

Evaluation periods:
- Arithmetic mean value out of 6 months
- April to September for price adjustment of 1st half of the following year
- October to March for price adjustment of 2nd half of year
- Basis evaluation period: April 2006 — September 2006

Price Adjustment Table:

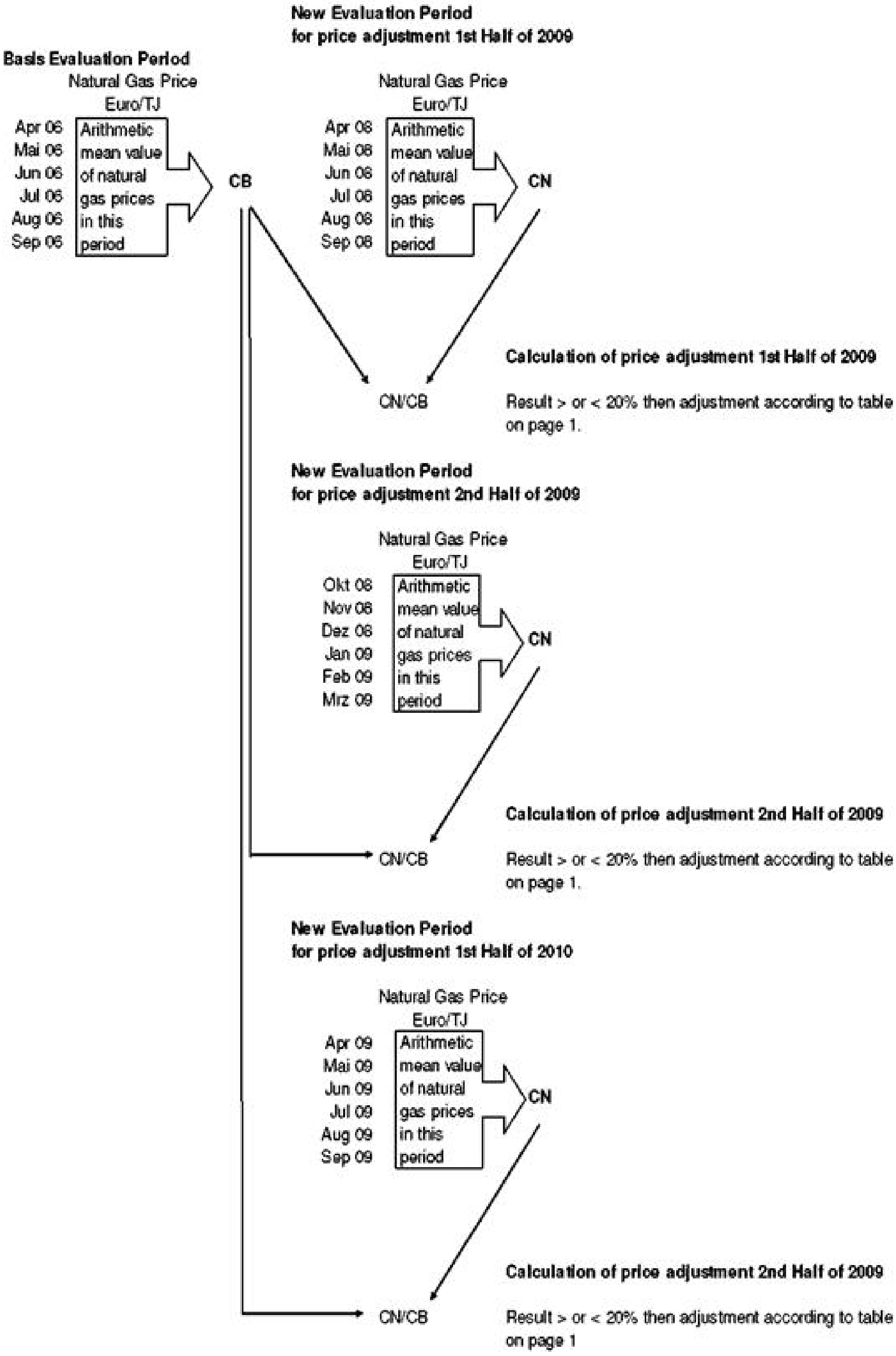
CB … Index value of Basis evaluation period
CN … Index value of New evaluation period

CN/CB (%)	Price Adjustment EURO / kg
< - 60 %	***
< - 40 %	***
< - 20 %	***
> + 20 %	***
> + 40 %	***
> + 60 %	***
> + 80 %	***
etc.	etc.

On the following example for the calculation of the price adjustment the procedure is explained in more detail.

Appendix C, page 2 of 2

Example for calculation of price adjustment



Supply Agreement 3 SunPower Corporation/ Wacker Chemie AG Sept. 14th, 2007

CONFIDENTIAL TREATMENT REQUESTED
—
CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

WAFERING SUPPLY AND SALES AGREEMENT

THIS AGREEMENT, made and entered into in , Philippines, this th day of 2007 by and between:

First Philec Solar Corp., a corporation duly organized and existing under the laws of the Philippines, with offices at First Philippine Industrial Park, hereinafter referred to as Supplier;

- and -

SUNPOWER PHILS. MFG., LTD, a foreign corporation duly licensed to do business in the Philippines, with office address at 100 East Trade Avenue, Laguna Technopark Inc., Biñan, Laguna, hereinafter referred to as Purchaser.

WITNESSETH:

WHEREAS, First Philippine Electric Corporation and Purchaser have entered into a Joint Venture Agreement dated (the "JV Agreement") to form the Supplier;

WHEREAS, pursuant to the JV Agreement, the purpose of Supplier, inter alia, is to provide wafering services to Purchaser;

WHEREAS, the Parties desire to enter into an Agreement pursuant to which Supplier shall provide wafering services to Purchaser;

NOW THEREFORE, in furtherance of the foregoing premises and in consideration of the mutual covenants and obligations hereinafter set forth and in the JV Agreement, and based on the consideration set forth in the JV Agreement, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound hereby, do agree, as follows:

1. Definition of Terms

In this Agreement the following expressions shall have the following meanings:

1.1 "***Semi-Annual Firm Forecast***" shall have the meaning set forth in Section 3.7.

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

1.2 ***"Affiliate"*** shall mean with respect to Purchaser, any other corporation or entity directly or indirectly (through one or more intermediaries) controlling, controlled by, or under common control with such Purchaser (including any subsidiary).

1.3 ***"Contract Year"*** shall mean the period of twelve (12) consecutive months beginning from January 1 and ending December 31. For the first year of operation, it shall mean to refer to the Start-up Date and ending December 31 of the first year of operation. Notwithstanding the foregoing, if this Agreement expires or is terminated before the end of any Contract Year, such last Contract Year shall end of the date of such expiration or termination.

1.4 ***"Delivery"*** shall have the meaning set forth in Sections 2.1, 3.7.1, 4.1 and 5.2.

1.5 ***"Delivery Point"*** shall have the meaning set forth in Section 2.1.

1.6 ***"Initial Schedule"*** shall have the meaning set forth in Section 3.1.

1.7 ***"Initial Term"*** shall have the meaning set forth in Section 8.1.

1.8 ***"Mark-up"*** shall mean an agreed percentage to be applied to the sum of the variable cost and fixed cost for wafering services by the Supplier.

1.9 ***"Minimum Yield"*** shall mean a percentage amount equal to the minimum number of good wafers expected to be produced per millimeter of good ingot used divided by the theoretical number of wafers that can be produced per millimeter of good ingot. The theoretical number of wafers that can be produced is equal to the length of the ingot divided by the wireguide roller pitch.

1.10 ***"Non-SP Ingot"*** shall mean the Silicon Ingot purchased or taken by Supplier from a source other than Purchaser.

1.11 ***"Non-SP Silicon Wafers"*** shall mean Silicon wafers, sliced, manufactured and/or produced substantially from Non-SP Ingot.

1.12 ***"Product"*** shall mean silicon ingot that are already sliced or cut into wafers that meet the specifications of Purchaser.

1.13 ***"Renewal Term"*** shall have the meaning set forth in Section 9.1.

1.14 ***"Representatives"*** shall have the meaning set forth in Section 8.2.

1.15 ***"Requirements"*** shall have the meaning set forth in Section 5.1.

1.16 ***"Specifications"*** shall mean the physical, technical and functional requirements, as each of such requirements are set forth on Annex "A" hereto for both the SP Ingot and SP Silicon Wafers.

1.17 ***"SP Ingot"*** shall mean the Silicon Ingot consigned, purchased or taken by Supplier pursuant to this Agreement.

1.18 ***"SP Silicon Wafers"*** shall mean Silicon wafers, sliced, manufactured and/or produced substantially from SP Ingot.

1.19 ***"Start-up Date"*** shall mean the date on which Supplier's installed capacity is sufficient to meet the Purchaser's first quarter demand (as shown in the table in Section 3.1) as certified in writing by Supplier and Purchaser in accordance with Purchaser's specifications.

1.20 ***"Target Price"*** shall have the meaning set forth in Sections 3.1 and 3.2.

1.21 ***"Target Utilization"*** shall have the meaning set forth in Sections 2.5 and 3.13.

1.22 ***"Yield"*** shall mean a percentage amount equal to the number of actual good wafers produced per millimeter of good ingot used divided by the theoretical number of wafers that can be produced per millimeter of good ingot used. The theoretical number of wafers that can be produced is equal to the length of the ingot divided by the wireguide roller pitch.

2.0 <u>Ingot Supply Arrangement</u>

2.1 Subject to the terms and conditions described herein, commencing on the Start-up Date, Purchaser shall guarantee to supply and deliver by consignment to Supplier SP Ingots (based on the Semi-Annual Confirmed Silicon Ingot Delivery Schedules ("Semi-Annual Delivery Schedule") corresponding to the relevant Semi-Annual Firm Forecast, a copy corresponding to the Semi-Annual Delivery Schedule for the first Semi-Annual Firm Forecast is hereto attached as Annex "B") and the JVC shall take delivery of the SP Ingots from Purchaser. Delivery Point shall be at JVC warehouse.

2.2 The quality of the Ingots shall be in accordance with the Ingot specifications of Purchaser, a copy of which is attached hereto as "Annex A", which may be amended from time to time by the parties. Defective ingots shall not be counted as delivered SP ingots.

2.3 The Parties shall, from time to time, update and adjust the Semi-Annual Delivery Schedule corresponding to the relevant Semi-Annual Firm Forecast to insure the attainment of the agreed utilization of the JV wafering capacity as shown in Table 1 of Section 3.1.

2.4 SP and Non-SP ingots must be properly segregated by the Supplier to ensure proper handling and accounting.

2.5 In case Supplier is unable to meet its target utilization by a shortfall in the delivery of actual sliced wafers against the forecast for each quarter and such shortfall is due to the following:

a) failure of Purchaser to supply the requisite number of SP ingots in accordance with the applicable Delivery Schedule; or
b) due to lower actual wafering demand not attributable to Seller or Section 3.7.1 (a) and (b).

Supplier shall allow Purchaser to make up for the shortfall during the next succeeding two (2) quarters. If Purchaser fails to do so, Purchaser shall compensate Supplier in accordance with the following:

% shortfall vs forecast for the 3 quarters	**Compensation**
***%	***
>***% up to ***%	***
>***%	***

For this purpose, fixed cost per unit is understood to refer to the actual fixed cost divided by the forecast volume. The elements of fixed cost are limited to actual depreciation of equipment, facilities expense, fixed utilities cost and labor allocated to Purchaser.

The capacity is deemed used if sold or utilized to third party customers. Supplier shall notify Purchaser if capacity is to be sold or utilized by third

party customers and Supplier may proceed to do so if no written contrary advice is received from Purchaser within three (3) days from notice. Purchaser may deny such use or utilization only if Purchaser will be making use of Supplier's capacity and for no other reason.

3.0 SP Silicon Wafer Supply and Purchase Arrangement

3.1 Subject to the terms and conditions described herein, Supplier hereby agrees to supply and deliver to Purchaser, and Purchaser hereby agrees to purchase and take, the SP Silicon Wafers sliced or manufactured by Supplier that meet the order and Specifications of Purchaser in accordance with the following rates and 5 year schedule (the "Initial Schedule") *see Table I*

Table I — Five- year Silicon Wafer Supply Schedule

Year	Quarter	Forecast Wafers (K units)	Minimum Yield	Mark-up	Target Price
2008	Q308	***	***	***	***
	Q408	***	***	***	***
2009	Q109	***	***	***	***
	Q209	***	***	***	***
	Q309	***	***	***	***
	Q409	***	***	***	***
2010	Q110	***	***	***	***
	Q210	***	***	***	***
	Q310	***	***	***	***
	Q410	***	***	***	***
2011	Q111	***	***	***	***
	Q211	***	***	***	***
	Q311	***	***	***	***
	Q411	***	***	***	***
2012	Q112	***	***	***	***
	Q212	***	***	***	***
	Q312	***	***	***	***
	Q412	***	***	***	***
2013	Q113	***	***	***	***
	Q213	***	***	***	***

3.2 At the beginning of each quarter, an initial price ("Initial Price") shall be determined based on the cost forecast of Supplier for the applicable quarter using the following formula:

Price : (***% x cost per unit x applicable Mark-up)

Plus

(***% x Target Price)

Where: a) cost per unit is total sum of the wafering manufacturing cost allocated to Purchaser, excluding cost of silicon loss, compensation under Section 3.15 and that portion of the JV's fixed cost attributable to the event under Section 3.15, divided by the total number of Products. The cost of silicon loss represents the cost of additional SP Ingot lost corresponding to the difference between the minimum yield and actual yield in the event that the actual yield is less than the applicable target yield provided in the table above. (For this purpose silicon loss associated with defective incoming ingot shall not be borne by the JVC and shall not form part of this formula). The fixed cost attributable to the event under Section 3.16 is equivalent to the actual fixed cost divided by the confirmed demand multiplied by the difference between the confirmed demand and quantity of wafers delivered for the quarter.

With respect to computing the Initial Price, it is understood that this is based on an estimate of the cost per unit.

A sample computation is hereto attached as Annex "C."

b) The Target Price shall be based on the target standard cost of $*** plus ***% mark-up.

c) Prices shall be "*ex-works*" and shall be expressed up to three (3) decimal places.

3.3 Supplier shall be entitled to be paid the Initial Price for every good Product delivered to the Purchaser.

3.4 At the end of each quarter, the Actual Price shall be calculated using the formula in par. 3.2 based on the Supplier's actual cost per unit for the preceding quarter. If the Actual Price is different from the Initial Price, a reconciliation of the Total Billings for the quarter must be made. The reconciliation must show the following:

Total Billings using Initial Price

Less:

Total Quantities of Product Delivered for the Qtr x Actual Price

Any resulting difference must be covered by an adjustment billing or credit note issued to the Purchaser. Total Billings shall mean the sum of Supplier's total invoices to Purchaser for the quarter.

3.5 In the event the actual yield is less than the applicable Minimum Yield in the above table, the Supplier shall credit or deduct from its invoices *** (***%) percent of the actual cost of SP Ingot corresponding to the difference between the actual yield and the Minimum yield. The actual cost of the SP Ingot is understood to be net of the resale value of the Silicon materials.

3.6 The above Forecast Wafers as shown in Table 1 in Section 3.1 are the indicative Product demand by Purchaser of which the first six months is firm and guaranteed by the Purchaser upon Supplier's confirmation of the available capacity for the first six months. Supplier must confirm and guarantee the availability of capacity to meet the first six months demand not later than March 15, 2008.

3.7 The following governs Purchaser's forecasts and Supplier's shortfalls in capacity:

3.7.1 Subsequent to the first six months of the Schedule and every 180 days thereafter, Purchaser may provide a revised 5 year demand forecast ("5-year Forecast") of which the first six months, subject to Supplier's confirmation, shall be firm and guaranteed (the "Semi-Annual Firm Forecast"). Supplier must confirm and guarantee the availability of capacity to meet the first half year demand not later than 90 days before the start of the relevant six months. "Firm and guaranteed" means that Purchaser will purchase and take delivery of the total number of wafers stated in the Semi-Annual Firm Forecast. The Semi-Annual Firm Forecast shall, likewise be taken by the Supplier for purposes of capacity build up plan and

equipment purchase plan. Each Semi-Annual Firm Forecast shall not be lower than the installed capacity of Supplier for the duration of this Agreement except in the following cases:

a) Market condition is such that the worldwide silicon solar cell demand of Purchaser and its Affiliates is substantially reduced; and

b) the JVC wafering price is consistently higher compared to the actual wafering price of at least 3 other wafering suppliers of Purchaser for a period of 3 consecutive quarters, provided that this become operative only after two (2) years from execution of this Agreement on Q1, Year 2011.

3.8 In case of a shortfall in Supplier's guaranteed capacity resulting in its inability to satisfy the volume order(s) of Purchaser, Purchaser shall allow Supplier to make up for the shortfall during the next succeeding two (2) quarters. If Supplier fails to do so, Supplier agrees to compensate the Purchaser in accordance with the following:

% shortfall vs guaranteed capacity	**Compensation**
***%	***
>***% up to ***%	***
>***%	***

For this purpose, incremental cost is understood to refer to the Purchaser's actual landed cost for going to third party supplier less Supplier's price ex-works. A shortfall is deemed to occur when Supplier's actual wafers delivered is less than Purchaser's confirmed demand and is due to causes other than a shortage of SP ingots. It shall be determined through a quarterly review by Supplier and Purchaser.

For purposes of computing the incremental cost, Purchaser's comparable landed cost shall be capped at *** percent (***%) of Supplier's price.

3.9 Not later than the 15th day of each month, Purchaser should provide a rolling forecast covering the succeeding six (6) months to enable Supplier to plan its production schedule.

3.10 All confirmations required under this Section shall be in writing. If no such confirmation is received within the prescribed period, the capacity or demand is deemed confirmed.

3.11 Supplier shall hold for safekeeping and account all SP Ingot tails, wings, broken wafers, reject or non-conforming wafers and all other residual silicon materials. Purchaser shall periodically collect them for sale to third parties.

3.12 Finished wafers shall be delivered by Supplier to Purchaser on a daily basis.

3.13 Supplier shall be the preferred supplier of wafers for Purchaser. In the event that Purchaser has an increased demand for wafers, Purchaser will give first priority to Supplier to meet such demand. In the case of a decreased demand for wafers, Purchaser shall give first priority to Supplier with respect to any of its orders. The foregoing is without prejudice to, and does not affect, Purchaser's other obligations in this Agreement particularly on its firm and guaranteed orders and guaranteed target utilization.

3.14 The parties agree to make corresponding adjustments in the pricing formula in the event of an extraordinary increase or decrease amounting to at least ***% in the price of silicon carbide, polyethylene glycol, or wire.

4. <u>Invoices and Payment</u>

4.1 As soon as reasonably practicable after each Delivery under this Agreement, Supplier shall issue an invoice to Purchaser for the Products that were the subject of the Delivery. Each such invoice shall contain the following information specific to the Delivery:

(i) an invoice number for tracking purposes;
(ii) the applicable Purchaser Order number (if provided by Purchaser);
(iii) the quantity of Products shipped;
(iv) the date of shipping;
(v) the shipping destination and
(vi) the applicable purchase price.

Invoices may be sent by any normally reliable means, including electronically, facsimile, hand-delivery or other methods.

4.2 In the event that Purchaser does not dispute the purchase price set forth in an invoice within ten (10) working days from receipt thereof, Purchaser shall pay such purchase price within thirty (30) days after Purchaser's receipt of such invoice. Late payments shall earn interest equivalent to the rate of interest currently being paid by Supplier for its loans..

4.3 In case Purchaser disputes the amount billed in any invoice, Purchaser shall pay the undisputed portion of the invoice, and the Parties shall engage in good faith discussions to resolve such dispute within five (5) days from the written request of any party. If such dispute is not resolved within ninety (90) days after Purchaser's receipt of the invoice, either Party may resolve the dispute by arbitration in accordance with Section 10.7.

4.4 All payments by Purchaser hereunder shall be made in United States dollars by wire transfer of the applicable payment into the bank account notified by Supplier to Purchaser in the invoice, or to such other bank account notified by Supplier to Purchaser in writing.

4.5 Each Party shall be responsible for all sales, use, excise, value-added or other taxes, tariffs, duties or assessments levied or imposed at any time against it by any Governmental Authority.

5.0 <u>Quality; Defects; Inspection</u>

5.1 An inspection of each shipment of the Products shall be made by Purchaser in accordance with sound business practice upon Delivery. The final inspection of the Products shall be performed by Purchaser at its manufacturing facility within *** days of receipt of the same. In the event that any Product fails to meet the Specifications, Purchaser shall notify Supplier in writing within *** days of such finding, and Supplier shall remedy such damage or defect as set forth in Section 6.2. Purchaser shall be deemed to have accepted the Products if no such notice is received by Supplier after *** days.

Purchaser and Supplier shall work towards accrediting Supplier as a dock-to-stock vendor of Purchaser

5.2 Supplier shall permit Purchaser (or an independent quality control auditor reasonably acceptable to Supplier) to inspect the Supplier's facilities from time to time on at least *** Days' notice to Supplier for the purpose of

determining whether the Product meets the Specifications and that Supplier is otherwise complying with its obligations under this Agreement.

6 <u>Warranties; Limitation of Liability</u>

<u>SP Products</u>

6.1 Supplier represents and warrants that all Products supplied by Supplier under this Agreement shall be (i) free from liens and defects in title that prevent their distribution to or by Purchaser and (iii) free from any defects in materials and workmanship. Supplier further represents and warrants that the Products sold by Supplier to Purchaser as the Products conforming to the Specifications shall meet the Specifications.

6.2 Without prejudice to any other rights Purchaser may have under this Agreement, if Supplier's warranty in Section 6.1 is breached, Purchaser, at Purchaser's sole option, may by written notice (i) demand and receive a refund/credit of the applicable purchase price (or the portion of the purchase price applicable to the returned Products) upon the return (at Supplier's sole cost) of all or a portion of the Products which fail to conform to Supplier's warranty in Section 6.1 and/or (ii) demand and receive replacement for the Products which fail to conform to Supplier's warranty in Section 6.1

6.3 In case Purchaser exercises its right to return all or a portion of the Products pursuant to Section 6.2, Supplier shall immediately repay the applicable purchase price (or the portion of the purchase price applicable to the returned Products) by wire transferring such purchase price into a bank account designated by Purchaser or credit the amount against future deliveries, and Supplier shall bear and pay all banking charges related to such payment. In case Purchaser exercises its right to demand replacement pursuant to Section 6.2, Supplier shall, as soon as practicable, deliver (or cause to be delivered) the replacement to the location designated by Purchaser, and Supplier shall bear and pay all fees and expenses associated with such delivery.

<u>SP Ingots</u>

6.4 Purchaser warrants that all SP Ingots supplied by Purchaser under this Agreement shall be (i) free from liens and defects in title that prevent their distribution to or by Supplier and (iii) free from any defects in materials and workmanship. Purchaser further represents and warrants that the Ingots

consigned by Purchaser to Supplier as conforming to the Specifications shall meet the Specifications. Supplier shall establish a materials review board with respect to exceptional ingot lots which do not meet the Specifications that will decide on how the non-conforming ingots will be treated.

<u>Breach and Damages</u>

6.5 Notwithstanding any provision to the contrary, neither party shall be responsible or liable for any breach of this Agreement attributable to the other party and neither party shall be entitled to seek or receive any remedies against the other in case the breach by a party is attributable to the defaulting party or its subsidiaries.

6.6 Except as specifically provided in this Agreement, in no event shall either party be liable to the other party for any special, exemplary, punitive, indirect, incidental or consequential damages whether arising out or contract, tort, strict liability or otherwise resulting from or related to this Agreement (Whether or not a party knew or should have known the possibility of any such damages).

7 <u>Confidentiality</u>

7.1 <u>Confidential Information</u>. The terms and conditions of this Agreement and any information provided by one Party to the other Party which has been indicated as confidential shall be deemed confidential information (the "***Confidential Information***").

7.2 <u>Restrictions On Use and Disclosure</u>. Once any Confidential Information is provided by a Party to the other Party, the receiving Party shall, and shall cause its respective directors, officers, principals, members, employees, consultants, contractors, agents and representatives (collectively, "***Representatives***") (i) not to deliver, divulge, disclose or communicate, or permit to be delivered, divulged, disclosed or communicated, to any third party, other than its permitted contractors under this Agreement, in any manner, directly or indirectly, any Confidential Information of the disclosing Party, (ii) to disclose or give access to, or permit to be disclosed or given access to, any such Confidential Information, only to those of its Representatives that have a need to know such Confidential Information, (iii) to ensure that such Representatives are bound in writing to confidentiality obligations applicable to the Confidential Information on terms no less strict than those set forth in this Section 7, and (iv) to take all other necessary or advisable actions to preserve the confidentiality and security of the Confidential Information of the disclosing Party. For avoidance of any doubt, the Parties may disclose any Confidential Information, including this Agreement, to the credit rating agencies to the extent deemed necessary and requested by such agencies, subject to the restrictions and covenants stated in (iii) and (iv) of this Section 7.2.

7.3 Exclusions. The restrictions contained in Section 7.2 shall not apply to information of the disclosing Party that (i) is or becomes generally known to the public through no fault of the receiving Party including without limitation any acts or omissions of the receiving Party in violation of this Agreement, (ii) is disclosed to the receiving Party without obligation of confidentiality by a third person who has a right to make such disclosure and the receiving Party is able to document the independent source, (iii) was in the possession of the receiving Party at or prior to the time of receipt from the disclosing Party, as evidenced by contemporaneous, corroborated written records, without being subject to another confidentiality agreement or (iv) is independently developed without reliance on Confidential Information.

7.4 Compelled Disclosure. If a receiving Party or its Representatives is requested or required to disclose any Confidential Information of the disclosing Party otherwise than in accordance with this Agreement by a Governmental Authority or pursuant to any applicable laws, regulations, or judicial orders, including without limitation any disclosures in connection with filings with the U.S. and Philippine Securities and Exchange Commission, NASDAQ, the Philippine Stock Exchange or otherwise, such receiving Party shall provide the disclosing Party with prompt prior written notice of such request or requirement prior to disclosing the Confidential Information.

7.5 Press Releases. Except as permitted under this Section 7, neither Party shall issue any press release or make any public announcement which includes or otherwise uses the name of the other Party, or relates to this Agreement or to the performance hereunder in any public statement or document, without the prior review and written approval of the other Party, which approval shall not be unreasonably withheld or delayed. Any such review shall be completed as soon as practicable, but in any event within five (5) Business Days of receipt of the proposed statement or document.

8 Term, No Exclusivity and Termination

8.1 Term and No Exclusivity. Subject to Section 8.3 below, this Agreement shall commence upon the Execution Date and shall remain in full force for five (5)

years from the Start-up Date, unless earlier terminated pursuant to Section 8.2 (the “***Initial Term***”). The Initial Term, upon expiration, shall be renewed upon mutual agreement (the “***Renewal Term***”), subject to the Parties’ agreement on price and other material terms and conditions of the Agreement. The Parties shall commence good faith negotiations of the new terms and conditions for the Renewal Term and shall attempt to agree on the terms and conditions of the Renewal Term at least six (6) months prior to the expiration of the Initial Term.

The parties acknowledge that subject to the provisions herein, this Agreement is not exclusive, and Supplier is free to supply wafering services to other customers and Purchaser is free to purchase wafering services from other providers.

8.2 Termination.

8.2.1 Mutual Agreement. This Agreement may be terminated at any time upon mutual agreement of the Parties.

8.2.2 Unilateral For Certain Events. Either Party shall have the right to terminate this Agreement upon termination of the Joint Venture Agreement. In addition, Supplier shall have the right to terminate this Agreement if Purchaser fails to pay the applicable purchase price as required under this Agreement, and fails to cure such breach within sixty (60) days after the delivery by Supplier to Purchaser of notice to cure such breach.

8.2.3 Bankruptcy/Insolvency. If a Party (or its creditors or any other eligible party) files for its liquidation, bankruptcy, reorganization, composition, dissolution or other similar proceedings or arrangement, or if such Party is unable to pay any material debts as they become due, has explicitly or implicitly suspended payment of any debts as they became due (except debts contested in good faith), or if the creditors of the such Party have taken over its management, or if the relevant financial institutions have suspended clearing house privileges with regard to such Party, then the other Party shall be entitled to immediately terminate this Agreement.

8.2.4 Effect of Termination. The orders that have been accepted, the SP Ingot which Supplier has already received (or will receive in accordance with accepted orders) and the SP Ingots that have already been sliced into Products by Supplier as well as the Parties’ respective obligations with respect thereto shall survive termination of this Agreement. The expiration or termination of this Agreement shall not relieve the Parties of any obligations accruing prior to such termination, and any such termination shall be without prejudice to the rights of either Party against the other conferred on it by this Agreement. In addition, the provisions of Sections 4, 7, 8 and 9 shall survive expiration or termination of this Agreement for any reason as long as necessary to permit their full discharge.

8.2.5 Effectiveness of Agreement. The Parties hereby acknowledge and agree that this Agreement takes effect upon execution and this Agreement shall terminate concurrently with the termination of the JV Agreement.

9. Miscellaneous

9.1 Force Majeure. Neither Party shall be responsible for suspension of its performance (other than any obligation to make payments) under this Agreement if such suspension is caused by fortuitous events as defined by Article 1174 of the New Civil Code, or by fire, flood, strikes, riots, terrorism, acts of war, , or compliance with applicable laws, rules or regulations of any governmental authority or by compliance with any order or decisions of any court, board or other governmental authority or by any cause beyond the reasonable control of such Party.

9.2 Entire Agreement. Subject to the Joint Venture Agreement, this Agreement (including the Schedules hereto) and the agreements, documents and instruments to be executed and delivered pursuant to the JV Agreement are intended to embody the final, complete and exclusive agreement between the Parties with respect to the matters addressed herein; are intended to supersede all prior agreements, understandings and representations written or oral, with respect thereto; and may not be contradicted by evidence of any such prior or contemporaneous agreement, understanding or representation, whether written or oral.

9.3 Modifications. This Agreement shall not be modified, amended, canceled or altered in any way, and may not be modified by custom, usage of trade or course of dealing, except by an instrument in writing signed by both Parties. All amendments or modifications of this Agreement shall be binding upon the Parties despite any lack of consideration so long as the same shall be in writing and executed by the Parties.

9.4 Waiver. The performance of any obligation required of a Party hereunder may be waived only by a written waiver signed by the other Party, and such waiver shall be effective only with respect to the specific obligation described. The waiver by either Party of a breach of any provision of this Ingot Supply Agreement by the other Party shall not operate or be construed as a waiver of any subsequent breach of the same provision or another provision of this Agreement.

9.5 Export Controls. Neither Party shall commit any act or cause any person to commit any act which would violate any applicable export control laws, rules or regulations, and each Party will take any and all actions within its ability to assure compliance with such laws, rules or regulations. The Parties shall not, directly or indirectly, export, re-export or transship the Product and/or technical data for such Product in violation of any applicable export control laws promulgated and administrated by the government of any country having jurisdiction over the Parties or the transactions contemplated herein.

9.6 Severability. In the event that any term, condition or provision of this Agreement is held to be or become invalid or be a violation of any applicable law, statute or regulation, the same shall be deemed to be deleted from this Agreement and shall be of no force and effect and the Agreement shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Agreement. The validity and enforceability of the other provisions shall not be affected thereby. In such case or in the event that this Agreement should have a gap, the Parties hereto shall agree on a valid and enforceable provision completing this Agreement, coming as close as possible to the economic intentions of the Parties. In the event of a partial invalidity the Parties agree that this Agreement shall remain in force without the invalid part. This shall also apply if parts of this Agreement are partially invalid.

9.7 Governing Law and Dispute Resolution. This Agreement, and the rights and obligations of the Parties hereunder, shall be interpreted and governed in accordance with the laws of the Philippines, without regard to conflict of laws principles. Any disputes incapable of being resolved by mutual agreement of the Parties shall be handled in accordance with the JV Agreement.

9.8 Notices. All notices, demands, requests, consents or other communications hereunder shall be in writing and shall be given by personal delivery, by express courier, by registered or certified mail with return receipt requested, or by facsimile, to the Parties at the addresses shown below, or to such other address as may be designated by written notice given by either Party to the other Party. Unless conclusively proved otherwise, all notices, demands, requests, consents or other communications hereunder shall be deemed effective upon delivery if

personally delivered, five (5) days after dispatch if sent by express courier, fourteen (14) days after dispatch if sent by registered or certified mail with return receipt requested, or confirmation of the receipt of the facsimile by the recipient if sent by facsimile.

To Supplier:

First Philec Solar Corporation

____

____

____

Attention: ______________________________
Fax: ________________________________
Email: ______________________________

With a copy to:

To First Philec:

First Philippine Electric Corporation
2nd Floor, Benpres Building
Exchange Road corner Meralco Avenue
Pasig City, Philippines

Attention: Managing Director — Electronics Division
Fax: 632-490-0116

To Purchaser:

SunPower Philippines Mfg Ltd
100 East Main Ave.
LTI, Binan, Laguna
Philippines

Attention: VP Manufacturing Operations or Finance Director
Fax: 632- 841-9720

9.9 Assignment. This Agreement may not be assigned or otherwise transferred by either Party, in whole or in part, whether voluntary, or by operation of law, except, with respect to Purchaser, in connection with a permitted assignment and transfer under the JV Agreement. Subject to the foregoing, this Agreement shall

be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

9.10 Third Party Benefits. This Agreement shall be binding upon, and inure to the benefit of, each of the Parties and their respective successors and permitted assigns. Nothing contained in this Agreement, express or implied, shall be deemed to confer any right or remedy upon, or obligate any Party to, any person or entity other than the Parties and their respective successors and permitted assigns.

9.11 Remedies. The remedies described in this Agreement are not exclusive remedies, and upon breach of this Agreement, either Party shall be entitled alternatively or cumulatively to any available remedy against the other Party under the applicable law (including remedies available under this Agreement). Each Party shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief without prejudice to any other rights and remedies that such Party may have for a breach of this Agreement.

9.12 No Partnership or Agency. Nothing in this Agreement (as opposed to the JV Agreement separately) shall be construed as creating a joint venture, partnership, agency, employment relationship, franchise relationship or taxable entity between the Parties, and neither Party shall have the right, power or authority to create any obligation or duty, express or implied, on behalf of the other Party, it being understood that the Parties are independent contractors vis-à-vis one another.

9.13 Captions. The section headings and captions contained herein are for purposes of reference and convenience only and shall not in any way affect the meaning or interpretation of this Agreement.

9.14 Number and Gender. Whenever used in this Agreement, the singular terms shall include the plural and the plural the singular, and the use of any gender shall be applicable to all genders.

9.15 English Language. The official language of this Agreement is English. All contract interpretations, notices and dispute resolutions shall be in English. Any attachments or amendments to this Agreement shall be in English. Translations of any of these documents shall not be construed as official or original versions of such documents.

9.16 Counterparts. This Agreement may be executed in counterparts or duplicate originals, both of which shall be regarded as one and the same instrument, and which shall be the official and governing version in the interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused the foregoing instrument to be executed by the duly authorized officers and/or representatives of the parties hereto at the place and on the date first above written.

FIRST PHILEC SOLAR CORP.	**SUNPOWER PHILS. MFG., LTD**
By:	By:
/s/ DANILO C. LACHICA	/s/ GREGORY D. REICHOW
DANILO C. LACHICA	**GREGORY D. REICHOW**
President	Vice-President for Manufacturing Operations

IN THE PRESENCE OF:

/s/ illegible	/s/ illegible

***   CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

ANNEX A

***

***   CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

Annex B
First Semi Annual Delivery Schedule (Ingots)

Quarter	Estimated Delivery (Mtons)
Q308	***
Q408	***

***   CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

ANNEX C — SAMPLE COMPUTATION

Pricing Formula: (***% x cost per unit x applicable Mark-up)
Plus
(***% x Target Price)

Sample Computation:

Where: Target Price = $***
Cost per unit = $***
Applicable Mark-up = ***%

Price = (***% x cost per unit x applicable Mark-up)
Plus
(***% x Target price)

= (***% x *** x ***) + (***% x ***)

= (***) + (***)

= ***

Price = $*

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

Exhibit 31.1

CERTIFICATIONS

I, Thomas H. Werner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SunPower Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 8, 2007

/s/ THOMAS H. WERNER
Thomas H. Werner
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Emmanuel T. Hernandez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SunPower Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 8, 2007

/s/ EMMANUEL T. HERNANDEZ

Emmanuel T. Hernandez
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of SunPower Corporation (the "Company") on Form 10-Q for the period ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Thomas H. Werner and Emmanuel T. Hernandez, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge and belief:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: November 8, 2007	/s/ THOMAS H. WERNER Thomas H. Werner Chief Executive Officer (Principal Executive Officer)
Dated: November 8, 2007	/s/ EMMANUEL T. HERNANDEZ Emmanuel T. Hernandez Chief Financial Officer (Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to SunPower Corporation and will be retained by SunPower Corporation and furnished to the Securities and Exchange Commission or its staff upon request.