As filed with the Securities and Exchange Commission on October 11, 2005

Registration No. 333-127854

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to
Form S-1
REGISTRATION STATEMENT

Under
THE SECURITIES ACT OF 1933

SunPower Corporation

(Exact name of registrant as specified in its charter)

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

430 Indio Way
Sunnyvale, California 94085
(408) 991-0900
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Thomas H. Werner
Chief Executive Officer
SunPower Corporation
430 Indio Way
Sunnyvale, California 94085
(408) 991-0900
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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

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

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

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

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

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

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

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SUBJECT TO COMPLETION, DATED OCTOBER 11, 2005

Shares

Class A Common Stock

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

Following this offering, we will have two classes of authorized common stock: class A common stock and class B common stock. Cypress Semiconductor Corporation, or Cypress, will own 104,066,575 shares of class B common stock, representing approximately % of our total outstanding shares of capital stock and approximately % of the total voting power of our outstanding capital stock upon completion of this offering. Only Cypress, its successors in interest and its subsidiaries may hold shares of our class B common stock unless Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution. The rights of the holders of class A and class B common stock are substantially similar, except with respect to voting, conversion and other protective provisions as set forth in this prospectus. The holders of class B common stock shall be entitled to eight votes per share and the holders of class A common stock shall be entitled to one vote per share. Each share of class B common stock is convertible into one share of class A common stock at any time and will so convert automatically on any transfer unless Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution. In the event that Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress has not effected a tax-free distribution of our class B common stock to its stockholders prior to such time, each outstanding share of class B common stock will automatically convert into one share of class A common stock.

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

Investing in our class A common stock involves risks. See " Risk Factors" beginning on page 10.

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

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

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

Credit Suisse First Boston **Lehman Brothers**

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

The date of this prospectus is , 2005

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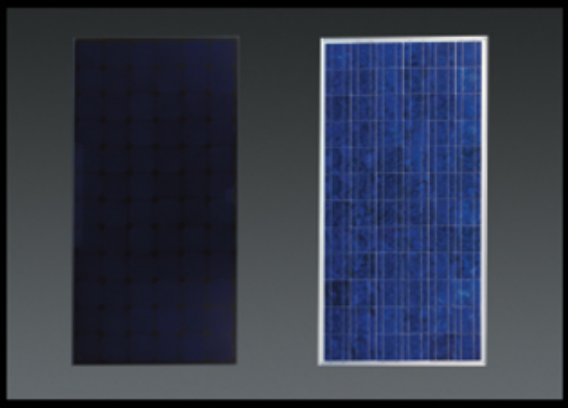
SUNPOWER



SunPower 200 watt solar panel Conventional 165 watt solar panel

SunPower solar panels used in a 12 kilowatt rooftop system, California

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

Dealer Prospectus Delivery Obligation

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

PROSPECTUS SUMMARY

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

Our Company

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

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

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

We commenced commercial production of our solar cells in late 2004. We generated total combined revenue of $10.9 million in fiscal 2004 and total revenue of $27.5 million in the six months ended June 30, 2005. We have incurred net losses since inception, including a net loss of $13.6 million in the six months ended June 30, 2005, and as of June 30, 2005, we had an accumulated deficit of approximately $56.3 million.

Market Opportunity

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

Solar power has emerged as one of the most rapidly growing renewable energy sources primarily due to multiple advantages it offers over other renewable energy sources, including negligible impact on the environment, no fuel price or delivery risk, point-of-use power generation, price competitiveness with peak retail electric rates,

maximum generation during peak energy demand periods, modularity and reliability. Since 1985, the market for solar power, as defined by worldwide shipments of solar power systems, has grown at a compound annual growth rate of over 20%, according to Strategies Unlimited, a research firm. Since 2000, the growth of the global solar power market, as defined by solar power system installations, has accelerated to an average rate of 38%, according to SolarBuzz, an industry consulting firm. The global solar power market had an estimated $6.5 billion in revenue in 2004.

While the cost of solar power has declined steadily over the past 30 years, it still remains more expensive than other power sources in applications without the support of government incentive programs. In addition, the solar market is dependent on polysilicon, an essential raw material. Currently, there is an industry-wide shortage of polysilicon, which has resulted in significant price increases. The aesthetic appearance of solar panels may limit the adoption of solar power products, particularly among residential customers. Historically, residential and commercial customers have resisted solar power products, in part, because most solar panels are perceived as unattractive.

Our Strengths

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

- *Superior Conversion Efficiency*. We believe our solar cells have the highest conversion efficiency available for the mass market. Our proprietary all back contact design results in conversion efficiencies of up to 50% more power per unit area than conventional solar cells. This superior conversion efficiency results in decreased per watt panel packaging and installation costs and provides greater power generation on a given rooftop space.
- *Superior Aesthetics*. Because all electrical contacts are located on the back, our solar cells have a uniformly black appearance that allows our solar panels to blend into customers' rooftops, which we believe appeals to customers seeking a solution which is more aesthetically appealing.
- *Efficient Silicon Utilization*. Unlike conventional solar cells, which generally lose efficiency with thinner silicon wafers, our proprietary technology allows our solar cells to maintain high efficiency levels with thinner silicon wafers. This provides our solar cells with more efficient utilization of silicon, the primary raw material used in solar cells, as defined by grams of silicon per watt, than that of conventional solar cells. Based on third-party data, the solar industry's rate of silicon consumption is estimated to range from 11.5 grams per watt to 13 grams per watt. Our rate of consumption is 9.2 grams per watt.
- *Ease of Assembly*. Our proprietary solar cell architecture simplifies panel assembly, allowing for backside connections, versus the traditional interconnect weaving process. We believe our architecture reduces the complexity and cost of assembling solar panels.
- *Manufacturing Advantages*. We manufacture our solar cells at our facility in the Philippines, a low-cost production region. In addition, we believe our background and expertise in the semiconductor industry enable us to improve our manufacturing yields, cost, quality and product ramp predictability.
- *Strong Management Team*. Our management team has a diverse set of industry skills and global operating experience, including backgrounds spanning the solar, semiconductor and optical media industries, as well as expertise running complex organizations and managing rapid growth. Our executive officers have an average of over 25 years of experience in the solar or high technology industries.

Our ability to maintain our competitive advantage is dependent on several factors, including the availability of polysilicon and other key components from third-party suppliers, uninterrupted operations at our Philippines facility, our ability to expand our customer base, our history in producing and shipping solar cells and solar

panels in commercial volumes, our ability to compete, the market for solar power and our ability to retain key personnel and other factors set forth in "Risk Factors."

Our Strategy

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

- *Maintain our Technology Advantage and Reduce Manufacturing Costs*. We intend to maintain our technology advantage by continuing to invest in research and development to improve solar cell efficiency and lower manufacturing costs.
- *Continue to Expand Manufacturing Capacity*. Since late 2004, we have been operating a single 25 megawatts per year solar cell production line. This production line is capable of manufacturing over the course of a year solar cells with a cumulative rated capacity of 25 megawatts peak production, which is equivalent to over eight million A-300 solar cells per year. To meet the ongoing demand for our products, we have ordered manufacturing equipment for the second and third 25 megawatts per year production lines, which are expected to increase our manufacturing capacity to 75 megawatts per year in 2006. We are evaluating the timing of a fourth line in our existing facility and of a second production facility.
- *Reduce our Dependence on Market Incentives*. Most of our current customers operate in markets that depend on a variety of government incentives to reduce the cost of solar power systems to end customers. In the short term, we intend to diversify our customer and market base to include non-incentivized markets. Over the long term, we plan to reduce our solar power system cost to reduce or eliminate the need for these market incentives.
- *Build a Leading Brand*. We believe establishing strong brand name recognition is important to increase product awareness and to address the mass market. We intend to differentiate our brand by emphasizing our combination of high performance and superior product appearance.
- *Drive Efficiency Improvements Through Relationships with Suppliers and Customers*. We intend to pursue relationships with, and investments in, our suppliers and customers to increase overall channel efficiency and reduce the cost of our products delivered to end customers.

Our Corporate History

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

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

Our Relationship with Cypress Semiconductor Corporation

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

After this offering, Cypress will hold in the aggregate 104,066,575 shares of class B common stock, representing approximately % of our total outstanding shares of common stock. At that time, Cypress is

expected to hold % of the voting power of our outstanding capital stock. Cypress has advised us that it does not have any current plans to distribute to its stockholders the shares of our class B common stock that it beneficially owns, although it may elect to effect such a distribution in the future.

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

Under the terms of the master transition services agreement, we will pay Cypress for the services provided to us, at Cypress’ cost or at the rate negotiated with Cypress for a period of three years following this offering or upon a change of control, whichever occurs first. Under the terms of our lease agreement, we will pay Cypress at a rate equal to the cost to Cypress for the lease of our Philippines facility until the earlier of 10 years or a change of control of us. Thereafter, we will pay market rent for the facility for the remainder of the 15-year lease. Under the terms of the wafer manufacturing agreement, we will pay Cypress to make infrared and imaging detector products for us 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 next three years or until a change of control of us. See “Related Party Transactions.”

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

THE OFFERING

Class A common stock offered by us	shares
Class A common stock to be outstanding after this offering	shares
Class B common stock to be outstanding after this offering	104,066,575[(1)] shares, representing approximately % of our total outstanding shares of capital stock and % of the voting power of our outstanding capital stock
Total common stock to be outstanding after this offering	shares
Voting rights	Following this offering, we will have two classes of authorized common stock: class A common stock and class B common stock. Only Cypress, its successors in interest and its subsidiaries may hold shares of class B common stock unless Cypress distributes its shares of class B common stock to its stockholders in a tax-free distribution. The rights of the holders of class A and class B common stock are substantially similar, except with respect to voting, conversion and other protective provisions as set forth in this prospectus. The holders of class B common stock shall be entitled to eight votes per share and the holders of class A common stock shall be entitled to one vote per share. Each share of class B common stock is convertible into one share of class A common stock at any time. In the event that Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress has not effected a tax-free distribution of our class B common stock to its stockholders prior to such time, each outstanding share of class B common stock will automatically convert into one share of class A common stock. See “Description of Capital Stock.”
Use of proceeds	We intend to use approximately $35 million to $45 million of the net proceeds from this offering for the expansion of our manufacturing capacity and the remainder for general corporate purposes, including working capital. We may use approximately $10 million of the proceeds to purchase our Philippines manufacturing facility from Cypress, which we have the option to do under our lease. We may also use a portion of the net proceeds to acquire complementary technologies or businesses. See “Use of Proceeds.”
Proposed Nasdaq National Market symbol	“SPWR”

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

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

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

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

Unless otherwise stated, all information in this prospectus assumes:

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

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

SUMMARY CONSOLIDATED FINANCIAL DATA

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

On November 9, 2004, Cypress completed a reverse triangular merger with us in which each share of our then outstanding capital stock not owned by Cypress was exchanged for shares of Cypress having a value of $1.65 per share. This merger effectively gave Cypress 100% ownership of all of our then outstanding shares of capital stock but left our unexercised warrants and options outstanding. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting. See note 2 of the notes to our consolidated financial statements. The consolidated balance sheet and statements of operations data in this prospectus prior and up to November 8, 2004 refer to the Predecessor Company and this period is referred to as the pre-merger period, while the consolidated balance sheet and statements of operations data subsequent to November 8, 2004 refer to the Successor Company and this period is referred to as the post-merger period. A black line has been drawn between the accompanying financial statements to distinguish between the pre-merger and post-merger periods.

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

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

	Predecessor Company				Successor Company	
	Years Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
Consolidated Statements of Operations Data	($ in thousands, except per share data)					
Revenue:						
Product revenue	$ 3,722	$ 4,245	$ 3,644	$ 6,708	$ 3,881	$ 27,342
Other	333	760	—	122	174	150
Total revenue	4,055	5,005	3,644	6,830	4,055	27,492
Costs and expenses:						
Cost of revenue	3,198	4,987	3,459	9,397	5,410	28,318
Research and development	2,532	9,816	7,425	12,095	1,124	2,935
Sales, general and administrative	1,396	3,238	2,420	4,706	850	3,918
Stock-based compensation*	—	—	55	131	650	184
Amortization of intangible assets	—	—	—	—	573	2,353
Total costs and expenses	7,126	18,041	13,359	26,329	8,607	37,708
Operating loss	(3,071)	(13,036)	(9,715)	(19,499)	(4,552)	(10,216)
Interest expense	(493)	(1,509)	(1,417)	(3,759)	(1,072)	(3,184)
Other income (expense), net	31	—	3	(44)	15	(173)
Net loss	$(3,533)	$(14,545)	$(11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Net loss per share:						
Basic and diluted[1]	$ (0.55)	$ (1.75)	$ (1.33)	$ (2.75)	$ (1,869.67)	$ (0.65)
Pro forma basic and diluted[2]				$ (1.02)	$ (0.43)	$ (0.21)
Weighted-average shares:						
Basic and diluted[1]	6,376	8,313	8,397	8,461	3	21,016
Pro forma basic and diluted[2]				22,769	13,083	63,470
* Stock-based compensation consists of:						
Cost of revenue			$ 55	$ 101	$ 96	$ 92
Research and development			—	23	293	69
Sales, general and administrative			—	7	261	23
			$ 55	131	$ 650	$ 184

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

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

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

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

	As of June 30, 2005		
	Actual	Pro Forma	Pro Forma As Adjusted
	($ in thousands)		
Consolidated Balance Sheet Data			
Cash and cash equivalents	$ 8,091		$
Working capital (deficiency)	(2,238)		
Total assets	122,916		
Notes payable to Cypress, net of current portion	20,622		
Customer advances, net of current portion	10,706		
Convertible preferred stock	24,552		
Total shareholders’ equity	32,988		

RISK FACTORS

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

Risks Related to Our Business

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

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

There is currently an industry-wide shortage of polysilicon, which has resulted in significant price increases. For example, according to SolarBuzz, an industry consulting firm, the average price of polysilicon increased from $25 per kilogram in 2004 to between $35 and $45 per kilogram for the first quarter of 2005. Increases in polysilicon prices have in the past increased our manufacturing costs and may impact our manufacturing costs and net income in the future. As demand for solar cells has increased, many of our principal competitors have announced plans to add additional manufacturing capacity. As this manufacturing capacity becomes operational, it will increase the demand for polysilicon and further exacerbate the current shortage. Polysilicon is also used in the semiconductor industry generally and any increase in demand from that sector 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 for the foreseeable future.

Although we have purchase orders and contracts for what we believe will be an adequate supply of silicon ingots through 2006, our estimates regarding our supply needs may not be correct and our purchase orders may be cancelled by our suppliers. The volume and pricing associated with these purchase orders and contracts may be changed by our suppliers based on market conditions. If our manufacturing yields decrease significantly, our second manufacturing line becomes available earlier than anticipated or our suppliers cancel or fail to deliver, we may not have made adequate provision for our polysilicon needs for the balance of the year.

In addition, since some of these arrangements are with suppliers who do not themselves manufacture polysilicon but instead purchase their requirements from other vendors, it is possible that these suppliers will not be able to obtain sufficient polysilicon to satisfy their contractual obligations to us.

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

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

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

Conergy AG, or Conergy, accounted for approximately 7.6% of our total combined revenue in fiscal 2004 and 52.6% of our total revenue in the six months ended June 30, 2005. Solon AG, or Solon, accounted for approximately 19.3% of our total combined revenue in fiscal 2004 and 18.0% of our total revenue in the six months ended June 30, 2005. General Electric Company, or GE, and its subcontracting partner, Plexus Corp., or Plexus, accounted for approximately 9.3% of our total combined revenue in fiscal 2004, and accounted for approximately 12.2% of our total revenue in the six months ended June 30, 2005. Integration Associates accounted for 31.9% of our total combined revenue in fiscal 2004 and 6.7% of our total revenue in the six months ended June 30, 2005. Currently, our largest customers for our solar power products are Conergy and Solon, our largest customers for our imaging detector products are GE and Plexus and our largest customer for our infrared detector products is Integration Associates. The loss of sales to any of these customers would have a significant negative impact on our business. Our agreements with these customers may be cancelled if we fail to meet certain product specifications or materially breach the agreement or in the event of bankruptcy, and our customers may seek to renegotiate the terms of current agreements or renewals. Most of the solar panels we sell to the European market are sold through our agreement with Conergy and we may enter into similar agreements in the future.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Some of the capital equipment used in the manufacture of our solar power products and in our wafer-slicing operations has been developed and made specifically for us, is not readily available from multiple vendors and would be difficult to repair or replace if it were to become damaged or stop working. In addition, we currently obtain the equipment for many of our manufacturing processes from sole suppliers and we obtain our wafer-slicing equipment from one supplier. If any of these suppliers were to experience financial difficulties or go out of business, or if there was any damage to or a breakdown of our manufacturing or wafer-slicing equipment at a time we are manufacturing commercial quantities of our products, our business would suffer. In addition, a supplier's failure to supply this equipment in a timely manner, with adequate quality and on terms acceptable to us, could delay our capacity expansion of our manufacturing facility and otherwise disrupt our production schedule or increase our costs of production.

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

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

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

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

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

We expect to continue to make significant capital expenditures, particularly in our manufacturing facility, and anticipate that our expenses will increase substantially in the foreseeable future as we expand our manufacturing operations, hire additional personnel, pay more or make advance payments for raw material, especially polysilicon, increase our sales and marketing efforts and continue our research and development efforts with respect to our products and manufacturing technologies. We expect capital expenditures of approximately $50.0 million for the remainder of 2005 and approximately $55.0 million in 2006 as we continue to increase our manufacturing capacity. We believe that our current cash and cash equivalents and funds available under our credit facility with Cypress will be sufficient to fund our capital and operating expenditures over the next 12 months. We have retained the capacity to borrow up to $30.0 million from Cypress, which

capacity will terminate upon the earlier of the completion of this offering or December 31, 2006. We are in negotiations with unrelated third parties regarding a new credit facility to be effective upon completion of this offering. However, if our financial results or operating plans change from our current assumptions, we may not have sufficient resources to support our business plan. If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain other debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased expenses and could require us to abide by covenants that would restrict our operations. The terms of our credit agreement with Cypress contain covenants which may restrict our ability to raise capital when we need it and may restrict our ability to pay dividends. If adequate funds are not available or not available on acceptable terms or terms consistent with our credit agreement with Cypress, our ability to fund our operations, develop and expand our manufacturing operations and distribution network, maintain our research and development efforts or otherwise respond to competitive pressures would be significantly impaired.

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

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

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

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

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

If our future innovations fail to enable us to maintain or improve our competitive position, especially with respect to solar cell efficiency, we may lose market share. Some solar cells designed by our competitors in laboratory conditions have demonstrated higher efficiency than our solar cells which are currently available for the mass market, and other companies have competing products in development. If we are unable to successfully design, develop and introduce or bring to market competitive new solar cells or other products, or enhance our existing solar cells, we may not be able to compete successfully. Competing solar power technologies may result

in lower manufacturing costs or higher product performance than those expected from our solar cells. In addition, if we, or our customers, are unable to manage product transitions, our business and results of operations would be negatively affected.

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

There is limited historical information available about our company upon which you can base your evaluation of our business and prospects. Although we began to develop and commercialize high-efficiency solar cell technology for use in solar concentrators in 1988 and began shipping product from our pilot manufacturing facility in 2003, we shipped our first commercial A-300 solar cells from our Philippines manufacturing facility in late 2004. Relative to the entire solar industry, we have shipped only a limited number of solar cells and solar panels and have recognized limited revenue. Our future success will require us to continue to scale our manufacturing capacity in our Philippines facility significantly beyond its current capacity. In addition, our business model, technology and ability to achieve satisfactory manufacturing yields at higher volumes are unproven at significant scale. As a result, you should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture new products in a rapidly growing market.

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

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

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

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

Our solar cells are complex and must meet stringent quality requirements. Products as complex as ours may contain undetected errors or defects, especially when first introduced. For example, our solar cells and solar panels may contain defects that are not detected until after they are shipped or are installed because we cannot

test for all possible scenarios. These defects could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from product development efforts and significantly affect our customer relations and business reputation. If we deliver solar cells or solar panels with errors or defects, or if there is a perception that our solar cells or solar panels contain errors or defects, our credibility and the market acceptance and sales of our solar power products could be harmed.

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

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

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

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

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

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

The market for electricity generation products is heavily influenced by foreign, federal, state and local government regulations and policies concerning the electric utility industry, as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In the United States and in a number of other countries, these regulations and policies are being modified and may continue to be modified. Customer purchases of, or further investment in the research and development of, alternative energy sources, including solar power technology, could be

deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our solar power products. For example, without a regulatory mandated exception for solar power systems, utility customers are often charged interconnection or standby fees for putting distributed power generation on the electric utility grid. These fees could increase the cost to our customers of using our solar power products and make them less desirable, thereby harming our business, prospects, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We manufacture our solar cells in our Philippines manufacturing facility which we lease from Cypress. On October 7, 2005, we entered into an agreement with Cypress to extend this lease for an additional 15 years with a right to buy the facility. If we are unable to expand in our current facility or are required to move our manufacturing facility, we would incur significant expenses as well as lost sales. Furthermore, we may not be able to locate a facility that meets our needs on terms acceptable to us. Any of these circumstances would increase our expenses and decrease our total revenue and could prevent us from achieving profitability.

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

For the six months ended June 30, 2005, approximately 75% of our sales have been made to customers outside of the United States. We currently have only one solar cell production line in operation, which is located

at our manufacturing facility in the Philippines. In addition, our assembly functions are conducted by third-party subcontractors in China. Risks we face in conducting business internationally include:

- multiple, conflicting and changing laws and regulations, export and import restrictions, employment laws, regulatory requirements and other government approvals, permits and licenses;
- difficulties and costs in staffing and managing foreign operations such as our manufacturing facility in the Philippines, as well as cultural differences;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- increased costs associated with maintaining international marketing efforts;
- potentially adverse tax consequences;
- inadequate local infrastructure;
- financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable; and
- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions.

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

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

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

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

We are exposed to the risk of a decrease in the value of the Euro relative to the U.S. dollar, which would decrease our total revenue. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, if these foreign currencies appreciate against the U.S. dollar, it will make it more expensive in terms of U.S. dollars to purchase inventory or pay expenses with foreign currencies. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency as well as make our products, which are usually purchased with U.S. dollars, relatively more expensive than products

manufactured locally. An increase in the value of the U.S. dollar relative to foreign currencies could make our solar cells more expensive for our international customers, thus potentially leading to a reduction in our sales and profitability. Furthermore, many of our competitors are foreign companies that could benefit from such a currency fluctuation, making it more difficult for us to compete with those companies. We currently conduct hedging activities, which involve the use of currency forward contracts. We cannot predict the impact of future exchange rate fluctuations on our business and operating results. In the past, we have experienced an adverse impact on our total revenue and profitability as a result of foreign currency fluctuations.

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

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

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

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

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

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

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

Although we rely primarily on trade secret laws and contractual restrictions to protect the technology in the solar cells we currently manufacture and market, our success and ability to compete in the future may also

depend to a significant degree upon obtaining patent protection for our proprietary technology. As of June 30, 2005, we had 11 patent applications pending in the United States and seven applications pending in foreign jurisdictions which cover aspects of the technology in the solar cells we currently manufacture and market. Patents that we currently own or license-in do not cover the solar cells that we presently manufacture and market. Our patent applications may not result in issued patents, and even if they result in issued patents, the patents may not have claims of the scope we seek. In addition, any issued patents may be challenged, invalidated or declared unenforceable. The term of any issued patents would be 20 years from their filing date and if our applications are pending for a long time period, we may have a correspondingly shorter term for any patent that may issue. Our present and future patents may provide only limited protection for our technology and may not be sufficient to provide competitive advantages to us. For example, competitors could be successful in challenging any issued patents or, alternatively, could develop similar or more advantageous technologies on their own or design around our patents. Also, patent protection in certain foreign countries may not be available or may be limited in scope and any patents obtained may not be as readily enforceable as in the United States, making it difficult for us to effectively protect our intellectual property from misuse or infringement by other companies in these countries. Our inability to obtain and enforce our intellectual property rights in some countries may harm our business. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important.

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

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

Our intellectual property indemnification practices may adversely impact our business.

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

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

From time to time, we, our customers or third-parties with whom we work may receive letters, including letters from various industry participants, alleging infringement of their patents. Although we are not currently aware of any parties pursuing or intending to pursue infringement claims against us, we cannot assure you that we will not be subject to such claims in the future. Also, because patent applications in the United States and many other jurisdictions are kept confidential for 18 months before they are published, we may be unaware of pending patent applications that relate to our solar cells. Our third-party suppliers may also become subject to infringement claims, which in turn could negatively impact our business. We may also initiate claims to defend our intellectual property. We are in the process of terminating a license as to which we have not paid royalties

since the second quarter of 2004 because our current products do not use the licensed technology. However, the licensor could challenge our actions and litigate against us. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business and could have a material adverse effect on our business, operating results or financial condition. If there is a successful claim of infringement against us, our customers or our third-party intellectual property providers, we may be required to pay substantial damages to the party claiming infringement, stop selling products or using technology that contains the allegedly infringing intellectual property, or enter into royalty or license agreements that may not be available on acceptable terms, if at all. Parties making infringement claims may also be able to bring an action before the International Trade Commission that could result in an order stopping the importation into the United States of our solar cells. All these judgments could materially damage our business. We may have to develop non-infringing technology, and our failure in doing so or obtaining licenses to the proprietary rights on a timely basis could have a material adverse effect on our business.

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

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

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

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

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

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

383 of the Code. In addition, the tax benefit to us of our net operating loss carryforwards may be reduced or eliminated pursuant to the tax sharing agreement between us and Cypress in the event we are deconsolidated from Cypress.

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

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

- hire, train, integrate and manage additional qualified engineers for research and development activities, sales and marketing personnel, and financial and information technology personnel;
- retain key management and augment our management team, particularly if we lose key members;
- continue to enhance our customer resource management and manufacturing management systems;
- implement and improve additional and existing administrative, financial and operations systems, procedures and controls, including the need to integrate our financial internal control systems in our Philippines facility with those of our Sunnyvale, California headquarters;
- expand and upgrade our technological capabilities; and
- manage multiple relationships with our customers, suppliers and other third parties.

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

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

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

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

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

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

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

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, accounting policies affecting many aspects of our business, including rules relating to employee stock option grants, have recently been revised. The Financial Accounting Standards Board, or the FASB, and other agencies have made changes to U.S. generally accepted accounting principles, or GAAP, that will require us, starting in our first quarter of fiscal 2006, to record a charge to earnings for employee stock option grants and other equity incentives. We may have significant and ongoing accounting charges resulting from option grant and other equity incentive expensing that could reduce our overall net income. In addition, since we historically have used equity-related compensation as a component of our total employee compensation program, the accounting change could make the use of equity-related compensation less attractive to us and therefore make it more difficult to attract and retain employees.

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

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

remedied, could reduce the market's confidence in our financial statements and harm our stock price. In addition, future non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from The Nasdaq National Market and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price.

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

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

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

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

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

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

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 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 self-insure with respect to potential third-party claims which give rise to 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.

Risks Related to Our Relationship with Cypress Semiconductor Corporation

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

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

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

- the composition of our board of directors and, through our board of directors, any determination with respect to our business plans and policies, including the appointment and removal of our officers;
- any determinations with respect to mergers and other business combinations;
- our acquisition or disposition of assets;
- our financing activities;
- changes to the agreements providing for our separation from Cypress;
- the allocation of business opportunities that may be suitable for us and Cypress;
- the payment of dividends on our common stock; and
- the number of shares available for issuance under our stock plans.

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

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

The historical financial information we have included in this prospectus does not necessarily reflect what our financial position, results of operations or cash flows would have been had we been an independent entity

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

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

As a subsidiary of Cypress, we have relied on administrative and other resources of Cypress to operate our business. In connection with our separation from Cypress, we have entered into various service agreements to retain the ability for specified periods to use these Cypress resources. See "Related Party Transactions." Thereafter, we will need to create our own administrative and other support systems or contract with third parties to replace Cypress' systems. In addition, we must also establish disclosure controls and procedures and internal controls over financial reporting as part of our becoming a separate public company. These services may not be provided at the same level as when we were a wholly owned subsidiary of Cypress, and we may not be able to obtain the same benefits that we received prior to the separation. These services may not be sufficient to meet our needs, and after our 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. See "Related Party Transactions—Relationship with Cypress Semiconductor Corporation—Services Agreements" for a description of these services.

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

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

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

We 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 even though Cypress is required to indemnify us for its taxes pursuant to the tax sharing agreement. After the date we cease to be a member of Cypress' consolidated, combined or unitary group for federal or state income tax purposes, as and 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 40%) of the amount of such tax loss carryforwards so utilized and the amount of any credit carryforwards so utilized. We shall distribute these amounts to Cypress in cash or in our shares, at our option. As of June 30, 2005, we had $32.0 million of federal net operating loss carryforwards and $4.0 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 between $13 million and $14 million. For a more complete description of the tax sharing agreement, please see "Related Party Transactions—Relationship with Cypress Semiconductor Corporation—Tax Sharing Agreement."

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

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

Third parties may seek to hold us responsible for Cypress' liabilities. Under our 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 you that we will be able to recover the full amount of our losses from Cypress.

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

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

- labor, tax, employee benefit, indemnification and other matters arising from our separation from Cypress;
- the cost of wafers for our imaging detectors;
- employee retention and recruiting;
- business combinations involving us;
- 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 and positions with Cypress.

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

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

Cypress has advised us that it does not have any current plans to distribute to its stockholders the shares of our class B common stock that it beneficially owns. Completion of any such distribution in the future would be contingent upon, among other things, the receipt of a favorable tax ruling from the Internal Revenue Service and/ or a favorable opinion of Cypress' tax advisor as to the tax-free nature of the distribution for U.S. federal income tax purposes. However, Cypress is not obligated to undertake the distribution, and the distribution may not occur for the foreseeable future or at all.

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

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

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

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

Risks Related to this Offering

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

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

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

The trading market for our class A common stock will be influenced by the research and reports that industry or securities analysts publish about us, our business or our market. If one or more of the analysts who cover us change their recommendation regarding our stock adversely, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

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

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

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

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

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

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

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

If Cypress distributes shares of our common stock that it owns to its stockholders, which it has agreed not to do for at least 270 days after the date of this prospectus, substantially all of these shares would be eligible for immediate resale in the public market. We are unable to predict whether significant amounts of our common stock would be sold in the open market in anticipation of, or after, any such distribution. We also are unable to predict whether a sufficient number of buyers for shares of our class A common stock would be in the market at that time.

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

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

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

We intend to use the net proceeds from this offering to expand our manufacturing capacity and for general corporate purposes, including working capital. We may use approximately $10 million of the proceeds to purchase our Philippines manufacturing facility from Cypress, which we have the option to do under our lease.

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

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

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

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

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

- the right of the board of directors to elect a director to fill a vacancy created by the expansion of the board of directors;
- the prohibition of cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the requirement for advance notice for nominations for election to the board of directors or for proposing matters that can be acted upon at a stockholders’ meeting;
- the ability of the board of directors to issue, without stockholder approval, up to 20,084,980 shares of preferred stock with terms set by the board of directors, which rights could be senior to those of common stock; and
- in the event that Cypress, its successors in interest and its subsidiaries no longer collectively own shares of our common stock equal to at least 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for accounting purposes:
    - our board of directors will be divided into three classes of directors, with the classes to be as nearly equal in number as possible;
    - no action can be taken by stockholders except at an annual or special meeting of the stockholders called in accordance with our bylaws, and stockholders may not act by written consent;
    - stockholders may not call special meetings of the stockholders; and
    - our board of directors will be able to alter our bylaws without obtaining stockholder approval.

Until such time as Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and Cypress is no longer consolidating us for

accounting purposes, the affirmative vote of at least 75% of the then-authorized number of members of our board of directors will be required to: (a) adopt, amend or repeal our bylaws or certificate of incorporation; (b) appoint or remove our chief executive officer; (c) designate, appoint or allow for the nomination or recommendation for election by our stockholders of an individual to our board of directors; (d) change the size of our board of directors to be other than five members; (e) form a committee of our board of directors or establish or change a charter, committee responsibilities or committee membership of any committee of our board of directors; (f) adopt any stockholder rights plan, "poison pill" or other similar arrangement; or (g) approve any transactions that would involve a merger, consolidation, restructuring, sale of substantially all of our assets or any of our subsidiaries or otherwise result in any person or entity obtaining control of us or any of our subsidiaries. Cypress may at any time in its sole discretion waive this requirement to obtain such a supermajority vote of our board of directors.

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

USE OF PROCEEDS

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

The principal purposes for this offering are to increase our working capital, create a public market for our class A common stock, facilitate our future access to the public capital markets and increase our visibility in our markets. We intend to use approximately $35 million to $45 million of the net proceeds for the expansion of our manufacturing capacity and the remainder of the net proceeds for general corporate purposes, including working capital. We do not have more specific plans for the net proceeds from this offering. We may use approximately $10 million of the proceeds to purchase our Philippines manufacturing facility from Cypress, which we will have the option to do under our lease agreement. We may also use a portion of the net proceeds to acquire businesses, products and technologies that we believe will complement our business.

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

DIVIDEND POLICY

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

CAPITALIZATION

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

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

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

	As of June 30, 2005		
	Actual	Pro Forma	Pro Forma As Adjusted
	($ in thousands except share and per share data)		
Convertible preferred stock, no par value per share; 66,000,000 shares authorized, 44,915,060 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	$ 24,552	$	$
Stockholders' equity:			
Preferred stock, $0.001 par value per share; no shares authorized, issued and outstanding, actual; 20,084,980 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted	—		
Class A common stock, no par value per share; 85,000,000 shares authorized, 35,233,535 shares issued and outstanding, actual; $0.001 par value per share, shares authorized, shares issued and outstanding, pro forma and pro forma as adjusted	54,493		
Class B common stock, no par value per share; 32,000,000 shares authorized, no shares issued and outstanding, actual; $0.001 par value per share, shares authorized, 80,066,575 shares issued and outstanding, pro forma and pro forma as adjusted	—		
Additional paid-in capital related to warrants and merger transaction	34,550		
Accumulated other comprehensive income	208		
Accumulated deficit	(56,263)		
Total stockholders' equity	32,988		
Total capitalization	$ 57,540	$	$

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

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

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

DILUTION

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

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

The following table illustrates this per share dilution:

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

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

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

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

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

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

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

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

SELECTED CONSOLIDATED FINANCIAL DATA

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

On November 9, 2004, Cypress completed a reverse triangular merger with us in which each share of our then outstanding capital stock not owned by Cypress was exchanged for shares of Cypress having a value of $1.65 per share. This merger effectively gave Cypress 100% ownership of all of our then outstanding shares of capital stock but left our unexercised warrants and options outstanding. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting. See note 2 of the notes to our consolidated financial statements. The consolidated balance sheet and statements of operations data in this prospectus prior and up to November 8, 2004, refer to the Predecessor Company and this period is referred to as the pre-merger period, while the consolidated balance sheet and statements of operations data subsequent to November 8, 2004 refer to the Successor Company and this period is referred to as the post-merger period. A black line has been drawn between the accompanying financial statements to distinguish between the pre-merger and post-merger periods.

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

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

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

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

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

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

	Predecessor Company						Successor Company	
	Years Ended December 31,				Six Months Ended June 30, 2004	Jan. 1 Through Nov. 8 2004	Nov. 9 Through Dec. 31 2004	Six Months Ended June 30, 2005
	2000	2001	2002	2003				
Consolidated Statements of Operations Data								
Revenue:								
Product revenue	$8,787	$ 4,988	$ 3,722	$ 4,245	$ 3,644	$ 6,708	$ 3,881	$ 27,342
Other	922	589	333	760	—	122	174	150
Total revenue	9,709	5,577	4,055	5,005	3,644	6,830	4,055	27,492
Costs and expenses:								
Cost of revenue	7,652	5,977	3,198	4,987	3,459	9,397	5,410	28,318
Research and development	1,024	914	2,532	9,816	7,425	12,095	1,124	2,935
Sales, general and administrative	967	1,334	1,396	3,238	2,420	4,706	850	3,918
Stock-based compensation*.	—	—	—	—	55	131	650	184
Amortization of intangible assets	—	—	—	—	—	—	573	2,353
Total costs and expenses	9,643	8,225	7,126	18,041	13,359	26,329	8,607	37,708
Operating income (loss)	66	(2,648)	(3,071)	(13,036)	(9,715)	(19,499)	(4,552)	(10,216)
Interest expense	(444)	(240)	(493)	(1,509)	(1,417)	(3,759)	(1,072)	(3,184)
Other income (expense), net	67	0	31	—	3	(44)	15	(173)
Net loss	$ (311)	$(2,888)	$(3,533)	$(14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Net loss per share:								
Basic and diluted[1]	$ (0.04)	$ (0.38)	$ (0.55)	$ (1.75)	$ (1.33)	$ (2.75)	$(1,869.67)	$ (0.65)
Pro forma basic and diluted[2]						(1.02)	(0.43)	(0.21)
Weighted-average shares:								
Basic and diluted[1]	7,228	7,564	6,376	8,313	8,397	8,461	3	21,016
Pro forma basic and diluted[2]						22,769	13,083	63,470
* Stock-based compensation consists of:								
Cost of revenue					$ 55	$ 101	$ 96	$ 92
Research and development					—	23	293	69
Sales, general and administrative					—	7	261	23
					$ 55	$ 131	$ 650	$ 184

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

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

	Predecessor Company				Successor Company		
	December 31,						
	2000	2001	2002	2003	December 31, 2004	June 30, 2005	June 30, 2005 Pro Forma
Consolidated Balance Sheet Data							
Cash and cash equivalents	$ 131	$ 70	$ 345	$ 5,588	$ 3,776	$ 8,091	
Working capital (deficiency)	(661)	(3,674)	(3,090)	(28,574)	(54,314)	(2,238)	
Total assets	2,185	1,212	9,254	30,891	89,646	122,916	
Notes payable to Cypress, net of current portion	—	—	—	5,312	21,673	20,622	
Customer advances, net of current portion	—	—	—	—	—	10,706	
Convertible preferred stock	7,347	7,365	7,452	9,366	8,552	24,552	
Total shareholders' equity (deficit)	(655)	(3,469)	(6,022)	(20,479)	(10,664)	32,988	

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

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

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

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

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

General

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

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

Overview

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

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

In late 2004, we shipped our first commercial A-300 solar cells from our Philippines manufacturing facility. On November 9, 2004, Cypress completed a reverse triangular merger with us in which each share of our then outstanding capital stock not owned by Cypress was valued at $1.65 per share and exchanged for an equivalent number of shares of Cypress. This merger effectively gave Cypress 100% ownership of all of our then outstanding shares of our capital stock but left our unexercised warrants and options outstanding.

In January 2005, Cypress invested an additional $16.0 million in us in exchange for 32,000,000 shares of our series two convertible preferred stock. In March 2005, Cypress invested $58.0 million in us in exchange for 35,151,515 shares of our class A common stock. This investment, along with customer advances, funded the purchase of equipment for our second and third 25 megawatts per year production lines in our Philippines manufacturing facility. In July 2005, Cypress purchased an additional 24,000,000 shares of our class A common stock in exchange for approximately $20.2 million of cash, cancellation of all of our then outstanding debt and payables to Cypress, which totaled approximately $39.8 million, and cancellation of warrants to purchase 7,642,859 shares of class A common stock issued to Cypress in connection with earlier loans. As a result, we no longer have any outstanding indebtedness to Cypress. On September 30, 2005, Cypress exchanged all of its outstanding shares of class A common stock for an equal number of shares of class B common stock pursuant to an exchange agreement by and between SunPower and Cypress. For additional discussion regarding our financing arrangements with Cypress, see "Related Party Transactions —Arrangements Between SunPower Corporation and Cypress Semiconductor Corporation."

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

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

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

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

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

Financial Operations Overview

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

Total Revenue

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

Cost of Revenue

Our cost of revenue consists primarily of silicon ingots and wafers for the production of solar cells, along with other materials such as chemicals and gases that are needed to transform silicon wafers into solar cells.

Other factors contributing to cost of revenue include depreciation, salaries, personnel-related costs, facilities expenses and manufacturing supplies associated with solar cell fabrication. For our solar panels, our cost of revenue includes raw materials such as glass, frame, backing and other materials, as well as the assembly costs we pay to our third-party subcontractors in China. For our detector products, our cost of revenue includes the cost of silicon wafers, which is charged to us by our manufacturing contractor, Cypress, and our packaging and test costs. We expect cost of revenue to increase in absolute dollars as we bring on additional capacity and increase our product volume. Potential increases in our suppliers' cost of polysilicon can also contribute to higher cost of revenue. Despite the absolute increase in cost of revenue dollars, we expect our cost of revenue to fluctuate as a percentage of revenue.

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

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

Operating Expenses

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

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

Amortization of Intangible Assets

On November 9, 2004, Cypress completed a reverse triangular merger with us in which each share of our then outstanding capital stock not owned by Cypress was valued at $1.65 per share and exchanged for an equivalent number of shares of Cypress. This merger 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 distribution agreement. The fair value for these intangibles is being amortized over two to six years on a straight-line basis. We report amortization of intangibles as a separate expense rather than including it in the functional category to which it relates, as we believe it provides a more meaningful comparison. For additional discussion regarding amortization of acquired intangibles, please see note 2 of the notes to our consolidated financial statements.

Stock-Based Compensation Expense

Our stock-based compensation expense is the deemed fair value of variable stock-based compensation of stock and stock options issued to non-employees and consultants, as well as compensation charges for employee stock options. Stock-based compensation was $0, $0, $781,000 and $184,000 for the years ended December 31, 2002, 2003, and combined 2004 and the first six months ended June 30, 2005, respectively. This included a compensation charge of $625,000 in 2004 related to the purchase of our stock that had been held by our employees for less than 6 months as part of the November 9, 2004 reverse triangular merger with Cypress. We expect to incur variable stock-based compensation through the first quarter of 2006 as these options vest. We report stock-based compensation as a separate expense rather than including it in the functional category to which it relates, as we believe it provides a more meaningful comparison.

Interest expense

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

Other income (expense), net

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

Provision for Income Taxes

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

As of June 30, 2005, we had federal net operating loss carryforwards of approximately $32.0 million. These federal net operating loss carryforwards expire at various dates from 2011 through 2025, if not utilized. We had California state net operating loss carryforwards of approximately $4.0 million as of June 30, 2005, which may be applied to future taxable income until these benefits begin to expire in 2006 through 2015. We also had research and development credit carryforwards of approximately $1.2 million for federal and approximately $1.2 million for state tax purposes. We have provided a valuation allowance on our deferred tax assets, consisting primarily of net operating loss carryforwards, because of the uncertainty of their realizability. Due in part to equity financings, we experienced "ownership changes" as defined in Section 382 of the Code. Accordingly, our use of the net operating loss carryforwards and credit carryforwards is limited by the annual limitations described in Sections 382 and 383 of the Code. In addition, the tax benefit to us of our net operating loss carryforwards may be reduced or eliminated pursuant to the tax sharing agreement between us and Cypress in the event we are deconsolidated from Cypress.

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

Allowance for Doubtful Accounts

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

Warranty Reserves

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

Valuation of Inventory

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

Stock-Based Compensation

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

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

We record deferred stock-based compensation which consists of the amounts by which the estimated fair value of the stock underlying the employee option exceeds the exercise price at the date of grant or other

measurement date, if applicable. In determining the fair value of our common stock at the dates of grant of stock awards, we were unable to rely on a public trading market for our stock, but in certain cases were able to rely on recent stock sales or transactions to unrelated third parties as well as third-party valuations of our common stock. We have also relied on numerous objective and subjective factors and methodologies to value our common stock at different stages of our growth.

Valuation of Long-Lived Assets

Our long-lived assets include manufacturing equipment and facilities as well as certain intangible assets. Our business requires heavy investment in manufacturing facilities that are technologically advanced but can quickly become significantly under-utilized or rendered obsolete by rapid changes in demand for solar power products produced in those facilities. On November 9, 2004, Cypress completed a reverse triangular merger with us in which each share of our then outstanding capital stock not owned by Cypress was exchanged at a value of $1.65 per shares for shares of Cypress having an equivalent aggregate value. This merger effectively gave Cypress 100% ownership of all of our outstanding shares of capital stock but left our unexercised outstanding warrants and options outstanding. As a result of that transaction, we were required to record Cypress' cost of acquiring us in our financial statement by recording intangible assets including purchased technology, patents, trademarks, distribution agreement and goodwill. We evaluate our long-lived assets, including property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets or the strategy for our business and significant negative industry or economic trends. Impairments are recognized based on the difference between the fair value of the asset and its carrying value, and fair value is generally measured based on discounted cash flow analyses. We recorded a $461,000 impairment charge in the first quarter of 2005, related to certain equipment when we decommissioned our pilot wafer fab located in Cypress' Round Rock, Texas facility. If there is a significant decrease in our business in the future, we may be required to record impairment charges in the future.

Goodwill Impairment

On November 9, 2004, Cypress completed a reverse triangular merger with us in which each share of our then outstanding capital stock not owned by Cypress was valued at $1.65 per share and exchanged for an equivalent number of shares of Cypress. This merger effectively gave Cypress 100% ownership of all of our then outstanding shares of capital stock but left our unexercised outstanding warrants and options outstanding. As a result of that transaction, we were required to record Cypress' cost of acquiring us, including its equity investment and pro rata share of our losses in our financial statements by recording intangible assets including purchased technology, patents, trademarks, distribution agreement and goodwill. We perform a goodwill impairment test on an annual basis and will perform an assessment between annual tests in certain circumstances. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment at many points during the analysis. In estimating the fair value of our business, we make estimates and judgments about our future cash flows. Our cash flow forecasts are based on assumptions that are consistent with the plans and estimates we are using to manage our business.

Accounting for Income Taxes

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

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

Results of Operations

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

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

Six Months Ended June 30, 2004 and 2005

Total revenue. Total revenue increased from $3.6 million in the six months ended June 30, 2004 to $27.5 million in the six months ended June 30, 2005, a 654% increase. This increase was primarily due to strong demand for and commercial introduction of our solar cells and solar panels which began commercial production in late 2004. Revenue in the first six months of 2004 was primarily generated from sales of our detector products, which represented 97% of total revenue compared to 21% in the six months ended June 30, 2005. Revenue from the sale of our solar cells and panels represented 3% of total revenue in the six months ended June 30, 2004 compared to 79% in the first six months of 2005, driven by continued growth in demand for infrared detection applications. Our international sales accounted for 75% of our total revenue in the six months ended June 30, 2005 compared to 17% in the six months ended June 30, 2004. We expect international sales to remain a significant portion of overall sales in 2006. Conergy and Solon accounted for approximately 52.6% and 18.0% of our total combined revenue in the six months ended June 30, 2005, as compared to none in the six months ended June 30, 2004. We expect both Conergy and Solon to comprise a significant portion of our revenue in 2006 and beyond.

Cost of revenue. Cost of revenue increased from $3.5 million in the six months ended June 30, 2004 to $28.3 million in the six months ended June 30, 2005, a 719% increase. This increase was primarily due to higher volumes of production of our solar power products in our Philippines facility which commenced commercial operations in late 2004. The increase in cost of revenue was predominantly due to a $15.0 million increase in materials costs, a

$2.5 million increase in depreciation expense, a $2.2 million increase in freight costs, and a $1.8 million increase in utilities and maintenance expenses.

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

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

Research and development. Research and development expense decreased from $7.4 million in the six months ended June 30, 2004 to $2.9 million in the six months ended June 30, 2005, a 60% decrease. For the first six months of 2004 and extending into the second half of that year, we incurred $1.5 million in process development and start-up costs associated with qualifying our first 25 megawatts per year production line in the Philippines that caused us to experience higher research and development expense. In addition, the $3.2 million in operating expenses associated with running our pre-production pilot wafer fabrication line were also recognized as research and development expenses in the first six months of 2004. A significant portion of these costs was recognized as cost of revenue starting in late 2004 as our first production line went into commercial operations and we started selling solar cells and solar panels. By category, the decline in research and development expenses was primarily due to a $1.8 million decrease in materials costs, a $1.3 million decrease in outside service and consulting costs, a $0.6 million decrease in salaries and other compensation charges, and a $0.7 million decrease in utilities and maintenance expenses. In the future, we expect research and development expenses to increase in absolute dollars, but to decrease as a percentage of sales.

Sales, general and administrative. Sales, general and administrative expense increased from $2.4 million in the six months ended June 30, 2004 to $3.9 million in the six months ended June 30, 2005, a 62% increase. The increase in expenses was primarily due to a $0.6 million increase in salary and other compensation charges related to growth in headcount in both sales and administrative functions, a $0.2 million increase in utilities and maintenance expenses, a $0.2 million increase in materials and supplies costs, and a $0.1 million increase in Cypress charges for services such as tax, treasury, legal and human resource services. In the future, we expect sales, general and administrative to increase in absolute dollars, but to decrease as a percentage of sales.

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

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

Interest expense. Interest expense increased from $1.4 million in the six months ended June 30, 2004 to $3.2 million in the six months ended June 30, 2005. Interest expense attributed to debt we owed to Cypress increased from $1.1 million to $1.9 million for the comparable periods primarily due to increased borrowings to fund our manufacturing capacity expansion. Interest expense attributable to the amortization related to the discount on debt we owed Cypress increased from $290,000 to $1.3 million in the comparable periods due to additional warrants issued in connection with the debt.

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

Pre and Post-Merger Periods in 2004

On November 9, 2004, Cypress completed a reverse triangular merger with us, effectively giving Cypress 100% ownership of all our then outstanding shares of capital stock but leaving our unexercised warrants and options outstanding. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting which resulted in a pre and post-merger periods in our 2004 fiscal year. The period from January 1, 2004 to November 8, 2004 represents our pre-merger period, while the period from November 9, 2004 to December 31, 2004, represents our post-merger period.

Total revenue. Total revenue for our pre-merger period was $6.8 million primarily from sales of our detector products driven by continued demand in infrared detection applications. Total revenue for our post-merger period was $4.1 million with continuing sales from our detector product and a significant contribution from our initial sales of solar products which commenced commercial production in late 2004.

Cost of revenue. Cost of revenue for our pre-merger period was $9.4 million, comprised of manufacturing costs related to our sale of detector products as well as pre-operating costs related to our first 25-megawatts per year production line in the Philippines, comprised primarily of the cost of silicon ingots and wafers. Cost of revenue for our post-merger period was $5.4 million, comprised of manufacturing cost related to our sale of detector products as well as manufacturing cost related to our initial sales of solar products, which commenced commercial operations in late 2004, comprised primarily of the cost of silicon ingots, wafers, utilities and maintenance expenses.

Gross margin was negative 37.6% for our pre-merger period and negative 33.4% for our post-merger period. Both periods were negatively impacted by pre-operating and production ramp costs related to our first 25-megawatts per year production line in the Philippines which went into commercial production late 2004.

Research and development. Research and development expense for our pre-merger period was $12.1 million or 177% of total revenue, while research and development expense for our post-merger period was $1.1 million or 28% of total revenue. The pre-merger period expense was primarily due to significant process development spending for the commercialization and mass production of our A-300 solar cell product, including the operation of a pilot wafer fabrication line in Cypress' Round Rock, Texas facility. Expenses during the pre-merger period also included start-up costs related to the qualification of our first 25-megawatts per year production line in the Philippines which went into commercial production in late 2004. Spending in the pre-merger period included the cost of silicon ingots, wafers, maintenance and third-party research and development services. Research and development for our post-merger period decreased to 28% of revenue primarily due to increase in revenue and the recognition of most of the costs associated with qualification of our A-300 solar cell product as cost of revenue.

Selling, general and administrative. Selling, general and administrative expense for our pre-merger period was $4.7 million or 69% of total revenue and $0.85 million or 21% of total revenue for our post-merger period. Spending for both pre and post-merger periods was primarily due to growth in headcount in both the sales and administrative organizations as we organized these functions to support our growth. Outside services and consulting costs, including legal and accounting fees, also contributed to the increased expense. The decrease in expenses as a percentage of revenue in our post-merger period was primarily due to growth in revenue primarily due to our initial sales of solar products that went into commercial production in late 2004.

Stock-based compensation. Stock-based compensation expense for our pre-merger period was $0.13 million and $0.65 million for our post-merger period.

Amortization of acquired intangibles. Amortization of intangibles was zero in our pre-merger period and $0.57 million in our post-merger period as we recorded the intangible assets from the merger transaction with Cypress. The amortization expense represented amortization of purchased technology, trademark and patents.

Interest expense. Interest expense for our pre-merger period was $3.8 million and was comprised of $2.4 million of interest attributable to debt we owed to Cypress and $1.4 million attributed to the amortization related to the discount on debt we owed Cypress. Interest expense for our post-merger period was $1.1 million and was comprised of $0.55 million attributable to debt we owed to Cypress and $0.52 million attributed to the amortization related to the discount on debt we owed Cypress.

Other income (expense), net. Other income (expense), net, was an expense of $0.04 million for our pre-merger period and income of $0.02 million for our post-merger period. The pre-merger expense was primarily from foreign exchange losses. The post-merger income was primarily from interest income.

Years Ended December 31, 2003 and 2004

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

Total revenue. Total revenue increased from $5.0 million in fiscal 2003 to $10.9 million combined in fiscal 2004, a 117% increase. This increase was primarily due to a $2.1 million increase in sales of our detector products which was driven by continued growth in infrared detection applications. This increase was also due to $3.8 million in revenue from initial sales of our A-300 solar cell products that went into commercial production in late 2004. International sales accounted for 44% of our total combined revenue in fiscal 2004, compared to 29% in fiscal 2003. Conergy and Solon accounted for approximately 7.6% and 19.3%, respectively, of our total combined revenue in 2004, as compared none in 2003.

Cost of revenue. Cost of revenue increased from $5.0 million in fiscal 2003 to $14.8 million combined in fiscal 2004, a 197% increase. This increase was primarily due to $9.3 million in costs related to the production and qualification of our first 25 megawatts per year production line in the Philippines, which were recognized as research and development expense in prior periods. By category, the increase was primarily due to a $5.7 million increase in materials costs, a $1.6 million increase in salaries and other compensation charges, a $0.8 million increase in outside services and consultant costs, and a $0.7 million increase in utilities and maintenance expenses.

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

Research and development. Research and development expense increased from $9.8 million in fiscal 2003 to $13.2 million combined in fiscal 2004, an 35% increase. This increase was primarily due to significant process development spending for the commercialization and mass production of our A-300 solar cell product, including the operation of a pilot wafer fabrication line in Cypress' Round Rock, Texas facility. In addition, the increase was due to increases in start-up costs related to the qualification of our first 25 megawatts per year production line in the Philippines, which went into commercial operation late 2004. By category, the increase in research and development expenses was primarily due to a $2.2 million increase in materials costs, a $0.7 million increase in utilities and maintenance expenses, and a $0.5 million increase in depreciation expenses. These increases were partially offset by a $0.6 million decrease in outside services and consultant costs.

Sales, general and administrative. Sales, general and administrative expense increased from $3.2 million in fiscal 2003 to $5.6 million combined in fiscal 2004, a 72% increase. The increase was primarily due to a $0.9 million increase in salary and other compensation charges related to growth in headcount in both sales and administrative functions, and a $0.9 million increase in outside services and consulting costs, including legal and accounting fees.

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

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

Interest expense. Interest expense increased from $1.5 million in fiscal 2003 to $4.8 million combined in fiscal 2004. Interest expense attributed to debt we owed to Cypress increased from $0.9 million in fiscal 2003 to $2.9 million combined in fiscal 2004 primarily due to increased borrowings to fund our product and process development and manufacturing capacity expansion. Interest expense attributed to the fair value of warrants issued to Cypress as part of our debt financing was $0.6 million in fiscal 2003 and $1.9 million combined in fiscal 2004.

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

Years Ended December 31, 2002 and 2003

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

Cost of revenue. Cost of revenue increased from $3.2 million in fiscal 2002 to $5.0 million in fiscal 2003, a 56% increase. The increase in cost of revenue was predominantly due to a $0.4 million increase in materials costs and a $0.7 million increase in salaries and other compensation charges, both related to the increase in unit sales of detector products.

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

Research and development. Research and development expense increased from $2.5 million in fiscal 2002 to $9.8 million in fiscal 2003, a 288% increase. In fiscal 2003, we incurred significant research and development expense to develop our A-300 solar cell as well as the production process needed to validate and mass produce this product. Specifically, we incurred expenses associated with the start-up of a pilot wafer fabrication line in Cypress' Round Rock, Texas facility. The increase in research and development expenses was primarily due to a $2.2 million increase in outside services and consultant costs, a $1.2 million increase salary and other compensation charges, a $1.1 million increase in depreciation expenses, and a $0.7 million increase in materials costs.

Sales, general and administrative. Sales, general and administrative expense increased from $1.4 million in fiscal 2002 to $3.2 million in fiscal 2003, a 132% increase. The increase was primarily due to a $0.9 million increase in salary and other compensation charges related to growth in headcount in both sales and administrative functions, and a $0.6 million increase in outside services and consulting costs, including legal and accounting fees.

Interest expense. Interest expense increased from $0.5 million in fiscal 2002 to $1.5 million in fiscal 2003. Interest expense attributable to debt increased from $0.1 million in fiscal 2002 to $0.9 million in fiscal 2003 primarily due to increased borrowing from Cypress to fund our product and process development. Interest expense attributed to the fair value of warrants issued to Cypress as part of our debt financing was $0.4 million in fiscal 2004 and $0.6 million in fiscal 2003.

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

Quarterly Results of Operations

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

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

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

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

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

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

Liquidity and Capital Resources

In our discussion of our fiscal year 2004, we refer to certain sources and uses of cash as “combined” for comparative purposes. These combined amounts represent the sum of the financial data for SunPower Corporation for the period from January 1, 2004 to November 8, 2004, our pre-merger period, and November 9, 2004 to December 31, 2004, our post-merger period. We are including these combined amounts to improve the

comparative analysis versus the prior period, which included a full fiscal year. These combined amounts are for informational purposes only and do not purport to represent what our financial position would have been in such periods.

Beginning in 2002, we have financed our operations primarily through sale of equity to and borrowings from our parent company, Cypress. Through June 30, 2005, we raised approximately $79.0 million through equity financings. As of June 30, 2005, we had approximately $8.1 million in cash and cash equivalents and $40.6 million of debt and payables owed to Cypress. All of the amounts outstanding under these obligations were subsequently converted into equity in July 2005.

Operating Activities

Net cash used in operating activities was $2.7 million in fiscal 2002, $8.8 million in fiscal 2003 and $13.6 million combined in fiscal 2004. Net losses during those periods were $3.5 million, $14.5 million, and $28.9 million, respectively. We generated operating cash to fund our net losses primarily from increases in accounts payables to suppliers and to Cypress. Our combined accounts payables to suppliers and Cypress increased a total of $1.3 million in fiscal 2002, $3.3 million in fiscal 2003, and $10.4 million in combined fiscal 2004.

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

Investing Activities

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

Financing Activities

Net cash provided by financing activities was $8.4 million in fiscal 2002, $28.8 million in fiscal 2003, $38.7 million combined in fiscal 2004 and $26.4 million for the first six months of 2005. All other cash provided by financing activities came from our parent company, Cypress, in the form of either equity investments or debt. As of June 30, 2005, we raised approximately $79.0 million through the issuance of equity to Cypress and $71.8 million through the issuance of debt to Cypress. In July 2005, we reached an agreement with Cypress for the conversion of our outstanding debt into equity and the issuance of additional equity for $20.2 million for cash such that by the end of the third quarter of 2005, we expect to have no outstanding debt obligations to Cypress. However, we retain the capacity to borrow up to $30.0 million from Cypress, which capacity will terminate upon the earlier of the completion of this offering or December 31, 2006. We are currently in negotiations with unrelated third parties regarding a new credit facility to be effective upon completion of this offering.

We believe that our current cash and cash equivalents and funds available from our credit facility with Cypress will be sufficient to meet our working capital and capital expenditure commitments for at least the next

12 months. However, if our financial results or operating plans change from our current assumptions, we may not have sufficient resources to support our business plan. If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain other debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased expenses and could require us to abide by covenants that would restrict our operations. Financing arrangements may not be available to us, or may not be available in amounts or on terms acceptable to us.

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

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

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
			(in thousands)		
Obligation to Cypress	$25,171	$25,171	$ —	$ —	$ —
Customer advances	14,336	3,630	7,260	3,446	—
Interest on customer advances	5,110	931	2,897	1,112	171
Lease commitment	538	519	19	—	—
Non-cancelable purchase orders	23,418	23,058	—	360	—
Total	$68,573	$53,309	$10,176	$4,918	$ 171

Recent Accounting Pronouncements

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

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

In March 2005, the SEC issued Staff Accounting Bulletin, or SAB, No. 107, which provides guidance on the implementation of SFAS No. 123 (R), Share-Based Payment (see discussion below). In particular, SAB No. 107 provides key guidance related to valuation methods (including assumptions such as expected volatility and expected term), the accounting for income tax effects of share-based payment arrangements upon adoption of

SFAS No. 123(R), the modification of employee share options prior to the adoption of SFAS No. 123(R), the classification of compensation expense, capitalization of compensation cost related to share-based payment arrangements, first time adoption of SFAS No. 123(R) in an interim period, and disclosures in Management's Discussion and Analysis subsequent to the adoption of SFAS No. 123(R). SAB No. 107 became effective on March 29, 2005. It did not have a material impact on our financial statements.

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

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

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

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

Foreign Currency Exchange Risk

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

BUSINESS

Our Company Overview

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

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

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

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

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

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

Industry Overview

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

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

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

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

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

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

Renewable Resource Market

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

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

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

Wind power refers to the use of wind turbines to harness and convert kinetic energy from the wind into electricity. Today, large scale wind power is a cost-competitive alternative to wholesale natural gas and coal-fired power in locations with high average wind speed and space for large wind plants aggregating many wind turbines that can reach over 90 meters in height and over 60 meters in diameter each. Electricity generated from customer-sited, small-scale wind turbine can be cost competitive with retail electric rates in some areas, but its penetration is limited by space constraints, wind speed availability and zoning restrictions in suburban and urban regions. Additionally, peak wind availability is not coincident with peak seasonal or time of day electricity use.

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

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

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

Solar Power Market

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

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

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

Challenges Facing Solar Power

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

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

Our Strengths

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

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

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

- ***Superior Aesthetics.*** Because all electrical contacts are located on the back, our solar cells have a uniformly black appearance that allows our solar panels to blend into customers' rooftops. We believe historical adoption of solar power by residential customers has been negatively impacted by the appearance of conventional solar panels. We believe our solution appeals to residential customers seeking a solution which is more aesthetically appealing.
- ***Efficient Silicon Utilization.*** Unlike conventional solar cells, which generally lose efficiency with thinner silicon wafers, our proprietary technology allows our solar cells to maintain high efficiency levels with thinner wafers. Based on third-party data, the solar industry's rate of silicon consumption is estimated to range from 11.5 grams per watt to 13 grams per watt. Our rate of consumption is 9.2 grams per watt. This provides our solar cells with more efficient utilization of silicon, as defined by grams of silicon per watt, than that of conventional solar cells. Efficient utilization of silicon is important because silicon wafers represent a significant cost component in the production of solar cells.
- ***Ease of Assembly.*** Our proprietary solar cell architecture simplifies assembly since all electrical contacts are in-plane behind the solar cell circuit. Panels made from our solar cells do not require traditional interconnect "weaving" whereby the front of one solar cell is connected to the back of the next solar cell. This process can be time-consuming, difficult and expensive. By contrast, our solar cell architecture allows for the connections to be made on the back only, thereby reducing the complexity and cost of assembly.
- ***Manufacturing Advantages.*** We manufacture our solar cells at our facility in the Philippines. We believe the location of our facility provides us with a cost of production advantage versus our competitors who produce solar cells in higher cost regions. In addition, we believe our technology and manufacturing processes from the traditional semiconductor industry enable us to improve our manufacturing yields, cost, quality and product ramp predictability.
- ***Strong Management Team.*** Our management team has a diverse set of industry skills and global operating experience, including backgrounds spanning the solar, semiconductor and optical media industries, as well as expertise running complex organizations and managing rapid growth. Our executive officers have an average of over 25 years of experience in the solar or high technology industries.

Our Strategy

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

- ***Maintain our Technology Advantage and Reduce Manufacturing Costs.*** We believe that our all back contact solar cell technology currently provides us with a competitive advantage. We intend to invest in research and development to improve solar cell efficiency and lower manufacturing costs. We intend to continue investing in our equipment and processes to improve throughput, processing yield and quality.
- ***Continue to Expand Manufacturing Capacity.*** We intend to capitalize on our manufacturing expertise through expansion of our production capacity. Since the fall of 2004, we have been operating a single 25 megawatts per year solar cell production line. This production line is capable of manufacturing over the course of a year solar cells with a cumulative rated capacity of 25 megawatts peak production, which is equivalent to over eight million A-300 solar cells per year. To meet the ongoing demand for our products, we have ordered manufacturing equipment for the second and third 25 megawatts per year production

lines. Our current 215,000 square foot manufacturing facility in the Philippines has available space to support a total of four production lines. We are evaluating the timing for a fourth line in our existing facility and for a second production facility.

- ***Reduce our Dependence on Market Incentives.*** Most of our current customers operate in markets that depend on a variety of government incentives to reduce the cost of solar power systems to end customers. In the short term, we intend to diversify our customer and market base to reduce our exposure to any single market's government incentive programs. Over the long term, we believe that our high efficiency solar cell technology and advanced manufacturing systems will allow us to reduce solar power system cost to reduce or eliminate the need for these market incentives.
- ***Build a Leading Brand.*** We believe establishing strong brand name recognition is important to address the mass market. We intend to continue to undertake marketing programs designed to increase the recognition and value of the SunPower brand for end users and market intermediaries. We believe there is an opportunity to establish a well-identified consumer brand for solar power systems. We intend to differentiate our brand by emphasizing our combination of high performance and superior product appearance.
- ***Drive Efficiency Improvements Through Relationships with Suppliers and Customers.*** We intend to pursue relationships with, and investments in, suppliers and customers to increase overall channel efficiency and reduce the cost of our products delivered to end customers. For example, we intend to pursue relationships with polysilicon suppliers to improve the availability and cost structure of this raw material. We also intend to expand our relationships with selected customers to improve the efficiency of customer service and increase our market share. For example, we are currently working with some customers to integrate our solar power technology directly into roofing materials rather than requiring the installation of a separate solar panel on the rooftop.

Public Policy Considerations

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

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

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

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

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

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

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

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

Our Products

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

Solar Cells

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

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

Solar Panels

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

- ***SPR-200/210.*** The SPR-200 and SPR-210 are our larger solar panels which contain 72 electrically interconnected A-300 solar cells, and are specified at 200 and 210 watts, respectively. Intended for use in on-grid residential and commercial rooftop systems, SPR-200 and SPR-210 solar panels are designed to be mounted on a common support framework and subsequently electrically connected together to form a multi-kilowatt solar power system. The SPR-200 is intended primarily for residential rooftop applications and incorporates a black metal frame and color-matched plastic encapsulation technology to create a highly uniform appearance. The SPR-210 is intended primarily for use in larger commercial rooftop installations. We recently announced higher power versions of these two products, designated SPR-215 and SPR-220 and specified at 215 and 220 watts, respectively. We plan to begin shipping these new solar panels in early 2006.
- ***SPR-90***. The SPR-90 is our smaller solar panel which contains 32 electrically interconnected A-300 solar cells, and is specified at 90 watts. Intended for use in a wide variety of off-grid battery charging and remote power applications, SPR-90 solar panels are general purpose products designed to charge a typical 12 volt battery, which can provide sufficient power to rural housing and devices such as telecommunication equipment. We recently announced a higher power version of this product, designated SPR-100 and specified at 100 watts. We plan to begin shipping this new product by the end of 2005.

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

Inverters

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

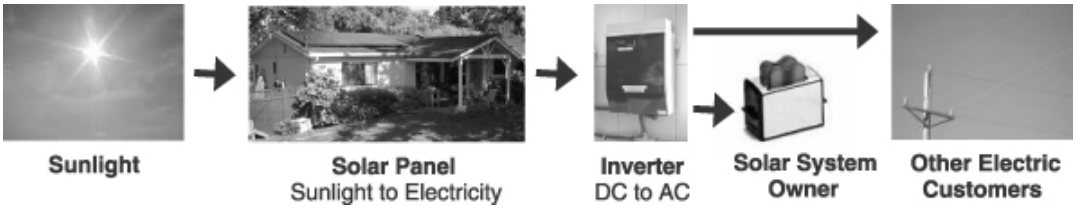
Imaging Detectors and Infrared Detectors

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

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

Solar Power Technology

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

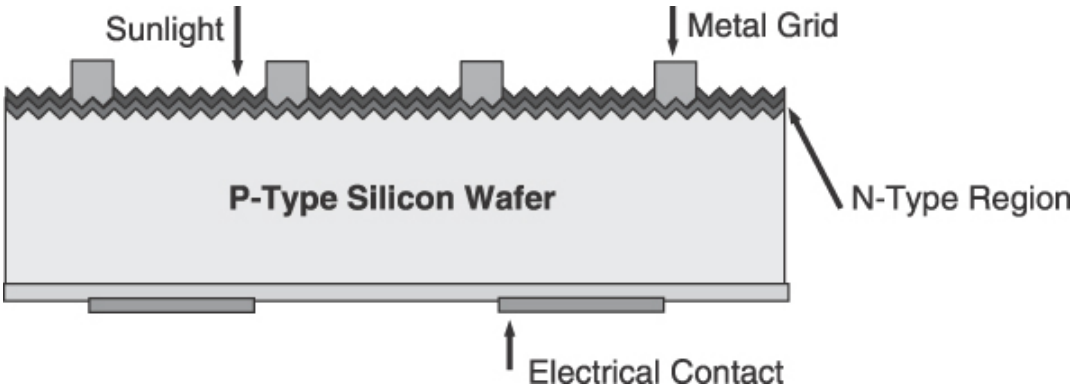


Our Technology

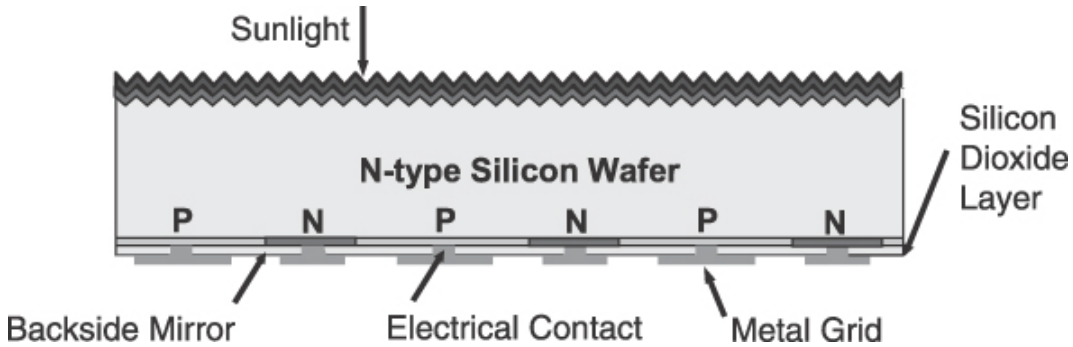
We believe that our proprietary all back contact solar cell technology provides the highest conversion efficiency of any solar cell available for the mass market. Our technology evolved from high-performance specialty solar cells designed for powering solar powered race cars and aircraft such as Helios,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

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

Cross-section of a conventional silicon solar cell:



Cross-section of our all back contact solar cell:



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

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

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

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

Our Manufacturing

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

The solar cell value chain starts with high purity silicon called polysilicon. Polysilicon is melted and grown into crystalline ingots by companies specializing in ingot growth. We procure silicon ingots from these suppliers on a purchase order basis and then slice these ingots into wafers. We also purchase wafers and polysilicon from third-party vendors on a purchase order or contract basis. In addition, we have entered into an agreement to purchase polysilicon from Wacker-Chemie, pursuant to which we have agreed to buy certain quantities of polysilicon over the next 12 years beginning in 2008. The agreement also obligates us to make a prepayment to Wacker-Chemie in January 2006. The ingots are sliced and the wafers are processed into solar cells in our Philippines manufacturing facility. We sell some of these solar cells to selected customers, and the remainder is laminated into solar panels made to our specifications by contract manufacturers in China.

Although we have purchase orders and contracts for what we believe will be an adequate supply of silicon ingots through the end of 2006, our estimates regarding our supply needs may not be correct and our purchase orders and contracts may be cancelled by our suppliers. If our manufacturing yields decrease significantly, our second manufacturing line becomes available earlier than anticipated or our suppliers cancel or fail to deliver, we may not have made adequate provision for our polysilicon needs for the balance of the year. In addition, since some of these arrangements are with suppliers who do not themselves manufacture polysilicon but instead purchase their requirements from other vendors, it is possible that these suppliers will not be able to obtain sufficient polysilicon to satisfy their contractual obligations to us.

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

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

Over the past 15 years, we have developed a core competency in processing thin silicon wafers. This proprietary semiconductor processing expertise involves specialized equipment and facilities that we believe allow us to process thin wafers while minimizing breakage and accurately controlling the effect of metallic contaminants and other non-desirable process conditions. This proprietary expertise is used in both our solar cell technology as well as for our imaging and infrared detector products.

Customers

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

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

Sales and Marketing

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

Research and Development

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

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

expense. This contract is expected to fund approximately $1.0 million per year of our research and development expense through May 2008. In the six months ended June 30, 2005, funding from government contracts offset our research and development expense by approximately 4.0%.

Competition

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

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

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

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

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

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

Intellectual Property

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

As of June 30, 2005, in the United States we had five issued patents and 11 patent applications pending. We are co-owners of four additional patents with Honda Giken Kogyo Kabushiki Kaisha. We also filed applications in foreign jurisdictions corresponding to one U.S. patent and six pending U.S. patent applications. Our issued patents expire between 2013 and 2023. We have licensed U.S. patents from the Electric Power Research Institute under a license agreement we are in the process of terminating as our current products do not use the licensed technology. In general, our issued patents and the patents we license relate to technology we do not use in our current solar cells while our pending patent applications relate to technology we use in our current solar cells. We intend to continue assessing appropriate opportunities for patent protection of those aspects of our technology that we believe provide significant competitive advantages to us, and for licensing opportunities of new technologies relevant to our business.

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

Environmental Regulation

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

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

Employees

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

Legal Proceedings

On August 9, 2005, we filed a lawsuit in the United States District Court for the Northern District of California alleging trademark infringement, unfair competition, unauthorized infringement and common law unfair competition against Sun Power & Geothermal Energy Company, Inc. for its use of the name “Sun Power”

in connection with its business of designing and installing photovoltaic panels. Our complaint seeks injunctive relief and an unspecified amount of actual damages. We are currently in negotiations with Sun Power & Geothermal Energy Company, Inc. to resolve this matter.

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

Facilities

Our corporate headquarters are located in Sunnyvale, California, where we occupy approximately 20,000 square feet under a lease expiring on May 31, 2006. We also lease from Cypress approximately 215,000 square feet in the Philippines, which serves as our manufacturing facility. Our primary lease in the Philippines expires on July 15, 2006. On October 7, 2005, we entered into an agreement with Cypress to extend this lease for an additional 15 years, with a right to purchase the facility from Cypress at any time at Cypress' original purchase price plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to us, unless such purchase option is exercised after a change of control of our company, in which case the purchase price shall be at a market rate, as reasonably determined by Cypress. Under the lease, we would pay Cypress at a rate equal to the cost to Cypress for the facility until the earlier of 10 years or upon a change of control of our company. Thereafter, we will pay market rent for the facility. We may require additional space in the future, which may not be available on commercially reasonable terms or in the location we desire.

MANAGEMENT

Executive Officers and Directors

The names of our executive officers and directors and their ages as of October 5, 2005 are as follows:

Name	Age	Position(s)
Thomas H. Werner	45	Chief Executive Officer and Director
Dr. Richard Swanson	60	President and Chief Technology Officer
Emmanuel T. Hernandez	50	Chief Financial Officer
PM Pai	57	Chief Operating Officer
T.J. Rodgers	57	Chairman of the Board of Directors
W. Steve Albrecht	58	Director
Betsy S. Atkins	50	Director
Patrick Wood	43	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

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

Dr. Richard Swanson co-founded SunPower in 1985. He has served as our president and chief technology officer since June 2003. Dr. Swanson served as a member of the board of directors from 1985 to 2005. Prior to his current position, Dr. Swanson served as our chief executive officer and president from 1991 to June 2003 and our vice president and director of technology from 1990 to 1991. From 1976 to 1991, Dr. Swanson served as a professor of electrical engineering at Stanford University. He holds a Ph.D. from Stanford University and both a bachelor's and master's degrees in electrical engineering from Ohio State University.

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

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

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

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

W. Steve Albrecht has served as one of our directors since September 2005. Since 1977, Dr. Albrecht has been on the staff of Brigham Young University, and he is currently serving as the Associate Dean and Professor of the Marriott School of Management. He currently serves on the boards of Cypress Semiconductor Corporation, Red Hat, Inc., SkyWest, Inc. and ICON Health & Fitness, Inc. Dr. Albrecht is a certified public accountant, a certified internal auditor and a certified fraud examiner. Dr. Albrecht holds an Ph.D. in accounting from the University of Wisconsin, Madison, an MBA in accounting from the University of Wisconsin, Madison and a bachelor's degree in accounting from Brigham Young University.

Betsy S. Atkins has served as one of our directors since October 2005. Ms. Atkins has been the chief executive officer of Baja Ventures, an independent venture capital firm focused on the technology and life sciences industry, since 1994. Ms. Atkins currently serves on the board of directors of Polycom, Inc., Reynolds American, Inc. and Chico's FAS, Inc., as well as a number of private companies. Ms. Atkins is also a presidential-appointee to the Pension Benefit Guaranty Corporation advisory committee and a governor-appointed member of the Florida International University board of trustees. Ms. Atkins holds a bachelor's degree from the University of Massachusetts and has received scholarships at Oxford University and the University of Copenhagen.

Patrick Wood has served as one of our directors since September 2005. From June 2001 to July 2005, Mr. Wood served as the chairman of the Federal Energy Regulatory Commission. From February 1995 to June 2001, Mr. Wood served as the chairman of the Public Utility Commission of Texas. Mr. Wood holds a juris doctorate degree from Harvard Law School and a bachelor's degree in civil engineering from Texas A&M University.

Board of Directors

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

Corporate Governance

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

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

- compliance with laws, rules and regulations;
- conflicts of interest;
- insider trading;
- corporate opportunities;
- competition and fair dealing;
- equal employment and working conditions;
- health and safety;
- record keeping;

- confidentiality;
- protection and proper use of company assets; and
- payments to government personnel.

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

Board Committees

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

Audit Committee

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

Compensation Committee

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

Nominating and Corporate Governance Committee

The nominating and corporate governance committee will be responsible for identifying qualified candidates to the board of directors and making recommendations regarding the size and composition of the board. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance matters and reporting and making recommendations to the board concerning corporate governance matters. Upon completion of this offering, our nominating and corporate governance committee will consist of , and each of whom will be an independent director. will be the

chairperson of our nominating and corporate governance committee. We believe that the composition of our nominating and governance committee will meet the criteria for independence under, and the functioning of our nominating and corporate governance committee complies with the applicable requirements of The Nasdaq Stock Market and SEC rules and regulations. We intend to comply with future nominating and corporate governance committee requirements as they become applicable to us.

Director Compensation

We have not paid any cash compensation to members of our board of directors for their services as directors. After completion of this offering, our independent directors will receive annual compensation of $25,000. In addition, the chairperson of each committee will receive additional annual compensation of $15,000. Each committee member other than a committee chairperson will receive additional annual compensation of $10,000. We will also reimburse our directors for reasonable expenses in connection with attendance at board and committee meetings. Directors will also be eligible to receive stock options under our 2005 stock incentive plan. The following non-employee directors have received stock options under our 1996 Stock Plan as follows:

	Number of Shares Underlying Options Granted	Exercise Price Per Share	Date of Grant
W. Steve Albrecht	60,000	$ 4.00	09/23/2005
Patrick Wood	60,000	4.00	09/23/2005
Betsy S. Atkins	60,000	4.00	10/07/2005

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

Outside directors will receive nondiscretionary, automatic grants of nonstatutory stock options under our 2005 stock incentive plan. An outside director who first joins our board of directors on or after the effective date of the 2005 stock incentive plan will be automatically granted an initial option to purchase 60,000 shares of our class A common stock on the date of his or her election to our board. The initial option vests and becomes exercisable over five years, with the first 20% of the shares subject to the initial option vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. Immediately after each of our regularly scheduled annual meetings of stockholders, beginning with the annual meeting occurring immediately after the effective date of the 2005 stock incentive plan, each outside director will be automatically granted a nonstatutory option to purchase 12,000 shares of our class A common stock, provided the director has served on our board for at least six months. These options will vest monthly after the date of grant. The options granted to outside directors will have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant, and will become fully vested if we are subject to a change of control. See “Employee Benefit Plans—2005 Stock Incentive Plan.”

Stock Ownership of Directors & Executive Officers in Cypress Semiconductor Corporation

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

	Number of Shares of Cypress Beneficially Owned	Percentage of Cypress Common Stock Beneficially Owned
Thomas H. Werner	10,874	*
Dr. Richard Swanson	100,800	*
T.J. Rodgers	1,411,652	1.06%
W. Steve Albrecht	22,625	*
Patrick Wood	—	*
Betsy S. Atkins	—	*
All directors and executive officers as a group (7 persons)	1,545,951	1.16%

* Represents beneficial ownership of less than 1%.

Compensation Committee Interlocks and Insider Participation

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

Executive Compensation

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

Summary Compensation Table

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

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

Stock Option Grants

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

Option Grants in 2004

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

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

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

(3) Potential realizable values are calculated by:

- multiplying the number of shares of our class A common stock subject to a given option by $ per share, the mid-point of the estimated initial public offering price range;
- assuming that the aggregate stock value derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire 10-year term of the option; and
- subtracting from that result the total option exercise price.

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

Aggregated Option Exercises in 2004 and Year-End Option Values

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

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

Employee Benefit Plans

1988 Incentive Stock Plan and 1996 Stock Plan

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

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

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

2005 Stock Incentive Plan

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

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

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

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

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

Plan Features. Under the 2005 stock incentive plan:

- We expect that options granted to optionees other than outside directors will generally vest as to 20% of the shares one year after the date of grant and as to 1/60th of the shares each month thereafter.
- Nondiscretionary, automatic grants of nonstatutory stock options will be made to outside directors. An outside director who first joins our board of directors on or after the effective date of the 2005 stock incentive plan will be granted automatically an initial option to purchase 60,000 shares on the date of his or her election to our board. The initial option vests and becomes exercisable over five years, with the first 20% of the shares subject to the initial option vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. Immediately after each of our regularly scheduled annual meetings of stockholders, beginning with the annual meeting occurring immediately after the effective date of the 2005 stock incentive plan, each outside director will be automatically granted a nonstatutory option to purchase 12,000 shares, provided the director has served on our board for at least six months. These options will vest and become exercisable over five years, with the first 20% of the shares subject to the initial option vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. The options granted to outside directors will have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant, and will become fully vested if we are

subject to a change of control. Subject to certain exceptions, a change of control means the occurrence of one of the following:

- the acquisition by any person of our securities representing 50% or more of the combined voting power of our then outstanding securities;
- a merger or consolidation of us with or into another entity as a result of which persons who were not our stockholders immediately prior to the merger or consolidation own immediately after the merger or consolidation 50% or more of the voting power of the outstanding securities of the continuing or surviving entity and any parent corporation of the continuing or surviving entity; or
- the sale, transfer or other disposition of all or substantially all of our assets.

- In the event of a recapitalization, stock split or similar capital transaction, we will make appropriate adjustments to the number of shares reserved for issuance under the 2005 stock incentive plan, the limitation regarding the total number of shares underlying awards given to an individual participant in any calendar year and the number of nonstatutory stock options automatically granted to outside directors, and other adjustments in order to preserve the benefits of outstanding awards under the 2005 stock incentive plan.
- Generally, if we merge with or into another corporation, we may terminate any unexercised options, regardless of whether we accelerate their vesting, unless they are assumed or substituted for by any surviving entity or a parent or subsidiary of the surviving entity.
- The number of shares or other benefits pursuant to an award granted under the 2005 stock incentive plan may be made subject to the attainment by us or one of our business units or subsidiaries of performance goals relating to one or more performance criteria outlined in the 2005 stock incentive plan.
- The plan terminates 10 years after its initial adoption, unless terminated earlier by our board. Our board may amend, modify or terminate the plan at any time, subject to stockholder approval if required by applicable law or stock exchange regulations. Any amendment or termination may not materially impair the rights of holders of outstanding awards without their consent.

Other Employee Benefit Plans

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

We have also adopted a plan, primarily intended for our non-U.S. employees, in which, they would be granted rights to cash payments from us based upon appreciation in our stock which rights would typically vest in the same manner as options vest under our 2005 stock incentive plan.

Employment Agreements and Change in Control Arrangements

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

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

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

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

Indemnification Agreements and Director and Officer Insurance

We intend to enter into agreements to indemnify our directors and executive officers. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers. We also intend to obtain insurance that insures our directors and officers against certain losses from potential third party claims for which we are legally or financially unable to indemnify them. We self-insure with respect to potential third-party claims that create an indemnification duty on our part. Our certificate of incorporation and our bylaws contain provisions that limit the liability of our directors. A description of these provisions is contained under the heading "Description of Capital Stock—Limitation of Liability and Indemnification Matters."

RELATED PARTY TRANSACTIONS

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

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

Arrangements between SunPower Corporation and Cypress Semiconductor Corporation

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

Prior Transactions with Cypress

Overview

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

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

Equity Transactions with Cypress

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

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

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

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

November 9, 2004: A newly created and wholly owned subsidiary of Cypress was merged into us in a reverse triangular merger in which each of our outstanding shares of common stock was retired in exchange for the issuance to our former non-Cypress stockholders of $1.65 worth of common stock of Cypress valued based on the per share trading price of Cypress common stock on the NYSE. Cypress, as the then sole owner of our preferred stock, retained its shares and holders of our then outstanding options to purchase common stock, some of whom are our officers and directors, retained their SunPower options after the closing of the merger. In this merger, 14.9 million shares of our common stock were retired in exchange for the issuance of approximately 2.5 million shares of Cypress common stock to our former non-Cypress stockholders for a total consideration of approximately $23.2 million. In connection with the transaction, Mr. Rodgers received 235,031 shares of Cypress common stock for an approximate value of $2.3 million in exchange for his 1,382,533 shares of series one preferred stock of SunPower. In addition, Richard Swanson received 156,996 shares of Cypress common stock with an approximate value of $1.5 million in exchange for his 923,507 shares of SunPower common stock and Thomas Werner received 22,100 shares of Cypress common stock with an approximate value of $0.2 million in exchange for his 130,000 shares of SunPower common stock. As a result of this transaction, we became a wholly owned subsidiary of Cypress, with outstanding options to purchase SunPower class A common stock held by our officers, employees and other service providers remaining outstanding after the closing of the merger.

January 18, 2005: As contemplated by the merger, we issued 32,000,000 shares of series two convertible preferred stock in exchange for $16.0 million. Of the $16.0 million, $9.0 million was received as an advance from Cypress in December 2004, $3.0 million in January 2005 and $4.0 million in February 2005. The members of our board of directors who were not directly employed by Cypress had approved this issuance during the negotiations with Cypress and this issuance was contemplated in connection with its approval of the merger described immediately above.

March 17, 2005: We sold and issued to Cypress 35,151,515 shares of our class A common stock at a price of $1.65 per share, the consideration for which was $7.1 million in cash, the cancellation by Cypress of $50.9 million of promissory notes and related interest held by Cypress. This transaction was negotiated on behalf of the Company by the two directors not directly employed by with Cypress.

July 18, 2005: We sold and issued to Cypress 24,000,000 shares of our class A common stock at a price of $3.50 per share, the consideration for which was a combination of $20.2 million of cash, the cancellation of $39.8 million of debt and payables we owed to Cypress, and the cancellation of warrants to purchase 7,642,859

shares of class A common stock that Cypress held to purchase shares of our class A common stock, which were valued at not less than $24 million. This transaction was negotiated with Cypress on behalf of the Company by the two directors not directly employed by Cypress and Emmanuel Hernandez, our chief financial officer.

September 30, 2005: We entered into an exchange agreement whereby Cypress exchanged all of its 59,151,515 shares of class A common stock for 59,151,515 shares of class B common stock.

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

Loan Transactions with Cypress

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

February 12, 2003: Cypress loaned us $2.5 million in exchange for a promissory note for such amount. We repaid $1.0 million through monthly payments of principal and interest, and converted the remaining $1.5 million into class A stock as part of the $58 million common stock issuance to Cypress.

April 1, 2003 through December 1, 2003: Cypress loaned us an aggregate of $3.6 million in exchange for nine promissory notes in aggregate amount of $3.6 million. In March 2005, we converted these loans and related interest into class A common stock as part of the $58 million common stock issuance.

Since May 2002: Cypress loaned us an aggregate of $29.2 million pursuant to promissory notes issued pursuant to a note purchase and line of credit agreement, dated as of March 30, 2002 and subsequently amended on May 25, 2004, which provided us with a line of credit up to $30.0 million. In March 2005, we converted $6.9 million of principal and interest into class A common stock as part of the $58 million common stock issuance to Cypress. We converted the remaining principal balance and related interest into class A common stock as part of the July 2005 common stock issuance to Cypress.

From March 18, 2004 to June 22, 2005: Cypress loaned us an aggregate of $36.5 million pursuant to ten demand promissory notes. We converted the principal balance and related interest into class A common stock as part of the March 2005 $58 million common stock issuance to Cypress.

In addition to the financing arrangements discussed above, Cypress has at various times extended credit to us for silicon wafers and other goods and services provided to us by Cypress as described below. We had an outstanding balance of $14.6 million as of July 18, 2005 regarding these credits which we repaid by issuing Cypress shares of class A common stock.

Relationship Prior to Separation

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

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

fiscal 2004, and $137,000 during the first half of fiscal 2005. We believe we have paid at or below market rental rates for this lease.

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

Master Separation Agreement

We have entered into a master separation agreement containing the framework with respect to our separation from Cypress. The master separation agreement provides for the execution of various ancillary agreements that further specify the terms of the separation.

The Separation and Ancillary Agreements

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

- an employee matters agreement;
- a tax sharing agreement;
- a master transition services agreement;
- a lease agreement for our Philippines manufacturing facility;
- a wafer manufacturing agreement;
- an indemnification and insurance matters agreement; and
- an investor rights agreement.

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

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

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

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

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

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

Limitation of Liability: The master separation agreement provides that neither Cypress nor we shall have any liability to the other for special, consequential, indirect, incidental, or punitive damages or for lost profits. All of the other agreements listed above between Cypress and ourselves, except for the tax sharing, Philippine lease and investor rights agreements, specifically provide likewise while the employee matters and master transition services agreements also provide that Cypress shall not be liable to us for actual or direct damages. These

liability limitations do not apply to indemnification duties under the indemnification and insurance matters agreement. In addition, various of the agreements have absolute dollar limitations on the parties' liability to one another. For example, under the wafer manufacturing agreement, Cypress' liability is capped at the dollar value of wafers sold during the preceding year and SunPower's liability is capped at the dollar value of its purchase orders accepted by Cypress during the preceding year.

Employee Matters Agreement

Overview

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

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

Retirement Plans, Health & Welfare Plans and Other Benefits

All of our eligible employees will be able to continue to participate in Cypress' health plans, life insurance and other benefit plans (other than the stock plans and stock purchase plans), as they may change from time to time, until the earliest of, (1) a change of control of us occurs, which includes such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of our common stock then outstanding, (2) such time as our 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 our 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 we and Cypress mutually agree.

With respect to the Cypress 401(k) Plan, we will be obligated to establish our own 401(k) Plan within 90 days of our date of separation from Cypress, and Cypress will transfer all accounts in the Cypress 401(k) Plan held by our employees to our 401(k) Plan.

Stock Options

Employees who are eligible to participate in Cypress' stock option plans will retain that eligibility until the earliest of (1) a change of control of our 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 our common stock then outstanding, (2) such time as our status as a participating company under the Cypress plans is not permitted by a Cypress plan or by a applicable law or (3) such time as Cypress determines in its reasonable judgment that our 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. Upon the occurrence of such an event, each of our employees will be deemed terminated from Cypress employment for purposes of the Cypress stock option plans, and each outstanding option will be treated in accordance with that employee's stock option agreement with Cypress.

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

Stock Purchase Plan

In accordance with discretion provided to Cypress under the terms of its stock purchase plan, Cypress has removed us as a subsidiary designated for participation in offering periods under its stock purchase plan that

began on July 1, 2005. This means that our employees are not eligible to participate in offering periods under the Cypress stock purchase plan.

Indemnification and Insurance Matters Agreement

General Release of Pre-Separation Claims

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

General Indemnification

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

- our business and any of our liabilities;
- any breach by us of the master separation agreement or any ancillary agreement; and
- any liability arising from any untrue statement of a material fact or any omission of a material fact in this prospectus;

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

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

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

Indemnification for Environmental Matters

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

- existing on, under, about or in the vicinity of any of our facilities, or arising out of operations occurring at any of our facilities, including our Sunnyvale, California facilities, whether prior to or after the separation;
- existing on, under, about or in the vicinity of the Philippines facility which we occupy, or arising out of operations occurring at such facility, whether prior to or after the separation, to the extent that those liabilities were caused by us;
- 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 our operations or our Sunnyvale, California and Philippines facility prior to the separation; and
- arising out of the construction activity conducted by or on behalf of us at Cypress' Texas facility.

Insurance Matters

The indemnification and insurance matters agreement and the master transition services agreement also contains provisions governing our insurance coverage, which shall be under the Cypress insurance policies (other than our directors and officers insurance, for which we intend to obtain our own separate policy) until the earliest of (1) a change of control of our 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 our common stock then outstanding, (2) the date on which Cypress's insurance carriers do not permit us 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 our inclusion or participation in such policy, (4) the date on which our 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 we mutually agree to terminate this arrangement. Prior to that time, Cypress will maintain insurance policies on our behalf, and we shall reimburse Cypress for expenses related to insurance coverage during this period. We will work with Cypress to secure additional insurance if desired and cost effective.

Tax Sharing Agreement

We and Cypress have entered into a tax sharing agreement 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 we are a member of Cypress' consolidated or combined group pursuant to federal, state, local and foreign tax law). Our portion of such tax liability or benefit will be determined based upon its separate return tax liability which will be defined under the tax sharing agreement. Such liability or benefit will be based on a pro forma calculation as if we were filing a separate income tax return in each jurisdiction, rather than on a combined or consolidated basis with Cypress.

After the date we cease to be a member of Cypress' consolidated, combined or unitary group for federal or state income tax purposes, as and 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 40%, 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. As of June 30, 2005, we estimate that we had $32.0 million of federal net operating loss carryforwards and $4.0 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 between $13 million and $14 million.

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

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

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

Master Transition Services Agreement

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

- financial services;
- human resources;
- legal matters;
- training programs; and
- information technology.

For a period of three years following this offering or earlier if a change of control of our company occurs, Cypress would provide these services and we would pay Cypress for services provided to us, 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 us 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 us for the benefit of Cypress.

Lease Agreement

We have entered into an agreement with Cypress that relates to our manufacturing facility in the Philippines. The Philippine lease term will be extended by 15 years. Under the lease, we 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 10 years or a change in control of our 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 our common stock then outstanding. Thereafter, we will pay market rent for the facility. We will have the right to purchase the facility from Cypress at any time at Cypress' original purchase price plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to us, unless such purchase option is exercised after a change of control of our company, then 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 us for the benefit of Cypress as lessor.

Wafer Manufacturing Agreement

We have entered into an agreement with Cypress to continue to make infrared and imaging detector products for us 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 our 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 our common stock then outstanding, after which a new supply agreement may be negotiated or we and Cypress will negotiate a reasonable winding-up procedure. In addition, we may use other Cypress fabs for development work on a cost per activity basis.

We will indemnify Cypress for any liabilities that arise only to the extent that they are based on claims of infringement based on our design specifications that we submit to Cypress for the manufacture of our products. Cypress will indemnify us 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 our products infringes or violates upon the intellectual property rights of third parties or Cypress' unauthorized use of our design specifications or proprietary information.

Investor Rights Agreement

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

Registration Rights

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

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

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

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

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

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

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

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

Information and Inspection Rights

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

- We will maintain adequate systems and controls, including internal accounting and disclosure controls, to allow Cypress to prepare its own financial statements and satisfy its own reporting accounting, audit and other obligations, including any certification, disclosure and reporting requirements under the federal securities laws, the Sarbanes-Oxley Act of 2002, any applicable self-regulatory organizations' rules and any other applicable laws, rules and regulations.

- We will retain records beneficial to Cypress for a specified period of time, in accordance with the policies set forth in Cypress' official records retention policy in effect as of the separation. If we decide to destroy certain records relating to governmental, legal, accounting, contractual and other similar requirements of our ongoing businesses, we will provide Cypress with reasonable opportunity to retrieve all relevant information from the records, unless the records are destroyed in accordance with Cypress' current record retention policies.
- We will use our commercially reasonable efforts to provide Cypress with access to former, current and future directors, officers, employees, other personnel and agents who may be used as witnesses, and books, records and other documents that may reasonably be required, in connection with legal, administrative or other proceedings.

Coordination of Auditing Practices

So long as Cypress is required to consolidate us for accounting purposes, we will:

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

Protective Provisions

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

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

Other Related Party Transactions

Indemnification Agreements

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

Consulting Arrangements

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

Restated Certificate of Incorporation

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

Indebtedness of Management

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

PRINCIPAL AND SELLING STOCKHOLDERS

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

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

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

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

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

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

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

* Represents beneficial ownership of less than 1%.

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

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

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

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

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

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

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

Selling Stockholders

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

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

DESCRIPTION OF CAPITAL STOCK

General

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

- 435,000,000 shares of class A common stock, par value $0.001 per share,
- 315,000,000 shares of class B common stock, par value $0.001 per share, and
- 20,084,960 shares of undesignated preferred stock, par value $0.001 per share.

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

We have decided to reincorporate from California to Delaware to take advantage of the substantial and established judicial precedent in the Delaware courts as to the legal principles applicable to actions that may be taken by a corporation and to the conduct of a corporation's board of directors.

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

Common Stock

Dividend Rights

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

Conversion Rights

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

At such time, if at all, as Cypress, its successors in interest and its subsidiaries collectively own less than 40% of the shares of all classes of our common stock then outstanding and if Cypress has not effected a tax-free

distribution of our class B common stock to its stockholders prior to such time, each outstanding share of our class B common stock will automatically convert into one share of our class A common stock on a one-for-one basis.

Voting Rights

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

No Preemptive or Redemption Rights

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

Right to Receive Liquidation Distributions

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

Preferred Stock

Upon completion of this offering, each currently outstanding share of series one and series two convertible preferred stock will convert into one share of class B common stock. Upon completion of this offering, our board of directors will be authorized, subject to limitations imposed by the Delaware General Corporation Law, to issue up to a total of 20,084,960 shares of preferred stock in one or more series, without stockholder approval. Our board of directors will be authorized to establish from time to time the number of shares to be included in each series, and to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions, subject to the provisions of any series of preferred stock. Our board of directors will also be able to increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

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

Warrants

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

Registration Rights

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

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

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

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

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

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

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

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

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

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

Provisions of Our Restated Certificate of Incorporation Governing Corporate Opportunity

Our amended and restated certificate of incorporation provides that directors and officers who are also directors or officers of Cypress have no duty to communicate or present a corporate opportunity to us unless it is specifically and primarily applicable to converting solar energy into electrical energy and using the resulting electrical energy other than in applications for consumers where photodiode technology is combined with micro-controllers and other integrated circuits made by Cypress, have the right to deal with such corporate opportunity in their sole discretion and shall not be liable to us or our stockholders for breach of fiduciary duty by reason of the fact that such director or officer pursues or acquires such corporate opportunity for itself or for Cypress.

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

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

Delaware Law

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

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

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

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

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

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

Restated Certificate of Incorporation and Amended and Restated Bylaws

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

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

Limitation of Liability and Indemnification Matters

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

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

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

Nasdaq National Market Listing Symbol

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

Transfer Agent and Registrar

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

SHARES ELIGIBLE FOR FUTURE SALE

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

Sale of Unregistered Shares

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

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

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

Lock-up Agreements

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

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

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

Rule 144

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

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

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

Rule 144(k)

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

Rule 701

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

Stock Options

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

Registration Rights

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

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

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

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

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

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

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

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

Dividends

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

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

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

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

Sale or Other Disposition of Our Class A Common Stock

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

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

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

Information Reporting and Backup Withholding

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

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

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

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

Estate Tax

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

UNDERWRITING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.
- Syndicate covering transactions involve purchases of the class A common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the class A common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

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

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

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

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

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

Representations of Purchasers

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

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

Rights of Action—Ontario Purchasers Only

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

Enforcement of Legal Rights

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

Taxation and Eligibility for Investment

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

LEGAL MATTERS

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

EXPERTS

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

WHERE YOU CAN FIND ADDITIONAL INFORMATION

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

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

SUNPOWER CORPORATION

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm on Successor Company

To the Board of Directors and Shareholders of
SunPower Corporation

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

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 25, 2005

Report of Independent Registered Public Accounting Firm on Predecessor Company

To the Board of Directors and Shareholders of
SunPower Corporation

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

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 25, 2005

SunPower Corporation

Consolidated Balance Sheets

(in thousands, except share data)

	Predecessor Company	Successor Company		
	December 31, 2003	December 31, 2004	June 30, 2005	June 30, 2005 Pro Forma Shareholders' Equity (unaudited)
Assets				
Current assets:				
Cash and cash equivalents	$ 5,588	$ 3,776	$ 8,091	
Accounts receivable, net	950	4,558	15,280	
Inventories	1,268	4,416	7,261	
Prepaid expenses and other current assets	312	3,021	1,178	
Total current assets	8,118	15,771	31,810	
Property and equipment, net	22,773	47,549	67,132	
Goodwill	—	2,883	2,883	
Intangible assets, net	—	23,443	21,091	
Total assets	$ 30,891	$ 89,646	$122,916	
Liabilities, redeemable convertible preferred stock and shareholders' equity (deficit)				
Current liabilities:				
Accounts payable	$ 3,189	$ 11,580	$ 10,504	
Accounts payable to Cypress	4,985	11,109	15,432	
Advance from Cypress	—	9,000	—	
Accrued liabilities	2,443	7,372	3,111	
Current portion of customer advances	—	—	4,830	
Current portion of notes payable to Cypress	24,125	31,024	171	
Related party convertible notes payable	1,950	—	—	
Total current liabilities	36,692	70,085	34,048	
Notes payable to Cypress, net of current portion	5,312	21,673	20,622	
Customer advance, net of current portion	—	—	10,706	
Total liabilities	42,004	91,758	65,376	
Commitments and Contingencies (Note 6)				
Redeemable convertible preferred stock, no par value;				
Authorized shares—33,650,000 at December 31, 2003 and 66,000,000 at December 31, 2004 and June 30, 2005				
Issued and outstanding—14,308,099, 12,915,060 and 44,915,060 shares at December 31, 2003, 2004 and June 30, 2005, respectively				
Liquidation preference of $9,821 at December 31, 2003, $8,865 at December 31, 2004, and $24,865 at June 30, 2005	9,366	8,552	24,552	
Shareholders' Equity (Deficit):				
Common stock: no par value;				
Authorized shares—45,350,000 at December 31, 2003 and 149,000,000 at December 31, 2004 and June 30, 2005				
Issued and outstanding—8,345,853, 3,803 and 35,233,535 shares at December 31, 2003, 2004 and June 30, 2005, respectively	7,461	1	54,493	
Additional paid-in capital related to warrants and merger transaction	1,433	34,366	34,550	
Accumulated other comprehensive income (loss)	—	(2,341)	208	
Accumulated deficit	(29,373)	(42,690)	(56,263)	
Total shareholders' equity (deficit)	(20,479)	(10,664)	32,988	$
Total liabilities, redeemable convertible preferred stock and shareholders' equity (deficit)	$ 30,891	$ 89,646	$122,916	

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

SunPower Corporation

Consolidated Statements of Operations

(in thousands, except per share data)

	Predecessor Company				Successor Company	
	Years Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003	(unaudited)			
Revenue:						
Product revenue	$ 3,722	$ 4,245	$ 3,644	$ 6,708	$ 3,881	$ 27,342
Other	333	760	—	122	174	150
Total revenue	4,055	5,005	3,644	6,830	4,055	27,492
Costs and expenses:						
Cost of revenue	3,198	4,987	3,459	9,397	5,410	28,318
Research and development	2,532	9,816	7,425	12,095	1,124	2,935
Sales, general and administrative	1,396	3,238	2,420	4,706	850	3,918
Stock-based compensation*	—	—	55	131	650	184
Amortization of intangible assets	—	—	—	—	573	2,353
Total costs and expenses	7,126	18,041	13,359	26,329	8,607	37,708
Operating loss	(3,071)	(13,036)	(9,715)	(19,499)	(4,552)	(10,216)
Interest expense	(493)	(1,509)	(1,417)	(3,759)	(1,072)	(3,184)
Other income (expense), net	31	—	3	(44)	15	(173)
Net loss	$(3,533)	$(14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Net loss per share:						
Basic and diluted	$ (0.55)	$ (1.75)	$ (1.33)	$ (2.75)	$ (1,869.67)	$ (0.65)
Pro forma basic and diluted				(1.02)	(0.43)	(0.21)
Weighted-average shares:						
Basic and diluted	6,376	8,313	8,397	8,461	3	21,016
Pro forma basic and diluted				22,769	13,083	63,470
* Stock-based compensation consists of:						
Cost of revenue			$ 55	$ 101	$ 96	$ 92
Research and development			—	23	293	69
Sales, general and administrative			—	7	261	23
			$ 55	$ 131	$ 650	$ 184

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

SunPower Corporation

Consolidated Statements of Shareholders' Equity (Deficit)

(in thousands)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital Related to Warrants and Merger Transaction	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Value	Shares	Value				
Balance at December 31, 2001 (Predecessor Company)	**4,530**	**$ 7,365**	**3,034**	**$ 79**	**$ 382**	**$ —**	**$ (11,295)**	**$ (3,469)**
Issuance of common stock upon conversion of preferred stock	(4,530)	(7,365)	5,215	7,365	—	—	—	—
Issuance of common stock upon exercise of options	—	—	27	7	—	—	—	7
Issuance of common stock upon exercise of warrants	—	—	29	2	—	—	—	2
Issuance of series one preferred stock, net of issuance costs	12,131	8,096	—	—	—	—	—	—
Issuance of series one preferred stock due to conversion of bridge notes and accrued interest	2,177	1,270	—	—	—	—	—	—
Warrants issued to Cypress in connection with promissory note and line of credit agreement	—	—	—	—	971	—	—	971
Net loss	—	—	—	—	—	—	(3,533)	(3,533)
Balances at December 31, 2002 (Predecessor Company)	**14,308**	**9,366**	**8,305**	**7,453**	**1,353**	**—**	**(14,828)**	**(6,022)**
Warrants issued in connection with promissory note	—	—	—	—	80	—	—	80
Issuance of common stock upon exercise of options	—	—	41	8	—	—	—	8
Net loss	—	—	—	—	—	—	(14,545)	(14,545)
Balances at December 31, 2003 (Predecessor Company)	**14,308**	**9,366**	**8,346**	**7,461**	**1,433**	**—**	**(29,373)**	**(20,479)**
Issuance of common stock upon exercise of options	—	—	555	149	—	—	—	149
Warrants issued to Cypress in connection with promissory note	—	—	—	—	11,023	—	—	11,023
Issuance of common stock upon exercise of warrants	—	—	1,263	75	—	—	—	75
Issuance of common stock upon conversion of convertible notes payable and related interest	—	—	3,342	1,950	—	—	—	1,950
Issuance of common stock upon conversion of redeemable convertible preferred stock	(1,393)	(814)	1,393	814	—	—	—	814
Merger with Cypress	—	—	(14,899)	(10,449)	10,449	—	—	—
Compensation related to the issuance of stock options to non-employees	—	—	—	—	131	—	—	131
Net loss	—	—	—	—	—	—	(23,302)	(23,302)
Balances at November 8, 2004 (Predecessor Company)	**12,915**	**8,552**	**—**	**—**	**23,036**	**—**	**(52,675)**	**(29,639)**
Push down effect of merger with Cypress (see Note 2)	—	—	—	—	11,305	—	15,594	26,899
Balance at November 9, 2004 (Successor Company)	**12,915**	**8,552**	**—**	**—**	**34,341**	**—**	**(37,081)**	**(2,740)**
Issuance of common stock upon exercise of options	—	—	4	1	—	—	—	1
Compensation related to the issuance of stock options to non-employees	—	—	—	—	25	—	—	25
Net unrealized loss on derivatives, net of tax	—	—	—	—	—	(2,341)	—	(2,341)
Net loss	—	—	—	—	—	—	(5,609)	(5,609)
Balances at December 31, 2004 (Successor Company)	**12,915**	**8,552**	**4**	**1**	**34,366**	**(2,341)**	**(42,690)**	**(10,664)**
Issuance of common stock upon exercise of options	—	—	78	17	—	—	—	17
Issuance of common stock to Cypress upon conversion of debt	—	—	30,858	47,391	—	—	—	47,391
Issuance of common stock to Cypress	—	—	4,294	7,084	—	—	—	7,084
Issuance of series two preferred stock to Cypress	14,000	7,000	—	—	—	—	—	—
Issuance of series two preferred stock to Cypress upon conversion of debt	18,000	9,000	—	—	—	—	—	—
Compensation related to the issuance of stock options to non-employees	—	—	—	—	184	—	—	184
Net unrealized gain on derivatives, net of tax	—	—	—	—	—	2,549	—	2,549
Net loss	—	—	—	—	—	—	(13,573)	(13,573)
Balances at June 30, 2005 (Successor Company)	**44,915**	**$24,552**	**35,234**	**$ 54,493**	**$ 34,550**	**$ 208**	**$ (56,263)**	**$ 32,988**

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

SunPower Corporation

Consolidated Statements of Comprehensive Loss

(in thousands)

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

SunPower Corporation

Consolidated Statements of Cash Flows

(in thousands)

	Predecessor Company				Successor Company	
	Year Ended December 31, 2002	Year Ended December 31, 2003	Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
			(unaudited)			
Cash flows from operating activities						
Net loss	$ (3,533)	$ (14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities						
Interest expense related to warrants granted and accrued interest on notes payable	512	1,360	1,417	3,759	1,072	3,184
Depreciation and amortization	150	1,319	877	1,590	1,129	5,570
Changes in foreign currency derivatives	—	—	—	—	(2,341)	2,549
Impairment charge related to equipment	—	—	—	—	—	461
Stock based compensation	—	—	55	131	650	184
Changes in current assets and liabilities						
Accounts receivable	98	(669)	(626)	(1,080)	(2,528)	(10,722)
Inventories	(565)	(29)	(899)	(1,823)	(1,325)	(2,845)
Prepaid expenses and other current assets	(574)	427	(50)	(375)	(2,334)	1,843
Accounts payable	1,037	(1,424)	(1,135)	3,300	5,091	(1,076)
Accounts payable to Cypress	293	4,692	2,981	4,277	1,222	4,323
Accrued liabilities	(123)	74	1,029	(498)	5,373	(4,210)
Advances from customers	—	—	—	—	—	15,536
Net cash provided by (used in) operating activities	(2,705)	(8,795)	(7,480)	(14,021)	400	1,223
Cash flows from investing activities						
Purchase of property and equipment	(5,390)	(14,790)	(11,929)	(17,231)	(9,691)	(23,261)
Release (payment) of deposits	19	(12)	—	—	—	—
Net cash used in investing activities	(5,371)	(14,802)	(11,929)	(17,231)	(9,691)	(23,261)
Cash flows from financing activities						
Proceeds from issuance of related party notes payable	844	—	—	—	—	—
Proceeds from debt obligations to Cypress	—	29,191	14,869	30,100	9,000	12,500
Proceeds from issuance of preferred stock, net of issuance costs	8,095	—	—	—	—	7,000
Proceeds from issuance of common stock to Cypress	—	—	—	—	—	7,084
Principal payments of debt	(565)	—	—	—	—	—
Principal payments of notes payable to Cypress	(32)	(359)	(297)	(495)	(99)	(248)
Proceeds from exercise of warrants and stock options	9	8	22	224	1	17
Net cash provided by financing activities	8,351	28,840	14,594	29,829	8,902	26,353
Net increase (decrease) in cash and cash equivalents	275	5,243	(4,815)	(1,423)	(389)	4,315
Cash and cash equivalents at beginning of period	70	345	5,588	5,588	4,165	3,776
Cash and cash equivalents at end of period	$ 345	$ 5,588	$ 773	$ 4,165	$ 3,776	$ 8,091
Non-cash transactions						
Relative fair value of warrants issued (reduction related to debt conversion)	$ 971	$ 80	$ —	$ 11,023	$ —	$ (3,525)
Conversion of Series A-E Preferred Stock to common	7,365	—	—	—	—	—
Conversion of bridge loan to long term notes	1,950	—	—	—	—	—
Conversion of notes payable to preferred stock	1,270	—	—	—	—	9,000
Conversion of notes payable to common stock	—	—	—	1,950	—	50,916
Conversion of preferred stock to common stock	—	—	—	814	—	—
Cancellation of common stock	—	—	—	(10,449)	—	—
Supplemental cash flow information						
Cash paid for interest	44	149	—	—	—	—
Cash paid for income taxes	—	—	—	—	—	—

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

SunPower Corporation

Notes to Consolidated Financial Statements

Note 1. The Company and Summary of Significant Accounting Policies

The Company and Basis of Presentation

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

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

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

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

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

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

Liquidity

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the financial statements, the Company had, as of June 30, 2005, a net accumulated deficit of $56.3 million, a working capital deficiency of $2.2 million, and a history of operating

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

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

Principles of Consolidation

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

Fiscal Year

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

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates in these financial statements include allowances for doubtful accounts receivable, inventory write-downs, estimates for future cash flows and economic useful lives of property and equipment, asset impairments, certain accrued liabilities and income taxes and tax valuation allowances. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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

Comprehensive Loss

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

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

Cash and Cash Equivalents

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

Inventories

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

Property and Equipment

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

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

Long-Lived Assets

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

Goodwill and Intangibles Arising from Cypress' Acquisition of the Company

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

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

Product Warranties

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

Revenue Recognition

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

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

Translation of Foreign Currencies

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

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Concentration of Credit Risk

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

Accounting for Stock-Based Compensation

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

	Predecessor Company				Successor Company	
	Years Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
Net loss, as reported	$(3,533)	$(14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)
Add : Total stock-based employee compensation expense reported in net loss, net of related tax effects	—	—	55	131	650	184
Deduct: Total stock-based employee compensation expense determined under SFAS 123 for all awards, net of related tax effects	(11)	(55)	(206)	(1,187)	(370)	(2,187)
Pro forma net loss	$(3,544)	$(14,600)	$ (11,280)	$ (24,358)	$ (5,329)	$ (15,576)
Net loss per share:						
Basic and diluted—as reported	$ (0.55)	$ (1.75)	$ (1.33)	$ (2.75)	$ (1,869.67)	$ (0.65)
Basic and diluted—pro forma	$ (0.56)	$ (1.76)	$ (1.34)	$ (2.88)	$ (1,776.33)	$ (0.74)

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

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

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

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

Earnings per Share

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

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

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
Convertible preferred stock	14,308	14,308	14,308	12,915	12,915	44,915
Stock options	1,034	3,490	7,434	7,287	8,570	12,304
Warrants	17,316	17,644	6,835	7,643	7,643	7,643

Shipping and Handling Costs

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

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Advertising Expenses

Advertising expenses to date have not been significant.

Research and Development Costs

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

Income Taxes

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

The Company filed separate U.S. federal tax returns up to November 8, 2004. Subsequent to November 8, 2004 the Company has filed U.S. federal consolidated tax returns with Cypress. The Company filed California state tax returns on a separate entity basis up to December 31, 2002. Subsequent to December 31, 2002, the Company has filed combined returns with Cypress as a member of Cypress' entity group. The computation of any income taxes has been done on a separate return basis for financial reporting purposes. Cypress and the Company are in discussion to enter into a tax sharing agreement providing for each company's obligations concerning various tax liabilities (see Note 5 and Note 13).

Recent Accounting Pronouncements

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

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

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

December 15, 2005. The Company is currently evaluating the provision and does not expect the adoption in the fourth quarter of fiscal 2005 will have a material impact on its results of operations or financial condition.

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

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

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

In November 2004, the FASB issued SFAS No. 151, Inventory Costs—an Amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS No. 151 requires that those items

be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred in fiscal years beginning after June 15, 2005. The Company is currently evaluating SFAS No. 151 and does not expect the adoption will have a material impact on its results of operations or financial condition.

Unaudited Pro Forma Shareholders' Equity

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

Unaudited Interim Financial Statements

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

Note 2. Cypress Step Acquisition of SunPower

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

- On May 30, 2002, the Company (a) issued 12.1 million shares of series one convertible preferred stock to Cypress in exchange for $8.3 million in cash, and (b) converted approximately $0.5 million of promissory notes and accrued interest due to Cypress in exchange for 0.8 million shares of series one convertible preferred stock. In addition, the Company issued to Cypress a warrant to purchase 16 million shares of series two common stock at $1.00 per share, which warrant expired in January 2004, prior to being exercised by Cypress (see Note 9 and 10). As a result of this transaction, Cypress acquired an approximate 57% ownership of the Company's outstanding voting stock. Although Cypress owned a majority of the outstanding voting stock of the Company, the non-Cypress shareholders had 50% of the board seats, which provided such minority shareholders with effective veto (and substantive participatory) rights.
- On November 8, 2004, all of the then outstanding shares of capital stock other than those shares owned by Cypress were valued at $1.65 per share and were retired in exchange for the issuance of an equivalent number of Cypress common stock to the former holders of those retired shares in connection with a reverse triangular merger in which a wholly owned subsidiary of Cypress was merged into the Company after which SunPower remained as the surviving corporation and a wholly owned subsidiary of Cypress, with outstanding options to purchase SunPower common stock held by the officers, employees and other service providers and warrants held by Cypress to purchase SunPower common stock remaining outstanding after the closing of the merger. In this merger, 14.9 million shares of common stock of the Company held by the minority shareholders were retired in exchange for the fair

value of approximately 2.5 million shares of Cypress common stock, including 235,000 shares of Cypress common stock issued to the CEO of Cypress and Chairman of the Board of SunPower. Cypress considered the acquisition of the minority interest in SunPower as the completion of the acquisition of SunPower's voting securities. This transaction resulted in the "push down" of the effect of the acquisition of SunPower by Cypress and created a new basis of accounting.

Push down accounting requires an entity to establish a new cost basis of accounting for assets and liabilities based on the amount paid for the stock of SunPower. Cypress' basis in SunPower is reflected in the consolidated financial statements of the Company effective November 9, 2004. This includes (a) Cypress' investment on May 30, 2002 of $8.8 million; (b) the losses of SunPower recorded by Cypress from May 30, 2002 to November 8, 2004 of $37.1 million, as Cypress funded the losses of SunPower beginning May 2002; and (c) Cypress' investment on November 8, 2004 of $23.2 million to acquire the minority interest of SunPower.

The determination of the fair value of SunPower's net assets as of May 30, 2002 and November 8, 2004 resulted in valuation adjustments (intangible assets and related deferred income taxes) aggregating $3.7 million and $23.2 million, respectively, which were previously reported in the accounts of Cypress as of November 8, 2004. The amounts pushed down to SunPower financial statements at November 9, 2004, derived from the net carrying balance previously reported by Cypress on November 9, 2004 consisted of the following (in thousands):

Purchased Technology	$18,139
Patents	3,811
Trademarks and other	2,066
	24,016
Goodwill	2,883
	$26,899

Cypress accounted for its acquisition of SunPower in accordance with SFAS 141 "Business Combinations." Accordingly, the purchase price at each investment date (May 30, 2002 and November 8, 2004) was allocated to the assets acquired and liabilities assumed based on their estimated fair values on each date of investment, based on estimates made by the management of Cypress which considered a number of factors, including valuations performed by outsiders. On each investment date, the historical carrying value of the tangible assets and liabilities approximated the fair value. Management based their decision to capitalize the purchased technology on SFAS 141's criteria that an intangible asset that arises from contractual or other legal rights shall be recognized apart from goodwill only if it is separable. These technology-based assets relate to innovations and technological advances of the Company. Any excess of the purchase price over the amounts allocated to the assets acquired and liabilities assumed was recorded as goodwill.

Investment by Cypress in 2002:

In connection with the 2002 transaction, Cypress invested $8.8 million which was based on arms-length negotiations and paid in cash. As a result, Cypress recorded $4.8 million of net tangible assets, $1.1 million of purchased technology, $0.4 million of trademarks and other, $2.2 million of in-process research and development and $2.9 million of goodwill. From May 30, 2002 to November 8, 2004, Cypress had recorded amortization expense associated with the intangible assets of $0.7 million, resulting in a net valuation adjustment on November 9, 2004 to be pushed down to SunPower of $3.7 million.

Purchased technology of $1.1 million was comprised of design and process technologies for the imaging detector and solar technologies. The acquired solar technology was comprised of design and process technologies that enable a crystalline silicon wafer to capture a high percentage of the sun's energy into electricity. The acquired imaging detector technology was comprised of design and process technologies for high performance,

back contact light sensor arrays and infrared detectors that convert incoming photons into electricity, and are designed for low current leakage and high sensitivity. The fair value attributed to purchased technology was determined using the income approach method, which was based on a discounted forecast of the estimated net future cash flows to be generated from the acquired imaging detector and solar technologies using a discount rate of 25%. The fair value of purchased technology is being amortized over it's estimated useful life of 3 to 6 years on a straight-line basis.

The fair value of trademarks and other of $0.4 million was determined using the royalty savings approach method, which calculated the present value of the royalty savings related to the intangible assets using a royalty rate of 0.5% and a discount rate of 35%. The fair value of trademarks is being amortized over it's estimated useful life of 2 to 6 years on a straight-line basis.

The amount of the purchase price allocated to in-process research and development in 2002 of $2.2 million was determined by estimating the stage of completion of one in-process research project (the A-300 solar cell project). At the date of acquisition management estimated the net present value of cash flows based on the incremental future cash flows from revenue expected to be generated by the technology in the process of being developed, taking into account the characteristics and applications of the technology, the size and growth rate of existing and future markets and an evaluation of past and anticipated technology and product life cycles. Estimated net future cash flows included allocations of operating expenses and income taxes, but excluded the expected completion costs of the in-process research project. The discount rate applied to the net cash flows was 45%, which reflected the level of risk associated with the particular technology and the current return on investment requirements of the market at the time. At the date of acquisition, technological feasibility of this in-process research project had not been reached and the technology had no alternative future uses without further development. Accordingly, Cypress expensed the portion of the purchase price allocated to in-process research and development. The stage of completion was determined by estimating the costs and time incurred to date relative to the costs and time incurred to develop the in-process technology into a commercially viable technology or product, while considering the relative difficulty of completing the various tasks and overcoming the obstacles necessary to attain technological feasibility. The stage of completion for the project was approximately 25% as of the acquisition date. Upon completion, cash flows from sales of products incorporating those technologies were estimated to commence in fiscal 2004.

Goodwill of approximately $2.9 million represented the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. SunPower's technology added solar power and imaging detector products and process technologies to Cypress' existing portfolio and allowed Cypress to provide more comprehensive products and pursue an expanded market opportunity. These opportunities were the significant contributing factors to the establishment of the purchase price, resulting in the recognition of goodwill. Goodwill is not amortized but is tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Investment by Cypress in 2004:

In connection with the 2004 transaction, Cypress invested $23.2 million (the valuation adjustment), which was on or around the time that the A-300 solar cell project had reached technological feasibility. The purchase price paid by Cypress was based on arms-length negotiations and paid in Cypress shares, which were valued based on their market price. Cypress recorded, $17.3 million of purchased technology, $3.8 million of patents and $2.1 million of trademarks and other.

Purchased technology of $17.3 million is comprised of design and process technologies for the imaging detector and solar technologies. The fair value attributed to purchased technology was determined using the income approach method, which was based on a discounted forecast of the estimated net future cash flows to be generated from the acquired imaging detector and solar technologies. A discount rate of 20% was used for the

valuation of the imaging detector technology, compared to a 27% discount rate for the solar technology. The fair value of purchased technology is being amortized on a straight-line basis over 3 to 4 years for the imaging detector technology, and over 5 to 6 years for the solar technology.

The fair value of patents was determined using the royalty savings approach method, which calculated the present value of the royalty savings related to the intangible assets using a royalty rate of 4% and a discount rate of 27%. The fair value of patents are being amortized over its estimated useful life of 6 years on a straight-line basis.

The fair value of trademarks and other was determined using the royalty savings approach method, which calculated the present value of the royalty savings related to the intangible assets using a royalty rate of 0.5% and a discount rate of 27%. The fair value of trademarks is being amortized over its estimated useful life of 2 to 6 years on a straight-line basis.

No in-process research and development projects existed as of the acquisition date in November 2004. The A-300 solar cell project was considered purchased technology because the technology had been validated, and the manufacturing process was being completed to ramp up volume production in fiscal 2005.

The following presents details of the intangible assets, reflected on the Company's balance sheets (in thousands):

	Gross	Accumulated Amortization	Net
As of June 30, 2005			
Purchased Technology	$18,139	$ (2,222)	$15,917
Patents	3,811	(412)	3,399
Trademarks and other	2,066	(291)	1,775
	$24,016	$ (2,925)	$21,091

	Gross	Accumulated Amortization	Net
As of December 31, 2004			
Purchased Technology	$18,139	$ (445)	$17,694
Patents	3,811	(75)	3,736
Trademarks and other	2,066	(53)	2,013
	$24,016	$ (573)	$23,443

Amortization of all purchased intangible assets was $573,000 and $2.4 million, for the period November 9, 2004 to December 31, 2004 and for the six months ended June 30, 2005, respectively. The estimates for amortization of all intangible assets as of June 30, 2005 is as follows (in thousands):

Fiscal year:

Remainder of 2005	$ 2,440
2006	4,876
2007	4,621
2008	4,043
2009	3,735
2010	1,376
	$ 21,091

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Note 3. 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. For each of the fiscal years ended December 31, 2002 and 2003 and the six months ended June 30, 2004 (unaudited), purchases of products from Cypress were not significant. Wafer purchases totaled $256,000, $471,000 and $2.1 million for the period from January 1, 2004 through November 8, 2004, the period from November 9, 2004 through December 31, 2004 and the six months ended June 30, 2005, respectively.

Manufacturing Services in Texas

The Company originally made its imaging and infrared detector and solar power products at its Sunnyvale, California facility. In May 2002, the Company installed certain tenant improvements to build a pilot wafer fabrication line for a newly designed solar cell in a Cypress facility located in Texas. The Company then paid pro rata costs of materials and Cypress personnel to operate the facility which made the Company's pre-commercial production solar cells until the Philippines facility came on line in November 2004. In late 2004, the Company moved its imaging and infrared detector production lines to the Cypress Texas facility and continues to pay the costs of materials and Cypress personnel to operate the facility. The Company has paid the following amounts to Cypress for products produced and manufacturing services performed under this manufacturing service arrangement: $2.5 million, $40,000, $1.5 million and $50,000 for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 (unaudited) and 2005.

Administrative Services Provided by Cypress

Cypress has seconded employees and consultants to the Company for different time periods for which the Company pays their fully-burdened compensation. In addition, Cypress personnel render services to the Company to assist with administrative functions such as centralized legal, tax, treasury, information technology, employee benefits and other Cypress corporate services and infrastructure. Cypress bills the Company for a portion of the Cypress employees' fully-burdened compensation. The amounts that the Company has recorded as general and administrative expenses in the accompanying statements of operations for these services was approximately $0, $1.7 million, $1.3 million, $171,000, $834,000 and $736,000 during the fiscal years ended December 31, 2002 and 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 (unaudited) and 2005, respectively.

Leased Facility 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. As of June 30, 2005, the Company has a rental agreement with Cypress for this facility which expires in July 2006. The Company has reached an agreement in principle with Cypress to extend this lease for an additional 15 years, with a right to purchase the facility from Cypress at any time at Cypress' original purchase price plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to the Company. See Note 14. There was no rental expense under this agreement for the fiscal year ended December 31, 2002. Rental expense paid to Cypress for this building was $141,000, $235,000, $40,000, $137,000 and $137,000 during the fiscal years ended December 31, 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 (unaudited) and 2005, respectively.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Note 4. Balance Sheet Components

Inventories consisted of the following (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Raw material	$ 570	$ 3,085	$4,389
Work-in-process	481	894	2,641
Finished goods	217	437	231
	$ 1,268	$ 4,416	$7,261

Property and equipment consisted of the following (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Manufacturing equipment	$ 6,969	$ 31,441	$35,715
Computer equipment	1,207	1,033	1,109
Furniture and fixtures	114	124	124
Leasehold improvements	3,588	12,991	13,144
Construction-in-process (manufacturing facility in the Phillipines)	13,679	6,242	24,539
	25,557	51,831	74,631
Less: Accumulated depreciation and amortization	(2,784)	(4,282)	(7,499)
	$ 22,773	$ 47,549	$67,132

Total depreciation expense was $150,000, $1,319,000, $1,590,000, $556,000, $877,000, and $3,217,000 for the fiscal years ended December 31, 2002 and 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and for the six months ended June 30, 2004 (unaudited) and 2005, respectively.

During the first quarter of fiscal 2005, the Company recorded charges to research and development of $461,000 related to the write-down of property and equipment that were removed from operations. These assets consisted primarily of manufacturing and test equipment that was decommissioned in a pilot wafer fab located in Cypress' manufacturing facility in Texas. As management has committed to plans to dispose of these assets by sale, the Company classified the assets as held for sale and recorded the assets at the lower of their carrying amount or fair value less costs to sell. The valuation of the assets was based on management's estimates and consideration of various factors including outside appraisals. The Company expects to complete the disposal of the restructured assets by the end of fiscal 2005.

Accrued liabilities consisted of the following (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Foreign exchange derivative liability	$ —	$ 3,973	$ 150
Employee compensation and employee benefits	356	673	906
Warranty reserve	—	180	310
Other	2,087	2,546	1,745
	$ 2,443	$ 7,372	$3,111

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Note 5. Income Taxes

U.S. and non U.S. components of loss before income taxes consist of the following (in thousands):

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
U.S. loss	$(3,533)	$(12,810)	$ (4,141)	$ (7,351)	$ (2,278)	$ (8,984)
Non U.S. loss	—	(1,735)	(6,988)	(15,951)	(3,331)	(4,589)
Loss before income taxes	$(3,533)	$(14,545)	$ (11,129)	$ (23,302)	$ (5,609)	$ (13,573)

The tax provision (benefit) differs from the amounts obtained by applying the statutory U.S. federal tax rate to loss before taxes as shown below:

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003				
			(unaudited)			
Statutory rate	35%	35%	35%	35%	35%	35%
Tax at U.S. statutory rate	$(1,237)	$(5,091)	$ (3,895)	$ (8,156)	$ (1,963)	$ (4,751)
Foreign losses with no tax benefit	—	607	2,446	5,583	1,166	1,606
Benefit of net operating losses not recognized	1,237	4,484	1,449	2,573	797	3,145
Total	$ —	$ —	$ —	$ —	$ —	$ —

Temporary differences and carryforwards, which give rise to significant portions of deferred tax assets and liabilities, are as follows (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Net operating loss carryforwards	$ 8,619	$ 9,153	$11,451
Research and development credit and California manufacturing credit carryforwards	796	2,005	2,005
Reserves and accruals	1,770	1,992	2,070
Capitalized research and development expenses	309	864	814
Total deferred tax asset	11,494	14,014	16,340
Valuation allowance	(11,494)	(5,049)	(8,286)
Total deferred tax asset net of valuation allowance	—	8,965	8,054
Deferred tax liability	—	(8,965)	(8,054)
Net deferred tax assets	$ —	$ —	$ —

The Company had federal net operating loss carryforwards of approximately $32.0 million as of June 30, 2005, which may be applied to future taxable income until these benefits begin to expire in 2011 through 2025. The Company had California net operating loss carryforwards of approximately $4.0 million as of June 30, 2005,

which may be applied to future taxable income until these benefits begin to expire in 2006 through 2015. The Company had research and development credit carryforwards of approximately $1.2 million for federal and approximately $1.2 million for state tax purposes.

Statement of Financial Accounting Standard 109, *Accounting for Income Taxes*, ("SFAS 109") requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due the Company's continuing losses and accumulated deficit, the Company has recorded a full valuation allowance on the deferred tax asset.

The Company's ability to utilize the net operating loss carryforwards is dependent upon the Company being able to generate taxable income in future periods and may be limited due to restrictions imposed on utilization of net operating loss and credit carryforwards under Federal and state laws upon a change in ownership, such as the transaction with Cypress.

The Company is subject to a tax holiday in the Philippines, where it manufactures its products. This tax holiday is scheduled to expire in 2010, unless extended. As of yet, no tax benefit has been realized from the income tax holiday due to operating losses incurred in the Philippines.

Note 6. Commitments and Contingencies

Operating Lease Commitments

The Company leases its Sunnyvale, California facility under a non-cancelable operating lease, which expires on May 31, 2006. The lease also requires the Company to pay property taxes, insurance and certain other costs. The Company also leases its wafer fabrication facility in the Philippines from Cypress, which expires in July 2006 (see Note 3 and 13). Future minimum obligations under all noncancelable operating leases as of June 30, 2005 are as follows (in thousands):

Fiscal Year	
Remainder of 2005	$270
2006	268
Total	$538

Rent expense, including the rent paid to Cypress for the wafer fabrication facility in the Philippines (see Note 3), was $521,000, $662,000, $681,000, $115,000, $398,000, and $354,000 for the fiscal years ended December 31, 2002 and 2003; for the period January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and the six months ended June 30, 2004 (unaudited) and 2005, respectively.

The Company has a royalty bearing license agreement covering certain solar cell technology. The Company is in the process of terminating this agreement because its current products do not use the licensed technology. Royalty expense (included in cost of revenue) was not significant for any of the periods presented.

Purchase Commitments

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

agreements are firm, noncancelable and unconditional commitments. As of June 30, 2005, the Company estimated its obligations under such agreements to be approximately $23.4 million.

Product Warranties

The following summarized activity within accrued warranty (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Balance at the beginning of the period	$ —	$ —	$ 180
Accruals for warranties issued during the period	—	180	130
Settlements made during the period (in cash or in kind)	—	—	—
Balance at the end of the period	$ —	$ 180	$ 310

Indemnifications

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

Legal Matters

The Company is a party to litigation matters and claims that are normal in the course of its operations. While the Company believes that the ultimate outcome of these matters will not have a material adverse effect on the Company, the outcome of these matters is not determinable and negative outcomes may adversely affect the Company's financial position, liquidity or results of operations.

Note 7. Foreign Currency Derivatives

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

There were no hedging activities for the fiscal years ended December 31, 2002 and 2003. As of December 31, 2004 and June 30, 2005, the Company's hedge instruments consisted entirely of forward contracts. The Company calculates the fair value of its forward contracts based on forward rates from published sources.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company accounts for its hedges of forecasted foreign currency revenues as cash flow hedges such that changes in fair value of the effective portion of hedge contracts are recorded in accumulated other comprehensive income (loss) in shareholders' equity (deficit) in the Consolidated Balance Sheets. Amounts deferred in accumulated other comprehensive income (loss) are reclassified into the Consolidated Statement of Operations in the periods in which the hedged exposure impacts earnings. The effective portion of unrealized gains (losses) on cash flow hedges recorded in accumulated other comprehensive income (loss), net of tax, beginning in late 2004, was $(2.4) million, and $2.5 million for the period from November 9, 2004 to December 31, 2004 and the six months ended June 30, 2004 and 2005, respectively. Cash flow hedges are tested for effectiveness each period on a spot to spot basis using dollar-offset method. Both the excluded time value and any ineffectiveness, which were not material for all periods, are recorded in other income and (expense), net. As of December 31, 2004 and June 30, 2005, the Company had outstanding cash flow hedge forward contracts with an aggregate notional value of $34 million and $20.6 million, respectively, related to forecasted Euro revenue transactions. The maturity dates of these contracts range from March 2005 to February 2006.

The Company began hedging the net balance sheet effect of the Euro denominated asset and liability in 2005. The Company records its hedges of foreign currency denominated monetary assets and liabilities at fair value with the related gains or losses recorded in other income and (expense), net. The gains and losses on these contracts are substantially offset by gains and losses on the underlying balances being hedged. As of June 30, 2005, the Company held forward contracts with an aggregate notional value of $7.6 million to hedge the risks associated with Euro foreign currency denominated assets and liabilities. Aggregate net foreign exchange gains (losses) on these hedging transactions and foreign currency remeasurement gains (losses) was not material for the six months ended June 30, 2005.

Note 8. Customer Advances

In April 2005, the Company entered into an agreement with one of its customers to supply solar cells. As part of this agreement, the Customer agreed to fund future expansion of its manufacturing facility to support this customers' solar cell product demand. Beginning January 1, 2006, the Company will be obligated to pay interest on any remaining unpaid balance. The Company's settlement of principal on the advances is to be recognized over product deliveries at a specified rate on a per-unit-of-product-delivered basis through December 31, 2010. As of June 30, 2005, the Company received advances of $14.3 million with the approximate remaining $23 million of advances to be received through fiscal 2005. Of the $14.3 million received, $3.6 million has been classified in current portion of customer advances and $10.7 million in long term customer advances as of June 30, 2005 based on projected product shipment dates. As of June 30, 2005, the Company has utilized all funds as advanced by this customer towards expansion of the Company's manufacturing facility.

In June 2005, the Company entered into an agreement with another customer who advanced $1.2 million towards the purchase of future solar cells. These advances will be reduced as shipments occur in the next twelve months. As of June 30, 2005, no shipments were made to this customer.

From time to time, the Company enters into agreements where customers make advances for future purchases of solar power products. These advances will be applied as shipments of product occur.

Note 9. Debt

Related Party Subordinated Convertible Promissory Notes

In connection with the sale of series one preferred stock in May 2002, the convertible promissory notes held by non-Cypress investors were amended into subordinated convertible promissory notes, convertible into common stock. These notes were initially issued to certain investors of the Company. The principal balance of

these notes was $1.9 million (along with accrued interest) and was convertible into 3,342,129 shares of common stock. These notes bore interest at a rate of 3.21% annually and accrued interest until either the outstanding principal was paid in full or was converted in full. As a result of the November 9, 2004 merger transaction with Cypress, these notes were converted into 3,342,129 shares of common stock in accordance with the terms of the Second Amended and Restated Articles of Incorporation. Furthermore, as part of the same transaction, in accordance with the terms of the Agreement and Plan of Reorganization entered into by the Company and Cypress, these 3,342,129 common shares were retired.

Borrowings from Cypress

From the period February 2003 through June 30, 2005, the Company borrowed a total of $71.8 million from Cypress in the form of Promissory Notes, Senior Convertible Promissory Notes, and Promissory Notes issued under a Line of Credit Agreement. Amounts outstanding are as follows (in thousands):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Promissory note (February 2003)	$ 2,142	$ 1,683	$ —
Unsecured senior convertible promissory notes, including accrued interest of $19,000 in 2003 and $72,000 in 2004	3,695	3,672	—
Promissory notes (March 2004), including accrued interest of $0 in 2003 and $803,000 in 2004 respectively	—	24,803	—
Promissory notes issued under line of credit, including accrued interest of $575,000 in 2003, $2.5 million in 2004 and $170,000 at June 30, 2005	23,666	31,740	25,171
Discount representing the relative fair value of warrants issued	(66)	(9,201)	(4,378)
	29,437	52,697	20,793
Less: Current portion	(24,125)	(31,024)	(171)
Long-term debt, net of current portion	$ 5,312	$ 21,673	$20,622

Promissory Note (February 2003)

In February 2003, the Company entered into a $2.5 million promissory note agreement with Cypress. This note bore interest at 7%, and was due in 60 equal monthly payments of $50,000, representing principal and interest. Amounts outstanding at December 31, 2003 and 2004 were $2.1 million and $1.7 million respectively. In connection with the issuance of this note, the Company granted a warrant to Cypress to purchase 357,143 shares of its common stock with an exercise price of $0.07 per share (Note 10).

In March 2005, the entire principal balance and related interest was converted into class A common stock as part of the $58 million common stock issuance to Cypress (see Note 10).

Unsecured Senior Convertible Promissory Notes

In accordance with the Note Purchase and Line of Credit Agreement signed in May 2002, Cypress funded the Company $400,000 per month from April 2003 through December 2003. In connection with this agreement, the Company issued to Cypress a warrant to purchase 16 million shares of series two preferred stock with an exercise price of $1.00 per share. This warrant expired unexercised in January 2004 (see Note 10). As of December 31, 2003 and 2004, the Company had borrowed a total of $3.6 million at interest rates between 1.21% and 1.68% based on the date of the note. These notes continued to accrue interest until the outstanding principal and interest was settled in March 2005.

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Notes to Consolidated Financial Statements—(Continued)

In March 2005, the entire principal balance and related interest was converted into class A common stock as part of the $58 million common stock issuance to Cypress (see Note 10).

Promissory Notes (March 2004)

From March 2004 to June 2005, Cypress loaned the Company an aggregate of $36.5 million pursuant to 10 demand promissory notes. These notes bore interest at 7%. In connection with the issuance of those notes, the Company issued warrants to Cypress to purchase 3,000,001 shares of its common stock with an exercise price of $0.07 per share (see Note 10).

In March 2005, the entire principal balance and related interest was converted into class A common stock as part of the $58 million common stock issuance to Cypress (see Note 10).

Line of Credit Agreement

The Company entered into a $30.0 million Note Purchase and Line of Credit Agreement with Cypress in May 2002, which was subsequently amended in May 2004. From May 2002 to June 2005, Cypress loaned the Company an aggregate of $29.2 million. Amounts outstanding under the line of credit agreement require monthly interest payments at an annualized rate of 7%. Based on the terms of the agreement, principal is due in 60 equal monthly installments beginning June 2007 through May 2012. Amounts outstanding at December 31, 2003, 2004 and June 30, 2005 were $23.7 million, $31.7 million and $25.2 million, respectively. In connection with loans made under the line of credit agreement, the Company issued warrants to Cypress to purchase 4,285,715 shares of common with an exercise price of $0.07 per share (see Note 10).

In March 2005, $6.9 million of principal and interest was converted into class A common stock as part of the $58 million common stock issuance to Cypress (see Note 10).

In July 2005, the remaining principal balance and related interest was converted into class A common stock as part of the July 2005 common stock issuance to Cypress. In addition, Cypress amended the terms of the line of credit agreement to expire on the earlier of the completion of the Company's initial public offering or December 31, 2006 (see Note 13).

Total interest expense related to all borrowings from Cypress (including interest expense attributed to the relative fair value of the warrants that were issued to Cypress in connection with these loans and amortized using the effective interest method) totaled $1.5 million, $ 3.8 million, $1.0 million, $1.4 million, and $3.2 million, for the fiscal year ended December 31, 2003; the period from January 1, 2004 to November 8, 2004; for the period November 9, 2004 to December 31, 2004; and six months ended June 30, 2004 (unaudited) and 2005, respectively.

Note 10. Redeemable Convertible Preferred Stock and Shareholders' Equity (Deficit)

At June 30, 2005, the Company is authorized to issue 149,000,000 shares of no par value common stock and 66,000,000 shares of no par value preferred stock.

Redeemable Convertible Preferred Stock.

At June 30, 2005, the Company's redeemable convertible preferred stock consists of two series designated as series one and series two preferred stock. At December 31, 2002 and 2003, Cypress and the chief executive officer of Cypress were the Company's majority preferred shareholders, owning a majority of the series one preferred stock outstanding. At November 8, 2004, December 31, 2004 and June 30, 2005, Cypress was the Company's sole preferred shareholder, owning 100% of the series one and two preferred stock outstanding.

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Notes to Consolidated Financial Statements—(Continued)

At December 31, 2001, the Company had outstanding shares of series A, series B1, series C, series D and series E preferred stock. In May 2002, the shareholders, each as a separate class voted to convert all 4,530,084 of these preferred shares into 5,215,451 shares of common stock. Additionally, the Company amended its Articles of Incorporation to eliminate all previous series of preferred stock and created two new series of preferred stock, series one which consists of 17,650,000 designated shares and series two which consists of 16,000,000 designated shares. The Company then issued 12,130,868 shares of series one preferred stock at $0.6864 per share for $8.3 million in cash. Furthermore, Cypress, Cypress' chief executive officer and other bridge note holders converted approximately $1.3 million of bridge notes and accrued interest into 2,177,231 shares of series one preferred stock, representing a price per share of $0.5834 per share, or 85% of the face value of series one preferred stock in accordance with the convertible promissory note agreement.

In conjunction with the November 8, 2004 merger, the Company issued 32 million shares of series two convertible preferred stock in exchange for $16 million. Of the $16 million, $9 million was received as an advance from Cypress in December 2004 and $7 million in January 2005.

Convertible preferred stock consisted of the following as of December 31, 2003 and 2004 and June 30, 2005 (in thousands except share data):

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Series One			
Authorized—17,650,000 shares at December 31, 2003, 14,297,593 shares at December 31, 2004 and June 30, 2005			
Outstanding—14,308,099 shares at December 31, 2003 and 12,915,060 shares at December 31, 2004 and June 30, 2005			
Liquidation preference of $9,821 at December 31, 2003 and $8,865 at December 31, 2004 and June 30, 2005	$ 9,366	$ 8,552	$ 8,552
Series Two			
Authorized—16,000,000 shares at December 31, 2003 and 32,000,000 shares at December 31, 2004 and June 30, 2005			
Outstanding—None at December 31, 2003 and 2004, 32,000,000 shares at June 30, 2005			
Liquidation preference of $16,000 at June 30, 2005	—	—	16,000
	$ 9,366	$ 8,552	$24,552

The rights, preferences, and privileges of the holders of series one and two preferred stock are as follows:

Dividends—Preferred Stock

When and if declared by the Board of Directors, the holders of the preferred shares are entitled to receive noncumulative annual dividends in the amount of eight percent (8%) of the initial sales price of $0.6864 and $0.50 for series one and series two preferred stock, respectively. If dividends actually declared are inadequate to satisfy the full dividend preferences of the series one and two preferred stock, then the entire amount declared shall be paid to the holders of such preferred stock so that they receive the same percentage of their dividend preference.

Liquidation Preferences—Preferred Stock

In the event of any liquidation, dissolution, or winding up of the Company, the holders of preferred shares shall be entitled to be paid $0.6864 per share for series one preferred shares and $0.50 per share for series two

preferred stock, subject to adjustment plus all declared but unpaid preferred dividends (the "Liquidation Amount").

If the Company's assets are insufficient to pay the distribution, then the assets and the funds of the Company will be distributed ratably amount the holders of preferred stock in proportion to the amount of such stock owned by each such holder. Any amounts available for distribution in excess of the Liquidation Amount will be distributed to the holders of common stock and preferred stock, on an as-if-converted basis, pro-rata based on the number of shares held.

Conversion—Preferred Stock

Each share of series one and series two preferred stock is convertible, at the option of the holder, into the number of fully paid and nonassessable shares of common stock as determined by dividing the preferred stock original issue price by the conversion price in effect at the time of conversion. The initial conversion prices of series one and series two preferred stock are $0.6864 and $0.50, respectively, and are subject to adjustment in accordance with anti-dilution provisions contained in the Company's Articles of Incorporation, as amended and restated.

After November 9, 2004, the series one preferred stock became convertible into class A common stock and the series two preferred stock became convertible into class C common stock.

The preferred stock will be automatically converted into common stock upon the closing of the Company's sale of common stock pursuant to a registration statement under the Securities Act of 1933, as amended, in which the aggregate net proceeds are equal to at least $20.0 million and in which the price per share of common stock is at least $2.07 (adjusted to reflect subsequent stock dividends, stock splits or recapitalization).

Voting Rights—Preferred Stock

The holders of series one and series two preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which their preferred shares are convertible.

Common Stock

Until November 8, 2004, there was only one class of common stock. After the merger on November 9, 2004, three classes of common stock were authorized for issuance, classes A, B and C common stock.

The outstanding options and warrants became exercisable for the class A common stock, and the series one preferred stock became convertible into class A common stock while series two preferred stock is convertible into class C common stock.

At December 31, 2002, 2003 and 2004 and on November 8, 2004, immediately prior to the merger, all shares of common stock were held by non-Cypress shareholders. At November 9, 2004, immediately after the merger, no common stock was outstanding while on June 30, 2005, a majority of the common shares were owned by Cypress.

In March 2005, the Company issued to Cypress 35,151,515 shares of its class A common stock at a price of $1.65 per share, the consideration for which was $7.1 million cash and the cancellation by Cypress of $50.9 million of promissory notes and related interest held by Cypress (see Note 9). Accordingly a net amount of $47.4 million comprising of the $50.9 million debt less the unamortized discount of $3.5 million was credited to equity.

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Notes to Consolidated Financial Statements—(Continued)

Common stock consisted of the following as of December 31, 2003 and 2004 and June 30, 2005 (in thousands except share data).

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Common stock, no par value; 33,650,000 shares authorized at December 31, 2003, none authorized at December 31, 2004, and June 30, 2005; 8,345,853 shares issued and outstanding at December 31, 2003, none at December 31, 2004 and June 30, 2005	$ 7,461	$ —	$ —
Class A common stock, no par value; no shares authorized at December 31, 2003; 85,000,000 shares authorized at December 31, 2004 and June 30, 2005; 3,803 shares issued and outstanding at December 31, 2004, 35,233,535 shares issued and outstanding at June 30, 2005	—	1	54,493
Class B common stock, no par value; no shares authorized at December 31, 2003; 32,000,000 shares authorized at December 31, 2004 and June 30, 2005; no shares issued and outstanding at December 31, 2004 and June 30, 2005	—	—	—
Class C common stock, no par value per share; no shares authorized at December 31, 2003; 32,000,000 shares authorized at December 31, 2004 and June 30 2005; no shares issued and outstanding at December 31, 2004 and June 30, 2005	—	—	—
Total common stock	$ 7,461	$ 1	$54,493

Voting Rights—Common Stock

Class B and class C common stock are identical, except with respect to voting for directors and conversion. The holders of class A and C common stock, voting together shall be entitled to elect that number of directors which is the largest whole number less than or equal to 20% of the authorized number of directors; the holders of class B common stock are entitled to elect the remaining directors. Each share of class C common stock is convertible into one share of class A common stock and each share of class B common stock is convertible into one share of class A common stock at any time, on a one-for-one basis. At any time when Cypress and its affiliates own stock with less than 80% of the votes represented by the outstanding shares of stock, each outstanding share of class C common stock is convertible at the option of the holder into a share of class B common stock on a one-for-one basis.

Dividends—Common

When and if declared by the board of directors, and subject to the preferences applicable to any preferred stock outstanding, the holders of class A, class B and class C common stock are entitled to receive equal per share dividends. In the case of a dividend or distribution payable in the form of common stock, each holder of class A, class B and class C is only entitled to receive the class of stock that they hold.

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Notes to Consolidated Financial Statements—(Continued)

Preferred and Common Stock Warrants

The following table summarizes information about warrants outstanding:

	Preferred Stock Warrants		Common Stock Warrants	
	Series Two Shares	Exercise Price	Shares	Exercise Price
Outstanding as of December 31, 2001 (Predecessor Company)	—	$ —	1,344,633	$ 0.06
Warrants granted	16,000,000	1.00	—	0.06
Warrants exercised	—	—	(28,622)	0.06
Warrants canceled	—	—	—	
Outstanding as of December 31, 2002 (Predecessor Company)	16,000,000	1.00	1,316,011	0.06
Warrants granted	—	—	357,143	
Warrants exercised	—	—	—	
Warrants canceled	—	—	(28,715)	
Outstanding as of December 31, 2003 (Predecessor Company)	16,000,000	1.00	1,644,439	0.06
Warrants granted	—	—	7,285,716	0.07
Warrants exercised	—	—	(1,263,441)	0.06
Warrants canceled	(16,000,000)	(1.00)	(23,855)	
Outstanding as of November 8, 2004 (Predecessor Company)	—		7,642,859	0.07
Warrants granted	—	—	—	—
Warrants exercised	—	—	—	—
Warrants canceled	—	—	—	—
Outstanding as of December 31, 2004 (Successor Company)	—	—	7,642,859	0.07
Warrants granted	—	—	—	—
Warrants exercised	—	—	—	—
Warrants canceled	—	—	—	—
Outstanding as of June 30, 2005 (Successor Company)	—	—	7,642,859	$ 0.07

From 1998 through 2001, the Company issued 1,392,438 warrants to purchase common stock in connection with the issuance of term loans. The Company valued the warrants using the Black-Scholes option pricing model on the date of grant resulting in a fair value of $169,000 which was fully recognized as interest expense prior to 2002.

In connection with the issuance of series one preferred stock in May 2002, the Company entered into a Note Purchase and Line of Credit Agreement with Cypress and issued a warrant to Cypress to purchase up to 16 million shares of series two preferred stock at an exercise price of $1.00 per share expiring on December 31, 2003. The fair value of the warrant was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: no dividend yield, risk-free interest rate of 3.17%, volatility of 85% and an expected term of 1.6 years. The Company amortized the fair value of these warrants of $971,000 to interest expense in the amount of $358,000 and $613,000 in 2002 and 2003, respectively using the effective interest method. In December 2003, Cypress was granted a five week extension to exercise the warrant, thereby extending the expiration date from December 2003 to January 2004. However, the warrant expired unexercised in January 2004.

In February 2003, in connection with the issuance of the $2.5 million promissory note to Cypress maturing in March 2008 (see Note 9), the Company granted a warrant to Cypress to purchase 357,143 shares of its common stock with an exercise price of $0.07 per share and a term of ten years. The fair value of the warrant was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: no dividend yield; risk-free rate of 3.95%; volatility of 85% and expected life of five years. The Company recorded the relative fair value of this warrant of $80,000 as a discount to debt. The fair value of the warrant was

amortized to interest expense over the original term of the note (60 months) using the effective interest method. During the year ended December 31, 2003; the period from January 1, 2004 to November 8, 2004; the period November 9, 2004 to December 31, 2004; and the six months ended June 30, 2005 $13,000, $10,000, $3,000 and $7,000 of the amount relating to the warrants was amortized to interest expense, respectively.

In connection with the November 9, 2004 merger transaction with Cypress, holders of warrants, other than Cypress, were required as a condition to the merger to exercise their warrants so that they held common stock immediately prior to the merger. As a result, warrants to purchase 1,263,441 shares of common stock were exercised and 23,855 were cancelled, prior to the merger.

In May 2004, the Company signed an amended note purchase and line of credit agreement, finalizing the terms of a $30 million loan from Cypress requiring principal payments between June 2007 and May 2012. As of June 30, 2005, an amount of $25.1 million was outstanding under this facility. In connection with the issuance of this line of credit, (originally signed in May 2002), the Company granted warrants to purchase 4,285,715 shares of its common stock with an exercise price of $0.07 per share and a term of ten years. The fair value of the warrants was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: no dividend yield; risk free rate of 2.63%; volatility of 81.15% and expected life of three years. The Company recorded the relative fair value of these warrants of $6.6 million as a discount to the debt. The relative fair value of the warrant is being amortized to interest expense over the original term of the note using the effective interest method. During the period from January 1, 2004 to November 8, 2004, the period November 9, 2004 to December 31, 2004 and the six months ended June 30, 2005, $939,000, $306,000 and $995,000 of the amount relating to the warrants was amortized to interest expense, respectively. As of June 30, 2005, the unamortized discount was approximately $4.3 million. This unamortized discount will be reflected in equity as part of the conversion of the related party debt into common stock completed in July 2005 (see Note 13).

From March 2004 through April 2005, Cypress loaned the Company $36.5 million for operations and equipment financing. These loans were demand loans bearing interest at 7%. In conjunction with the issuance of these loans, the Company granted warrants to Cypress to purchase 3,000,001 shares of its common stock with an exercise price of $0.07 per share and a term of ten years. The relative fair value of the warrants was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: no dividend yield; risk free rate of 1.86%-3.10%; volatility of 81.15% and expected life of three years. The Company recorded the fair value of these warrants of $4.4 million as a discount to debt. The fair value of the warrant was amortized to interest expense using the effective interest method. During the period from January 1, 2004 to November 8, 2004, the period November 9, 2004 to December 31, 2004 and the six months ended June 30, 2005, $416,000, $215,000 and $297,000 of the amount relating to the warrants was amortized to interest expense. The remaining $3.5 million of the unamortized discount was reflected in equity as part of the conversion of this related party debt into common stock in March 2005 (see Note 9).

Stock Option Program

The Board of Directors has approved the 1988 Incentive Stock Plan (the “1988 Plan”) and the 1996 Incentive Stock Plan (the “1996 Plan”). Under the terms of the plans, the Company may issue incentive or nonstatutory stock options or stock purchase rights to employees and consultants to purchase common stock. Currently, the maximum number of shares of common stock authorized for issuance under the 1988 Plan is 850,000 shares and under the 1996 Plan is 14,026,339 shares. The Company has also granted 228,000 options to employees and consultants outside of the 1988 and 1996 Plans.

As of June 30, 2005, the Company had 1,349,070 shares available under the 1996 Plan for grant and no shares available under the 1988 Plan.

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Incentive stock options maybe granted at no less than the fair value of the common stock on the date of grant. Nonqualified stock options and stock purchase rights may be granted at no less than 85% of the fair value of the common stock at the date of grant. The options and rights become exercisable when and as determined by the Board of Directors, although these terms are generally not to exceed ten years for stock options and six months for stock purchase rights. The options typically vest over five years with a one year cliff and monthly vesting thereafter.

Activity under the Company's stock option plans is presented in the following table (in thousands except per share data):

	Predecessor Company						Successor Company			
	Year Ended December 31, 2002		Year Ended December 31, 2003		Period From January 1, 2004 through November 8, 2004		Period From November 9, 2004 through December 31, 2004		Six Months Ended June 30, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at										
Beginning	874	$ 0.32	1,034	$ 0.29	3,490	$ 0.25	7,287	$ 1.06	8,570	$ 1.15
Granted	245	0.20	2,720	0.25	4,411	1.60	1,288	1.65	3,945	1.68
Canceled	(58)	0.32	(223)	0.28	(59)	0.59	(1)	0.30	(133)	0.83
Exercised	(27)	0.28	(41)	0.20	(555)	0.27	(4)	0.32	(78)	0.22
Options outstanding at end of period	1,034	$ 0.29	3,490	$ 0.25	7,287	$ 1.06	8,570	$ 1.15	12,304	$ 1.33
Options exercisable at end of period	502	$ 0.26	620	$ 0.27	1,199	$ 0.47	1,324	$ 0.48	2,586	$ 0.91

The following table summarizes information about stock options outstanding as of June 30, 2005 (in thousands, except per share data):

Options Outstanding			Options Exercisable	
Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
151	3.90	$ 0.15	109	$ 0.15
2,277	7.85	0.25	874	0.25
424	5.36	0.33	386	0.33
100	8.55	1.00	28	1.00
10	8.96	1.25	10	1.25
9,109	9.42	1.65	1,179	1.65
233	9.85	2.15	—	2.15
12,304		$ 1.33	2,586	$ 0.91

Options Issued to Non-Employees

For the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004 and the six months ended June 30, 2004 (unaudited) and 2005, the Company granted options to consultants to purchase 210,000, 0, 160,000 and 26,000 options to purchase common stock, respectively, with weighted average exercise prices of $1.00, $0, $0.80 and $1.65 per share, respectively. The fair value of options

granted to consultants was estimated using the Black-Scholes model resulting in stock-based compensation expense of $131,000, $25,000, $55,000 and $184,000 for the period from January 1, 2004 to November 8, 2004, the period from November 9, 2004 to December 31, 2004, and the six-month period ended June 30, 2004 (unaudited) and 2005, respectively.

Shares Reserved for Future Issuance

As of June 30, 2005, the Company had shares of common stock reserved for future issuance as follows:

Convertible preferred stock	44,915,060
Common stock warrants	7,642,859
Stock option plans	13,653,939
	66,211,858

Other Employee Benefit Plans

The Company has a pension plan covering employees in the Philippines. The aggregate costs and outstanding liability of this pension plan was not material to the Company's consolidated operating results or financial position for any period presented.

Certain employees and officers of the Company participate in several Cypress sponsored employee benefit plans such as the Cypress Executive Deferred Compensation Plan. In addition certain employees and officers of the Company have options to purchase common stock of Cypress, some of which, continue to vest until Cypress ceases to own at least 50% of total combined voting power of all classes of the Company's capital stock.

All of our eligible employees will be able to continue to participate in Cypress' health plans, life insurance and other benefit plans (other than the stock plans and stock purchase plans), as they may change from time to time, until the earliest of, (1) a change of control of us occurs, which includes such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of our common stock then outstanding, (2) such time as our 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 our 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 we and Cypress mutually agree.

Note 11. Segment and Geographical Information

The Company operates in one industry segment comprising the design, manufacture and sale of solar electric power products, or solar power products, imaging and infrared detectors based on its proprietary processes and technologies. The following tables present net revenue and long-lived asset information based on geographic region. Revenue is based on the destination of the shipments. Long-lived assets, which consist of net property and equipment, are based on the physical location of the assets (dollars in thousands):

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003	(unaudited)			
Revenue by geography						
United States	42%	71%	83%	80%	15%	25%
Europe	—	6%	2%	3%	70%	72%
Asia	58%	23%	15%	16%	15%	1%
Others	—	—	—	1%	—	2%

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Notes to Consolidated Financial Statements—(Continued)

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30 2004	January 1 Through November 8, 2004	November 9 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003	(unaudited)			
Significant customers						
Customer						
A	28%	*	*	*	*	*
B	*	*	*	*	19%	53%
C	*	12%	*	*	*	12%
D	12%	27%	50%	45%	*	*
E	*	16%	13%	14%	*	*
F	14%	*	*	*	*	*
H	*	*	11%	*	*	*
I	*	*	*	*	51%	18%
J	23%	*	*	*	*	*

* denotes less than 10% during the period

	Predecessor Company				Successor Company	
	Year Ended December 31,		Six Months Ended June 30, 2004	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
	2002	2003	(unaudited)			
Revenue by product						
Solar power products	1%	4%	3%	5%	86%	80%
Imaging and infrared detectors and other	99%	96%	97%	95%	14%	20%

	Predecessor Company	Successor Company	
	December 31, 2003	December 31, 2004	June 30, 2005
Long-lived assets by geography			
United States	$ 17,031	$ 7,682	$ 4,894
Philippines	3,852	38,084	60,508
Denmark	1,890	1,634	1,496
China	—	149	234
	$ 22,773	$ 47,549	$67,132

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Notes to Consolidated Financial Statements—(Continued)

Note 12. Unaudited Pro Forma Net Loss Per Share

Pro forma basic and diluted net loss per share have been computed to give effect to the conversion of redeemable convertible preferred stock upon the closing of the Company's initial public offering (using the as-converted method) for the period from January 1, 2004 through November 8, 2004, the period from November 9, 2004 through December 31, 2004 and for the six month period ended June 30, 2005, as if the closing occurred at the beginning of fiscal 2004. The following table sets forth the computation of pro forma basic and diluted net loss per share (in thousands, except per share data):

	Predecessor Company	Successor Company	
	January 1, 2004 Through November 8, 2004	November 9, 2004 Through December 31, 2004	Six Months Ended June 30, 2005
Net loss	$ (23,302)	$ (5,609)	$ (13,573)
Weighted average common shares outstanding	8,461	3	21,016
Add: Adjustments to reflect the weighted average effect of the assumed conversion of the series one and series two redeemable convertible preferred stock from the date of issuance	14,308	13,080	42,454
Total shares used in computing basic and diluted pro forma net loss per share	22,769	13,083	63,470
Pro forma net loss per common share:			
Basic and diluted	$ (1.02)	$ (0.43)	$ (0.21)

Note 13. Subsequent Events

On July 7, 2005, SunPower's board of directors authorized the management of SunPower to proceed with the reincorporation of the Company in Delaware. On August 12, 2005, SunPower's board of directors, subject to shareholder approval, approved the form of certificate of incorporation which provides for class B common stock having eight votes per share in lieu of the current class B and class C common stock and for various provisions in the certificate of incorporation and bylaws to provide Cypress with various protections, primarily by requiring 75% board vote for certain actions.

On July 18, 2005, SunPower issued 24,000,000 shares of class A common stock to Cypress at a price of $3.50 per share the consideration for which was $20.2 million cash, the cancellation by Cypress of $25.2 million promissory notes and related interest held by Cypress, the cancellation of payables to Cypress of $14.6 million and the cancellation of warrants to purchase 7.6 million shares of SunPower class A common stock held by Cypress at an exercise price of $0.07 per share. The Company also reduced the net carrying value of the associated unamortized debt discount of $4.4 million, which will be reflected in equity as part of this conversion of related party debt into class A common stock. As a result, the net impact to equity for this conversion was by approximately $55.6 million. In addition, Cypress agreed to amend the Note Purchase and Line of Credit Agreement previously amended in May 30, 2002 (the "Line of Credit") which provides for a $30.0 million line of credit to SunPower, to expire on the earlier of the completion of the Company's initial public offering or December 31, 2006. As of July 18, 2005, there were no amounts outstanding under the Line of Credit.

On August 12, 2005, SunPower's board of directors and shareholders approved an amendment to the articles of incorporation providing for the following changes: (i) increasing the number of authorized shares of class A common stock by 35,000,000 shares to 120,000,000 shares, (ii) increasing the number of authorized shares of

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

Class B Common Stock by 59,151,515 shares to 91,151,515 shares, and (iii) decreasing the number of authorized shares of series one preferred stock by 1,382,533 shares to 12,915,060 shares, (iv) increasing the number of authorized shares of common stock by 94,151,515 shares to 243,151,515 shares, (v) decreasing the number of authorized shares of preferred stock by 21,084,940 shares to 44,915,060 shares and (vi) increasing the number of authorized shares of stock by 73,066,575 shares to 288,066,575 shares.

On August 12, 2005, SunPower's board of directors, subject to shareholder approval, adopted the 2005 Stock Incentive Plan (the "Incentive Plan") to replace the 1988 and 1996 Stock Option Plans (the "Prior Plans") effective upon an IPO (the "Effective Date"). The Incentive Plan allows not only for the grant of options like the Prior Plans, but also for the grant of stock appreciation rights, restricted stock grants, and other equity rights. The aggregate number of Company shares authorized for issuance as awards under the Incentive Plan shall not exceed 793,470 shares (i) *minus* the aggregate number of shares subject to options granted under the Prior Plans between August 12, 2005 and the Effective Date, (ii) *plus* any shares subject to options granted under the Prior Plans which lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005, and (iii) *plus* any of the 210,000 shares subject to non-plan options granted during 2004 that lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005.

On August 12, 2005, SunPower's board of directors approved the Company's entering into various separation and services agreements with Cypress. Among these agreements are a sublease of the land and a lease for the building in the Philippines (see Note 3); a three-year wafer supply agreement for detector products at inter-company pricing; and a three-year master transition services agreement under which Cypress would allow SunPower to continue to utilize services provided by Cypress such as legal, tax, information technology, and treasury administration, at the same price that other Cypress subsidiaries or divisions utilized such services.

Item 14. Subsequent Events (Unaudited)

On September 30, 2005, SunPower entered into an exchange agreement with Cypress in which Cypress exchanged all of its outstanding shares of class A common stock for an equal number of shares of class B common stock.

On October 7, 2005, SunPower entered into a series of separation and services agreements with Cypress. Among these agreements are a sublease of the land and a lease for the building in the Philippines (see Note 3); a three-year wafer manufacturing agreement for detector products at inter-company pricing; a three-year master transition services agreement under which Cypress would allow SunPower 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 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.

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.

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

The Company's eligible employees generally will remain able to participate in Cypress' benefit plans, as they may change from time to time, for a period of time after this offering. The Company will be 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 our 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 our 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 will be able to continue to participate in Cypress' health plans, life insurance and other benefit plans (other than the stock plans and stock purchase 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 our 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 its 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.

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

Employees who are eligible to participate in Cypress' stock option plans will retain that eligibility 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 our 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 a applicable law or (3) such time as Cypress determines in its reasonable judgment that its 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. Upon the occurrence of such an event, each of the Company's employees will be deemed terminated from Cypress employment for purposes of the Cypress stock option plans, and each outstanding option will be treated in accordance with that employee's stock option agreement with Cypress.

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

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

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 our Sunnyvale, California facilities, whether prior to or after the separation; existing on, under, about or in the vicinity of the Philippines facility which the Company occupy, or arising out of operations occurring at such facility, whether prior to or after the separation, to the extent that those liabilities were caused by 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 Sunnyvale, California and Philippines facility prior to the separation; and arising out of the construction activity conducted by or on behalf of us at Cypress' Texas facility.

The indemnification and insurance matters agreement and the master transition services agreement also contains provisions governing the Company's insurance coverage, which shall be under the Cypress insurance

policies (other than our directors and officers insurance, for which we intend to obtain our own separate policy) 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) the date on which Cypress's 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 our inclusion or participation in such policy, (4) the date on which our 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. We will work with Cypress to secure additional insurance if desired and cost effective.

We and Cypress have entered into a tax sharing agreement 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 we are 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 which will be 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.

After the date the Company ceases to be a member of Cypress' consolidated, combined or unitary group for federal 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 40%, 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 June 30, 2005, the Company estimates that the Company has $32.0 million of federal net operating loss carryforwards and $4.0 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 between $13 million and $14 million.

The Company will continue to be jointly and severally liable for tax liability as governed under federal, state and local law to the extent of its activities as a member of the Cypress consolidated or combined group. Accordingly, although the tax sharing agreement allocates tax liabilities between Cypress and all its consolidated subsidiaries, for any period in which 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 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 will include 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 Company's ability to use the Company's equity to obtain additional financing or to engage in acquisition

transactions for a period of time after a distribution will be restricted if the Company can only sell or issue a limited amount of the Company's stock before triggering the Company's obligation to indemnify Cypress for taxes it incurs 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 us relating to matters covered by the tax sharing agreement are subject to resolution through specific dispute resolution provisions contained in the agreement.

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

For a period of three years following this offering 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.

The Company has entered into an agreement with Cypress that relates to the Company's manufacturing facility in the Philippines. The Philippine lease term will be extended by 15 years. 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 10 years 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 rent for the facility. The Company will have the right to purchase the facility from Cypress at any time at Cypress' original purchase price plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to the Company, unless such purchase option is exercised after a change of control of the company, then 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.

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 submit 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.

SunPower Corporation

Notes to Consolidated Financial Statements—(Continued)

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.

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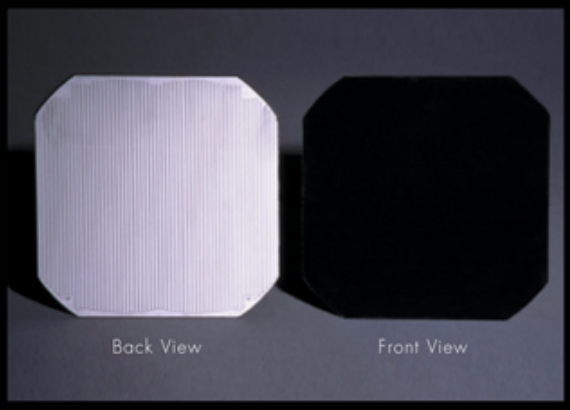
SUNPOWER



SunPower A-300 all-back-contact solar cell

SunPower solar cells incorporated into Solon sun-tracking solar arrays, Germany


SUNPOWER

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses expected to be incurred by the Registrant in connection with the sale and distribution of the securities being registered hereby, other than underwriting discounts and commissions. All amounts are estimated except the Securities and Exchange Commission registration fee, the National Association of Securities Dealers, Inc. filing fee and The Nasdaq National Market listing fee. No expenses shall be borne by the selling stockholders.

Securities and Exchange Commission and registration fee	$ 13,536
National Association of Securities Dealers, Inc. filing fee	12,000
Nasdaq National Market listing fee	100,000
Blue Sky fees and expenses	*
Accounting fees and expenses	*
Legal fees and expenses	*
Printing and engraving fees	*
Registrar and Transfer Agent’s fees	*
Miscellaneous fees and expenses	*
Total	*

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors and other corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the “Act”). Article VIII of the Registrant’s Amended and Restated Certificate of Incorporation (Exhibit 3.(i)2 hereto) and Article 6 of the Registrant’s Restated Bylaws (Exhibit 3.(ii)2 hereto) provide for indemnification of the Registrant’s directors, officers, employees and other agents to the extent and under the circumstances permitted by the Delaware General Corporation Law. The Registrant also intends to enter into agreements with its directors and officers that will require the Registrant, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent allowed. The Underwriting Agreement (Exhibit 1.1) provides for indemnification by the underwriters of the Registrant, its directors and officers, and by the Registrant of the underwriters, for certain liabilities, including liabilities arising under the Act and affords certain rights of contribution with respect thereto.

Item 15. Recent Sales of Unregistered Securities

From January 1, 2002 to July 31, 2005, the Registrant has issued and sold an aggregate of 704,892 shares of common stock to directors, officers, employees, former employees and consultants at prices ranging from $0.15 to $2.15 per share, for aggregate cash consideration of approximately $182,979.

Between September 2001 and June 2002 the Registrant issued an aggregate of 47,805 shares of common stock in exchange for an aggregate of $2,868 from the exercise of warrants.

In November 2004, immediately prior to and conditioned upon its merger with Cypress, the Registrant issued an aggregate of 1,263,441 shares of common stock in exchange for $75,806 from the exercises of warrants.

In November 2004, immediately prior to and conditioned upon its merger with Cypress, the Registrant issued an aggregate of 3,342,129 shares of common stock upon conversion of $1.95 million of promissory notes.

In November 2004, immediately prior to and conditioned upon its merger with Cypress, the Registrant issued a total of 1,393,039 shares of common stock upon conversion of outstanding shares of series one preferred stock.

The Registrant has issued Cypress promissory notes in the aggregate amount of $6.1 million during 2003.

The Registrant has issued various promissory notes to Cypress under a May 2004 note purchase and line of credit agreement in the aggregate principal amount of $29,190,862.

From March 2003 to June 2005, the Registrant issued a combination of demand and promissory notes to Cypress in the aggregate principal amount of $36,500,000.

From March 18, 2004 to October 18, 2004, the Registrant issued warrants to purchase 7,642,859 shares of class A common stock to Cypress with exercise prices of $0.07 per share, in connection with certain loans.

On January 18, 2005, as contemplated by the merger with Cypress, the Registrant issued and sold 32,000,000 shares of series two convertible preferred stock to Cypress at $0.50 per share for aggregate consideration of $16,000,000, all of which will be converted into 32,000,000 shares of class B common stock in connection with this offering.

On March 17, 2005, the Registrant issued and sold 35,151,515 shares of class A common stock to Cypress at $1.65 per share for aggregate consideration of $58,000,000 consisting of debt and accounts payables cancellation, and cash.

On July 18, 2005, the Registrant issued and sold 24,000,000 shares of class A common stock to Cypress at $3.50 per share for aggregate consideration of $84,000,000 consisting of debt and accounts payables cancellation, cash, and warrant forfeitures.

On September 30, 2005, the Registrant issued 59,151,515 shares of class B common stock in exchange for 59,151,515 shares of class A common stock pursuant to the terms of an exchange agreement.

The sales of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving a public offering or transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each of these transactions represented their intention to acquire the securities for investment only and not with view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access, through their relationship with the Registrant, to information about the Registrant.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits.

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
3.(i)1**	Articles of Incorporation of the Registrant, prior to reincorporation.
3.(i)2	Form of Restated Certificate of Incorporation of the Registrant, to be filed upon the closing of the offering to which this Registration Statement relates.
3.(ii)1**	Bylaws of the Registrant, prior to reincorporation.
3.(ii)2	Form of Amended and Restated Bylaws of the Registrant, to be effective upon the closing of the offering to which this Registration Statement relates.
4.1*	Specimen Class A Common Stock Certificate.
5.1*	Opinion of Pillsbury Winthrop Shaw Pittman LLP.
10.1**	Form of Indemnification Agreement between the Registrant and its officers and directors.
10.2**	1988 Incentive Stock Plan and form of agreements thereunder.
10.3**	1996 Stock Plan and form of agreements thereunder.
10.4**	Form of Amended and Restated 2005 Stock Incentive Plan and form of agreements thereunder.
10.5**	Industrial Lease, dated March 28, 2000, between the Registrant and The Irvine Company.
10.6**	First Amendment, dated January 20, 2005, to Lease, dated March 28, 2000, between the Registrant and The Irvine Company.
10.7**	Contract of Lease, dated January 1, 2003, between SunPower Philippines Manufacturing Limited-Phil. Branch and Cypress Manufacturing Ltd.-Phil. Branch.
10.8**	Offer Letter dated May 22, 2003, between the Registrant and Thomas H. Werner.

Exhibit Number	Description
10.9**	Offer Letter dated January 14, 2005, between the Registrant and PM Pai.
10.10**	Offer Letter dated April 1, 2005, between the Registrant and Emmanuel Hernandez.
10.11**	Offer Letter dated January 1, 1990, between Registrant and Dr. Richard Swanson.
10.12	Master Separation Agreement between the Registrant and Cypress Semiconductor Corporation.
10.13	Indemnification and Insurance Matters Agreement between the Registrant and Cypress Semiconductor Corporation.
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10.15	Employee Matters Agreement between the Registrant and Cypress Semiconductor Corporation.
10.16	Tax Sharing Agreement between the Registrant and Cypress Semiconductor Corporation.
10.17	Master Transition Services Agreement between the Registrant and Cypress Semiconductor Corporation.
10.18	Wafer Manufacturing Agreement between the Registrant and Cypress Semiconductor Corporation.
10.19	Contract of Lease between the Registrant and Cypress Semiconductor Corporation.
10.20**	Note Purchase and Line of Credit Agreement dated May 30, 2002, held by Cypress Semiconductor Corporation.
10.21**	Amendment No. 1 to Note Purchase and Line of Credit Agreement dated May 25, 2004.
10.22†	Supply Agreement, dated August 23, 2005, between the Registrant and Wacker-Chemie GmbH.
10.23†**	Supply Agreement, dated April 14, 2005, between the Registrant and Solon AG fur Solartechnik.
10.24†**	Supply Agreement, dated April 17, 2004, between the Registrant and Conergy AG, and Appendixes thereto.
21.1**	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
23.2*	Consent of Pillsbury Winthrop Shaw Pittman LLP (included in Exhibit 5.1).
24.1**	Power of Attorney.
24.2	Power of Attorney

* To be filed by amendment.

** Previously filed.

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

(b) Financial Statement Schedule

Schedules have been omitted because they are not applicable, not required or the information required to be set forth therein is included in the consolidated financial statement or notes thereto.

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the “Act”), may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) It will provide to the underwriters at the closing(s) specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California, on the 10th day of October 2005.

SUNPOWER CORPORATION

By /s/ Thomas H. Werner

Thomas H. Werner
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ Thomas H. Werner Thomas H. Werner	Chief Executive Officer (Principal Executive Officer) and Director	October 10, 2005
/s/ Emmanuel T. Hernandez Emmanuel T. Hernandez	Chief Financial Officer (Principal Financial and Accounting Officer)	October 10, 2005
* T. J. Rodgers	Chairman of the Board	October 10, 2005
* W. Steve Albrecht	Director	October 10, 2005
* Betsy S. Atkins	Director	October 10, 2005
* Patrick Wood	Director	October 10, 2005

* /s/ Emmanuel T. Hernandez

Attorney-in-Fact

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Exhibit Index

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24.2	Power of Attorney.

* To be filed by amendment.

** Previously filed.

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

RESTATED CERTIFICATE OF INCORPORATION OF SUNPOWER CORPORATION

SunPower Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

FIRST: The original Certificate of Incorporation of the corporation was filed with the Secretary of State of Delaware on May 25, 2004 under the name SPR Acquisition Corporation.

SECOND: The Corporation has not received any payment for any of its stock.

THIRD: Pursuant to an action of the Board of Directors in accordance with Section 241 of the General Corporation Law of the State of Delaware, this Restated Certificate of Incorporation restates, integrates and further amends the provisions of the Certificate of Incorporation of the corporation.

FOURTH: The Restated Certificate of Incorporation of the corporation shall be amended and restated to read in full as follows:

ARTICLE I

The name of the corporation is SunPower Corporation (the "***Corporation***").

ARTICLE II

A. The registered agent and the address of the registered office in the State of Delaware are:

Corporation Trust Company
1209 Orange Street
Wilmington, Delaware 19801
County of New Castle

B. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "***DGCL***").

ARTICLE III

A. The total number of shares that the Corporation shall have authority to issue is 815,000,000, consisting of 750,000,000 shares designated as common stock, par value $0.001 per share (the "***Common Stock***"), and 65,000,000 shares designated as preferred stock, par value $0.001 per share (the "***Preferred Stock***").

B. The Common Stock shall consist of two series designated as "***Class A Common Stock***" and "***Class B Common Stock***" and sometimes referred to herein as a "***Class***" or "***Classes***" of Common Stock. The authorized number of shares of Class A Common Stock shall be 435,000,000 and the authorized number of shares of Class B Common Stock shall be 315,000,000.

C. The total number of shares of Preferred Stock that the Corporation shall have authority to issue is 65,000,000, of which 12,915,060 shall be designated as "***Series One Preferred Stock***" and 32,000,000 shall be designated as "***Series Two Preferred Stock***". The Board of Directors is hereby authorized, subject to limitations prescribed by law and the provisions of Part C of this Article III, by resolution to provide for the issuance of the remaining authorized shares of Preferred Stock in one or more series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, privileges, preferences, and relative participating, optional or other rights, if any, of the shares of each such series and the qualifications, limitations or restrictions thereof.

Subject to the restrictions set forth in Section 6 of Part D of this Article III and applicable law, the authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

1. The number of shares constituting that series (including an increase or decrease in the number of shares of any such series (but not below the number of shares in any such series then outstanding)) and the distinctive designation of that series;

2. The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;

3. Whether that series shall have voting rights (including multiple or fractional votes per share) in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

4. Whether that series shall have conversion privileges, and, if so, the terms and conditions of such privileges, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

5. Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption rates;

6. Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and the amount of such sinking funds;

7. The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and

8. Any other relative rights, preferences and limitations of that series.

No holders of shares of the Corporation of any class or series, now or hereafter authorized, shall have any preferential or preemptive rights to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants for such shares, or any rights to subscribe for, purchase or receive any securities convertible into or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation, except in the case of any shares of Preferred Stock to which such rights are specifically granted by any resolution or resolutions of the Board of Directors adopted pursuant to Part C of this Article III or in the case of any shares of Common Stock to which such rights are specifically granted by Section 5 of Part D of Article III.

D. The powers, preferences, rights, restrictions and other matters relating to the Common Stock are as follows:

1. ***Voting Rights***.

(a) All shares of Common Stock will be identical in all respects and will entitle the holders thereof to the same rights and privileges, except as expressly provided otherwise in this Certificate of Incorporation. Except as expressly specified otherwise herein or as otherwise provided by law, all series of Common Stock shall vote together as a single Class on all matters submitted to a vote of the stockholders.

(b) The Class B Common Stock shall be issuable only to Cypress Semiconductor Corporation or any Successor in Interest (as defined below) thereto ("***Cypress***"), or any Subsidiary (as defined below) of Cypress; provided, however, that nothing herein will prevent the distribution of such shares by Cypress to the stockholders of Cypress in connection with a Tax-Free Spin-Off (as defined below) and the issuance of shares of Class B Common Stock by the Corporation to holders thereof following a Tax-Free Spin-Off if such issuance is in connection with a dividend or distribution pursuant to Section 2(b) of this Part D of Article III.

(c) The holders of shares of Common Stock shall have the following voting rights:

(i) Except as provided in Section 1(c)(iii) of this Part D of Article III, each holder of a share of Class A Common Stock shall be entitled to cast one vote on all matters submitted to a vote of the stockholders of the Corporation for each share of Class A Common Stock held by such holder.

(ii) Each holder of a share of Class B Common Stock shall be entitled to cast eight votes on all matters submitted to a vote of the stockholders of the Corporation for each share of Class B Common Stock held by such holder.

(iii) Notwithstanding any other provision of this Certificate of Incorporation to the contrary, holders of Class A Common Stock shall not be eligible to vote on any alteration or change in the powers, preferences, or special rights of the Class B Common Stock that would not adversely affect the rights of the Class A Common Stock. For the foregoing purposes, the addition of any provision for the voluntary, mandatory or other

conversion or exchange of the Class B Common Stock into or for Class A Common Stock on a one-for-one basis shall be deemed not to adversely affect the rights of the Class A Common Stock.

2. ***Dividends and Distributions***.

(a) Subject to the preferences applicable to any Preferred Stock outstanding at any time, the holders of shares of Common Stock shall be entitled to receive such dividends and other distributions in cash, property or shares of stock of the Corporation as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor. Subject to the provisions of Sections 2(b) and 5(a) of this Part D of Article III, no dividend shall be paid on the Class A Common Stock in any year unless an equal dividend for such year is simultaneously paid on the Class B Common Stock.

(b) In the case of a dividend or other distribution payable in Class A Common Stock or Class B Common Stock (including any distribution pursuant to a stock split or division of Class A Common Stock or Class B Common Stock), only shares of Class A Common Stock shall be distributed with respect to Class A Common Stock and only shares of Class B Common Stock shall be distributed with respect to Class B Common Stock. In the case of any such dividend or other distribution payable in shares of Class A Common Stock or Class B Common Stock, the number of shares of each Class of Common Stock payable per share of such Class of Common Stock shall be equal.

3. ***Conversion and Exchange Rights***.

(a) Conversion of Class B Common Stock into Class A Common Stock.

(i) The holders of Class B Common Stock shall be entitled to convert, at any time and from time to time, any share of Class B Common Stock into one (1) fully paid and non-assessable share of Class A Common Stock. Such right shall be exercised by the surrender to the Corporation of the certificate or certificates representing the shares of Class B Common Stock to be converted at any time during normal business hours at the principal executive offices of the Corporation or at the office of the Corporation's transfer agent (the "***Transfer Agent***"), accompanied by a written notice from the holder of such shares stating that such holder desires to convert such shares, or a stated number of the shares represented by such certificate or certificates, into an equal number of shares of Class A Common Stock, and (if so required by the Corporation or the Transfer Agent) by instruments of transfer, in form satisfactory to the Corporation and to the Transfer Agent, duly executed by such holder or such holder's duly authorized attorney, and transfer tax stamps or funds therefor if required pursuant to Section 3(c)(iii) of this Part D of Article III.

(ii) Upon any transfer prior to the occurrence of a Tax-Free Spin Off (for purposes of clarity, other than the original issuance or a transfer in the form of a distribution by Cypress to the stockholders of Cypress in connection with a Tax-Free Spin-Off) of any share of Class B Common Stock to any Person other than the original holder thereof, such share shall immediately and automatically (and without any action on the part of the holder or

the Corporation) convert into one (1) fully paid and non-assessable share of Class A Common Stock; provided, however, that no such conversion shall occur solely as a result of the pledge or hypothecation of, or existence of any other lien or encumbrance on, any share(s) of Class B Common Stock, and no such conversion shall occur solely as a result of a transfer by the original holder thereof or one of its Subsidiaries or its Parent to the original holder thereof or one of its Subsidiaries or its Parent; provided further, that such share of Class B Common Stock shall immediately and automatically (and without any action on the part of the holder or the Corporation) convert into one (1) fully paid and non-assessable share of Class A Common Stock if at any time such holder is no longer the original holder or a Subsidiary or the Parent of the original holder of such share of Class B Common Stock.

(iii) As promptly as practicable following the surrender for conversion of a certificate representing shares of Class B Common Stock in the manner provided in Section 3(a)(i) or (ii) above, as applicable, and the payment in cash of any amount required by Section 3(c)(iii) of this Part D of Article III, the Corporation shall deliver or cause to be delivered at the office of the Transfer Agent, a certificate or certificates representing the number of full shares of Class A Common Stock issuable upon such conversion or exchange, issued in such name or names as such holder may direct. Such conversion or exchange shall be deemed to have been effected immediately prior to the close of business on the date of the giving of the required written notice and surrender of any certificate or certificates representing shares of Class B Common Stock or the date of the transfer of such certificate or certificates, as applicable. Upon the date any such conversion or exchange is made or effected, all rights of the holder of such shares of Class B Common Stock as such holder shall cease, and the Person or Persons in whose name or names the certificate or certificates representing the shares of Class A Common Stock are to be issued shall be treated for all purposes as having become the record holder or holders of such shares of Class A Common Stock.

(b) Special Mandatory Conversion of Class B Common Stock into Class A Common Stock.

(i) At any time Cypress and its Subsidiaries collectively own less than 40% of the shares of all Classes of the Corporation's Common Stock then outstanding (a "***Plurality Triggering Event***") each outstanding share of Class B Common Stock shall be automatically converted into one share of Class A Common Stock.

(ii) Such conversion shall be deemed to have been made at the close of business on the date of the Plurality Triggering Event, and the Person or Persons entitled to receive Class A Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of shares of Class A Common Stock on such date. Until certificates for such shares of Class B Common Stock that have been converted have been delivered to the Corporation for exchange for certificates representing Class A Common Stock, such certificates shall be deemed to represent the shares of Class A Common Stock into which such Class B Common Stock has been converted.

(c) Certain Provisions Relating to Stock Conversion, Exchange and Transfer.

(i) In the event of a reclassification or other similar transaction as a result of which the shares of Class A Common Stock are converted into another security, then the holders of any outstanding shares of Class B Common Stock shall be entitled to receive upon a conversion to Class A Common Stock thereof pursuant hereto, the amount of such security that such holder would have received if it had effected such conversion immediately prior to the record date of such reclassification or other similar transaction. Except as set forth in the preceding sentence, no adjustments in respect of dividends or other distributions shall be made upon the conversion of any share of Class B Common Stock to Class A Common Stock; provided, however, that if a share of Class B Common Stock shall be converted into a share of Class A Common Stock after the record date for the payment of a dividend or other distribution on shares of Class B Common Stock, but prior to such payment, then the registered holder of such share at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on such share on such date notwithstanding the conversion thereof.

(ii) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock, solely for the purpose of issuance upon conversion, exchange or transfer of outstanding shares of Class B Common Stock, such number of shares of Class A Common Stock that shall be issuable upon the conversion or exchange of all such outstanding shares of Class B Common Stock. The Corporation covenants and warrants that all shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock will, upon issuance in accordance with the terms of Sections 3(a) and 3(b) of this Part D of Article III, be validly issued, fully paid and non-assessable.

(iii) The issuance of certificates for shares of Class A Common Stock upon conversion of shares of Class B Common Stock shall be made without charge to the holders of such shares for any stamp or other similar tax in respect of such issuance; provided, however, that if any such certificate is to be issued in a name other than that of the holder of the share or shares of Class B Common Stock converted, then the Person or Persons requesting the issuance thereof shall pay to the Corporation the amount of any tax that may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid or is not payable.

4. ***Stock Splits***. Without the approval of the holders holding at least two-thirds of the outstanding shares of the Class A Common Stock and Class B Common Stock, each voting as a separate series, the Corporation shall not in any manner subdivide (by any stock split, stock dividend, reclassification, recapitalization or otherwise) or combine (by reverse stock split, reclassification, recapitalization or otherwise) the outstanding shares of one Class of Common Stock unless the outstanding shares of all series of Common Stock shall be proportionately subdivided or combined.

5. Options, Rights or Warrants.

(a) Subject to the following sentence, if the Corporation issues or makes an offering or distribution to all holders of a Class of Common Stock of shares of any class or series of its capital stock or options, rights or warrants to subscribe for such shares, then the Corporation shall simultaneously issue or make a similar offering or distribution of the same

number of shares, options, rights, or warrants per share to all holders of the other outstanding Classes of Common Stock, except that it need not issue or make such offering or distribution to any such Class of Common Stock in the event that the holders of a majority of the shares of such Class of Common Stock, voting as a separate class, determine that such offering or distribution need not be made to such class. However, notwithstanding anything in this Section 5(a) of this Part D of Article III to the contrary, in the event that the Corporation issues or makes an offering or distribution to all holders of any Class of Common Stock of shares of that Class of Common Stock or options, rights or warrants to subscribe for such shares, then the similar offering or distribution to be made to any holder of the other Class of Common Stock pursuant to this Section 5(a) of this Part D of Article III, shall be for options, warrants or rights which entitle such holder, upon exercise thereof, to purchase the Class or Classes of Common Stock then held by such holder.

(b) Subject to Section 5(a) above, the Corporation shall have the power to create and issue, whether or not in connection with the issuance and sale of any shares of stock or other securities of the Corporation, rights, options or warrants entitling the holders thereof to purchase from the Corporation any shares of its capital stock of any class or series at the time authorized, such rights, options or warrants to have such terms and conditions, and to be evidenced by or in such instrument or instruments, as shall be approved by the Board of Directors.

6. ***No Preemptive Rights***. The holders of shares of Common Stock are not entitled to any preemptive right to subscribe for, purchase or receive any part of any new or additional issue of stock of any class or series of the Corporation, whether now or hereafter authorized, or of bonds, debentures or other securities convertible into or exchangeable for stock of the Corporation.

7. ***No Reissuance***. No share or shares of Class B Common Stock acquired by the Corporation by reason of redemption, purchase, conversion, exchange or otherwise shall be reissued and all such shares shall be cancelled, retired and eliminated from the shares that the Corporation is authorized to issue.

8. ***Certain Definitions***.

(a) "*Affiliate*" means as to any Person, any other Person who controls, is controlled by, or is under common control with such Person.

(b) "*Code*" means the Internal Revenue Code of 1986, as amended.

(c) "*Parent*" means, with respect to any Person, any other Person that owns, directly or indirectly, more than 50% of the capital stock (or other voting interests) the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such first Person or who is a Successor in Interest to such first Person.

(d) "*Person*" means any individual, partnership, joint venture, limited liability company, firm, corporation, trust or other entity, including governmental authorities.

(e) "*Subsidiary*" means, with respect to any Person, any other Person in which such first Person owns, directly or indirectly, more than 50% of the capital stock (or other voting interests) the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such Person.

(f) "*Successor in Interest*" means, with respect to any Person, any other Person who, together with its Affiliates, acquires (whether by acquisition of new or existing securities, repurchase or cancellation of existing securities, merger, consolidation, business combination, sale, lease, exchange, transfer, license or acquisition of assets or otherwise) beneficial ownership of 50% or more of the total outstanding voting securities or all or substantially all of the assets of such first Person.

(g) "*Tax-Free Spin-Off*" means a distribution of Common Stock (and Preferred Stock, if any) of the Corporation or common stock (and preferred stock, if any) of a Person that is a successor to the Corporation to holders of common stock of Cypress intended to qualify as a tax-free distribution under Section 355 of the Code, or any successor thereto.

E. The power, preferences, rights, restrictions and other matters relating to the Series One Preferred Stock and the Series Two Preferred Stock are as follows:

1. ***Dividend Rights***. No dividend may be paid on or declared or set apart for the Common Stock in any one fiscal year unless a dividend at the rate of eight percent (8%) of the Initial Sales Price (as defined below) is paid on, or declared and set apart for, each outstanding share of Series One Preferred Stock and Series Two Preferred Stock. The "Initial Sales Price" for each share of Series One Preferred Stock shall be $0.6864 per share. The "Initial Sales Price" for each share of Series Two Preferred Stock shall be $0.50 per share. References herein to the "***Initial Sales Price***" shall mean the Initial Sales Price for the Series One Preferred Stock or Series Two Preferred Stock, as applicable. The amount of dividend shall be prorated for a share of Series One Preferred Stock or Series Two Preferred Stock, as applicable, which is not issued and outstanding for an entire fiscal year. The dividends on the Series One Preferred Stock and the Series Two Preferred Stock shall be paid out of any assets legally available therefor, when, as, and if declared by the Board of Directors. Dividends on the Series One Preferred Stock and the Series Two Preferred Stock shall not be cumulative and no rights shall accrue to the holders of the Series One Preferred Stock or the Series Two Preferred Stock in the event that the Corporation shall fail to declare or pay dividends on the Series One Preferred Stock or the Series Two Preferred Stock in the amount of eight percent (8%) of the Initial Sales Price per share per fiscal year, or in any amount in any prior year of the Corporation, whether or not the earnings of the Corporation in that previous fiscal year were sufficient to pay such dividends in whole or in part. In the event that the Board of Directors declares dividends in a fiscal year in an amount less than the aggregate of all the dividend preferences of the Series One Preferred Stock and the Series Two Preferred Stock, then the entire amount of dividends declared by the Board of Directors shall be distributed ratably among the holders of the outstanding Series One Preferred Stock and the Series Two Preferred Stock such that the same percentage of the annual dividend to which each series of Preferred Stock is entitled is paid on each outstanding share of such series of Preferred Stock.

2. ***Liquidation Preference***.

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made on the shares of Common Stock without first making distributions on the shares of Series One Preferred Stock and Series Two Preferred Stock, equal to the amount of the Initial Sales Price per share for each share of such series of Preferred Stock, as applicable, plus all declared but unpaid preferred dividends thereon (the "***Preferential Amount***"). If, upon the occurrence of a voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, the assets and property thus distributed among the holders of the Series One Preferred Stock and the Series Two Preferred Stock shall be insufficient to permit the payment to such holders of the Preferential Amount, then the entire assets and property of the Corporation legally available for distribution shall be distributed ratably among holders of the Series One Preferred Stock and the Series Two Preferred Stock, such that the same percentage of the Preferential Amount to which each such series of Preferred Stock is entitled is paid on each share of such series of Preferred Stock. After the payment of the Preferential Amount to the holders of the Series One Preferred Stock and the Series Two Preferred Stock, the remaining proceeds, if any, shall be allocated among the holders of the Common Stock, the Series One Preferred Stock and the Series Two Preferred Stock on a per share pro rata basis, with such Preferred Stock being treated on an as-converted basis. A consolidation or merger of the Corporation with or into any other corporation or corporations if thereafter the shares issued to the Corporation's stockholders as a result of such merger based on their Corporation shareholdings do not constitute a majority of the outstanding voting shares of the surviving Corporation, or a sale of substantially all of the assets of the Corporation to an unaffiliated third party, shall be deemed to be a liquidation, dissolution, or winding up within the meaning of this subsection. A Tax-Free Spin-Off shall not be deemed to be a liquidation, dissolution or winding up within the meaning of this subsection.

(b) Each holder of an outstanding share of Series One Preferred Stock or Series Two Preferred Stock shall be deemed to have consented to distributions made by the Corporation in connection with the repurchase of shares of common stock issued to or held by employees, consultants, independent contractors, vendors, strategic partners or customers upon termination of their services or failure to fulfill certain conditions pursuant to agreements providing for the right of said repurchase between the Corporation and such Persons at the same price per share such Persons paid therefor.

3. ***Redemption***. Neither the Series One Preferred Stock nor the Series Two Preferred Stock is redeemable.

4. ***Conversion Privilege***. The holders of the Series One Preferred Stock and the Series Two Preferred Stock shall have conversion rights as follows (the "***Conversion Rights***"):

(a) Right to Convert. Subject to subsection (d), (i) each share of Series One Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for the Preferred Stock, into such number of fully paid and nonassessable shares of Class B Common Stock as is determined by dividing the Initial Sales Price by the Conversion Price in effect on the date the certificate is surrendered for conversion and (ii) each share of Series Two Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date

of issuance of such share, at the office of the Corporation or any transfer agent for the Preferred Stock, into such number of fully paid and nonassessable shares of Class B Common Stock as is determined by dividing the Initial Sales Price by the Conversion Price in effect on the date the certificate is surrendered for conversion. The initial Conversion Price per share for shares of Series One Preferred Stock (the "***Series One Conversion Price***") shall be the Initial Sales Price for the Series One Preferred Stock, and the initial Conversion Price per share for shares of Series Two Preferred Stock (the "***Series Two Conversion Price***") shall be the Initial Sales Price for the Series Two Preferred Stock, provided, however, that the Series One Conversion Price and the Series Two Conversion Price shall be subject to adjustment as set forth herein. References herein to the Conversion Price shall mean the Conversion Price then in effect for the Series One Preferred Stock or the Series Two Preferred Stock, as applicable.

(b) Automatic Conversion. Each share of Series One Preferred Stock shall automatically be converted into shares of Class B Common Stock and each share of Series Two Preferred Stock shall be converted into shares of Class B Common Stock, in each case at the Conversion Price then in effect at such time immediately upon the earlier of (i) the date specified by vote or written consent or agreement of holders of at least a majority of the outstanding shares of the Series One Preferred Stock or Series Two Preferred Stock, as the case may be, voting separately as a series, or (ii) immediately upon the closing of the sale of the Corporation's Class A Common Stock in a firm commitment, underwritten public offering registered under the Securities Act of 1933, as amended (the "***Securities Act***"), other than a registration relating solely to a transaction under Rule 145 under such Securities Act (or any successor thereto) or to an employee benefit plan of the Corporation, at a public offering price (before underwriters' discounts and expenses) of at least Two Dollars and Seven Cents ($2.07) per share (as adjusted for any stock splits, stock dividends or other recapitalizations) and with gross proceeds to the Corporation of at least $20,000,000 (a "***Qualified Public Offering***").

(c) Mechanics of Conversion.

(i) Before any holder of Series One Preferred Stock shall be entitled voluntarily to convert the same into shares of Class B Common Stock or any holder of Series Two Preferred Stock shall be entitled to voluntarily convert the same into shares of Class B Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such stock, and shall give written notice to the Corporation at such office that he elects to convert the same (except that no such written notice of election to convert shall be necessary in the event of an automatic conversion pursuant to Section 4(b) hereof) and shall state therein the number of shares to be converted and the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of such shares of Preferred Stock, a certificate or certificates for the number of shares of Class B Common Stock to which such holder shall be entitled. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Preferred Stock to be converted, and the Person or Persons entitled to receive the shares of Class B Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Class B Common Stock on such date.

(ii) If the conversion is in connection with an underwritten offering of securities pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of Series One Preferred Stock or Series Two Preferred Stock for conversion, be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event the Person(s) entitled to receive the Class B Common Stock upon conversion of the Series One Preferred Stock or the Series Two Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such sale of securities. If the conversion occurs through the vote of the holders of a majority of the shares of Series One or Series Two Preferred Stock then outstanding, such conversion shall be deemed to have been made at the close of business on the day written notice of such election has been received by the Corporation, and the Person or Persons entitled to receive shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Class B Common Stock on such date. Until certificates for such shares of the Series One Preferred Stock or the Series Two Preferred Stock which has been converted have been delivered to the Corporation for exchange for certificates representing such Class B Common Stock such certificates shall be deemed to represent the shares of Class B Common Stock into which such Preferred Stock has been converted.

(d) Adjustments to Conversion Price for Certain Diluting Issues.

(i) Special Definitions. For purposes of this Section 4(d), the following definitions apply:

(A) "***Options***" shall mean rights, options, or warrants to subscribe for, purchase or otherwise acquire Class A Common Stock or Convertible Securities (as hereinafter defined).

(B) "***Original Issue Date***" shall mean the date on which a share of Series One Preferred Stock or Series Two Preferred Stock, as applicable, was first issued.

(C) "***Convertible Securities***" shall mean any evidences of indebtedness, shares (other than Common Stock, the Series One Preferred Stock and the Series Two Preferred Stock) or other securities convertible into or exchangeable for Class A Common Stock.

(D) "***Additional Shares of Common Stock***" shall mean all shares of Common Stock issued (or, pursuant to 4(d)(iii) hereof, deemed to be issued) by the Corporation after the Original Issue Date, other than shares of Class A Common Stock or Class B Common Stock issued or issuable:

(1) upon conversion of shares of the Series One or Series Two Preferred Stock into any other series or Class of stock pursuant to this Certificate of Incorporation;

(2) to employees, officers, directors, consultants or advisors pursuant to arrangements approved by the Board of Directors or an authorized committee thereof;

(3) upon the exercise of options or warrants existing and outstanding as of the date of filing of this Certificate of Incorporation;

(4) to any lessors, lenders, or others in connection with equipment purchases, leases, lines of credit, or bank financing arrangements by the Corporation, or to strategic partners to the Corporation, in each case approved by the Board of Directors;

(5) pursuant to the acquisition of another corporation or business entity by the Corporation by merger, purchase of all or substantially all of the assets or other reorganization whereby the Corporation or its stockholders own more than fifty percent (50%) of the voting power of the surviving or successor corporation or entity, provided such acquisition is approved by the Board of Directors;

(6) in connection with any stock split, stock dividend or recapitalization by the Corporation;

(7) to the public pursuant to a Qualified Public Offering;

(8) as a dividend or distribution on shares of Series One Preferred Stock, Series Two Preferred Stock or Class B Common Stock;

(9) which are excluded by the vote or written consent of the holders of at least a majority of the outstanding shares of Series One Preferred Stock or Series Two Preferred Stock, voting separately; or

(10) for which adjustment of the Conversion Price is made pursuant to Section 4(e) hereof.

(ii) No Adjustment of Conversion Price. Any provision herein to the contrary notwithstanding, no adjustment in the Conversion Price shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share (determined pursuant to Section 4(d)(v) hereof) for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Series One Conversion Price or Series Two Conversion Price, as applicable, in effect on the date of, and immediately prior to, such issue.

(iii) Deemed Issue of Additional Shares of Common Stock. In the event the Corporation, at any time or from time to time after the applicable Original Issue Date, shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against

dilution) of Class A Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(A) no further adjustments in the applicable Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Class A Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Corporation, or decrease or increase in the number of shares of Class A Common Stock issuable, upon the exercise, conversion or exchange thereof, the applicable Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the applicable Conversion Price shall affect Class B Common Stock previously issued upon conversion of the Series One Preferred Stock or Series Two Preferred Stock, respectively);

(C) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the applicable Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

(1) in the case of Convertible Securities or Options for Class A Common Stock, the only Additional Shares of Common Stock issued were the shares of Class A Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange, and

(2) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for

the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Corporation (determined pursuant to Section 4(d) hereof) upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

(D) no readjustment pursuant to clause (B) or (C) above shall have the effect of increasing the applicable Conversion Price to an amount which exceeds the lower of (1) the applicable Conversion Price on the original adjustment date, or (2) the applicable Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(E) in the case of any Options which expire by their terms not more than thirty (30) days after the date of issue thereof, no adjustment of the applicable Conversion Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the same manner provided in clause (C) above.

(iv) Adjustment of Conversion Price Upon Issuance of Shares of Common Stock. In the event this Corporation, at any time after the Original Issue Date of the Series One Preferred Stock or Series Two Preferred Stock, as applicable, shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 4(d)(iii) hereof) without consideration or for a consideration per share less than the Conversion Price, as applicable, in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price, as applicable, shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Class A Common Stock outstanding immediately prior to such issue plus the number of shares of Common Stock which the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at such Conversion Price in effect immediately prior to such issuance, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued. For the purpose of the above calculation, the number of shares of Class A Common Stock outstanding immediately prior to such issue shall be calculated as of the date of conversion on an outstanding basis, as if all shares of Preferred Stock, Common Stock and all other Convertible Securities had been fully converted into shares of Class A Common Stock immediately prior to such issuance, and as if currently exercisable warrants had been fully exercised immediately prior to such issuance (and the resulting securities fully converted into shares of Class A Common Stock, if so convertible), but not including in such calculation any stock options or any additional shares of Common Stock issuable with respect to shares of Preferred Stock or other Convertible Securities, solely as a result of the adjustment of the Conversion Price, as applicable, (or other conversion ratios) resulting from the issuance of Additional Shares of Common Stock causing such adjustment.

(v) Determination of Consideration. For purposes of this Section 4(d), the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) Cash and Property. Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation;

(2) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors.

(B) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section 4(d)(iii) hereof, relating to Options and Convertible Securities shall be determined by dividing:

(1) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by

(2) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against the dilution) issuable upon the exercise of such Options or conversion or exchange of such Convertible Securities.

(e) Adjustments to Conversion Prices for Stock Dividends and for Combinations or Subdivisions of Common Stock. In the event that this Corporation at any time or from time to time after the Original Issue Date of the Series One Preferred Stock or Series Two Preferred Stock, as applicable, shall declare or pay, without consideration, any dividend on the Class A Common Stock or Class B Common Stock payable in Common Stock or in any right to acquire Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Class A Common Stock or Class B Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire Common Stock), or in the event the outstanding shares of Class A Common Stock or Class B Common Stock shall be combined or consolidated, by

reclassification or otherwise, into a lesser number of shares of Common Stock, then the applicable Conversion Price in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate. In the event that this Corporation shall declare or pay, without consideration, any dividend on the Class A Common Stock or the Class B Common Stock payable in any right to acquire Common Stock for no consideration, then the Corporation shall be deemed to have made a dividend payable in Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

(f) Adjustments for Reclassification and Reorganization. If the Class B Common Stock issuable upon conversion of the Series One or Series Two Preferred Stock shall be changed into the same or a different number of shares of any other Class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for in Section 4(e) hereof or a merger or other reorganization), the applicable Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted so that such Series One Preferred Stock or Series Two Preferred Stock shall be convertible into, in lieu of the number of shares of Class B Common Stock, respectively, which the holders would otherwise have been entitled to receive, a number of shares of such other Class or classes of stock equivalent to the number of shares of Class B Common Stock that would have been subject to receipt by the holders upon conversion of such series of Preferred Stock immediately before that change.

(g) No Impairment. The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 4 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series One Preferred Stock and the Series Two Preferred Stock against impairment.

(h) Certificates as to Adjustments. Upon the occurrence of each adjustment or readjustment of the applicable Conversion Price pursuant to this Section 4, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series One Preferred Stock and Series Two Preferred Stock a certificate executed by the Corporation's President or Chief Financial Officer setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series One Preferred Stock or Series Two Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the applicable Conversion Price at the time in effect, and (iii) the number of shares of Class B Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such Preferred Stock.

(i) Notices of Record Date. In the event that the Corporation shall propose at any time: (i) to declare any dividend or distribution upon its Class A Common Stock

or Class B Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus; (ii) to offer for subscription pro rata to the holders of any Class or series of its stock any additional shares of stock of any Class or series or other rights; (iii) to effect any reclassification or recapitalization of its Class A Common Stock or Class B Common Stock outstanding involving a change in the Common Stock; or (iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; then, in connection with each such event, the Corporation shall send to the holders of the Series One Preferred Stock and Series Two Preferred Stock:

(A) at least twenty (20) days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (iii) and (iv) above; and

(B) in the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event).

(C) in the event that the Corporation does not comply with the requirements of this subsection (i) unless waived by holders of a majority of the outstanding shares of Series One and Series Two Preferred Stock, the Corporation shall forthwith either cause the closing of the transaction to be postponed until the Corporation has complied with such requirements or cancel the transaction, in which event the rights, preferences and privileges existing immediately prior to the date of the first notice referred to in this subsection (i) hereof, shall remain in effect.

(j) Issue Taxes. The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Class B Common Stock on conversion of the Series One Preferred Stock and the Series Two Preferred Stock, respectively, pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion.

(k) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class B Common Stock, solely for the purpose of effecting the conversion of the shares of the Preferred Stock, such number of its shares of Class B Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series One Preferred Stock and Series Two Preferred Stock; and if at any time the number of authorized but unissued shares of Class B Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series One Preferred Stock and the Series Two Preferred Stock the Corporation will

take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Class B Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Certificate of Incorporation.

(l) Fractional Shares. No fractional share shall be issued upon the conversion of any share or shares of Preferred Stock. All shares of Class B Common Stock (including fractions thereof) issuable upon conversion of more than one share of Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Class B Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined in good faith by the Board of Directors).

(m) Notices. Any notice required by the provisions of this Section 4 to be given to the holders of shares of Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of the Corporation.

(n) Conversion of Series One and Series Two Preferred Stock Following Mandatory Conversion of Class B Common Stock. From and after the special mandatory conversion set forth in Article III, Section 3(b) hereof, each share of Series One and Series Two Preferred Stock shall be convertible only into Class A Common Stock and all references in this Article III, Section 5 to Class B Common Stock shall be deemed to refer to Class A Common Stock.

5. Voting Rights. Each share of Series One Preferred Stock issued and outstanding shall have the number of votes equal to the number of shares of Class B Common Stock into which each is convertible, as adjusted from time to time under Section 4 hereof. Each share of Series Two Preferred Stock issued and outstanding shall have the number of votes equal to the number of shares of Class B Common Stock into which each is convertible, as adjusted from time to time under Section 4 hereof. Fractional votes shall not, however, be permitted and any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of Series One Preferred Stock and Series Two Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward).

6. Covenants. In addition to any other rights provided by law, so long as any shares of Series One Preferred Stock or Series Two Preferred Stock shall be outstanding, this Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of the outstanding shares of the Series One Preferred Stock and Series Two Preferred Stock, voting as separate series:

(a) amend or repeal any provision of the Corporation's Certificate of Incorporation or By-laws if such action would materially and adversely change the rights, preferences or privileges of the Series One Preferred Stock or Series Two Preferred Stock;

(b) amend the Corporation's Certificate of Incorporation if such action would increase the authorized number of shares of Series One Preferred Stock or Series Two Preferred Stock;

(c) authorize or issue shares of any Class of stock having any preference or priority as to dividends or assets on a parity with of superior to the Series One Preferred Stock or Series Two Preferred Stock;

(d) approve or authorize a merger of the Corporation with or into another company, if thereafter the shares issued to the Corporation's stockholders as a result of such merger based on their Corporation shareholdings do not constitute a majority of the outstanding voting shares of the surviving company (except for a merger or reincorporation effected solely to change the Corporation's place of business), sale of substantially all the assets of the Corporation to an unaffiliated third party, or other like reorganization of the Corporation;

(e) approve the purchase, redemption or other acquisition of any Common Stock of the Corporation, other than repurchases pursuant to stock restriction agreements approved by the Board of Directors that grant the Corporation a right of repurchase upon termination of the service or employment of a consultant, director, or employee;

(f) pay or declare any dividend on any securities of the Corporation;

(g) approve the transfer of material assets of the Corporation to any Person other than a wholly owned subsidiary of the Corporation; or

(h) approve the liquidation or dissolution of the Corporation.

7. Reissuance of Preferred Stock. No shares of Series One Preferred Stock or Series Two Preferred Stock acquired by the Corporation by reason of purchase, conversion or otherwise shall be reissued.

ARTICLE IV

A. Number of Directors. Subject to Section 4 of Article VII, the authorized number of directors of the corporation shall be determined from time to time by resolution adopted by the affirmative vote of the majority of the entire Board of Directors at any regular or special meeting of such Board, within any limits prescribed in the By-laws of the Corporation.

B. Classes of Directors. From and after such date, if any, on which a Plurality Triggering Event has previously occurred and Cypress is no longer consolidating the Corporation for accounting purposes (provided that, if on any such date following the occurrence of a Plurality Triggering Event, Cypress would not be consolidating the Corporation for accounting purposes but for the existence of the provisions of this Restated Certificate of Incorporation which expire upon the occurrence of a Consolidation Triggering Event, then for purposes of this definition, Cypress shall be deemed not to be consolidating the Corporation for accounting purposes on such date) (such date, the "***Consolidation Triggering Event***"), the Board of Directors shall be divided into three classes, designated Class I, Class II and Class III, as nearly equal in number as possible, and the term of office of directors of one class shall expire at each

annual meeting of stockholders, and in all cases as to each director until his or her successor shall be elected and shall qualify or until his or her earlier resignation, removal from office, death or incapacity. The initial designees for each class of directors shall be determined as set forth in the By-laws. Additional directorships resulting from an increase in number of directors shall be apportioned among the classes as equally as possible. The initial term of office of directors of Class I shall expire at the next annual meeting of stockholders following a Consolidation Triggering Event, the initial term of office of directors of Class II shall expire at the annual meeting of stockholders in the year following the year in which the Class I directors are elected and qualified in accordance with the preceding clause, and the initial term of office of directors of Class III shall expire at the annual meeting of stockholders in the year following the year in which the Class II directors are elected and qualified in accordance with the preceding clause. Following a Consolidation Triggering Event, at each annual meeting of stockholders the number of directors equal to the number of directors of the class whose term expires at the time of such meeting (or, if less, the number of directors properly nominated and qualified for election) shall be elected to hold office until the third succeeding annual meeting of stockholders after their election.

C. Vacancies and Removal. Subject to the provisions hereof, newly created directorships resulting from any increase in the authorized number of directors, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal, or other cause, may be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class, if any, of directors in which the new directorship was created or in which the vacancy occurred, and until such director's successor shall have been duly elected and qualified or until his or her earlier resignation, removal from office, death or incapacity. Subject to the provisions of this Restated Certificate of Incorporation, no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. Until the occurrence of a Consolidation Triggering Event, any director or the entire Board of Directors of the Corporation may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

ARTICLE V

A. Power of Stockholders to Act by Written Consent. Until the occurrence of a Consolidation Triggering Event, all actions required to be taken at any annual or special meeting may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, and shall be delivered to the Corporation by delivery to its registered office, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings or stockholders are recorded. Following a Consolidation Triggering Event, no action required or permitted to be taken at any annual or special meeting of the stockholders of the corporation may be taken without a meeting and the power of the stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

B. Special Meetings of Stockholders. Until the occurrence of a Consolidation Triggering Event, special meetings of the stockholders of the Corporation may be called for any purpose or purposes in accordance with the provisions set forth in the By-laws of the Corporation by Cypress as well as any other Person specified in the By-laws. Following the occurrence of a Consolidation Triggering Event, special meetings of the stockholders of the Corporation may be called for any purpose or purposes in accordance with the provisions set forth in the By-laws of the Corporation.

C. Cumulative Voting. The stockholders of the Corporation shall not have cumulative voting.

ARTICLE VI

A. This Article VI anticipates the possibility (1) that Cypress may be a majority or significant stockholder of the Corporation, (2) that certain officers and/or directors of the Corporation may also serve as officers and/or directors of Cypress, (3) that the Corporation and Cypress, either directly or through their subsidiaries, may engage in the same or similar activities or lines of business and have an interest in the same areas of corporate opportunities, and (4) that benefits may be derived by the Corporation through its continued contractual, corporate and business relations with Cypress and its subsidiaries. The provisions of this Article VI shall, to the fullest extent permitted by law, define the conduct of certain affairs of the Corporation and its subsidiaries as they may involve Cypress and its subsidiaries, and its officers and directors, and the powers, rights, duties and liabilities of the Corporation and its officers, directors and stockholders in connection therewith.

B. Except as may be otherwise provided in a written agreement between the Corporation and Cypress, the Corporation shall not be deemed to have an interest or expectancy in any business opportunity, transaction, or other matter in which Cypress or any of its officers, directors, employees or agents engages or seeks to engage other than opportunities that are specifically and primarily applicable to converting solar energy into electrical energy and using the resulting electrical energy other than in applications for consumers where photodiode technology is combined with micro-controllers and other integrated circuits made by Cypress. Neither Cypress nor any officer, director, employee or agent thereof shall be deemed to have acted in bad faith or in a manner inconsistent with the best interests of the Corporation or its stockholders or to have acted in a manner inconsistent with or opposed to any fiduciary duty to the Corporation or its stockholders by reason of Cypress or any officer, director, employee or agent thereof exercising its right to engage in any activities or lines of business, or to pursue (or fail to offer or communicate to the Corporation) any business opportunity, transaction or other matter other than opportunities that are specifically and primarily applicable to converting solar energy into electrical energy and using the resulting electrical energy other than in applications for consumers where photodiode technology is combined with micro-controllers and other integrated circuits made by Cypress.

C. For purposes of this Article VI only: (i) The term “Corporation” shall mean the Corporation and all corporations, partnerships, joint ventures, associations and other entities in which the Corporation beneficially owns (directly or indirectly) 50% or more of the outstanding voting stock, voting power, partnership interests or similar voting interests, and (ii) the term

“Cypress” shall mean Cypress and all corporations, partnerships, joint ventures, associations and other entities in which Cypress beneficially owns (directly or indirectly) 50% or more of the outstanding voting stock, voting power, partnership interests or similar voting interests (other than the Corporation, defined in accordance with clause (i) of this Section C).

ARTICLE VII

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware:

1. Subject to Section 4 of this Article VII, the Board of Directors is expressly authorized to adopt, amend or repeal the By-laws of the Corporation by vote of at least a majority of the members of the Board of Directors.

2. Elections of directors need not be by written ballot unless the By-laws of the Corporation shall so provide.

3. The books of the Corporation may be kept at such place within or without the State of Delaware as the By-laws of the Corporation may provide or as may be designated from time to time by the Board of Directors.

4. Until the occurrence of a Consolidation Triggering Event, a vote of at least 75% of the then-authorized number of the members of the Board of Directors shall be required to:

(a) adopt, amend or repeal the By-laws of the Corporation;

(b) amend the Certificate of Incorporation of the Corporation (including by way of a Certificate of Designations or otherwise);

(c) Appoint or remove the Chief Executive Officer of the Corporation;

(d) Designate or appoint, or allow the Corporation to nominate or recommend for election by stockholders of the Corporation, an individual to the Board of Directors of the Corporation;

(e) Change the size of the Board of Directors of the Corporation to be other than in the range of five (5) to seven (7) members;

(f) Form a committee of the Board of Directors of the Corporation or establish or change a charter, committee responsibilities or committee membership of any committee of the Board of Directors of the Corporation;

(g) Adopt any stockholder rights plan, “poison pill” or other similar arrangement; or

(h) Approve any transaction or series of related transactions which would involve a merger, consolidation, restructuring, sale of substantially all of the assets of the

Corporation or any of its Subsidiaries or otherwise result in any Person or entity obtaining control over the Corporation or any of its Subsidiaries;

Provided, however, that the requirement to obtain any such supermajority vote of the Board of Directors of the Corporation as set forth in this Section 4 of Article VII may be waived at any time by Cypress in its capacity as a stockholder of the Corporation, in its sole discretion.

ARTICLE VIII

A. To the fullest extent permitted by the DGCL, as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the Delaware Corporation Law hereafter is amended to further eliminate or limit the liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended DGCL. Any repeal or modification of this paragraph by the stockholders of the Corporation shall be prospective only and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

B. 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the Corporation or, while serving as a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, except as may be prohibited by applicable law, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior thereto), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith and such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that, except as provided in Section 3 of this Article VIII with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the board of directors of the Corporation.

2. Right to Advancement of Expenses. The right to indemnification conferred in paragraph 1 of this Section shall include the right to be paid by the Corporation the expenses incurred in defending any proceeding for which such right to indemnification is applicable in advance of its final disposition (hereinafter an "advancement of expenses");

provided, however, that, if the DGCL requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section or otherwise.

3. Right of Indemnitee to Bring Suit. The rights to indemnification and to the advancement of expenses conferred in paragraphs 1 and 2 of this Section shall be contract rights. If a claim under paragraph 1 or 2 of this Section is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the DGCL. Neither the failure of the Corporation (including its board of directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its board of directors, independent legal counsel or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Section or otherwise shall be on the Corporation.

4. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Section shall not be exclusive of any other right which any Person may have or hereafter acquire under any statute, the Corporation's certificate of incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

5. Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such Person against such expense, liability or loss under the DGCL.

6. Indemnification of Employees and Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the board of directors, grant rights to indemnification, and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Section with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

7. Amendment. Neither any amendment nor repeal of this Article V, nor the adoption of any provision of the Corporation's Certificate of Incorporation inconsistent with this Article VIII, shall eliminate or reduce the effect of this Article V in respect of any matter occurring, or action or proceeding accruing or arising or that, but for this Article V, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE IX

Except as otherwise provided in this Certificate of Incorporation, the Corporation reserves the right to amend or repeal any provision, rescind or amend in any respect any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon a stockholder herein are granted subject to this reservation.

* * *

* * *

FOURTH: This Restated Certificate of Incorporation was duly adopted by the Board of Directors in accordance with the provisions of Section 241 of the DGCL.

IN WITNESS WHEREOF, SunPower Corporation has caused this certificate to be signed by its _____ this __day of _____, 2005.

_____

BY-LAWS

OF

SUNPOWER CORPORATION

(a Delaware corporation)

TABLE OF CONTENTS

BY-LAWS

OF

SUNPOWER CORPORATION

(a Delaware corporation)

ARTICLE 1

Offices

1.1 Principal Office. The Board of Directors shall fix the location of the principal executive office of the Corporation at any place within or outside the State of Delaware.

1.2 Additional Offices. The Board of Directors (the "Board") may at any time establish branch or subordinate offices at any place or places.

ARTICLE 2

Meeting of Stockholders

2.1 Place of Meeting. Meetings of stockholders may be held at such place, either within or without Delaware, as determined by the Board. The Board may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Delaware law. If authorized by the Board in its sole discretion, and subject to such guidelines and procedures as the Board may adopt, stockholders and proxy holders not physically present at a meeting of stockholders may, by means of remote communication: (i) participate in a meeting of stockholders; and (ii) be deemed present in person and vote at a meeting of stockholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (A) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxy holder, (B) the Corporation shall implement reasonable measures to provide such stockholders and proxy holders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (C) if any stockholder or proxy holder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

2.2 Annual Meeting. Annual meetings of stockholders shall be held at such date and time as shall be designated from time to time by the Board and stated in the notice of the meeting. At such annual meetings, the stockholders shall elect directors and transact such other business as may properly be brought before the meetings.

2.3 Special Meetings. Special meetings of the stockholders may be called for any purpose or purposes, unless otherwise prescribed by statute or by the Restated Certificate of Incorporation, at the request of the Board, the Chairman of the Board or the Chief Executive Officer; *provided*, *that* until a Consolidation Triggering Event (as that term is defined in Part B of Article IV of the Corporation's Restated Certificate of Incorporation, which definition is hereby incorporated by reference into these By-laws), special meetings of the stockholders may also be called at the request of Cypress (as that term is defined in Section 1(b) of Part D of Article III of the Corporation's Restated Certificate of Incorporation and hereinafter, "Cypress"), in its capacity as a stockholder of the Corporation. Such request shall state the purpose or purposes of the proposed meeting. Upon request in writing that a special meeting of stockholders be called, directed to the Chairman of the Board of Directors, the President, the Chief Executive Officer, the Vice President or the Secretary, by any person (other than the board of directors) entitled to call a special meeting of stockholders, the person forthwith shall cause notice to be given to the stockholders entitled to vote that a meeting will be held at a time requested by the person or persons calling the meeting, such time not to be less than ten (10), nor more than sixty (60), days after receipt of the request. Such notice shall state the purpose or purposes of the proposed meeting.

2.4 Notice of Meetings. Written notice of stockholders' meetings, stating the place, if any, date and time of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting not less than ten (10), nor more than sixty (60), days prior to the meeting.

When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, if any, date and time thereof and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

2.5 Business Matter of a Special Meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

2.6 List of Stockholders. The officer in charge of the stock ledger of the Corporation or the transfer agent shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the

notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

2.7 Organization and Conduct of Business. The Chairman of the Board or, in his or her absence, the Chief Executive Officer of the Corporation or, in their absence, such person as the Board may have designated or, in the absence of such a person, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as Chairman of the meeting. In the absence of the Secretary of the Corporation, the Secretary of the meeting shall be such person as the Chairman appoints.

The Chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seems to him or her in order.

2.8 Quorum and Adjournments. Except where otherwise provided by law or in the Restated Certificate of Incorporation or these By-laws, the holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented in proxy, shall constitute a quorum at all meetings of the stockholders. The stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting. At such adjourned meeting at which a quorum is present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed.

2.9 Voting Rights. Unless otherwise provided in the Restated Certificate of Incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder.

2.10 Majority Vote. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the statutes or of the Restated Certificate of Incorporation or of these By-laws, a different vote is required, in which case such express provision shall govern and control the decision of such question.

2.11 Record Date for Stockholder Notice and Voting. (a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of

stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty or fewer than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more that 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation at its principal executive office. If no record date has been fixed by the Board of Directors and prior action by the Board of Director is required by applicable law, the Certificate of Incorporation, or these Bylaws, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution, or allotment of any rights, or the stockholders entitled to exercise any rights in respect of any change, conversion, or exchange of capital stock, or for the purpose of any other lawful action, except as may otherwise be provided in these Bylaws, the Board of Directors may fix a record date. Such record date shall not precede the date upon which the resolution fixing such record date is adopted, and shall not be more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

2.12 Proxies. Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the Secretary of the Corporation. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, electronic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (a) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the Corporation stating that the proxy is revoked or by a subsequent proxy executed by the maker of the proxy, or by that person's attendance and vote at the meeting; or (b) written notice of the death or incapacity of the maker of that proxy is received by the Corporation before the vote pursuant to that proxy is

counted; provided, however, that no proxy shall be valid after the expiration of eleven months from the date of the proxy, unless otherwise provided in the proxy.

2.13 Inspectors of Election. Before any meeting of stockholders, the Board may appoint any person other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the Chairman of the meeting may, and on the request of any stockholder or a stockholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting on the request of one or more stockholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the Chairman of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy or to act in place of such inspector.

2.14 Action Without Meeting by Written Consent. Until the occurrence of a Consolidation Triggering Event, all actions required to be taken at any annual or special meeting may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, and shall be delivered to the Corporation by delivery to its registered office, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings or stockholders are recorded. Following the occurrence of a Consolidation Triggering Event, no action required or permitted to be taken at any annual or special meeting of the stockholders of the Corporation may be taken without a meeting and the power of the stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

ARTICLE 3

Directors

3.1 Number; Qualifications; Election. The authorized number of directors shall initially be five (5), such number to be changed from time to time by resolution of the Board, subject to Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation.

From and after a Consolidation Triggering Event, the Board of Directors shall be divided into three classes, each class to serve for a term of three (3) years and to be as nearly equal in number as possible. Class I shall be comprised of directors who shall serve until the annual meeting of stockholders, following a Consolidation Triggering Event and until their successors shall have been elected and qualified. Class II shall be comprised of directors who shall serve until the annual meeting of stockholders in the year following the year in which the Class I directors are elected in accordance with the preceding sentence and until their successors shall have been elected and qualified. Class III shall be comprised of directors who shall serve until the annual meeting of stockholders in the year following the year in which the Class II directors

are elected in accordance with the preceding sentence and until their successors shall have been elected and qualified.

The initial classification of directors shall be determined by the Board of Directors in accordance with the following procedure:

- the then current Board of Directors shall be ranked in the following order: first, directors who are also employees of the Corporation, followed by directors who are also employees of Cypress (but not of the Corporation), followed by directors who are also members of the board of directors (but not employees) of Cypress, followed by other directors. Ties in the rankings of directors made in accordance with the preceding sentence shall be settled as follows: (i) first, the board member having served on the Corporation's Board of Directors longer shall be given priority, and (ii) second, the board member whose last name appears first alphabetically shall receive priority.
- the directors, ranked in accordance with the preceding bullet, shall designated to the director classifications in descending order of class (Class III, Class II, Class I), such that the director ranked first shall be the first Class III director, and so forth.

Directors shall be elected at the annual meeting or at any special meeting of the stockholders, except as provided in Section 3.2 hereof, and each director so elected shall hold office until the expiration of the term for which elected, or until his successor is elected and qualified, or until his earlier resignation or removal. Directors need not be stockholders. All elections of directors shall be by written ballot, unless otherwise provided in the certificate of incorporation; if authorized by the Board, such requirement of a written ballot shall be satisfied by a ballot submitted by electronic transmission, provided that any such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or proxy holder.

3.2 Resignation and Vacancies. A vacancy or vacancies in the Board shall be deemed to exist in the case of the death, resignation or removal of any director, or if the authorized number of directors be increased. Subject to Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation, vacancies may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, unless otherwise provided in the Restated Certificate of Incorporation. The stockholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. If the Board accepts the resignation of a director tendered to take effect at a future time, the Board shall have power to elect a successor (subject to Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation) to take office when the resignation is to become effective. If there are no directors in office, then an election of directors may be held in the manner provided by statute. In the event of a vacancy in the Board of Directors, the remaining directors, except as otherwise provided by law, the Corporation's Restated Certificate of Incorporation or these By-laws, may exercise the powers of the full Board of Directors until the vacancy is filled.

3.3 Removal of Directors. Unless otherwise restricted by statute, or by the Restated Certificate of Incorporation or these By-laws, any director or the entire Board may be removed, with or without cause, by the holders of at least a majority of the shares entitled to vote at an election of directors.

3.4 Powers. Subject to the provisions of the Delaware General Corporation Law and the Corporation's Restated Certificate of Incorporation, the business of the Corporation shall be managed by or under the direction of the Board which may exercise all such powers of the Corporation and do all such lawful acts and things which are not by statute or by the Restated Certificate of Incorporation or by these By-laws directed or required to be exercised or done by the stockholders.

Without prejudice to these general powers, and subject to the same limitations and those provisions set forth in Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation, the directors shall have the power to:

(a) Select and remove all officers, agents, and employees of the Corporation; prescribe any powers and duties for them that are consistent with law, with the Restated Certificate of Incorporation, and with these By-laws and fix their compensation;

(b) Confer upon any office the power to appoint, remove and suspend subordinate officers, employees and agents;

(c) Change the principal executive office or the principal business office in the State of California, or any other state, from one location to another; cause the Corporation to be qualified to do business in any other state, territory, dependency or country, and conduct business within or without the State of California; and designate any place within or without the State of California for the holding of any stockholders meeting, or meetings, including annual meetings;

(d) Adopt, make, and use a corporate seal; prescribe the forms of certificates of stock; and alter the form of the seal and certificates;

(e) Authorize the issuance of shares of stock of the Corporation on any lawful terms;

(f) Borrow money and incur indebtedness on behalf of the Corporation, and cause to be executed and delivered for the Corporation's purposes, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecation and other evidences of debt and securities;

(g) Declare dividends from time to time in accordance with law;

(h) Adopt from time to time such stock option, stock purchase, bonus or other compensation plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and

(i) Adopt from time to time policies not inconsistent with these By-laws for the management of the Corporation's business and affairs.

3.5 Place of Meetings. The Board may hold meetings, both regular and special, either within or without the State of Delaware.

3.6 Annual Meetings. The annual meeting of the Board shall be held immediately following the annual meeting of stockholders, and no notice of such meeting shall be necessary to the Board, provided a quorum shall be present. The annual meetings shall be for the purposes of organization, for an election of officers, and for the transaction of other business.

3.7 Regular Meetings. Regular meetings of the Board may be held without notice at such time and place as may be determined from time to time by the Board.

3.8 Special Meetings. Special meetings of the Board may be called by the Chairman of the Board, the Chief Executive Officer or any two members of the Board, upon one (1) day's notice to each director.

3.9 Quorum and Adjournments. At all meetings of the Board, a majority of the directors then in office shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may otherwise be specifically provided by law or by the Restated Certificate of Incorporation. If a quorum is not present at any meeting of the Board, the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting at which the adjournment is taken, until a quorum shall be present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved of by at least a majority of the required quorum for that meeting.

3.10 Action Without Meeting. Unless otherwise restricted by the Restated Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if all members of the

Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

3.11 Telephone Meetings. Unless otherwise restricted by the Restated Certificate of Incorporation or these By-laws, any member of the Board or of any committee may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.12 Waiver of Notice. Notice of a meeting need not be given to any director who signs a waiver of notice or provides a waiver by electronic transmission or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, either prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents and approvals or any waiver by electronic transmission shall be filed with the corporate records or made a part of the minutes of the meeting.

3.13 Fees and Compensation of Directors. Unless otherwise restricted by the Restated Certificate of Incorporation or these By-laws, the Board shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board, and may be paid a fixed sum for attendance at each meeting of the Board or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor; *provided*, that, no person who concurrently serves as a member of the Board and also serves as an officer of the Corporation or as an officer of any "Parent" (as defined in Article III, Section D.8.(c) of the Corporation's Restated Certificate of Incorporation) of the Corporation shall receive additional compensation from the Corporation, other than the reimbursement of expenses, for service on the Board of Directors of the Corporation. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE 4

Committees of Directors

4.1 Selection. Subject to Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation, the Board may, by resolution passed by a majority of the entire Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation; *provided*, that until the occurrence of a Consolidation Triggering Event, at the request of Cypress, a representative specifically designated by Cypress (in its capacity as a stockholder of the Corporation) shall serve on each such committee unless otherwise prohibited by the rules of the Nasdaq Stock Market or applicable law. Subject to the immediately preceding sentence, the Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, provided that the approval of Cypress (in its capacity as a stockholder of the Corporation) shall be required to designate any alternate member who will replace any designee of Cypress (in its capacity as a stockholder of the Corporation) on any committee.

In the absence or disqualification of a member of a committee other than a designee of Cypress (in its capacity as a stockholder of the Corporation), the member or members thereof present at any meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member.

4.2 Power. Any such committee, to the extent provided in the resolution of the Board and subject to Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Restated Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board as provided in section 151(a) of the General Corporation Law of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of dissolution, removing or indemnifying directors or amending the By-laws of the Corporation; and, unless the resolution or the Restated Certificate of Incorporation expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock or to adopt a certificate of ownership and merger. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board.

4.3 Committee Minutes. Each committee shall keep regular minutes of its meetings and report the same to the Board when required.

ARTICLE 5

Officers

5.1 Officers Designated. Subject to Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation, the officers of the Corporation shall be chosen by the Board and shall be a Chief Executive Officer, a President, a Secretary and a Chief Financial Officer. The Board may also choose a Chairman of the Board, Chief Operating Officer, one or more Vice Presidents and one or more assistant Secretaries. Any number of offices may be held by the same person, unless the Restated Certificate of Incorporation or these By-laws otherwise provide.

5.2 Appointment of Officers. Subject to Section 4 of Article VII of the Restated Certificate of Incorporation of the Corporation, the officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or 5.5 hereof, shall

be appointed by the Board, and each shall serve at the pleasure of the Board, subject to the rights, if any, of an officer under any contract of employment.

5.3 Subordinate Officers. The Board or any duly authorized committee may appoint, and may empower the Chief Executive Officer to appoint, such other officers and agents as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the By-laws or as the Board or duly authorized committee may from time to time determine.

5.4 Removal and Resignation of Officers. Subject to the rights, if any, of an officer under any contract of employment and Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board or authorized committee, at any regular or special meeting of the Board or such committee, or, except in case of an officer chosen by the Board or authorized committee, by any officer upon whom such power of removal may be conferred by the Board or authorized committee.

Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

5.5 Vacancies in Offices. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these By-laws for regular appointment to that office.

5.6 Compensation. The salaries of all officers of the Corporation shall be fixed from time to time by the Board, and no officer shall be prevented from receiving a salary because he is also a director of the Corporation.

5.7 The Chairman of the Board. If the Board of Directors appoints a Chairman of the Board, such Chairman shall, when present, preside at all meetings of the stockholders and the Board. The Chairman shall perform such duties and possess such powers as are customarily vested in the office of the Chairman of the Board or as may be vested in the Chairman by the Board of Directors.

5.8 The Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board to the Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the stockholders and in the absence of the Chairman of the Board, or if there be none, at all meetings of the Board, shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board are carried into effect. He or she shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board to some other officer or agent of the Corporation.

5.9 The President. The President shall, in the event there be no Chief Executive Officer or in the absence of the Chief Executive Officer or in the event of his or her disability or refusal to act, perform the duties of the Chief Executive Officer, and when so acting, shall have the powers of and subject to all the restrictions upon the Chief Executive Officer. The President shall perform such other duties and have such other powers as may from time to time be prescribed for such person by the Board, the Chairman of the Board, the Chief Executive Officer or these By-laws.

5.10 The Vice President. The Vice President (or in the event there be more than one, the Vice Presidents in the order designated by the directors, or in the absence of any designation, in the order of their election), shall, in the absence of the President or in the event of his disability or refusal to act, perform the duties of the President, and when so acting, shall have the powers of and be subject to all the restrictions upon the President. The Vice President(s) shall perform such other duties and have such other powers as may from time to time be prescribed for them by the Board, the Chief Executive Officer, the President, the Chairman of the Board or these By-laws.

5.11 The Secretary. The Secretary shall attend all meetings of the Board and the stockholders and record all votes and the proceedings of the meetings in a book to be kept for that purpose, and shall perform like duties for the standing committees, when required. The Secretary shall give, or cause to be given, notice of all meetings of stockholders and special meetings of the Board, and shall perform such other duties as may from time to time be prescribed by the Board, the Chairman of the Board, the Chief Executive Officer or the President, under whose supervision he or she shall act. The Secretary shall have custody of the seal of the Corporation, and the Secretary, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it, and, when so affixed, the seal may be attested by his or her signature or by the signature of such Assistant Secretary. The Board may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing thereof by his or her signature. The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the Corporation's transfer agent or registrar, as determined by resolution of the Board, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

5.12 The Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order designated by the Board (or in the absence of any designation, in the order of their election) shall, in the absence of the Secretary, or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as may from time to time be prescribed by the Board.

5.13 The Chief Financial Officer. The Chief Financial Officer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be

designated by the Board. The Chief Financial Officer shall disburse the funds of the Corporation as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board, at its regular meetings, or when the Board so requires, an account of all his or her transactions as Chief Financial Officer and of the financial condition of the Corporation.

5.14 The Chief Technical Officer. The Chief Technical Officer shall be the senior technical officer of the Corporation. He or she shall be responsible for the creation and maintenance of appropriate records as to the design, technical specifications, and performance criteria of the Corporation's products. As directed by the Board and the Chief Executive Officer, the Chief Technical Officer shall be responsible for research, technical development and manufacturing of existing and future products of the Corporation.

5.15 Representation of Shares of Other Corporations. The Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer or the Secretary or Assistant Secretary of this Corporation, or any other person authorized by the Board of Directors or the Chief Executive Officer, is authorized to vote, represent and exercise on behalf of this Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE 6

Indemnification of Directors, Officers, Employees and Other Agents

6.1 Indemnification of Directors And Officers. The Corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, indemnify each of its directors and officers against expenses (including attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise, arising by reason of the fact that such person is or was an agent of the Corporation. For purposes of this Section 6.1, a "director" or "officer" of the Corporation includes any person (a) who is or was a director or officer of the Corporation, (b) who, while serving as a director of officer of the Corporation, is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (c) who was a director or officer of a corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation.

6.2 Indemnification of Others. The Corporation shall have the power, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such

person is or was an agent of the Corporation. For purposes of this Section 6.2, an "employee" or "agent" of the Corporation (other than a director or officer) includes any person (a) who is or was an employee or agent of the Corporation, (b) who is or was serving at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (c) who was an employee or agent of a corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation.

6.3 Payment Of Expenses In Advance. Expenses incurred in defending any action or proceeding for which indemnification is required pursuant to Section 6.1 hereof, or for which indemnification is permitted pursuant to Section 6.2 hereof, following authorization thereof by the Board of Directors, shall be paid by the Corporation in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay such amount, if it shall ultimately be determined that the indemnified party is not entitled to be indemnified as authorized in this Article 6.

6.4 Indemnity Not Exclusive. The indemnification provided by this Article 6 shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, to the extent that such additional rights to indemnification are authorized in the Restated Certificate of Incorporation.

6.5 Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

6.6 Conflicts. No indemnification or advance shall be made under this Article 6, except where such indemnification or advance is mandated by law or the order, judgment or decree of any court of competent jurisdiction, in any circumstance where it appears:

(a) That it would be inconsistent with a provision of the Restated Certificate of Incorporation, these By-laws, a resolution of the stockholders or an agreement in effect at the time of the accrual of the alleged cause of the action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

ARTICLE 7

Stock Certificates

7.1 Certificates for Shares. The shares of the Corporation shall be represented by certificates or shall be uncertificated. Certificates shall be signed by, or be in the name of the Corporation by, the Chairman of the Board, the Chief Executive Officer or the President or a Vice President and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation.

Within a reasonable time after the issuance or transfer of uncertified stock, the Corporation shall send to the registered owner thereof a written notice containing the information required by the General Corporation Law of the State of Delaware or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof, and the qualifications, limitations or restrictions of such preferences and/or rights.

7.2 Signatures on Certificates. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

7.3 Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate of shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, to cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be canceled, and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto, and the transaction shall be recorded upon the books of the Corporation.

7.4 Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a percent registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

7.5 Lost, Stolen or Destroyed Certificates. The Board may direct that a new certificate or certificates be issued to replace any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing the issue of a new certificate or certificates, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of the lost, stolen or destroyed

certificate or certificates, or his or her legal representative, to advertise the same in such manner as it shall require, and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

ARTICLE 8

Notices

8.1 Notice. Whenever, under the provisions of the statutes or of the Restated Certificate of Incorporation or of these By-laws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his or her address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given by telegram, telephone or electronic transmission.

8.2 Waiver. Whenever any notice is required to be given under the provisions of the statutes or of the Restated Certificate of Incorporation or of these By-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE 9

General Provisions

9.1 Dividends. Dividends upon the capital stock of the Corporation, subject to any restrictions contained in the General Corporation Laws of Delaware or the provisions of the Restated Certificate of Incorporation, if any, may be declared by the Board at any regular or special meeting. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the provisions of the Restated Certificate of Incorporation.

9.2 Dividend Reserve. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends, such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

9.3 Checks. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board may from time to time designate.

9.4 Corporate Seal. The Board may provide a suitable seal, containing the name of the Corporation, which seal shall be in charge of the Secretary. If and when so directed by the

Board or a committee thereof, duplicates of the seal may be kept and used by the Treasurer or by an Assistant Secretary or Assistant Treasurer.

9.5 Execution of Corporate Contracts and Instruments. The Board, except as otherwise provided in these By-laws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement, or to pledge its credit or to render it liable for any purpose or for any amount.

9.6 Books and Records. The Corporation shall keep at its principal executive office or, if its principal executive office is not in the State of California, at its principal business office in California the original or a copy of these by-laws as amended to date, which by-laws shall be open to inspection by the stockholders at all reasonable times during office hours. If the principal executive office of the Corporation is outside the State of California and the Corporation has no principal business office in such state, then the secretary shall, upon the written request of any stockholder, furnish to that stockholder a copy of these by-laws as amended to date.

ARTICLE 10

Amendments

In addition to the right of the stockholders of the Corporation to make, alter, amend, change, add to or repeal the By-laws of the Corporation, the Board of Directors is expressly authorized to adopt, amend or repeal the By-laws of the Corporation by vote of at least a majority of the members of the Board of Directors; *provided, however*, that the foregoing is subject to the additional requirements of Section 4 of Article VII of the Corporation's Restated Certificate of Incorporation.

CERTIFICATE OF SECRETARY

I, the undersigned, hereby certify:

1. That I am the duly elected, acting and qualified Secretary of SunPower Corporation, a Delaware corporation; and

2. That the foregoing By-laws, comprising 17 pages (excluding this Certificate), constitute the By-laws of such corporation as duly adopted by action of the Board of Directors of such corporation pursuant to written consent dated _____, 2005.

IN WITNESS WHEREOF, I have hereunto subscribed my name as of this ____ day of _____, 2005.

_____

Stephen Wurzburg
Secretary

Exhibit 10.12

Master Separation Agreement

between

Cypress Semiconductor Corporation

and

SunPower Corporation

October 6, 2005

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EXHIBITS

Exhibit A	Indemnification and Insurance Matters Agreement
Exhibit B	Investor Rights Agreement
Exhibit C	Employee Matters Agreement
Exhibit D	Tax Sharing Agreement
Exhibit E	Master Transition Services Agreement
Exhibit F	Contract of Lease
Exhibit G	Wafer Manufacturing Agreement

MASTER SEPARATION AGREEMENT

This Master Separation Agreement (this "Agreement") is entered into as of October 6, 2005, between Cypress Semiconductor Corporation, a Delaware corporation ("Cypress"), and SunPower Corporation, a Delaware corporation ("SunPower"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in Article V hereof.

RECITALS

1. Cypress currently owns approximately 99% of the issued and outstanding capital stock of SunPower.

2. Heretofore, Cypress and SunPower have conducted their businesses separately.

3. Cypress and SunPower now desire to enter into certain agreements to delineate and clarify their relationship and to further separate the businesses conducted by Cypress and SunPower (the "Separation").

4. The parties intend in this Agreement, including the exhibits and schedules hereto, to set forth the principal arrangements between them regarding the Separation.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE I

SEPARATION

1.1 Separation Date. For all purposes hereof, "Separation Date" shall mean the time immediately prior to the closing of the first firm commitment underwritten public offering of SunPower's common stock registered under the Securities Act of 1933, as amended.

1.2 Closing of Transactions. Unless otherwise provided herein or agreed by the parties, the closing of the transactions contemplated in Article II shall occur upon the exchange and delivery of the items required to be delivered pursuant to Section 2.1 and Section 2.2. The closing shall occur at the offices of Wilson Sonsini Goodrich & Rosati, 650 Page Mill Road, Palo Alto, California 94304.

ARTICLE II

DOCUMENTS AND ITEMS TO BE DELIVERED ON AND AFTER THE SEPARATION DATE

2.1 Documents to Be Delivered by Cypress on the Separation Date. On the Separation Date, unless otherwise agreed by the parties, Cypress shall deliver (and if necessary, shall cause its appropriate Subsidiaries to deliver) to SunPower all of the following items and agreements:

(a) A duly executed Indemnification and Insurance Matters Agreement substantially in the form attached hereto as **Exhibit A**;

(b) A duly executed Investor Rights Agreement substantially in the form attached hereto as **Exhibit B**;

(c) A duly executed Employee Matters Agreement substantially in the form attached hereto as **Exhibit C**;

(d) A duly executed Tax Sharing Agreement substantially in the form attached hereto as **Exhibit D**;

(e) A duly executed Master Transition Services Agreement substantially in the form attached hereto as **Exhibit E**;

(f) A duly executed Contract of Lease substantially in the form attached hereto as **Exhibit F**;

(g) A duly executed Wafer Manufacturing Agreement substantially in the form attached hereto as **Exhibit G**; and

(h) Such other agreements, documents or instruments as the parties may agree are necessary or desirable in order to achieve the purposes hereof.

2.2 Documents to Be Delivered by SunPower on the Separation Date. On the Separation Date, unless otherwise agreed by the parties, SunPower shall deliver (and if necessary, shall cause its appropriate Subsidiaries to deliver) to Cypress all of the following:

(a) With respect to any item or agreement referred to in Section 2.1 to which SunPower is a party, a duly executed counterpart of such item or agreement; and

(b) Such other agreements, documents or instruments as the parties may agree are necessary or desirable in order to achieve the purposes hereof.

ARTICLE III

REPRESENTATIONS, WARRANTIES, COVENANTS AND OTHER MATTERS

3.1 Other Agreements. In addition to the Ancillary Agreements, Cypress and SunPower agree to execute or cause to be executed by the appropriate parties and deliver such other agreements, instruments and documents as may be necessary or desirable to effect the purposes of this Agreement and the Ancillary Agreements. Neither Cypress nor SunPower shall be obligated, in connection with the foregoing, to incur expenses other than reasonable out-of-pocket expenses, attorneys' fees and recording or similar fees.

3.2 Payment of Expenses. Except as otherwise provided in this Agreement, the Ancillary Agreements or any other agreement between the parties relating to the Separation, SunPower and Cypress shall each be responsible for their own fees, costs and expenses incurred in connection with the Separation.

3.3 Dispute Resolution.

(a) If a dispute, controversy or claim ("Dispute") arises between the parties relating to the interpretation or performance of this Agreement or the Ancillary Agreements (other than the Contract of Lease, the Tax Sharing Agreement and indemnification pursuant to Section 1.6 of the Investor Rights Agreement which shall not be subject to this Section 3.3), appropriate senior executives of each party who shall have the authority to resolve the matter shall attempt in good faith to negotiate a resolution of the Dispute prior to pursuing other available remedies. The initial meeting between the appropriate senior executives shall be referred to herein as the "Dispute Resolution Commencement Date." Discussions and correspondence relating to the resolution of such Dispute shall be exempt from discovery or production and shall not be admissible in any court or arbitration proceeding. If the senior executives are unable to resolve the Dispute within thirty (30) days from the Dispute Resolution Commencement Date, and either party wishes to pursue its rights relating to such Dispute, then the Dispute shall be mediated by a mutually acceptable mediator appointed pursuant to the mediation rules of JAMS/Endispute within thirty (30) days after written notice by one party to the other demanding non-binding mediation. Neither party may unreasonably withhold consent to the selection of a mediator or the location of the mediation. The parties shall share the costs of the mediation equally, except that each party shall bear its own costs and expenses, including attorneys' fees, witness fees, travel expenses, and preparation costs. The parties may agree to replace mediation with some other form of non-binding or binding alternative dispute resolution.

(b) If the parties cannot resolve any Dispute through mediation (or other form of non-binding or binding alternative dispute resolution) within ninety (90) days of the Dispute Resolution Commencement Date, unless otherwise mutually agreed, either party may seek relief in connection with such Dispute from a court of competent jurisdiction. The use of any alternative dispute resolution procedures shall not be construed under the doctrine of laches, waiver or estoppel to adversely affect the rights of either party.

(c) Any Dispute regarding the following is not required to be negotiated or mediated prior to seeking relief from a court of competent jurisdiction:

(i) breach of any obligation of confidentiality; or

(ii) any other claim pursuant to which interim relief from the court is sought to prevent serious and irreparable injury to one of the parties or to others. However, the parties to the Dispute shall make a good faith effort to negotiate and mediate such Dispute, according to the above procedures, while such court action is pending.

(d) Unless otherwise agreed in writing, the parties shall continue to be bound by and to perform each party's obligations under this Agreement and each Ancillary Agreement during the course of dispute resolution pursuant to the provisions of this Section 3.3 with respect to all matters not subject to the pending Dispute.

3.4 Governmental Approvals. To the extent that the Separation requires any Governmental Approvals, the parties shall use their commercially reasonable efforts to obtain any such Governmental Approvals.

3.5 Authority. Each of the parties hereto represents to the other that: (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement, the Ancillary Agreements and the exhibits and schedules attached hereto and thereto, (b) the execution, delivery and performance of this Agreement, the Ancillary Agreements that will be signed concurrently herewith and the exhibits and schedules attached hereto and thereto by it have been duly authorized by all necessary corporate or other actions, (c) it has duly and validly executed and delivered this Agreement, the Ancillary Agreements that will be signed concurrently herewith and the exhibits and schedules attached hereto and thereto, and (d) each of this Agreement, the Ancillary Agreements that will be signed concurrently herewith and the exhibits and schedules attached hereto and thereto is a legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

3.6 Confidentiality of Information.

(a) Confidential Information. Information shall be deemed to be "Confidential Information" if such Information: (i) is disclosed by one party (the "Disclosing Party") to the other (the "Receiving Party"), and which, if in written, graphic, machine-readable or other tangible form is marked as "confidential" or "proprietary," or (ii) is reasonably understood to be proprietary and confidential to either SunPower or Cypress, or (iii) is otherwise deemed to be "confidential" in this Agreement or the Ancillary Agreements.

(b) Confidential Information Exclusions. Notwithstanding the provisions of Section 3.6(a), Confidential Information excludes Information that the Receiving Party can demonstrate: (i) was independently developed by the Receiving Party without any use of the Disclosing Party's Confidential Information or by the Receiving Party's employees or other agents (or independent contractors hired by the Receiving Party) who have not been exposed to the

Disclosing Party's Confidential Information; (ii) becomes known to the Receiving Party, without restriction, from a source (other than the Disclosing Party) that had a right to disclose it without breach of this Agreement or the Ancillary Agreements; (iii) was in the public domain at the time it was disclosed or enters the public domain through no act or omission of the Receiving Party; (iv) was rightfully known to the Receiving Party, without restriction, at the time of disclosure or (v) is used or disclosed after five years from the date of first receipt (except that this clause (v) shall not apply to Contract Specifications and designs of SunPower's products or manufacturing, assembling, product testing or packaging processes of Cypress disclosed pursuant to the Wafer Manufacturing Agreement).

(c) Confidentiality Obligations. The Receiving Party shall treat as confidential all of the Disclosing Party's Confidential Information and shall not use that Confidential Information except as expressly permitted under this Agreement or the Ancillary Agreements. Without limiting the foregoing, the Receiving Party shall use at least the same degree of care that it uses to prevent the disclosure of its own confidential Information of like importance, but in no event with less than reasonable care, to prevent the disclosure of the Disclosing Party's Confidential Information.

(d) Residuals. The restrictions set forth in Section 3.6(c) do not apply to a Receiving Party's use of Residual Information, and Residual Information is not considered Confidential Information. "Residual Information" means Information that is retained in the unaided memories of the Receiving Party's employees who have had access to Confidential Information of the Disclosing Party or which otherwise constitutes the general knowledge or skills of those employees.

(e) Remedies. Unauthorized use by a party of the other party's Confidential Information will diminish the value of that Information. Therefore, if a party breaches any of its obligations with respect to confidentiality or use of Confidential Information, the other party may seek both equitable relief (including injunctive relief) and money damages to protect its interest in that Confidential Information.

(f) Required Disclosure. Notwithstanding anything to the contrary in this Agreement or any Ancillary Agreement, the Receiving Party is permitted to disclose the Disclosing Party's Confidential Information to the extent required by applicable law or regulation (including, without limitation, any rule, regulation or policy statement of any national securities exchange, market or automated quotation systems on which any of the Receiving Party's securities are listed or quoted) or under the order or requirement of a court, administrative agency, or other Governmental Authority. If the Receiving Party must disclose the Disclosing Party's Confidential Information under the order or requirement of a court, administrative agency, or other Governmental Authority, the Receiving Party shall provide prompt notice thereof to the Disclosing Party and shall, at the request of the Disclosing Party, use its reasonable efforts to obtain a protective order or otherwise prevent public disclosure of such Information.

(g) Public Announcements. Neither SunPower nor Cypress shall make any initial public announcement relating to this Agreement or the Ancillary Agreements until both SunPower and Cypress approve the timing, form and content of a public announcement, which approval may not unreasonably be withheld or delayed.

ARTICLE IV

MISCELLANEOUS

***4.1 Limitation of Liability*.** IN NO EVENT SHALL ANY MEMBER OF THE CYPRESS GROUP OR SUNPOWER GROUP BE LIABLE TO ANY OTHER MEMBER OF THE CYPRESS GROUP OR SUNPOWER GROUP FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; *PROVIDED, HOWEVER*, THAT THE FOREGOING LIMITATIONS SHALL NOT LIMIT EITHER PARTY'S INDEMNIFICATION OBLIGATIONS AS SET FORTH IN THE INDEMNIFICATION AND INSURANCE MATTERS AGREEMENT.

***4.2 Entire Agreement*.** This Agreement, the Ancillary Agreements and the exhibits and schedules referenced or attached hereto and thereto, constitute the entire agreement between the parties with respect to the subject matter hereof and thereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof and thereof.

***4.3 Governing Law*.** This Agreement shall be construed in accordance with, and all Disputes hereunder shall be governed by, the laws of the State of California, excluding its conflict of law rules. The Superior Court of Santa Clara County and/or the United States District Court for the Northern District of California shall have jurisdiction and venue over all Disputes between the parties that are permitted to be brought in a court of law pursuant to Section 3.3 above.

***4.4 Termination*.** This Agreement and all Ancillary Agreements may be terminated at any time prior to the Separation Date by and in the sole discretion of Cypress without the approval of SunPower. This Agreement and all Ancillary Agreements may be terminated at any time after the Separation Date by mutual consent of Cypress and SunPower. In the event of termination pursuant to this Section 4.4, no party shall have any liability of any kind to the other party.

***4.5 Notices*.** All notices, requests and other communications to any party hereunder shall be in writing and shall be deemed properly delivered, given and received: (a) when delivered by hand; (b) on the day sent by facsimile provided that the sender has received confirmation of transmission as of or prior to 5:00 p.m. local time of the recipient on such day; (c) the first business day after sent by facsimile (to the extent that the sender has received confirmation of transmission after 5:00 p.m. local time of the recipient on the day sent by facsimile); or (d) the next business day after sent by registered mail or by courier or express delivery service, in any case to the address or facsimile telephone number set forth beneath the name of such party below (or to such other address or facsimile telephone number as such party shall have specified in a written notice given to the other parties hereto):

if to Cypress:

Cypress Semiconductor Corporation
3901 North First Street
San Jose, CA 95134
Attention: Chief Financial Officer and Director of Legal
Fax: (408) 943-4730

if to SunPower:

SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
Attention: Chief Financial Officer
Fax: (408) 739-7713

4.6 Counterparts. This Agreement, the Ancillary Agreements and the exhibits and schedules attached hereto and thereto may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

4.7 Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors in interest, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. This Agreement may be enforced separately by each member of the Cypress Group and each member of the SunPower Group. Neither party may assign this Agreement or any rights or obligations hereunder, without the prior written consent of the other party, and any such assignment shall be void. Any permitted assignee shall agree to perform the obligations of the assignor of this Agreement, and this Agreement shall inure to the benefit of and be binding upon any permitted assignee.

4.8 Severability. If any term or other provision of this Agreement or the exhibits or schedules attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

4.9 Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of either party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise or waiver of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement or the exhibits or schedules attached hereto are cumulative to, and not exclusive of, any rights or remedies otherwise available.

4.10 Amendment. No change or amendment shall be made to this Agreement or the exhibits or schedules attached hereto except by an instrument in writing signed on behalf of each of the parties to such agreement.

4.11 Interpretation. The headings contained in this Agreement, in any exhibit or schedule attached hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any capitalized term used in any exhibit or schedule but not otherwise defined therein, shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to an article, section, exhibit or schedule, such reference shall be to an article or section of, or an exhibit or schedule to, this Agreement, unless otherwise indicated.

4.12 Conflicting Agreements. In the event of conflict between this Agreement and any Ancillary Agreement, the provisions of such Ancillary Agreement shall prevail.

ARTICLE V

DEFINITIONS

5.1 Affiliated Company. "Affiliated Company" of any Person means any entity that controls, is controlled by, or is under common control with such Person; provided, however that neither Cypress nor any other entity that is an Affiliated Company of Cypress but not a Subsidiary of SunPower shall be an "Affiliated Company" of SunPower. As used herein, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities or other interests, by contract or otherwise.

5.2 Ancillary Agreements. "Ancillary Agreements" means the items and agreements (together with all documents attached thereto) referred to in Section 2.1 hereof.

5.3 Confidential Information. "Confidential Information" has the meaning set forth in Section 3.6(a) hereof.

5.4 Disclosing Party. "Disclosing Party" has the meaning set forth in Section 3.6(a) hereof.

5.5 Dispute. "Dispute" has the meaning set forth in Section 3.3(a) hereof.

5.6 Dispute Resolution Commencement Date. "Dispute Resolution Commencement Date" has the meaning set forth in Section 3.3(a) hereof.

5.7 Governmental Approvals. "Governmental Approvals" means any notices, reports or other filings to be made, or any consents, registrations, approvals, permits or authorizations to be obtained from, any Governmental Authority.

5.8 Governmental Authority. "Governmental Authority" means any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority.

5.9 Information. "Information" means information, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including studies, reports, records, books, contracts, instruments, surveys, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, computer data, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names, communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), and other technical, financial, employee or business information or data.

5.10 Cypress Group. "Cypress Group" means Cypress, each Subsidiary and Affiliated Company of Cypress (other than any member of the SunPower Group) immediately after the Separation Date and each Person that becomes a Subsidiary or Affiliated Company of Cypress after the Separation Date.

5.11 Person. "Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

5.12 Receiving Party. "Receiving Party" has the meaning set forth in Section 3.6(a) hereof.

5.13 Residual Information. "Residual Information" has the meaning set forth in Section 3.6(d) hereof.

5.14 Separation. "Separation" has the meaning set forth in the Recitals hereof.

5.15 Separation Date. "Separation Date" has the meaning set forth in Section 1.1 hereof.

5.16 SunPower Group. "SunPower Group" means SunPower, each Subsidiary and Affiliated Company of SunPower immediately after the Separation Date and each Person that becomes a Subsidiary or Affiliated Company of SunPower after the Separation Date.

5.17 Subsidiary. "Subsidiary" of any Person means a corporation or other organization whether incorporated or unincorporated of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries; *provided*, *however*, that no Person that is not directly or indirectly wholly-owned by any other Person shall be a Subsidiary of such other Person unless such other Person controls, or has the right, power or ability to control, that Person.

IN WITNESS WHEREOF, the parties have signed this Master Separation Agreement effective as of the date first set forth above.

CYPRESS CORPORATION

By: _____

Name: _____

Title: _____

SUNPOWER CORPORATION

By: _____

Name: _____

Title: _____

Exhibit 10.13

Indemnification and Insurance Matters Agreement

between

Cypress Semiconductor Corporation

and

SunPower Corporation

October 6, 2005

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INDEMNIFICATION AND INSURANCE MATTERS AGREEMENT

This Indemnification and Insurance Matters Agreement (this "Agreement") is entered into as of October 6, 2005, between Cypress Semiconductor Corporation, a Delaware corporation ("Cypress"), and SunPower Corporation, a Delaware corporation ("SunPower"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in ARTICLE IV below.

RECITALS

1. Cypress and SunPower are entering into a Master Separation Agreement dated as of October 6, 2005 (the "Separation Agreement") and other Ancillary Agreements to further separate the businesses conducted by Cypress and SunPower (the "Separation").

2. In connection with the Separation, the parties desire to set forth certain agreements between them regarding indemnification and insurance.

3. This Agreement shall be void and of no force and effect until the occurrence of the "Separation Date" as defined in the Separation Agreement, at which time this Agreement shall become effective.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE I

MUTUAL RELEASES; INDEMNIFICATION

1.1. Release of Pre-Closing Claims.

(a) SunPower Release. Except as provided in Section 1.1(d) to this Agreement, effective as of the Separation Date, SunPower does hereby, for itself and as agent for each member of the SunPower Group, remise, release and forever discharge the Cypress Indemnitees from any and all Liabilities whatsoever, whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Separation Date, including in connection with the transactions and all other activities to implement any of the Separation, the IPO and the Distribution.

(b) Cypress Release. Except as provided in Section 1.1(d), effective as of the Separation Date, Cypress does hereby, for itself and as agent for each member of the Cypress Group, remise, release and forever discharge the SunPower Indemnitees from any and all Liabilities whatsoever, whether at law or in equity (including any right of contribution), whether arising under any contract

or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Separation Date, including in connection with the transactions and all other activities to implement any of the Separation, the IPO and the Distribution.

(c) Release and Waiver of Unknown Claims. SunPower, for itself and as agent for each member of the SunPower Group, and Cypress, for itself and as agent for each member of the Cypress Group, do hereby agree, represent, and warrant that the matters released herein are not limited to matters which are known or disclosed, and that they hereby waive any and all rights and benefits which such party now has, or in the future may have, conferred upon such party by virtue of the provisions of Section 1542 of the Civil Code of the State of California which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASED, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

SunPower, for itself and as agent for each member of the SunPower Group, and Cypress, for itself and as agent for each member of the Cypress Group, waive any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to Civil Code Section 1542. SunPower, for itself and as agent for each member of the SunPower Group, and Cypress, for itself and as agent for each member of the Cypress Group, may hereafter discover facts in addition to or different from those which it now knows or believes to be true with respect to the subject matter of this release, but each shall be deemed to have, finally, and forever settled and released any and all claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed upon any theory of law or equity now existing or coming into existence in the future, including but not limited to, conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts.

(d) No Impairment. Nothing contained in Section 1.1(a), Section 1.1(b) or Section 1.1(c) shall impair any right of any Person to enforce the Separation Agreement or any other Ancillary Agreement (including this Agreement) or other agreement in force and effect between SunPower and Cypress as of the Separation Date (in each case in accordance with its terms, including, without limitation, the provisions of Section 1.2, Section 1.3 and Section 1.4 hereof) or to recover monies owed pursuant to valid inter-company accounts between SunPower and Cypress as of the Separation Date.

(e) No Actions as to Released Claims. SunPower agrees, for itself and as agent for each member of the SunPower Group, not to make any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against Cypress or any member of the Cypress Group, or any other Person released pursuant to Section 1.1(a), with respect to any Liabilities released pursuant to Section 1.1(a). Cypress agrees,

for itself and as agent for each member of the Cypress Group, not to make any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against SunPower or any member of the SunPower Group, or any other Person released pursuant to Section 1.1(b), with respect to any Liabilities released pursuant to Section 1.1(b).

(f) Further Instruments. At any time, at the request of the other party, each party shall cause each member of its respective Group to execute and deliver releases reflecting the provisions hereof and such other documents as are necessary to effect the purposes hereof.

1.2. Indemnification by SunPower. Except as otherwise provided in this Agreement, SunPower shall, for itself and as agent for each member of the SunPower Group, indemnify, defend (or, where applicable, pay the defense costs for) and hold harmless the Cypress Indemnitees from and against any and all Liabilities that any third party seeks to impose upon the Cypress Indemnitees, or that are imposed upon the Cypress Indemnitees, and that relate to, arise out of or result from any of the following items (without duplication): (a) the SunPower Business or any SunPower Liability; (b) any breach by SunPower or any member of the SunPower Group of the Separation Agreement or any of the Ancillary Agreements (including this Agreement, it being acknowledged and agreed that (i) the indemnification provided for in this Agreement shall not limit any indemnification rights specifically set forth in the Separation Agreement or any Ancillary Agreement provided that such indemnification rights shall be subject to the provisions of Section 1.5, Section 1.6 and Article II hereof and (ii) all disclaimers of warranties, limitations of liability or remedies, exculpation or similar provisions in the Separation Agreement or any Ancillary Agreement shall not be deemed to be limited by anything herein, including, without limitation, Section 8.2 of the Employee Matters Agreement, Sections 6.2 and 6.3 of the Master Transition Services Agreement, Section 13(b) of the Contract of Lease and Sections 4.2.1, 7.3 and 7.4 of the Wafer Manufacturing Agreement); and (c) any IPO Liabilities.

1.3. Indemnification by Cypress. Except as otherwise provided in this Agreement, Cypress shall, for itself and as agent for each member of the Cypress Group, indemnify, defend (or, where applicable, pay the defense costs for) and hold harmless the SunPower Indemnitees from and against any and all Liabilities that any third party seeks to impose upon the SunPower Indemnitees, or that are imposed upon the SunPower Indemnitees, and that relate to, arise out of or result from any of the following items (without duplication): (a) the Cypress Business or any Liability of the Cypress Group other than the SunPower Liabilities and (b) any breach by Cypress or any member of the Cypress Group of the Separation Agreement or any of the Ancillary Agreements (including this Agreement, it being acknowledged and agreed that (i) the indemnification provided for in this Agreement shall not limit any indemnification rights specifically set forth in the Separation Agreement or any Ancillary Agreement provided that such indemnification rights shall be subject to the provisions of Section 1.5, Section 1.6 and Article II hereof and (ii) all disclaimers of warranties, limitations of liability or remedies, exculpation or similar provisions in the Separation Agreement or any Ancillary Agreement shall not be deemed to be limited by anything herein, including, without limitation, Section 8.2 of the Employee Matters Agreement, Sections 6.2 and 6.3 of the Master Transition Services Agreement, Section 13(b) of the Contract of Lease and Sections 4.2.1, 7.3 and 7.4 of the Wafer Manufacturing Agreement).

1.4. Insurance Proceeds and Other Recoveries.

(a) Insurance Claims. If a party has a claim for monies from an insurer or another third party in respect of any loss to which indemnification might otherwise be sought pursuant to this Agreement, then such party (the "Indemnitee") shall first proceed against the insurer or other third party with respect to such indemnifiable loss (an "Insurance Claim"). Only after final satisfaction of each such Insurance Claim shall a party (the "Indemnifying Party") be liable for indemnification pursuant to this Agreement.

(b) Advances Against Insurance Proceeds. Despite the existence of an Insurance Claim, an Indemnifying Party shall make prompt payment to an Indemnitee, prior to the receipt of any Insurance Proceeds, in the form of an advance against future Insurance Proceeds, of the full amount required to be made pursuant to the indemnification provisions contained in this Agreement and otherwise determined to be due and owing by an Indemnifying Party.

(c) Reductions for Insurance Proceeds. If an Indemnitee receives Insurance Proceeds or other amounts from an insurer or third party with respect to an Insurance Claim for any indemnifiable loss under this Agreement:

(i) the amount that the Indemnifying Party is or may be required to pay to or on behalf of any other Person indemnified pursuant to this Agreement shall be reduced by any Insurance Proceeds or other amounts actually received from third parties by such Indemnitee in respect of the related Liability; and

(ii) such Indemnitee shall hold such Insurance Proceeds or other amounts in trust for the benefit of the Indemnifying Party (or Indemnifying Parties) and shall pay to the Indemnifying Party, as promptly as practicable after receipt, a sum equal to the amount of such Insurance Proceeds or other amounts received, up to the aggregate amount of any payments received from the Indemnifying Party pursuant to this Agreement in respect of such indemnifiable loss reduced by the amount of any indemnifiable loss still owed by the Indemnifying Party to the Indemnitee (or, if there is more than one Indemnifying Party, the Indemnitee shall pay each Indemnifying Party its proportionate share (based on payments received from the Indemnifying Parties) of such amounts).

(d) No Benefit to Insurer. Notwithstanding Section 1.4(b) or any other provision of this Agreement, it is the intention of the parties that no insurer or any other third party shall be (i) entitled to a benefit it would not be entitled to receive in the absence of the foregoing indemnification provisions, or (ii) relieved of the responsibility to pay any claims for which it is obligated. If the parties believe that the payment of any advance pursuant to Section 1.4(b) has or would have any of the effects described in the previous sentence, then no such advance shall be made and the Indemnifying Party shall not be required to make any payment for indemnification until after resolution of any Insurance Claim in the manner set forth in Section 1.4(a).

1.5. Procedures for Defense, Settlement and Indemnification of Third Party Claims.

(a) Notice of Claims. If a Cypress Indemnitee or a SunPower Indemnitee (as applicable) shall receive notice, or otherwise become aware, of any claim or of the commencement by any such

Person of any Action (each such case, a "Third Party Claim") with respect to which an Indemnifying Party may be obligated to provide indemnification to an Indemnitee pursuant to this Agreement or any other Ancillary Agreement, Cypress and SunPower (as applicable) shall ensure that such Indemnitee shall give such Indemnifying Party written notice thereof as soon as practicable and, in any event, within fifteen (15) days after becoming aware of such Third Party Claim. Any such notice shall (i) describe the Third Party Claim in reasonable detail and, if known, the estimated damages resulting from such Third Party Claim incurred or reasonably expected to be incurred by the Indemnitee and (ii) explain in reasonable detail the basis for the claim by Indemnitee for indemnification to the extent of facts then known by the Indemnitee. In addition, such written notice shall be accompanied by copies of correspondence with third parties or other documentation necessary to understand the claim for indemnification to the extent applicable and then in the possession of the Indemnitee. Notwithstanding the foregoing, the delay or failure of any Indemnitee or other Person to give notice as provided in this Section 1.5(a) shall not relieve the relevant Indemnifying Party of its obligations under this Article I, except to the extent that such Indemnifying Party is prejudiced by such delay or failure to give notice.

(b) Defense By Indemnifying Party. Within 30 days after the receipt of notice from an Indemnitee in accordance with Section 1.5(a) (or sooner, if the nature of such Third Party Claim so requires), the Indemnifying Party shall notify the Indemnitee as to whether the Indemnifying Party will assume responsibility for managing the defense of such Third Party Claim, which notice shall specify any reservations or exceptions.

(c) Defense By Indemnitee. If an Indemnifying Party fails to assume responsibility for managing the defense of a Third Party Claim, or fails to notify an Indemnitee that it will assume responsibility as provided in Section 1.5(b), such Indemnitee may manage the defense of such Third Party Claim; *provided, however*, that the Indemnifying Party shall reimburse all costs and expenses incurred in connection with such defense in the event it is ultimately determined that the Indemnifying Party is obligated to indemnify the Indemnitee with respect to such Third Party Claim.

(d) No Consent to Certain Judgments or Settlements Without Consent. Notwithstanding any provision of this Section 1.5 to the contrary, no party shall consent to entry of any judgment or enter into any settlement of a Third Party Claim without the consent of the other party (such consent not to be unreasonably withheld) if the effect of such judgment or settlement is or would be to (i) permit any injunction, declaratory judgment, other order or other nonmonetary relief to be entered, directly or indirectly, against the other party, or (ii) affect the other party in a material fashion with respect to the allocation of Liabilities and related indemnities set forth in the Separation Agreement, this Agreement or any other Ancillary Agreement.

1.6. Additional Matters.

(a) Cooperation in Defense and Settlement. With respect to any Third Party Claim that implicates both SunPower and Cypress in a material fashion with respect to the responsibilities for management of defense and related indemnities set forth in the Separation Agreement, this Agreement or any of the Ancillary Agreements, the parties agree to cooperate fully and maintain a joint defense (in a manner that will preserve the attorney-client privilege with respect thereto) so as to minimize such liabilities and defense costs associated therewith. The party that is not responsible

for managing the defense of such Third Party Claims shall, upon reasonable request, be consulted with respect to significant matters relating thereto and may, if necessary or helpful in such party's reasonable judgment, engage counsel to assist in the defense of such claims at such party's own expense.

(b) Substitution. With respect to any Action in which the Indemnifying Party is not a named defendant, if either the Indemnitee or the Indemnifying Party shall so request, the parties shall use commercially reasonable efforts to substitute the Indemnifying Party for the named defendant. If such substitution cannot be achieved for any reason or is not requested, the rights and obligations of the parties regarding indemnification and the management of the defense of claims as set forth in this Article I shall not be altered.

(c) Subrogation. In the event of payment by or on behalf of any Indemnifying Party to or on behalf of any Indemnitee in connection with any Third Party Claim (including payment of costs of defense), such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnitee, in whole or in part based upon whether the Indemnifying Party has paid all or only part of the Indemnitee's Liability, as to any events or circumstances in respect of which such Indemnitee may have any right, defense or claim relating to such Third Party Claim against any claimant or plaintiff asserting such Third Party Claim or against any other person. Such Indemnitee shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost and expense of such Indemnifying Party, in prosecuting any subrogated right, defense or claim.

(d) Not Applicable to Taxes. This Agreement shall not apply to any Action relating to Taxes (which are covered by the Tax Sharing Agreement).

1.7. Survival of Indemnities. Subject to Section 3.7, the rights and obligations of the members of the Cypress Group and the SunPower Group under this Article I shall survive the sale or other transfer by any party of any Assets or businesses or the assignment by it of any Liabilities or the sale by any member of the Cypress Group or the SunPower Group of the capital stock or other equity interests of any Subsidiary to any Person.

ARTICLE II

INSURANCE MATTERS

2.1. Cooperation. Each of Cypress and SunPower shall share such Information as is reasonably necessary in order to permit the other to manage and conduct its insurance matters in an orderly fashion. Each of Cypress and SunPower, at the request of the other, shall cooperate with and use commercially reasonable efforts to assist the other in recoveries for claims made under any insurance policy for the benefit of any insured party, and neither Cypress nor SunPower, nor any of their Subsidiaries, shall take any action that such party knows would jeopardize or otherwise interfere with either party's ability to collect any proceeds payable pursuant to any insurance policy. Cypress and SunPower shall cooperate with each other in all respects, and they shall execute any additional documents that are reasonably necessary to effectuate the provisions of this Article II.

2.2. SunPower Insurance Coverage After the Separation Date. Except as provided in the Master Transition Services Agreement attached as Exhibit E to the Separation Agreement, following the Separation Date, SunPower shall be responsible for obtaining and maintaining insurance programs for its risk of loss and such insurance arrangements shall be separate and apart from Cypress's insurance programs.

2.3. Responsibilities for Deductibles and/or Self-insured Obligations. SunPower shall reimburse Cypress for all amounts necessary to exhaust or otherwise satisfy all applicable self-insured retentions, amounts for fronted policies, deductibles and retrospective premium adjustments and similar amounts not covered by Insurance Policies in connection with any SunPower Liabilities.

2.4. Reimbursement. SunPower shall reimburse Cypress for all amounts incurred (including but not limited to reasonable attorneys fees, forensic accountants fees and general adjusters fees) to pursue insurance recoveries from Insurance Policies for SunPower Liabilities.

2.5. No Assignment or Waiver. This Agreement shall not be considered as an attempted assignment of any policy of insurance or as a contract of insurance and shall not be construed to waive any right or remedy of any member of the Cypress Group in respect of any Insurance Policy or any other contract or policy of insurance.

2.6. No Liability. SunPower does hereby, for itself and as agent for each other member of the SunPower Group, agree that no member of the Cypress Group or any Cypress Indemnitee shall have any Liability whatsoever as a result of the insurance policies and practices of Cypress and its Subsidiaries as in effect at any time prior to the Separation Date, including as a result of the level or scope of any such insurance, the creditworthiness of any insurance carrier, the terms and conditions of any policy, the adequacy or timeliness of any notice to any insurance carrier with respect to any claim or potential claim or otherwise.

2.7. Further Agreements. The parties acknowledge that they intend to allocate financial obligations without violating any laws regarding insurance, self-insurance or other financial responsibility. If it is determined that any term or action undertaken pursuant to the Separation Agreement, this Agreement or any Ancillary Agreement would violate any insurance, self-insurance or related financial responsibility law or regulation, all other conditions and provisions of such affected Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or action would violate any insurance, self-insurance or related financial responsibility law or regulation, the parties shall negotiate in good faith to modify such affected Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

ARTICLE III

MISCELLANEOUS

3.1. Limitation of Liability. IN NO EVENT SHALL ANY MEMBER OF THE CYPRESS GROUP OR SUNPOWER GROUP BE LIABLE TO ANY OTHER MEMBER OF THE CYPRESS GROUP OR SUNPOWER GROUP FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; *PROVIDED, HOWEVER*, THAT THE FOREGOING LIMITATIONS SHALL NOT LIMIT EITHER PARTY'S INDEMNIFICATION OBLIGATIONS AS SET FORTH IN ARTICLE I HEREOF.

3.2. Entire Agreement. This Agreement, the Separation Agreement, the other Ancillary Agreements and the exhibits and schedules referenced or attached hereto and thereto, constitute the entire agreement between the parties with respect to the subject matter hereof and thereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof and thereof.

3.3. Governing Law. This Agreement shall be construed in accordance with, and all Disputes hereunder shall be governed by, the laws of the State of California, excluding its conflict of law rules. The Superior Court of Santa Clara County and/or the United States District Court for the Northern District of California shall have jurisdiction and venue over all Disputes between the parties that are permitted to be brought in a court of law pursuant to Section 3.4.

3.4. Dispute Resolution. Any Disputes under this Agreement shall be addressed using the same procedure set forth in the Separation Agreement.

3.5. Notices. All notices, requests and other communications to any party hereunder shall be in writing and shall be deemed properly delivered, given and received: (a) when delivered by hand; (b) on the day sent by facsimile provided that the sender has received confirmation of transmission as of or prior to 5:00 p.m. local time of the recipient on such day; (c) the first business day after sent by facsimile (to the extent that the sender has received confirmation of transmission after 5:00 p.m. local time of the recipient on the day sent by facsimile); or (d) the next business day after sent by registered mail or by courier or express delivery service, in any case to the address or facsimile telephone number set forth beneath the name of such party below (or to such other address or facsimile telephone number as such party shall have specified in a written notice given to the other parties hereto):

if to Cypress:

Cypress Semiconductor Corporation
3901 North First Street
San Jose, CA 95134
Attention: Chief Financial Officer and Director of Legal
Fax: (408) 943-4730

if to SunPower:

SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
Attention: Chief Financial Officer
Fax: (408) 739-7713

3.6. Counterparts. This Agreement, including the exhibits and schedules hereto, may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

3.7. Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors in interest, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. This Agreement may be enforced separately by each member of the Cypress Group and each member of the SunPower Group. Neither party may assign this Agreement or any rights or obligations hereunder, without the prior written consent of the other party, and any such assignment shall be void. Any permitted assignee shall agree to perform the obligations of the assignor of this Agreement, and this Agreement shall inure to the benefit of and be binding upon any permitted assignee.

3.8. Severability. If any term or other provision of this Agreement or the exhibits or schedules attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

3.9. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of either party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise or waiver of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement or the exhibits or schedules attached hereto are cumulative to, and not exclusive of, any rights or remedies otherwise available.

3.10. Amendment. No change or amendment shall be made to this Agreement or the exhibits or schedules attached hereto except by an instrument in writing signed on behalf of each of the parties to such agreement.

3.11. Interpretation. The headings contained in this Agreement, in any exhibit or schedule attached hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any capitalized term used in any exhibit or schedule but not otherwise defined therein, shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to an article, section, exhibit or schedule, such reference shall be to an article or section of, or an exhibit or schedule to, this Agreement, unless otherwise indicated.

ARTICLE IV

DEFINITIONS

4.1. Action. "Action" means any demand, action, suit, countersuit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority.

4.2. Ancillary Agreement. "Ancillary Agreement" has the meaning set forth in the Separation Agreement.

4.3. Assets. "Assets" means assets, properties and rights (including goodwill), wherever located (including in the possession of vendors or other third parties or elsewhere), whether real, personal or mixed, tangible, intangible or contingent, in each case whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person.

4.4. Cypress Business. "Cypress Business" means any business of Cypress other than the SunPower Business.

4.5. Cypress Group. "Cypress Group" has the meaning set forth in the Separation Agreement.

4.6. Cypress Indemnitees. "Cypress Indemnitees" means Cypress, each member of the Cypress Group and each of their respective directors, officers, employees, representatives, agents and attorneys.

4.7. Dispute. "Dispute" has the meaning set forth in the Separation Agreement.

4.8. Distribution. "Distribution" means a distribution of SunPower stock by Cypress to Cypress's shareholders in a transaction intended to qualify as a tax-free distribution under Section 355 of the Internal Revenue Code of 1986, as amended from time to time.

4.9. Environmental Conditions. "Environmental Conditions" means the presence in the environment, including the soil, groundwater, surface water or ambient air, of any Hazardous Material at a level which exceeds any applicable standard or threshold under any Environmental Law or otherwise requires investigation or remediation (including, without limitation, investigation, study, health or risk assessment, monitoring, removal, treatment or transport) under any applicable Environmental Laws.

4.10. Environmental Laws. "Environmental Laws" means all laws and regulations of any Governmental Authority with jurisdiction that relate to the protection of the environment (including ambient air, surface water, ground water, land surface or subsurface strata) including laws and regulations relating to a Hazardous Materials Release, or otherwise relating to the treatment, storage, disposal, transport or handling of Hazardous Materials, or to the exposure of any individual to a Hazardous Materials Release.

4.11. Governmental Authority. "Governmental Authority" has the meaning set forth in the Separation Agreement.

4.12. Group. "Group" means the Cypress Group or SunPower Group.

4.13. Hazardous Materials. "Hazardous Materials" means chemicals, pollutants, contaminants, wastes, toxic substances, radioactive and biological materials, hazardous substances, petroleum and petroleum products or any fraction thereof.

4.14. Hazardous Materials Release. "Hazardous Materials Release" means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment, including, without limitation, the movement of Hazardous Materials through ambient air, soil, surface water, groundwater, wetlands, land or subsurface strata.

4.15. Indemnifying Party. "Indemnifying Party" has the meaning set forth in Section 1.4(a) of this Agreement.

4.16. Indemnitee. "Indemnitee" has the meaning set forth in Section 1.4(a) of this Agreement.

4.17. Information. "Information" has the meaning set forth in the Separation Agreement.

4.18. Insurance Claim. "Insurance Claim" has the meaning set forth in Section 1.4(a) of this Agreement.

4.19. Insurance Policies. "Insurance Policies" means insurance policies pursuant to which a Person makes a true risk transfer to an insurer.

4.20. Insurance Proceeds. "Insurance Proceeds" means those monies received by an insured from an insurance carrier or paid by an insurance carrier on behalf of the insured from Insurance Policies.

4.21. IPO. "IPO" shall mean the closing of SunPower's first firm commitment underwritten public offering of SunPower's Common Stock registered under the Securities Act.

4.22. IPO Liabilities. "IPO Liabilities" means any Liabilities relating to, arising out of or resulting from any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to information contained in the IPO Registration

Statement or any preliminary, final or supplemental prospectus forming a part of a IPO Registration Statement.

4.23. IPO Registration Statement. "IPO Registration Statement" means the registration statement on Form S-1 pursuant to the Securities Act of 1933, as amended, to be filed with the Securities and Exchange Commission registering the shares of Common Stock of SunPower to be issued in the IPO, together with all amendments thereto.

4.24. Liabilities. "Liabilities" means all debts, liabilities, guarantees, assurances, commitments and obligations, whether fixed, contingent or absolute, asserted or unasserted, matured or unmatured, liquidated or unliquidated, accrued or not accrued, known or unknown, due or to become due, whenever or however arising (including, without limitation, whether arising out of any Contract or tort based on negligence or strict liability) and whether or not the same would be required by generally accepted principles and accounting policies to be reflected in financial statements or disclosed in the notes thereto.

4.25. Person. "Person" has the meaning set forth in the Separation Agreement.

4.26. Separation. "Separation" has the meaning set forth in the Recitals hereof.

4.27. Separation Agreement. "Separation Agreement" has the meaning set forth in the Recitals hereof.

4.28. Separation Date. "Separation Date" has the meaning set forth in the Separation Agreement.

4.29. Subsidiary. "Subsidiary" has the meaning set forth in the Separation Agreement.

4.30. SunPower Business. "SunPower Business" means any business currently or in the future conducted by SunPower.

4.31. SunPower Contingent Liability. "SunPower Contingent Liability" means any Liability of a member of the Cypress Group or the SunPower Group that primarily relates to the SunPower Business, whenever arising, to any Person other than a member of the Cypress Group or the SunPower Group, if and to the extent that (i) such Liability arises out of the events, acts or omissions occurring on or prior to the Separation Date and (ii) the existence or scope of the obligation of a member of the Cypress Group or the SunPower Group as of the Separation Date with respect to such Liability was not acknowledged, fixed or determined in any material respect, due to a dispute or other uncertainty as of the Separation Date or as a result of the failure of such Liability to have been discovered or asserted as of the Separation Date (it being understood that the existence of a litigation or other reserve with respect to any Liability shall not be sufficient for such Liability to be considered acknowledged, fixed or determined).

4.32. SunPower Employment Liabilities. "SunPower Employment Liabilities" means all employment-related Liabilities regarding SunPower employees, consultants and independent

contractors that arise out of facts, acts or omissions occurring on or after the Separation Date relating to, arising out of, or resulting from their employment with SunPower.

4.33. SunPower Facilities. "SunPower Facilities" means all of the real property and improvements thereon owned or occupied at any time by any member of the SunPower Group, including, without limitation that certain approximately 215,000 square foot manufacturing facility located in the Philippines leased by the SunPower Group as of the date hereof, but excluding the Texas Facility.

4.34. SunPower Group. "SunPower Group" has the meaning set forth in the Separation Agreement.

4.35. SunPower Indemnitees. "SunPower Indemnitees" means SunPower, each member of the SunPower Group and each of their respective directors, officers and employees.

4.36. SunPower Liabilities. "SunPower Liabilities" means (without duplication) the following Liabilities, except as otherwise provided for in any other Ancillary Agreement:

(i) All Liabilities arising from or related to Environmental Conditions (x) existing on, under, about or in the vicinity of any of the SunPower Facilities whether prior to or after the Separation Date, (y) arising out of operations occurring at any time prior to or after the Separation Date at any of the SunPower Facilities or (z) arising out of operations conducted by or on behalf of SunPower at the Texas Facility;

(ii) all Liabilities reflected in the SunPower Balance Sheet, subject to any discharge of such Liabilities subsequent to the date of the SunPower Balance Sheet;

(iii) all Liabilities of Cypress or its Subsidiaries that arise after the date of the SunPower Balance Sheet that, had such Liability arisen before the date of the SunPower Balance Sheet, would have been reflected in the SunPower Balance Sheet in accordance with the same principles and accounting policies under which the SunPower Balance Sheet was prepared;

(iv) all Liabilities that are related primarily to the SunPower Business at the Separation Date but are not reflected in the SunPower Balance Sheet due to mistake or unintentional omission;

(v) all SunPower Contingent Liabilities;

(vi) all SunPower Payables;

(vii) all SunPower Employment Liabilities;

(viii) all Liabilities whether arising before, on or after the Separation Date, primarily relating to, arising out of or resulting from:

(1) the operation of the SunPower Business, as conducted at any time prior to, on or after the Separation Date (including any Liability relating to, arising out of or

resulting from any act or failure to act by any director, officer, employee, agent or representative of Cypress or any Cypress Subsidiary, including SunPower (whether or not such act or failure to act is or was within such Person's authority));

(2) the operation of any business conducted by any member of the SunPower Group at any time after the Separation Date (including any Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative of Cypress or any Cypress Subsidiary, including SunPower (whether or not such act or failure to act is or was within such Person's authority)); or

(ix) all Liabilities relating to, arising out of or resulting from any terminated, divested or discontinued businesses and operations of SunPower; and

(x) all other Liabilities that are expressly contemplated by this Agreement, the Separation Agreement or any other Ancillary Agreement (or the exhibits or schedules hereto or thereto) as Liabilities to be retained or assumed by SunPower or any member of the SunPower Group, and all agreements, obligations and Liabilities of any member of the SunPower Group under this Agreement or any of the Ancillary Agreements.

4.37. SunPower Payables. "SunPower Payables" means all accounts payable and other obligations of payment for goods or services purchased, leased or otherwise received by SunPower in the conduct of the SunPower Business that as of the Separation Date are payable to a third Person by Cypress or any of Cypress's Subsidiaries (including SunPower), whether past due, due or to become due, including any interest, sales or use taxes, finance charges, late or returned check charges and other obligations of Cypress or any of Cypress's Subsidiaries with respect thereto.

4.38. Tax Sharing Agreement. "Tax Sharing Agreement" means the Tax Sharing Agreement, attached as Exhibit D to the Separation Agreement.

4.39. Taxes. "Taxes" has the meaning set forth in the Tax Sharing Agreement.

4.40. Texas Facility. "Texas Facility" means the manufacturing facility operated by Cypress and located at 17 Cypress Boulevard, Round Rock, Texas 78664.

4.41. Third Party Claim. "Third Party Claim" has the meaning set forth in Section 1.5(a) of this Agreement.

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IN WITNESS WHEREOF, the parties have signed this Indemnification and Insurance Matters Agreement effective as of the date first set forth above.

CYPRESS SEMICONDUCTOR CORPORATION

By: _____

Name: _____

Title: _____

SUNPOWER CORPORATION

By: _____

Name: _____

Title: _____

Exhibit 10.14

Investor Rights Agreement

between

Cypress Semiconductor Corporation

and

SunPower Corporation

October 6, 2005

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INVESTOR RIGHTS AGREEMENT

This Investor Rights Agreement (this "**Agreement**") is entered into as of October 6, 2005, between Cypress Semiconductor Corporation, a Delaware corporation ("**Cypress**"), and SunPower Corporation, a Delaware corporation ("**SunPower**"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in **Article IV** hereof.

RECITALS

1. Cypress currently owns all of the issued and outstanding capital stock of SunPower and possess registration rights, information rights, rights of first offer and other rights pursuant to an Investors' Rights Agreement dated as of May 30, 2002, by and between the Company and Cypress (the "**Prior Agreement**");

2. The Prior Agreement may be amended, and any provision therein waived, with the written consent of the Company and the holders of a majority of the Registrable Securities (as such term is defined in the Prior Agreement);

3. SunPower plans to undertake an initial public offering of its common stock to the public pursuant to a registration statement under the Securities Act of 1933, as amended.

4. In connection with such offering, the parties intend that SunPower grant to Cypress certain rights, as provided for in this Agreement, with respect to the registration of the common stock of SunPower held by Cypress and with respect to Cypress' access to and right to receive certain information regarding SunPower following the offering.

5. Cypress, as holder of all of the Registrable Securities (as such term is defined in the Prior Agreement) of the Company, and the Company desire to terminate the Prior Agreement and to accept the rights created pursuant hereto in lieu of the rights granted to Cypress under the Prior Agreement;

6. This Agreement shall be void and of no force and effect until the occurrence of the "Separation Date" as defined in that certain Master Separation Agreement (the "**Separation Agreement**") between SunPower and Cypress dated as of October 6, 2005, as may be amended from time to time, at which time this Agreement shall become effective; and

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the undersigned hereby agree that the Prior Agreement shall be superseded and replaced in its entirety by this Agreement, and the parties hereto further agree as follows:

ARTICLE I

REGISTRATION RIGHTS

1.1 ***Requested Registration*****.**

(a) Request for Registration. Subject to the conditions set forth in this Section 1.1, if SunPower shall receive from Cypress a written request signed by an authorized officer of Cypress that SunPower effect the registration of all or any portion of the Registrable Securities (which request shall state the number of shares of Registrable Securities intended to be disposed of and the intended methods of disposition of such shares by Cypress), SunPower shall, as soon as practicable, use its best efforts to effect such registration and to permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request.

(b) Limitations on Requested Registration. SunPower shall not be obligated to effect, or to take any action to effect, any such registration pursuant to this Section 1.1:

(i) Prior to the time set forth, or the earlier waiver, in the applicable "lock up" provisions of any agreement executed by Cypress and the underwriters in connection with SunPower's Initial Public Offering;

(ii) In any twelve-month period, after SunPower has initiated two such registrations pursuant to this Section 1.1 (counting for these purposes only registrations that have been declared or ordered effective and pursuant to which securities have been sold); or

(iii) If Cypress proposes to dispose of shares of Registrable Securities that may be immediately registered on Form S-3 pursuant to a request made under Section 1.3 hereof.

(c) Deferral. If (i) in the good faith judgment of the Board of Directors of SunPower, the filing of a registration statement covering the Registrable Securities would be materially detrimental to SunPower and the Board of Directors of SunPower concludes, as a result, that it is in the best interests of SunPower to defer the filing of such registration statement at such time, and (ii) SunPower shall furnish to Cypress a certificate signed by the Chairman of the Board of Directors of SunPower stating that in the good faith judgment of the Board of Directors of SunPower, it would be materially detrimental to SunPower for such registration statement to be filed in the near future and that it is, therefore, in the best interests of SunPower to defer the filing of such registration statement, then SunPower shall have the right to defer such filing for a period of not more than seventy-five (75) days after receipt of the request of Cypress; *provided, however*, that SunPower shall not defer its obligation in this manner more than once in any twelve-month period.

(d) Underwriting. If Cypress intends to distribute the Registrable Securities covered by its request by means of an underwriting, it shall so advise SunPower as a part of its request made pursuant to this Section 1.1. In such event, the right of Cypress to include all or any portion of its Registrable Securities in a registration pursuant to this Section 1.1 shall be conditioned upon Cypress' participation in an underwriting and the inclusion of Cypress' Registrable Securities

to the extent provided herein. If SunPower shall request inclusion in any registration pursuant to Section 1.1 of securities being sold for its own account, or if other persons shall request inclusion in any registration pursuant to Section 1.1, Cypress may, in its sole discretion, offer to include such securities in the underwriting and such offer shall be conditioned upon the participation of SunPower or such other persons in such underwriting and the inclusion of SunPower's and such person's other securities of SunPower and their acceptance of the further applicable provisions of this Section 1. SunPower shall (together with Cypress and other persons proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the representative of the underwriter or underwriters selected for such underwriting. Cypress shall select the underwriter or underwriters for such registration.

Notwithstanding any other provision of this Section 1.1, if the underwriters advise Cypress in writing that marketing factors require a limitation on the number of shares to be underwritten, the number of Registrable Securities that may be so included shall be allocated as follows: (i) first, to Cypress; (ii) second, to SunPower; and (iii) third, to any other persons Cypress has offered inclusion in the registration.

If a person who has requested inclusion in such registration as provided above does not agree to the terms of any such underwriting, such person shall be excluded therefrom by written notice from SunPower, the underwriter or Cypress. The securities so excluded shall also be withdrawn from such registration.

1.2 Company Registration.

(a) Company Registration. If SunPower shall determine to register any of its securities either for its own account or the account of a security holder or holders, other than a registration pursuant to Section 1.1, Section 1.3 or Section 1.4, the Initial Public Offering, a registration relating solely to employee benefit plans, a registration relating solely to the offer and sale of debt securities or a registration relating solely to a corporate reorganization or other Rule 145 transaction, SunPower shall:

(i) promptly give written notice of the proposed registration to Cypress; and

(ii) use its best efforts to include in such registration (and any related qualification under state securities laws or other compliance), except as set forth in Section 1.2(b) below, and in any underwriting involved therein, all of such Registrable Securities as are specified in a written request or requests made by Cypress received by SunPower within twenty (20) days after such written notice from SunPower is delivered. Such written request may specify all or any portion of the Registrable Securities.

(b) Underwriting. If the registration of which SunPower gives notice is for a registered public offering involving an underwriting, SunPower shall so advise Cypress as a part of the written notice given pursuant to Section 1.2(a)(i). In such event, the right of Cypress to registration pursuant to this Section 1.2 shall be conditioned upon Cypress' participation in such underwriting and the inclusion of Cypress' Registrable Securities in the underwriting to the extent

provided herein. If Cypress proposes to distribute its securities through such underwriting it shall (together with SunPower) enter into an underwriting agreement in customary form with the representative of the underwriter or underwriters selected by SunPower, provided that such underwriting agreement shall be subject to Cypress' written consent.

Notwithstanding any other provision of this Section 1.2, if the underwriters advise SunPower in writing that marketing factors require a limitation on the number of shares to be underwritten, the underwriters may (subject to the limitations set forth below) limit the number of Registrable Securities to be included in the registration and underwriting. SunPower shall so advise Cypress, and the number of shares of securities that are entitled to be included in the registration and underwriting shall be allocated as follows: (i) first, to SunPower for securities being sold for its own account, and (ii) second, to Cypress; and (iii) third, to any other holders of SunPower securities.

If a person who has requested inclusion in such registration as provided above does not agree to the terms of any such underwriting, such person shall be excluded therefrom by written notice from SunPower or the underwriter. The securities so excluded shall also be withdrawn from such registration.

(c) Right to Terminate Registration. SunPower shall have the right to terminate or withdraw any registration initiated by it under this Section 1.2 prior to the effectiveness of such registration whether or not Cypress has elected to include securities in such registration.

1.3 Registration on Form S-3.

(a) Request for Form S-3 Registration. After its Initial Public Offering, SunPower shall use its best efforts to qualify for registration on Form S-3 or any comparable or successor form or forms. After SunPower has qualified for the use of Form S-3, in addition to the rights contained in the foregoing provisions of this Section 1 and subject to the conditions set forth in this Section 1.3, if SunPower shall receive from Cypress a written request that SunPower effect any registration on Form S-3 or any similar short form registration statement with respect to all or any portion of the Registrable Securities (which request shall state the number of shares of Registrable Securities to be disposed of and the intended methods of disposition of such shares by Cypress), SunPower shall use its best efforts to effect such registration and to permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request.

(b) Deferral. The provisions of Section 1.1(c) shall apply to any registration pursuant to this Section 1.3.

(c) Underwriting. If Cypress requests registration under this Section 1.3 intending to distribute the Registrable Securities covered by its request by means of an underwriting, the provisions of Sections 1.1(d) shall apply to such registration. Notwithstanding anything contained herein to the contrary, registrations effected pursuant to this Section 1.3 shall not be counted as requested for registration or registrations effected pursuant to Section 1.1.

1.4 Registration in Connection with Tax Free Spin-Off. In addition to the other rights provided for herein, SunPower agrees that if any Registrable Securities require registration with or approval of any governmental authority under any federal or state law before such Registrable Securities may be distributed to Cypress stockholders in connection with a Tax Free Spin-Off (as defined in Article III, Section D.8.(g) of SunPower's Restated Certificate of Incorporation) or sold by such Cypress stockholders thereafter without restriction under applicable law, SunPower shall cause such Registrable Securities to be duly registered or approved, as the case may be. In addition, SunPower shall use its best efforts to list any shares of its Class A Common Stock, par value $0.001 per share, required to be delivered upon any conversion, exchange or transfer of shares of its Class B Common Stock, par value $0.001 per share, prior to such delivery, on each national securities exchange or interdealer quotation system on which SunPower's outstanding Class A Common Stock is listed at the time of such delivery.

1.5 Expenses of Registration. All Registration Expenses incurred in connection with registrations pursuant to Section 1.1, Section 1.2, Section 1.3 and Section 1.4 hereof shall be borne by SunPower; *provided*, *however*, that SunPower shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.1, Section 1.3 or Section 1.4 if the registration request is subsequently withdrawn at the request of Cypress (unless such registration request is withdrawn at the request of Cypress based upon material adverse information relating to SunPower that is different from the information known to Cypress at the time of its request for registration). All Selling Expenses relating to securities registered on behalf of Cypress and any other holders of securities shall be borne by Cypress and such other holders of securities included in such registration pro rata among each other on the basis of the number of Registrable Securities so registered.

1.6 Registration Procedures. In the case of each registration effected by SunPower pursuant to Section 1, SunPower shall keep Cypress advised in writing as to the initiation of each registration and as to the completion thereof. At its expense, SunPower shall use its best efforts to:

(a) Keep such registration effective for a period ending on the earlier of the date that is one-hundred and twenty (120) days from the effective date of the registration statement or such time as Cypress has completed the distribution described in the registration statement relating thereto;

(b) Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement for the period set forth in Section 1.6(a) above;

(c) Furnish such number of prospectuses, including any preliminary prospectuses, and other documents incident thereto, including any amendment of or supplement to the prospectus, as Cypress may from time to time reasonably request;

(d) Register and qualify the securities covered by such registration statement under such other securities laws of such jurisdictions as shall be reasonably requested by Cypress;

(e) Notify each seller of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading or incomplete in light of the circumstances then existing, and following such notification promptly (and in any event within 5 days thereafter) prepare and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or incomplete in light of the circumstances then existing;

(f) Furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing SunPower for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and reasonably satisfactory to Cypress and (ii) a "comfort" letter dated as of such date, from the independent certified public accountants of SunPower, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters;

(g) Provide a transfer agent and registrar for all Registrable Securities registered pursuant to such registration statement and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(h) Comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act;

(i) Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by SunPower are then listed; and

(j) In connection with any underwritten offering pursuant to a registration statement filed pursuant to Section 1.1 or Section 1.3 hereof, enter into an underwriting agreement in form reasonably necessary to effect the offer and sale of Common Stock; *provided*, *however*, that such underwriting agreement contains reasonable and customary provisions, and *provided further, however*, that Cypress shall also enter into and perform its obligations under such an agreement.

1.7 Indemnification.

(a) To the extent permitted by law, SunPower will indemnify and hold harmless Cypress, each of its officers, directors and partners, legal counsel, and accountants and each person controlling Cypress within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification, or compliance has been effected pursuant to this Section 1, and each underwriter, if any, and each person who controls within the meaning of Section 15 of the Securities Act any underwriter, against all expenses, claims, losses, damages, and liabilities (or actions, proceedings, or settlements in respect thereof) arising out of or based on: (i) any untrue statement (or alleged untrue statement) of a material fact contained or incorporated by reference in any prospectus, offering circular, or other document (including any related registration statement, notification, or the like) incident to any such registration, qualification, or compliance, (ii) any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any violation (or alleged violation) by SunPower of the Securities Act, any state securities laws or any rule or regulation thereunder applicable to SunPower and relating to action or inaction required of SunPower in connection with any offering covered by such registration, qualification, or compliance, and SunPower will reimburse Cypress, each of its officers, directors, partners, legal counsel, and accountants and each person controlling Cypress, each such underwriter, and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating and defending or settling any such claim, loss, damage, liability, or action; *provided, however*, that SunPower will not be liable in any such case to the extent that any such claim, loss, damage, liability, or action arises out of or is based on any untrue statement or omission based upon written information furnished to SunPower by Cypress and stated by Cypress to be specifically for use therein, any of Cypress' officers, directors, partners, legal counsel or accountants, any person controlling Cypress, such underwriter or any person who controls any such underwriter and stated to be specifically for use therein; and *provided further, however*, that the indemnity agreement contained in this Section 1.7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of SunPower (which consent shall not be unreasonably withheld or delayed).

(b) To the extent permitted by law, Cypress will, if Registrable Securities held by Cypress are included in the securities as to which such registration, qualification, or compliance is being effected, indemnify and hold harmless SunPower, each of its directors, officers, partners, legal counsel, and accountants and each underwriter, if any, of SunPower's securities covered by such a registration statement, each person who controls SunPower or such underwriter within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on: (i) any untrue statement (or alleged untrue statement) of a material fact contained or incorporated by reference in any such registration statement, prospectus, offering circular, or other document, or (ii) any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse SunPower and SunPower's directors, officers, partners, legal counsel, and accountants, persons, underwriters, or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability, or

action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular, or other document in reliance upon and in conformity with written information furnished to SunPower by Cypress and stated by Cypress to be specifically for use therein; *provided*, *however*, that the obligations of Cypress hereunder shall not apply to amounts paid in settlement of any such claims, losses, damages, or liabilities (or actions in respect thereof) if such settlement is effected without the consent of Cypress (which consent shall not be unreasonably withheld or delayed); and *provided further, however*, that in no event shall any indemnity under this Section 1.7 exceed the net proceeds from the offering received by Cypress.

(c) Each party entitled to indemnification under this Section 1.7 (the "**Indemnified Party**") shall give notice to the party required to provide indemnification (the "**Indemnifying Party**") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of such claim or any litigation resulting therefrom; *provided, however*, that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense; and *provided further, however*, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 1.7, to the extent such failure is not prejudicial. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with defense of such claim and litigation resulting therefrom.

(d) If the indemnification provided for in this Section 1.7 is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage, or expense referred to herein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

(e) Disputes, controversies and claims hereunder shall be subject to the terms of Section 1.5, Section 1.6 and Article II of the Indemnification and Insurance Matters Agreement attached as Exhibit A to the Separation Agreement.

(f) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

1.8 Information by Cypress. Cypress shall furnish to SunPower such information regarding Cypress and the distribution proposed by Cypress as SunPower may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification, or compliance referred to in this Section 1.

1.9 Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission that may permit the sale of the Restricted Securities to the public without registration, SunPower agrees to use its best efforts to:

(a) Make and keep public information regarding SunPower available as those terms are understood and defined in Rule 144 under the Securities Act, at all times from and after ninety (90) days following the effective date of the first registration under the Securities Act filed by SunPower for an offering of its securities to the general public;

(b) File with the Commission in a timely manner all reports and other documents required of SunPower under the Securities Act and the Exchange Act at any time after it has become subject to such reporting requirements; and

(c) So long as Cypress owns any Restricted Securities, furnish to Cypress forthwith upon written request a written statement by SunPower as to its compliance with the reporting requirements of Rule 144 (at any time from and after ninety (90) days following the effective date of the first registration statement filed by SunPower for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of SunPower, and such other reports and documents so filed as Cypress may reasonably request in availing itself of any rule or regulation of the Commission allowing Cypress to sell any such securities without registration.

1.10 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, SunPower shall not, without the prior written consent of a Cypress, enter into any agreement with any holder or prospective holder of any securities of SunPower giving such holder or prospective holder any registration rights the terms of which are pari passu with or senior to the registration rights granted to Cypress hereunder. For these purposes, as to Form S-3 registration rights, pari passu and seniority shall refer to priority in underwriter cut-backs.

1.11 Termination of Registration Rights. The right of Cypress to request registration or inclusion in any registration pursuant to Section 1.1, Section 1.2 or Section 1.3 and the limitations on SunPower with respect to the granting of subsequent registration rights pursuant to Section 1.10 shall terminate on such date, on or after the closing of SunPower's Initial Public Offering, on which all shares of Registrable Securities held or entitled to be held upon conversion by Cypress may immediately be sold under Rule 144 during any ninety (90)-day period.

ARTICLE II

INFORMATION AND INSPECTION RIGHTS

2.1 Information Rights.

(a) Generally. SunPower shall provide, or cause to be provided, to Cypress, as soon as practicable after request therefor by or on behalf of Cypress, any information in the possession or under the control of SunPower that Cypress reasonably requests (i) to comply with reporting, disclosure, filing or other requirements imposed on Cypress pursuant to generally accepted accounting principles or any federal, state, local, municipal, foreign or other law, statute, constitution, principle of common law, resolution, ordinance, code, order, edict, decree, directive, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Government Authority having jurisdiction over Cypress, (ii) for use in any other judicial, regulatory, administrative or other proceeding, (iii) to satisfy audit, accounting, regulatory, litigation or other similar requirements, (iv) to comply with its obligations under this Agreement or (v) in connection with the ongoing business of Cypress.

(b) Internal Accounting Controls; Financial Information. Subject to the other subsections of this Section 2.1, (i) SunPower shall maintain in effect at its own cost and expense adequate systems and controls (including internal accounting and disclosure controls) for its business to the extent necessary to enable Cypress to satisfy its reporting, accounting, audit and other obligations, and (ii) SunPower shall provide, or cause to be provided, to Cypress and its Subsidiaries in such form as Cypress shall reasonably request, all financial and other data and Information, to the extent such Information is existing and reasonably available, as Cypress determines necessary or advisable in order to prepare its financial statements and reports or filings with any Governmental Authority. The foregoing obligations shall include, without limitation, the obligation of SunPower to maintain such internal accounting and disclosure controls as are necessary to enable both parties, and both parties' directors and officers, to meet any certification, disclosure and reporting requirements they may have, without any qualification, limitation or exception whatsoever, under the federal securities laws, rules and regulations, the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**") and the laws, rules and regulations promulgated thereunder (including, without limitation, Sections 302, 404 and 906 of such act) and any other applicable laws, rules and regulations. In addition, SunPower shall use commercially reasonable efforts to cause its officers and other employees, as appropriate, to furnish such certifications and representations as Cypress shall reasonably request in order for Cypress, and Cypress' directors and officers, to meet their respective certification, disclosure and reporting requirements under any applicable laws, rules or

regulations and to have reasonable assurances that any certifications, disclosures or reports furnished by Cypress are accurate and complete in all respects. The foregoing shall include, without limitation, Cypress' obligations imposed by any self-regulatory organization (such as The New York Stock Exchange, Inc., The National Association of Securities Dealers, Inc. and Nasdaq) and under any applicable state laws.

(c) Ownership of Information. Any Information owned by SunPower that is provided to Cypress pursuant to this Section 2.1 shall be deemed to remain the property of SunPower. Nothing contained in this Agreement shall be construed as granting or conferring rights of license or otherwise in any such Information.

(d) Record Retention. To facilitate the possible exchange of Information pursuant to this Section 2.1, SunPower agrees to use its commercially reasonable efforts to retain all Information in its possession or control on the date hereof substantially in accordance with the policies of Cypress in effect on such date, as set forth in Cypress' official records retention policy, a copy of which shall be provided to SunPower. SunPower shall not destroy, or permit any of its Subsidiaries to destroy, any Information that exists on the date hereof (other than Information that is permitted to be destroyed under the current record retention policies of Cypress) and that falls under the categories listed in Section 2.1(a), without first notifying Cypress of the proposed destruction and giving Cypress the reasonable opportunity to take possession of such Information prior to such destruction.

(e) Production of Witnesses; Records; Cooperation. After the date hereof, each of Cypress and SunPower shall use its commercially reasonable efforts to make available to the other party, upon written request, the former, current and future directors, officers, employees, other personnel and agents of Cypress or SunPower, as the case may be, and any books, records or other documents within its control, to the extent that any such person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with any legal, administrative or other proceeding in which Cypress or SunPower may from time to time be involved, regardless of whether such legal, administrative or other proceeding is a matter with respect to which indemnification may be sought hereunder.

2.2 Auditors and Audits; Annual and Quarterly Statements and Accounting. SunPower agrees that, for so long as Cypress is required by United States generally accepted accounting principles to consolidate SunPower's results of operations or financial position:

(a) Selection of Auditors. SunPower shall use its best efforts to select the accounting firm ("**SunPower's Auditors**") used by Cypress to serve as its (and its Subsidiaries') independent certified public accountants ("**Cypress' Auditors**" and, for the avoidance of doubt, should Cypress at any time change the accounting firm serving as its independent certified public accountants, "Cypress' Auditors" shall thereafter mean the new firm serving as Cypress' independent certified public accountants) for purposes of providing an opinion on its consolidated financial statements; *provided*, *however*, that SunPower's Auditors may be different from Cypress' Auditors if necessary to comply with applicable laws regarding auditor independence and

qualifications (*provided, however*, that SunPower shall not take any actions, and shall use best efforts to cause its directors, officers and employees not to take any actions, that could reasonably be expected to require SunPower to engage auditors other than Cypress' Auditors). The foregoing shall not be construed after SunPower conducts an Initial Public Offering so as to unlawfully limit any responsibility of the audit committee of SunPower's Board of Directors, pursuant to SEC Rule 10A-3(b)(2), to appoint, compensate, retain and oversee the work of the registered public accounting firm SunPower engages.

(b) Date of Auditors' Opinion and Quarterly Reviews. SunPower shall use its commercially reasonable efforts to cause SunPower's Auditors to complete their audit such that they will date their opinion on SunPower's audited annual financial statements on the same date that Cypress' Auditors date their opinion on Cypress' audited annual financial statements, and to enable Cypress to meet its timetable for the printing, filing and public dissemination of Cypress' annual financial statements. SunPower shall use its commercially reasonable efforts to cause SunPower's Auditors to complete their quarterly review procedures on SunPower's quarterly financial statements on the same date that Cypress' Auditors complete their quarterly review procedures on Cypress' quarterly financial statements. In these regards, Cypress shall use reasonable efforts to provide SunPower prior to the start of each fiscal quarter with a schedule of when Cypress expects to complete its audit or review, as the case may be, and shall update such schedule during the quarter as necessary.

(c) Annual and Quarterly Financial Statements. SunPower shall promptly provide to Cypress all Information that Cypress reasonably requests to prepare, print, file, and publicly disseminate Cypress' annual and quarterly financial statements in accordance with Cypress' obligations under the Exchange Act. Without limiting the generality of the foregoing, SunPower shall provide all required financial Information with respect to SunPower and its Subsidiaries to SunPower's Auditors in a sufficient and reasonable time and in sufficient detail to permit SunPower's Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to Cypress' Auditors with respect to financial Information to be included or contained in Cypress' annual and quarterly financial statements. SunPower shall use its commercially reasonable efforts to include in the information to be provided by this Section 2.2(c) such back-up or similar certificates signed by the appropriate officers or employees of SunPower as may be necessary or appropriate to comply with the certifications required by the Sarbanes-Oxley Act and the rules of the Securities and Exchange Commission promulgated thereunder.

(d) Identity of Personnel Performing the Annual Audit and Quarterly Reviews. SunPower shall instruct SunPower's Auditors to make available to Cypress' Auditors both the personnel who performed or will perform the annual audits and quarterly reviews of SunPower and work papers related to the annual audits and quarterly reviews of SunPower, in all cases within a reasonable time prior to SunPower's Auditors' opinion date, so that Cypress' Auditors are able to perform the procedures they consider necessary to take responsibility for the work of SunPower's Auditors as it relates to Cypress' Auditors' report on Cypress' financial statements, all within sufficient time to enable Cypress to meet its timetable for the printing, filing and public

dissemination of Cypress' annual and quarterly statements in accordance with Cypress' obligations under the Exchange Act.

(e) Access to Books and Records. SunPower shall provide Cypress' internal auditors and their designees access to SunPower's and its Subsidiaries' books and records so that Cypress may conduct reasonable audits relating to the financial statements provided by SunPower pursuant hereto as well as to the internal accounting controls and operations of SunPower and its Subsidiaries.

(f) Notice of Change in Accounting Principles. SunPower shall give Cypress as much prior notice as reasonably practical of any proposed determination of, or any significant changes in, its accounting estimates or accounting principles from those in effect on the date hereof. SunPower shall consult with Cypress with respect thereto.

2.3 Inspection Rights. SunPower will afford to Cypress reasonable access during normal business hours upon reasonable notice to all of SunPower's properties, books and records.

2.4 AOP. SunPower shall deliver to Cypress and the members of SunPower's board of directors for approval as set forth in Section 3.1 below, as soon as practicable in accordance with Cypress' financial planning cycle for each fiscal year, SunPower's annual operating plan for the next fiscal year in a form reasonably satisfactory to Cypress (which plan shall include a pro forma income statement, a capital expenditure budget and forecasts of any equity or debt financings, repurchases or restructurings) ("**AOP**").

2.5 Termination of Information and Inspection Rights. The rights granted and obligations imposed under this Article II shall expire upon the occurrence of a Consolidation Triggering Event (as that term is defined in Part B of Article IV of the SunPower's Restated Certificate of Incorporation).

ARTICLE III

COVENANTS

3.1 Protective Provisions. Prior to the occurrence of a Consolidation Triggering Event (as that term is defined in Part B of Article IV of the SunPower's Restated Certificate of Incorporation), SunPower shall not take the following actions without the written consent or affirmative vote of members representing at least 75% of the then-authorized number of the members of SunPower's Board of Directors:

(a) approve SunPower's AOP prior to the beginning of the applicable fiscal year or, after approval of an AOP in accordance with this Article III, effect any changes thereto (including changes involving one or more related transactions) which result or would reasonably be expected to result in an issuance in any individual case or in the aggregate of more than 1% of the fully diluted shares of capital stock of SunPower or a negative impact to SunPower's cash flow of $2,000,000 or more;

(b) undertake any transaction or series of related transactions which results or would reasonably be expected to result individually or in the aggregate in SunPower issuing shares of the capital stock of SunPower or securities convertible into, or exercisable for, shares of the capital stock of SunPower in an amount equal to or greater than four percent (4%) of the then outstanding shares of capital stock of SunPower unless provided for in SunPower's then-current AOP approved in accordance with this Article III;

(c) undertake any transaction or series of related transactions whereby SunPower pays, incurs or accrues or would reasonably be expected to pay, incur or accrue a liability equal to or in excess of the fair market value (based upon the closing price of the Class A Common Stock reported for the business day immediately prior to the consummation of such transaction or, if the Class A Common Stock is not traded in a public market, the Board of Directors shall determine fair market value of SunPower in its good faith judgment) of four percent (4%) of the then outstanding shares of capital stock of the Company unless provided for in SunPower's then-current AOP approved in accordance with this Article III; or

(d) enter into an exclusive license (other than an exclusive license the exclusivity of which is limited to exclusive distribution rights and which is entered into in the ordinary course of business consistent with past practice) or sell, convey or otherwise transfer any intellectual property of SunPower (unless such transaction was included in SunPower's then-current AOP approved in accordance with this Article III).

ARTICLE IV

MISCELLANEOUS

4.1 Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

4.2 Governing Law. This Agreement shall be construed in accordance with, and all disputes hereunder shall be governed by, the laws of the State of California, excluding its conflict of law rules. The Superior Court of Santa Clara County and/or the United States District Court for the Northern District of California shall have jurisdiction and venue over all disputes between the parties.

4.3 Notices. Notices, offers, requests or other communications required or permitted to be given by either party pursuant to the terms of this Agreement shall be given in writing to the respective parties at the following addresses:

if to Cypress:

Cypress Semiconductor Corporation
3901 North First Street
San Jose, CA 95134
Attention: General Counsel
Fax: (408) 943-4730

if to SunPower:

SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
Attention: General Counsel
Fax: (408) 739-7713

or to such other address as the party to whom notice is given may have previously furnished to the other in writing as provided herein. Any notice involving non-performance, termination, or renewal shall be sent by hand delivery, recognized overnight courier or, within the United States, may also be sent via certified mail, return receipt requested. All other notices may also be sent by fax, confirmed by first class mail. All notices shall be deemed to have been given and received on the earlier of actual delivery or three (3) days from the date of postmark.

4.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

4.5 Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors in interest, and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement. Neither party may assign this Agreement or any rights or obligations hereunder, without the prior written consent of the other party, and any such assignment shall be void. Any permitted assignee shall agree to perform the obligations of the assignor of this Agreement, and this Agreement shall inure to the benefit of and be binding upon any permitted assignee.

4.6 Severability. If any term or other provision of this Agreement or the exhibits or schedules attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

4.7 Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of either party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise or waiver of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement or the exhibits or schedules attached hereto are cumulative to, and not exclusive of, any rights or remedies otherwise available.

4.8 Amendment. No change or amendment shall be made to this Agreement or the exhibits or schedules attached hereto except by an instrument in writing signed on behalf of each of the parties hereto.

4.9 Interpretation. The headings contained in this Agreement, in any exhibit or schedule attached hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any capitalized term used in any exhibit or schedule but not otherwise defined therein, shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to an article, section, exhibit or schedule, such reference shall be to an article or section of, or an exhibit or schedule to, this Agreement, unless otherwise indicated.

ARTICLE V

DEFINITIONS

5.1 "Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

5.2 "Common Stock" shall mean the common stock of SunPower, including any and all classes of such common stock.

5.3 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar successor federal statute and the rules and regulations thereunder, all as the same shall be in effect from time to time.

5.4 "Government Authority" shall mean any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority

5.5 "Indemnified Party" shall have the meaning set forth in Section 1.7(c) hereto.

5.6 "Indemnifying Party" shall have the meaning set forth in Section 1.7(c) hereto.

5.7 "Information" shall mean information, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including studies, reports, records, books, contracts, instruments, surveys, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, computer data, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names, communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), and other technical, financial, employee or business information or data.

5.8 "Initial Public Offering" shall mean the closing of SunPower's first firm commitment underwritten public offering of the SunPower's Common Stock registered under the Securities Act.

5.9 "Registrable Securities" shall mean (i) any and all shares of Common Stock held by Cypress and (ii) any Common Stock issued as a dividend or other distribution with respect to or in exchange for or in replacement of the shares referenced in (i) above; provided, however, that Registrable Securities shall not include any shares of Common Stock described in clause (i) or (ii) above which have previously been registered or which have been sold to the public either pursuant to a registration statement or Rule 144, or which have been sold in a private transaction in which the transferor's rights under this Agreement are not validly assigned in accordance with this Agreement.

5.10 "Register, Registered and Registration" shall refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of the effectiveness of such registration statement.

5.11 "Registration Expenses" shall mean all expenses incurred in effecting any registration pursuant to this Agreement, including, without limitation, all registration, qualification, and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for SunPower and one special counsel for Cypress, state securities law fees and expenses, and expenses of any regular or special audits incident to or required by any such registration, but shall not include Selling Expenses, fees and disbursements of other counsel for Cypress and the compensation of regular employees of SunPower, which shall be paid in any event by SunPower.

5.12 "Restricted Securities" shall mean any Registrable Securities that have not been registered under the Securities Act.

5.13 "Rule 144" shall mean Rule 144 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that may be promulgated by the Commission.

5.14 "Rule 145" shall mean Rule 145 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that may be promulgated by the Commission

5.15 "Rule 415" shall mean Rule 415 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that may be promulgated by the Commission.

5.16 "Securities Act" shall mean the Securities Act of 1933, as amended, or any similar successor federal statute and the rules and regulations thereunder, all as the same shall be in effect from time to time.

5.17 "Selling Expenses" shall mean all underwriting discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for Cypress (other than the fees and disbursements of one special counsel to Cypress included in Registration Expenses).

5.18 "Subsidiaries" of any Person shall mean a corporation or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries; *provided*, *however*, that no Person that is not directly or indirectly wholly-owned by any other Person shall be a Subsidiary of such other Person unless such other Person controls, or has the right, power or ability to control, that Person.

IN WITNESS WHEREOF, the parties have signed this Investor Rights Agreement effective as of the date first set forth above.

CYPRESS SEMICONDUCTOR CORPORATION

By: _____

Name: _____

Title: _____

SUNPOWER CORPORATION

By: _____

Name: _____

Title: _____

[SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT]

Exhibit 10.15

Employee Matters Agreement

between

Cypress Semiconductor Corporation

and

SunPower Corporation

October 6, 2005

EMPLOYEE MATTERS AGREEMENT

This Employee Matters Agreement (this "Agreement") is entered into as of October 6, 2005, between Cypress Semiconductor Corporation, a Delaware corporation ("Cypress"), and SunPower Corporation, a California corporation ("SunPower").

RECITALS

WHEREAS, Cypress currently owns all of the issued and outstanding capital stock of SunPower;

WHEREAS, Cypress and SunPower desire to enter into certain agreements to delineate and clarify their relationship and to further separate the businesses conducted by Cypress and SunPower (the "Separation").

WHEREAS, in furtherance of the foregoing, Cypress and SunPower have agreed to enter into this Agreement to allocate between them assets, liabilities and responsibilities with respect to certain employee compensation, benefit plans, programs and arrangements, and certain employment matters.

WHEREAS, this Agreement shall be void and of no force and effect until the occurrence of the "Separation Date" as defined in that certain Master Separation Agreement (the "Separation Agreement") between Cypress and SunPower dated as of October 6, 2005, as may be amended from time to time, (which, term, for the avoidance of doubt, is defined differently for purposes of this Agreement), at which time this Agreement shall become effective.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Capitalized terms used herein (other than the formal names of Cypress Plans (as defined below) and related trusts of Cypress) and not otherwise defined in this Article I or elsewhere in this Agreement shall have the respective meanings assigned to them in the Separation Agreement.

Wherever used in this Agreement, the following terms shall have the meanings indicated below or as such term may be defined elsewhere in this Agreement, unless a different meaning is plainly required by the context. The singular shall include the plural, unless the context indicates otherwise. Headings of sections are used for convenience of reference only, and in case of conflict, the text of this Agreement, rather than such headings, shall control:

1.1 401(k) Plan. "401(k) Plan," when immediately preceded by Cypress means the qualified retirement plan sponsored by Cypress that is intended to be tax-qualified under Code Section 401(a) and to include a cash or deferred arrangement under Code Section 401(k), and the associated trust that is intended to be exempt from taxation under Code Section 501(a). When immediately preceded by SunPower, "401(k) Plan" shall mean the qualified retirement plan that shall or may be established and maintained by SunPower for the benefit of eligible employees of SunPower that is intended to be tax-qualified under Code Section 401(a) and to include a cash or deferred arrangement under Code Section 401(k), and the associated trust that is intended to be exempt from taxation under Code Section 501(a).

1.2 Affiliate. "Affiliate" means, with respect to any specified Person, means any entity that Controls, is Controlled by, or is under common Control with such Person. For this purpose, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities or other interests, by control, or otherwise.

1.3 COBRA. "COBRA" means the continuation coverage requirements for "group health plans" under Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended from time to time, and as codified in Code Section 4980B and ERISA Sections 601 through 608, and to the extent applicable, also includes the California Continuation Benefits Replacement Act, as amended, the Colorado Continuation Coverage Law, as amended, and any similar applicable state laws providing continuation of coverage benefits.

1.4 Code. "Code" means the Internal Revenue Code of 1986, as amended.

1.5 Cypress Employee. "Cypress Employee" means an individual who is: (a) actively employed by, or on leave of absence from, Cypress; (b) an employee or group of employees designated as Cypress Employees by Cypress and SunPower, by mutual agreement; or (c) an employee who, prior to the Separation Date, is on, or begins, a disability leave of absence until the earlier of (i) the employee's termination of employment, (ii) the passage of six months as measured from the employee's last day of active work, or (iii) the employee is medically released to return to work.

1.6 Disability Plans. "Disability Plans" means the disability plans offered by Cypress that covers or is offered to eligible Cypress employees.

1.7 ERISA. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.8 FMLA. "FMLA" means the Family and Medical Leave Act of 1993, as amended from time to time.

1.9 Health and Welfare Plans. "Health and Welfare Plans," when immediately preceded by Cypress, means the Cypress Health Plans, the Cypress Code Section 125 Plan (the "Cypress

125 Plan"), established and maintained by Cypress for the benefit of eligible employees of Cypress, and such other welfare Plans as may apply to such employees. When immediately preceded by SunPower, "Health and Welfare Plans" means the SunPower Health Plans, the SunPower Code Section 125 Plan (if applicable) (the "SunPower 125 Plan"), that shall or may be established and maintained by SunPower for the benefit of eligible employees of SunPower, and such other welfare Plans that SunPower may establish.

1.10 Health Plans. "Health Plans," when immediately preceded by Cypress, means the medical, HMO, vision, dental Plans and any similar Plans. When immediately preceded by SunPower, "Health Plans" means the medical, HMO, vision, dental Plans and any similar Plans that shall or may be established by SunPower.

1.11 IPO. "IPO" means the effectiveness of the first registration statement, if any, that is filed by SunPower and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of SunPower's securities.

1.12 IPO Date. "IPO Date" means the effective date of the IPO.

1.13 Leave of Absence Plans. "Leave of Absence Plans," when immediately preceded by Cypress, means the personal, medical/disability, military, FMLA and other leave of absence programs that are offered, or may in the future be offered, from time to time under the personnel policies and practices of Cypress. When immediately preceded by SunPower, "Leave of Absence Plans" means the leave of absence programs that may be established by SunPower.

1.14 Liabilities. "Liabilities" means all debts, liabilities, expenses, costs, guarantees, assurances, commitments and obligations, whether fixed, contingent or absolute, asserted or unasserted, matured or unmatured, liquidated or unliquidated, accrued or not accrued, known or unknown, due or to become due, whenever or however arising (including, without limitation, whether arising out of any contract or tort based on negligence or strict liability) and whether or not the same would be required by generally accepted principles and accounting policies to be reflected in financial statements or disclosed in the notes thereto.

1.15 Option. "Option," when immediately preceded by Cypress, means an option to purchase Cypress common stock pursuant to a Cypress Stock Plan. When immediately preceded by SunPower, "Option" means an option to purchase SunPower common stock pursuant to a SunPower Stock Plan.

1.16 Participating Company. "Participating Company" means: (a) Cypress; (b) any Person (other than an individual) that Cypress has approved for participation in, has accepted participation in, and which is participating in, a Plan sponsored by Cypress; and (c) any Person (other than an individual) which, by the terms of such Plan, participates in such Plan or any employees of which, by the terms of such Plan, participate in or are covered by such Plan.

1.17 Plan. "Plan" means any plan, policy, program, payroll practice, arrangement, contract, trust, insurance policy, or any agreement or funding vehicle providing compensation or benefits to employees, former employees, directors or consultants of Cypress or SunPower.

1.18 Separation. "Separation" has the meaning set forth in the Recitals to this Agreement.

1.19 Separation Date. "Separation Date" means the date on which a Separation Event (as defined below) occurs, which date may be different for each of the Cypress Plans.

1.20 Separation Event. "Separation Event" means the earlier of: (1) a SunPower Change in Control, (2) such time as SunPower's status as a Participating Company is not permitted by a Cypress Plan; (3) such time as SunPower's status as a Participating Company is not permitted by applicable law; or (4) such time as it is determined in Cypress's reasonable judgment that SunPower's status as a Participating Company has or will result in an adverse consequence to, or have an negative impact on, Cypress or its employees, directors, officers, affiliates, agents or representatives.

1.21 Stock Plan. "Stock Plan," when immediately preceded by Cypress, means any plan, program, or arrangement, other than the Cypress Stock Purchase Plan, pursuant to which employees, directors and consultants hold Cypress Options, Cypress restricted stock, or other Cypress equity incentives. "Stock Plan," when immediately preceded by SunPower, means any plan, program, or arrangement, other than the SunPower Stock Purchase Plan, pursuant to which employees, directors and consultants hold SunPower Options, SunPower restricted stock, or other SunPower equity incentives.

1.22 Stock Purchase Plan. "Stock Purchase Plan," when immediately preceded by Cypress, means the Cypress Employee Stock Purchase Plans. When immediately preceded by SunPower, "Stock Purchase Plan" means the SunPower Employee Stock Purchase Plans that shall be established by SunPower.

1.23 SunPower Change in Control. "SunPower Change in Control" shall mean: (a) such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of SunPower's common stock then outstanding; (b) the consummation of any purchase or acquisition by any person, entity or "group" (as defined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) other than Cypress of more than a 40% interest in the total outstanding voting securities or voting power thereof of SunPower, (c) any merger, consolidation, business combination or similar transaction involving SunPower pursuant to which the equity interests held in SunPower and retained following such transaction or issued to or otherwise received in such transaction by the shareholders of SunPower immediately preceding such transaction constitute less than 50% of the aggregate equity interests in the surviving or resulting entity of such transaction or any direct or indirect parent thereof, (d) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of assets of SunPower representing more than 50% of the book value or fair market value of the assets of SunPower and its subsidiaries taken as a whole, or (e) any liquidation or dissolution of SunPower.

1.24 SunPower Employee. "SunPower Employee" means any individual who: (a) is actively employed by SunPower in the United States or the Philippines on the Separation Date; (b) moves to the employ of SunPower in the United States from the employ of Cypress at any time prior to the Separation Date; (c) is an employee or group of employees designated as SunPower Employees by Cypress and SunPower, by mutual agreement; or (d) is an individual in the United States hired by SunPower on or after the Separation Date.

ARTICLE II

GENERAL PRINCIPLES

2.1 Liabilities. Except as specified otherwise in this Agreement or as mutually agreed upon by SunPower and Cypress, SunPower shall pay to Cypress one-hundred percent (100%), of the Liabilities incurred with respect to Cypress Plans by SunPower as a Participating Company. Any Liabilities incurred with respect to SunPower Plans will be borne solely by SunPower.

2.2 Establishment of SunPower Plans. Nothing contained in this Agreement shall prevent SunPower from establishing all or any one of a SunPower Health Plan, SunPower 401(k) Plan, SunPower Stock Plans or such other SunPower Plan that SunPower deems appropriate, nor obligate SunPower or SunPower Employees to participate in the Cypress Plans. Cypress's obligation to SunPower under each of the Cypress Plans, if any, shall terminate immediately upon SunPower's adoption of a SunPower Plan intended to cover the benefits offered under such Cypress Plan.

2.3 Cypress Under No Obligation to Maintain Plans. Except as specified otherwise in this Agreement or as otherwise mutually agreed to by Cypress and SunPower, nothing in this Agreement shall preclude Cypress, at any time, from amending, merging, modifying, terminating, eliminating, reducing, or otherwise altering in any respect any Cypress Plan, any benefit under any Cypress Plan or any trust, insurance policy or funding vehicle related to any Cypress Plans, or any employment or other service arrangement with Cypress Employees or SunPower Employees, consultants or vendors (to the extent permitted by law).

***2.4 SunPower's Participation in Cypress Plans*.**

(a) Participation in Cypress Plans. Except as specified otherwise in this Agreement, prohibited by law or the applicable Plan document, or as Cypress and SunPower may mutually agree, SunPower shall continue to be a Participating Company in the Cypress Plans until the earlier of: (1) a SunPower Change in Control, (2) such time as SunPower's status as a Participating Company is not permitted by a Cypress Plan; (3) such time as SunPower's status as a Participating Company is not permitted by applicable law; or (4) such time as it is determined in Cypress's reasonable judgment that SunPower's status as a Participating Company has or will result in an adverse consequence to, or have an negative impact on, Cypress or its employees, directors, officers, affiliates, agents or representatives.

(b) Cypress's General Obligations as Plan Sponsor. Subject to Section 2.3, to the extent that SunPower is a Participating Company in any Cypress Plan, Cypress shall continue to administer, or cause to be administered, in accordance with its terms and applicable law, such Cypress Plan, and shall have the sole and absolute discretion and authority to interpret such Cypress Plan, as set forth therein.

(c) SunPower's General Obligations as Participating Company. SunPower shall perform, with respect to its participation in the Cypress Plans, the duties of a Participating Company as set forth in each such Plan or any procedures adopted pursuant thereto, including (without limitation): (i) assistance in the administration of claims, to the extent requested by the claims administrator of the applicable Cypress Plan; (ii) full cooperation with Cypress Plan auditors, benefit personnel and benefit vendors; (iii) preservation of the confidentiality of all financial arrangements Cypress has or may have with any vendors, claims administrators, trustees, service providers or any other entity or individual with whom Cypress has entered into an agreement relating to the Cypress Plans; and (iv) preservation of the confidentiality of participant information (including, without limitation, health information in relation to leaves) to the extent not specified otherwise in this Agreement.

2.5 Terms of Participation by SunPower Employees in SunPower Plans.

(a) Non-Duplication of Benefits. Except as specified otherwise in this Agreement or as mutually agreed upon by SunPower and Cypress, Cypress and SunPower shall agree on methods and procedures, including amending the respective Plan documents, to prevent SunPower Employees from receiving duplicate benefits from the Cypress Plans and the SunPower Plans.

(b) Service Credit. Except as specified otherwise in this Agreement, with respect to SunPower Employees, SunPower shall make reasonable efforts to provide that all service, compensation and other determinations that affect benefits eligibility or vesting under each SunPower Plan, other than the SunPower Stock Plan and the SunPower Equity Incentive Plan (including, without limitation, the SunPower vacation policy, the SunPower 401(k) Plan and the SunPower Health and Welfare Plans), that, as of the adoption of such Plans, were recognized under the corresponding Cypress Plan shall, as of the effective date of such SunPower Plans, receive full recognition and credit and be taken into account under such SunPower Plan to the same extent as if such items occurred under such Cypress Plan, except to the extent that duplication of benefits would result.

2.6 Transition to SunPower Plans

Cypress and SunPower agree that any transition of SunPower Employees from Cypress Plans to SunPower Plans shall be done pursuant to the applicable Plan document and all applicable laws. No action shall be taken to remove SunPower Employees from any Cypress Plan without the consent and cooperation of Cypress, which consent shall not be unreasonably withheld.

2.7 Foreign Plans. SunPower and Cypress each intend that the matters, issues or Liabilities relating to, arising out of, or resulting from foreign plans and non-U.S.-related employment matters be handled in a manner that is in compliance with the requirements of applicable local law. All Liabilities incurred by non-U.S. SunPower Employee's participation in any Cypress Plan, foreign or domestic, shall be the sole responsibility of SunPower, payable upon demand by Cypress or such SunPower Employee.

ARTICLE III

DEFINED CONTRIBUTION PLAN

3.1 401(k) Plan.

(a) 401(k) Plan. Cypress and SunPower shall use their best efforts to take any and all necessary actions for SunPower to continue as a Participating Company in the Cypress 401(k) Plan until a Separation Event has occurred with respect to the 401(k) Plan.

(b) 401(k) Plan: Assumption of Liabilities and Transfer of Assets. Effective no later than ninety (90) days after the Separation Date for the 401(k) Plan: (i) SunPower shall establish or cause to be established, the SunPower 401(k) Plan., (ii) the SunPower 401(k) Plan shall assume and be solely responsible for all Liabilities relating to, arising out of, or resulting from SunPower Employees under the Cypress 401(k) Plan; (iii) Cypress shall cause the accounts of the SunPower Employees under the Cypress 401(k) Plan that are held by its related trust to be transferred to the SunPower 401(k) Plan and its related trust; and (iv) SunPower shall cause such transferred accounts to be accepted by such Plan and its related trust. SunPower and Cypress each agree to use their reasonable best efforts to accomplish this 401(k) Plan and related trust spin-off.

(c) Termination of Participating Company Status. Except as otherwise mutually agreed to by Cypress and SunPower, SunPower shall cease to be a Participating Company in the Cypress 401(k) Plan upon a Separation Event.

ARTICLE IV

HEALTH AND WELFARE PLANS

4.1 Health Plans.

(a) Cypress Health Plans. Cypress shall administer and be responsible for handling claims incurred under the Cypress Health Plans by SunPower Employees prior to a Separation Event, subject to the limitations as set forth in Section 4.1(c). Any determination made or settlements entered into by Cypress with respect to such claims shall be final and binding. SunPower shall be responsible for all financial and administrative ("run-out") Liability and all related obligations and responsibilities for all claims incurred by SunPower Employees before the Separation Event, subject to the limitations as set forth in Section 4.1(c).

(b) Pending Treatments. Notwithstanding Section 4.1(a) above, all courses of treatment under the applicable Cypress Health Plan that have begun on or prior to a Separation Event with respect to SunPower Employees (or their eligible dependents) who are hospitalized on the Separation Date, shall be provided without interruption under the applicable SunPower Health Plan until the end of such hospitalization ("Uninterrupted Hospitalization Treatment"). For purposes of this Section 4.1(b) only, hospitalization is as defined under the applicable Health Plan and courses of treatment means that a SunPower Employee (or his or her eligible dependent), on or prior to the Separation Date, is receiving medical treatment for the specific illness or injury for which he or she is hospitalized on the Separation Date, and such Uninterrupted Hospitalization Treatment is applicable only to that specific illness or injury.

(c) Vendor Arrangements. If requested by SunPower, Cypress shall use reasonable efforts in assisting SunPower to procure, effective as of the Separation Date (or such earlier date(s) as Cypress and SunPower may mutually agree), the SunPower Health Plans.

(d) No Status Change. The transfer or other movement of employment between Cypress to SunPower at any time before the Separation Date shall neither constitute nor be treated as a "status change" or termination of employment under the Cypress Health Plans or the SunPower Health Plans.

***4.2 Group Life Plan*.** SunPower shall, until a Separation Event (or such earlier date as Cypress and SunPower may mutually agree), continue to be a Participating Company in any Cypress group life insurance Plan.

***4.3 Accidental Death & Dismemberment Plan*.** SunPower shall, until a Separation Event (or such earlier date as Cypress and SunPower may mutually agree), continue to be a Participating Company in any Cypress accidental death & dismemberment Plan.

***4.4 Disability Plans*.**

(a) Short-Term Disability Plan. SunPower shall, until a Separation Event (or such earlier date as Cypress and SunPower may mutually agree), continue to be a Participating Company in the Cypress short-term Disability Plan.

(b) Long-Term Disability Plan. SunPower shall, until a Separation Event (or such earlier date as SunPower and Cypress may mutually agree), continue to be a Participating Company in the Cypress long-term Disability Plan.

***4.5 Business Travel Accident Insurance*.** SunPower shall, until a Separation Event (or such earlier date as SunPower and Cypress may mutually agree), continue to be a Participating Company in any Cypress business travel accident insurance Plan.

***4.6 Section 125 Plan*.** SunPower shall, until a Separation Event (or such earlier date as SunPower and Cypress may mutually agree), continue to be a Participating Company in the Cypress

125 Plan. Effective as of the Separation Date (or such earlier date as SunPower and Cypress may mutually agree), SunPower may, in its sole discretion, establish a SunPower 125 Plan for the benefit of SunPower Employees.

4.7 COBRA. Cypress shall be responsible for providing COBRA continuation coverage (for the applicable period of time as required by law, generally 18-36 months) to SunPower Employees and their eligible dependents who become eligible for such coverage prior to a Separation Event. Effective as of the Separation Date, SunPower shall be responsible for providing COBRA continuation coverage (or reimbursing premiums therefore) to SunPower Employees and their eligible dependents who become eligible for such coverage on and following a Separation Event.

4.8 Workers' Compensation Plan. SunPower Employees shall, until a Separation Event (or such earlier date as Cypress and SunPower may mutually agree), continue to participate in the Cypress Workers' Compensation Plans. Effective as of the Separation Date, SunPower shall establish or renegotiate the terms of the workers' compensation plan for the benefit of SunPower Employees (the "Workers' Compensation Plan"). Any Liabilities that accrue under the Workers' Compensation Plan shall be Liabilities of SunPower.

4.9 Leave of Absence Plans. SunPower Employees shall, until a Separation Event (or such earlier date as Cypress and SunPower may mutually agree), continue to participate in the Cypress Leave of Absence Plans. Effective as of the Separation Date, SunPower Employees shall not be eligible to participate in the Cypress Leave of Absence Plans.

4.10 PTO Plan. SunPower Employees shall, until a Separation Event (or such earlier date as Cypress and SunPower may mutually agree), continue to participate in the Cypress PTO Plan. Effective as of the Separation Date, SunPower Employees shall not be eligible to participate in the Cypress PTO Plan.

4.11 Severance Plans. SunPower is not currently a Participating Company in Cypress's severance plans. Cypress does not currently, nor does it intend to, handle the administration of a severance plan for SunPower Employees. SunPower shall be solely responsible for the administration of severance plans for SunPower Employees.

4.12 Deferred Compensation Plan. As of the Effective Date, SunPower Employees shall not be eligible to participate in the Cypress Deferred Compensation Plan.

4.13 Sabbatical Plan. Cypress does not currently, nor does it intend to, handle the administration of a sabbatical plan for SunPower Employees. SunPower shall be solely responsible for the administration of a sabbatical plan for SunPower Employees.

ARTICLE V

EQUITY AND OTHER COMPENSATION

5.1 Cypress Options.

(a) Further Participation. Existing Cypress Option Grants notwithstanding, SunPower Employees shall not be eligible to participate in the Cypress Stock Plan.

(b) Cypress Options held by SunPower Employees.

(i) General. Each outstanding Cypress Option held by a SunPower Employee, whether vested or unvested, shall remain an option to purchase Cypress common stock and shall continue to be subject to all of the terms and conditions of the applicable Cypress plan and option agreement including, but not limited to, the expiration date of the option.

(ii) Termination of Cypress Employment for Option Purposes. For purposes of Cypress Options, each SunPower Employee shall be deemed terminated from Cypress employment upon a Separation Event. In accordance with each SunPower Employee's applicable Cypress Option agreement, each outstanding, unvested Cypress Option held by such employee shall be forfeited upon the deemed date of termination and each outstanding, vested Cypress Option held by such SunPower Employees shall remain outstanding and exercisable for that period of time following the termination of Cypress employment as is indicated in the applicable Cypress Option agreement.

(c) Certain Non-U.S. Optionees. Except as may otherwise be agreed upon by Cypress and SunPower, Section 5.1(a) shall govern the treatment of Cypress Options held by non-U.S. SunPower Employees.

***5.2 Stock Purchase Plan*.** SunPower Employees shall not be eligible to participate in the Cypress Stock Purchase Plan.

ARTICLE VI

ADMINISTRATIVE PROVISIONS

***6.1 Sharing of Participant Information*.** Cypress and SunPower shall share, or cause to be shared, all participant information that is necessary or appropriate for the efficient and accurate administration of each of the Cypress Plans and the SunPower Plans during the respective periods applicable to such Plans. Cypress and SunPower and their respective authorized agents shall, subject to applicable laws of confidentiality and data protection, be given reasonable and timely access to, and may make copies of, all information relating to the subjects of this Agreement in the custody of the other party or its agents, to the extent necessary or appropriate for such administration.

6.2 Costs and Expenses. SunPower shall reimburse Cypress for all direct and indirect costs and expenses related to the participation of SunPower Employees in any Cypress Plan. Payment for such direct and indirect costs shall be governed by the Master Transition Services Agreement between Cypress and SunPower of even date herewith.

ARTICLE VII

EMPLOYMENT-RELATED MATTERS

7.1 Non-Termination of Employment; No Third-Party Beneficiaries. No provision of this Agreement shall be construed to create any right or accelerate entitlement to any compensation or benefit whatsoever on the part of any SunPower Employee or other former, present or future employee of Cypress or SunPower under any Cypress Plan or SunPower Plan or otherwise. Without limiting the generality of the foregoing: (a) no employee shall be deemed to have incurred a termination of employment solely by reason of the Separation or IPO; and (b) except as otherwise specified herein, no transfer of employment between Cypress and SunPower before the Distribution Date shall be deemed a termination of employment for any purpose hereunder.

ARTICLE VIII

MISCELLANEOUS

8.1 Effect if Separation Event, SunPower Change of Control or IPO Does Not Occur. If a Separation Event, SunPower Change of Control or IPO do not occur, then all actions and events that are, under this Agreement, to be taken or occur effective as of such event or otherwise in connection with such event, shall not be taken or occur except to the extent specifically agreed by SunPower and Cypress.

8.2 Limitation of Liability. IN NO EVENT SHALL CYPRESS BE LIABLE TO SUNPOWER FOR ANY ACTUAL, DIRECT, SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; *PROVIDED, HOWEVER*, THAT THE FOREGOING LIMITATIONS SHALL NOT LIMIT EITHER PARTY'S INDEMNIFICATION OBLIGATIONS AS SET FORTH IN THE INDEMNIFICATION AND INSURANCE MATTERS AGREEMENT.

8.3 Governing Law. This Agreement shall be construed in accordance with, and governed by, the laws of the State of California, excluding its conflict of law rules, to the extent not preempted by ERISA. The Superior Court of Santa Clara County and/or the United States District Court for the Northern District of California shall have jurisdiction and venue over any dispute or disagreement between the parties or under this Agreement.

8.4 Amendment. SunPower and Cypress may mutually agree to amend the provisions of this Agreement at any time or times, for any reason, either prospectively or retroactively, to such extent and in such manner as the parties mutually deem advisable.

8.5 Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors in interest, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. Neither party may assign this Agreement or any rights or obligations hereunder, without the prior written consent of the other party, and any assignment without such consent shall be void. Any permitted assignee shall agree to perform the obligations of the assignor of this Agreement, and this Agreement shall inure to the benefit of and be binding upon any permitted assignee.

8.6 Severability. If any term or other provision of this Agreement or the exhibits or schedules attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

8.7 Interpretations. The headings contained in this Agreement, in any exhibit or schedule attached hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any capitalized term used in any exhibit or schedule but not otherwise defined therein, shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to an article, section, exhibit or schedule, such reference shall be to an article or section of, or an exhibit or schedule to, this Agreement, unless otherwise indicated.

8.8 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

8.9 Notices. Notices, offers, requests or other communications required or permitted to be given by either party pursuant to the terms of this Agreement shall be given in writing to the respective parties to the following addresses:

if to Cypress:

Cypress Semiconductor Corporation
198 Champion Court
San Jose, CA 95134
Attn: Brad Buss, Chief Financial Officer
Fax: (408) 943-4730

if to SunPower:

SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
Attn: Emmanuel Hernandez, Chief Financial Officer
Fax: (408) 739-7713

or to such other address as the party to whom notice is given may have previously furnished to the other in writing as provided herein. Any notice involving non-performance, termination, or renewal shall be sent by hand delivery, recognized overnight courier or, within the United States, may also be sent via certified mail, return receipt requested. All other notices may also be sent by fax, confirmed by first class mail. All notices shall be deemed to have been given and received on the earlier of actual delivery or three (3) days from the date of postmark.

8.10 Conflicting Agreements. In the event of conflict between this Agreement and the Separation Agreement, the provisions of this Agreement shall prevail. In the event of conflict between this Agreement and the Indemnification and Insurance Matters Agreement entered into between Cypress and SunPower, the provisions of the Indemnification and Insurance Matters Agreement shall prevail.

8.11 Entire Agreement. This Agreement, the Separation Agreement, the other Ancillary Agreements and the exhibits and schedules referenced or attached hereto and thereto, constitute the entire agreement between the parties with respect to the subject matter hereof and thereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof and thereof.

8.12 Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of either party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise or waiver of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement or the exhibits or schedules attached hereto are cumulative to, and not exclusive of, any rights or remedies otherwise available.

IN WITNESS WHEREOF, the parties have signed this Employee Matters Agreement effective as of the date first set forth above.

CYPRESS SEMICONDUCTOR CORPORATION	**SUNPOWER CORPORATION**
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

[SIGNATURE PAGE TO EMPLOYEE MATTERS AGREEMENT]

Exhibit 10.16

TAX SHARING AGREEMENT

This Tax Sharing Agreement (the "Agreement") is made effective for federal taxable years beginning on the 9th day of November 2004, and for all state taxable years beginning on the 30th day of December 2002, by and between Cypress Semiconductor Corporation, a Delaware corporation ("Parent") and its subsidiary SunPower Corporation, a California corporation (the "Subsidiary").

WHEREAS, Parent is the parent of an affiliated group of corporations, as defined in Section 1504(a) of the Internal Revenue Code of 1986, as amended (the "Code"), of which the Subsidiary is a member; and

WHEREAS, Parent on behalf of its affiliated group, has filed for previous taxable years consolidated federal income tax returns in accordance with Section 1501 of the Code and is required to file consolidated federal income tax returns for subsequent taxable years; and

WHEREAS, Parent is the parent of a unitary group of corporations, as defined by state tax laws and regulations, of which Subsidiary is, or will be, a member; and

WHEREAS, Parent on behalf of its unitary group, has filed for previous taxable years combined state income tax returns in accordance with the laws and regulations of each state where Parent and Subsidiary conducts business operations, and is required to or elects to file combined income tax returns for subsequent taxable years; and

WHEREAS, Subsidiary may form, merge or acquire a subsidiary corporation which will join the Parent's affiliated group of corporations, as defined in Section 1504(a) of the Code, or the Parent's unitary group of corporations, as defined by state law.

WHEREAS, the parties wish to provide for the allocation among them of their consolidated federal income tax liability, combined state income tax liability, and various other federal and state tax liabilities arising prior to, as a result of, and subsequent to a Deconsolidation, and to provide for and agree upon other matters relating to such Income Taxes

WHEREAS, the parties acknowledge that Parent has made continuous investment in Subsidiary and thereby wish to allocate to Parent the tax benefit of all pre-Deconsolidation federal and state tax credit carryforward, net operating loss carryforward and any other tax carryforward amounts attributable to each Subsidiary under federal or state law and regulations.

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants and agreements contained herein, the parties agree as follows:

1. DEFINITIONS.

For purposes of this Agreement, the terms set forth below shall be defined as follows:

(a) “Consolidated Return(s)” means any consolidated, combined or unitary Tax Returns filed by Parent with respect to United States federal, state or local Taxes imposed or based on net income, net worth or gross receipts, or otherwise.

(b) “Deconsolidation” shall mean any event pursuant to which a Subsidiary ceases to be includible in a Parent Consolidated Return for federal or state income tax purposes.

(c) “Distribution” shall mean a distribution of Subsidiary stock by Parent to Parent’s shareholders in a transaction intended to qualify as a tax-free distribution under Section 355 of the Code.

(d**)** “Group” shall mean Parent (as hereinafter defined), the Subsidiary, and all other corporations (whether now existing or hereafter formed or acquired) that have joined, or will join, with Parent in filing a Consolidated Return.

(e) “Group Tax Liability” shall mean the federal or state income tax liability of the Group reported on any Consolidated Return of the group filed for the taxable year.

(f) “Member” shall mean any corporation that is included in the Group, or any successor to such corporation.

(g) “Parent” shall mean (i) Parent, (ii) any successor common parent corporation described in Treas. Reg. §1.1502-75 (d) (2) (i) or (ii), or (iii) any corporation as to which Parent (or successor corporation described in clause (ii) hereof) is the “predecessor” within the meaning of Treas. Reg. §1.1502-1 (f) (4), if such corporation acquires Parent (or a successor corporation described in clause (ii) hereof) in a “reverse acquisition” within the meaning of Treas. Reg. §1.1502-75 (d) (3).

(h) “Separate Return Tax Liability” shall mean with respect to any taxable year the hypothetical federal or state income tax liability of Subsidiary determined on a pro forma basis as if each Subsidiary had filed its own separate federal or state income tax return for such year (and for every taxable year prior thereto in which each Subsidiary was a Member) in accordance with the rules set forth in Section 3 hereof.

(i) “Subsidiary” means SunPower Corporation and any Sub-Subsidiary owned by SunPower Corporation.

(j) “Sub-Subsidiary” means any corporation, partnership or limited liability company owned directly by SunPower Corporation or any indirectly owned company of SunPower Corporation, so long as the company is a Member as defined herein.

(k) “Tax(es)” means all federal, state, local and foreign income, profits, franchise, sales, use, occupation, property, severance, excise, payroll, withholding and any other taxes (including interest and penalties thereon).

(l) “Tax Benefit Payable” means the amount due Parent under Section 4 of this Agreement attributable to certain tax attributes (i.e., NOL carryforward, credit carryforward, etc.)

of each Subsidiary, under the Code or pursuant to State law or regulations, at the time of Deconsolidation , determined on a separate return basis and in accordance with Section 4 hereof.

(l) “Tax Returns” means all returns, reports and information statements (including all exhibits and schedules thereto) filed or required to be filed with a taxing authority with respect to any Taxes.

2. FILING OF RETURNS.

(a) Parent shall, on a timely basis, file or cause to be filed, Consolidated Returns and estimated tax returns for each taxable year during the term of this Agreement and shall pay in full any tax shown as due thereon. Each Subsidiary shall execute and file such consents, elections, and other documents as may be required or appropriate for the proper filing of such returns. Each Subsidiary shall also maintain such books and records, and continue to maintain such books and records for the duration of the applicable statute of limitation for each jurisdiction imposing such Taxes, and timely provide such information as Parent may request in connection with the matters contemplated by this Agreement.

(b) Parent shall have the right, in its sole discretion, to:

(i) Make any elections which are employed in the filing of such Consolidated Returns, including any elections denominated as such in the Code such as choice of methods of accounting and depreciation;

(ii) Determine the manner in which such returns shall be prepared and filed, including without limitation, the manner in which any item of income, gain, loss, deduction or credit shall be reported;

(iii) Contest, compromise or settle any adjustment or deficiency proposed, asserted or assessed as a result of any audit of any such returns;

(iv) File, prosecute, compromise or settle any claim for refund; and

(v) Determine whether any refunds to which the Group may be entitled shall be paid by way of refund or credit against the federal or state income tax liability of the Group.

(c) Upon formation or acquisition of a Sub-Subsidiary, Subsidiary shall cause such Sub-Subsidiary to execute and be bound by this Agreement as of the first date on which such Sub-Subsidiary qualifies under federal and/or state law to become a Member of the Group. The Group will jointly file state and local tax returns on a combined, consolidated, unitary, or other method that Parent determines appropriate and beneficial for the Group. In the event any such state or local tax returns are filed, the provisions of the Agreement shall apply to the allocation, preparation, filing and payment related to such state and local taxes and returns and shall be applied as is appropriate in the context of the applicable state and local tax laws as determined in the discretion of Parent. The provisions of this Agreement also apply to any other Taxes of the Group.

(d) Subsidiary shall designate Parent (and shall cause each Sub-Subsidiary to designate Parent) as its agent and attorney-in-fact (and shall execute any powers of attorney) for the purpose of taking any and all actions necessary for the filing of the Consolidated Returns. Subsidiary will furnish (and cause each sub-Subsidiary to furnish) to Parent all information that is reasonably requested in order to carry out the provisions of this Agreement and to determine the amount of the Separate Return Tax Liability.

3. SEPARATE RETURN TAX LIABILITY CALCULATION.

(a) Parent will calculate a Separate Return Tax Liability for each Subsidiary on or before the Tax Return filing due date (including any extensions thereof) and shall notify Subsidiary in writing of such Separate Return Tax Liability within 15 days of filing each applicable Tax Return.

(b) The Separate Return Tax Liability will be calculated, in general, by the following process including any applicable special rules as listed below:

(i) Taxable net income, as defined by the Code and state laws and regulations, shall be determined by taking into account losses, credits, carryovers of losses and credits from prior or subsequent years, and other tax attributes of each Subsidiary (determined without reference to the effect of the application of the Consolidated Return regulations on the Subsidiary's attributes), all of which attributes are subject to the limitations of the federal or state laws and regulations that would have been applicable had the Subsidiary filed a separate federal or state income tax return for all taxable years relating to the computation,

(ii) Notwithstanding the foregoing subpart (i), any employee compensation deduction resulting from the exercise of Parent stock options (without regard to the treatment under the Code, Treasury Regulations or state laws) shall be allocated as an exclusive deduction to Parent, and shall remain with Parent (and not with the Subsidiary) in calculating Subsidiary's Separate Return Tax Liability for all taxable years under this Agreement;

(iii) Tax shall be imposed on the taxable net income of each Subsidiary at a rate equal to the top marginal rate specified by the Code or state law for the taxable year under each applicable tax provision (including without limitation to taxes imposed under Sections 11, 55 and 1201 (a) of the Code) and employing the methods and principles of accounting, elections and conventions that are used by the Group; and

(c) For purposes of determining the Separate Return Tax Liability of each Subsidiary, the following special rules shall apply:

(i.) Any carryover of loss or credit that arose in a taxable year prior to the time in which each Subsidiary became a Member (and which has not been or will not be utilized prior to the date of this Agreement) may be taken into account only to the extent of federal or state income tax benefit actually obtained, by the Group, as determined after full utilization of the Group's other attributes;

(ii.) Items of deduction or credit that are calculable only on a consolidated basis (for example, the manufacturing deduction of Section 199 of the Code) shall be determined on such basis (and not on a separate return basis) and then equitably apportioned by Parent; and

(iii.) Parent may from time to time establish any other special rules that Parent in its sole discretion deems necessary or appropriate to carry out the purposes of this Agreement.

4. PAYMENTS.

For each taxable year of the Group with respect to which a Consolidated Return is filed, Subsidiary shall make payments to Parent in the following manner:

(a) Subsidiary shall pay to Parent the total amount of Subsidiary's (including each Sub-Subsidiary's) Separate Return Tax Liability not later than thirty (30) days after the date on which the Group's Consolidated Return for Taxes is required to be filed (including any extensions thereof).

(b) Subsidiary shall pay to Parent, but not later than fifteen (15) days after the date each Subsidiary would be required to make payment of estimated Taxes for Consolidated Returns if Subsidiary was to file a separate Tax Return for the taxable year (including any payment due at the time any extension of time for the filing of such hypothetical return is obtained), an amount, as determined by Parent in a manner consistent with Section 3 hereof, equal to the periodic amount of Subsidiary's Separate Return Tax Liability that would be due were each Subsidiary to file a separate Tax Return for the taxable year. Any payments made by Subsidiary to Parent under this subparagraph (b) with respect to a taxable year shall be applied to reduce the amount, if any, owing by Subsidiary under subparagraph (a) of this paragraph 4 with respect to such year. Any excess of such payments over the amount determined under subparagraph (a) of this paragraph 4 for such year shall be repaid by Parent to Subsidiary not later than forty-five (45) days after the date on which the Group's Consolidated Return is filed or, to the extent that such excess represents all or a part of a tax refund claimed by the Group, not later than forty-five (45) days after the receipt of such refund.

(c) The Tax Benefit Payable shall be calculated immediately prior to Deconsolidation, and shall become an obligation of Subsidiary due to Parent. No portion of the Tax Benefit Payable will become payable to Parent until Subsidiary is entitled to utilize such portion on a tax return filed after Deconsolidation. Subsidiary shall then distribute such portion to Parent in the form of Subsidiary stock or cash, at Subsidiary's discretion, within thirty (30) days after the filing of such tax return. Subsidiary shall have an affirmative duty to notify Parent

in advance that such portion is available for utilization. The Tax Benefit Payable shall be reduced by any such portion distributed to Parent.

(d) For purposes of this Agreement, the total amount of the Tax Benefit Payable shall be calculated based on the sum of the following amounts:

(i) the total carryforward amounts of any and all federal or state income tax credits (current and prior years, irrespective of when earned) attributable to Subsidiary (including each Sub-Subsidiary) at time of Deconsolidation, and

(ii) the effective corporate tax rate (34% federal and 6% state) multiplied by the respective sum of the total carryforward amounts of all net operating losses (current and prior year) attributable to Subsidiary (including each Sub-Subsidiary) at time of Deconsolidation and the carryforward of all capital losses (current and prior year) and any other taxable income carryforward amount declared.

(e) Amounts attributable to a taxable year that includes the date of the Deconsolidation shall be determined as if Subsidiary closed its books on such date.

In the event of a determination increasing the amount of any income tax credit carryforward, net operating loss carryforward, capital loss carryforward or any other taxable income carryforward amount attributable to any Subsidiary for any period or portion thereof prior to Deconsolidation, the Tax Benefit Payable will be recalculated under subparts (i) and (ii) above and paid by Subsidiary to Parent as described in Section (c) of this Paragraph 4.

5. CHANGES IN TAX LIABILITY.

(a) If with respect to any taxable year

(i) the Group files an amended Consolidated Return reporting a consolidated tax liability different from the Group Tax Liability,

(ii) the Group Tax Liability or any Subsidiary's tax liability is adjusted and such adjustment is a part of a final "determination" as the term is defined in section 1313(a) of the Code, or

(iii) the Group is assessed and pays income taxes in excess of the Group Tax Liability by reason of any of the events specified in section 6213(b) or (d) of the Code,

then the amounts of the payments required under paragraph 4 shall be recomputed, subject to the limitations of subparagraph (c) of this paragraph 5, to give effect to such amended return, adjustment or assessment, as the case may be. Subsidiary shall then pay to Parent, or Parent shall then pay to Subsidiary, as the case may be, any difference between the amounts determined by such

recomputation and the amounts previously paid. Such payments shall be made no later than

(i) where an additional payment of tax by the Group is due as a result of such amended return, adjustment or assessment, the later of (a) fifteen (15) days after the date of which such additional payment of tax is due and (b) fifteen (15) days after the date on which Parent notifies Subsidiaryof the amount of payment due from Subsidiary pursuant to this subparagraph (a); or

(ii) where the Group receives a refund arising from such amended return or adjustment, forty-five (45) days after the receipt of such refund.

(iii) where, after Deconsolidation and utilization by Subsidiary of a tax attribute taken into account in calculating the Tax Benefit Payable, an additional payment of tax by any Subsidiary is due as a result of a final determination that such tax attribute is unavailable, (15) days after the date on which the Subsidiary notifies Parent of the amount of payment due from Parent pursuant to this subparagraph (a) and (15) days after the date of which Subsidiary pays such additional amount due to the taxing jurisdiction.

(b) If with respect to any taxable year the Group files an amended Consolidated Return reporting a consolidated federal or state income tax liability identical to the Group Tax Liability, then the amounts of the payments required under paragraph 4, subject to the limitations of subparagraph (c) of this paragraph 5, shall be recomputed to give effect to such amended return. Not later than forty-five (45) days after the filing of such amended return, Subsidiary shall pay to Parent, or Parent shall pay to Subsidiary, as the case may be, any difference between the amounts determined by such recomputation and the amounts previously paid.

(c) If with respect to any taxable year a Subsidiary realizes a loss or credit that would be permitted under the Code (taking into account any election under section 172 (b) (3) of the Code) to be carried to one or more taxable years that precede such taxable year if such Subsidiary had filed any applicable separate tax return for all such taxable years, then the amounts of the payments required under paragraph 4 for such taxable years shall be recomputed to give effect to such carryback; provided, however, that, notwithstanding subparagraphs (a) and (b) of this paragraph 5, no such recomputation shall be made with respect to any loss or credit carried back to a taxable year beginning before the date hereof, or, if later, a taxable year in which a Subsidiary was not a Member; provided, further, that no loss or credit that could be carried back to a taxable year beginning before the date hereof in which a Subsidiary was a Member shall be considered in determining each Subsidiary’s Separate Return Tax Liability for any other year. Subsidiary shall pay to Parent, or Parent shall pay to Subsidiary, as the case may be, any difference between the amounts determined by such recomputation and the amounts previously paid not later than forty-five (45) days after the date on which the Group’s Consolidated Return for the taxable year is filed, or to the extent that such difference represents all or part of a tax refund claimed by the Group, not later than forty-five (45) days after the receipt of such refund.

(d) The parties recognize that a recomputation under subparagraphs (a), (b) or (c) of this paragraph 5 of the amounts of the payments required under paragraph 4 for any taxable year will not necessarily be the final determination of the amounts of such payments for such year, and the amounts of such payments may be recomputed more than once.

(e) In the event that a change in the tax liability of the Group arising from an amended return, adjustment or assessment described in subparagraph (a) of this paragraph 5 results or will result in the receipt of payment of interest, or the payment or recovery of penalties in excess of the aggregate interest or penalties included in determining the aggregate Subsidiary Separate Return Tax Liability, such interest or penalties shall be allocated to each Subsidiary as follows: The total amount of such excess interest or penalty shall be multiplied by a fraction, the denominator of which is the amount of the change in the Group Tax Liability on which the interest or penalty is computed, and the numerator of which is the amount of the change in each Subsidiary's allocated tax liability, in both cases with respect to the most recent prior computation of the Group Tax Liability and the Subsidiary's Separate Return Tax Liability. Subsidiary shall pay to Parent, or Parent shall pay to Subsidiary, as the case may be, the aggregate amount of excess interest or penalties allocated to each Subsidiary pursuant to this subparagraph 5(e) at the same time the amounts payable pursuant to subparagraph (a) of this paragraph 5 become payable.

(f) Except as provided in paragraph 7, payments made pursuant to subparagraphs (a), (b), (c), (d) or (e) of this paragraph 5 shall not themselves bear interest.

(g) Notwithstanding the provisions of this paragraph 5, a Subsidiary (including any Sub-Subsidiary) shall not file an amended Consolidated Return or cause an amended Consolidated Return to be filed without first obtaining the express written consent of the Parent.

6. INDEMNIFICATION.

(a) Subsidiary (including any Sub-Subsidiary) shall indemnify and hold harmless Parent against the amount of any and all liability, loss, expense or damage Parent may suffer or incur as a result of any or all claims, demands, costs or expenses (including, without limitation, attorneys' and accountants' fees), interest, penalties or judgments made against it arising from or incurred in relation to

(i) any failure of Subsidiary to pay any amount to Parent with respect to Subsidiary's obligations under paragraphs 3, 4 and 5 of this Agreement,

(ii) the failure of the Subsidiary to comply with its obligations under subparagraph (a) of paragraph 3 of this Agreement,

(iii) any and all Taxes (other than Taxes in respect of Consolidated Returns) due or payable by Subsidiary for any taxable year or Tax period beginning before, on or after the date hereof,

(iv) any Taxes resulting from the application of Section 355(e) of the Code or similar provision of other applicable law to the Distribution as a result of one or more acquisitions of Subsidiary stock after the Distribution, except for any Taxes which would result taking into account only (A) issuances and dispositions of Subsidiary stock prior to the Distributions and (B) dispositions of Subsidiary stock by Parent after the Distribution, and

(v) any Taxes resulting from any action or failure to act by Subsidiary, or any condition known to Subsidiary to exist (and not known to Parent to exist), which action, failure to act or condition causes any representation made in connection with the opinion provided to Parent regarding the qualification of the Distribution under Section 355 of the Code to be untrue.

(b) Parent shall:

(i) Indemnify and hold harmless Subsidiary against the amount of any and all liability, loss, expense or damage Subsidiary may suffer or incur as a result of any or all claims, demands, costs or expenses (including, without limitation, attorneys' and accountants' fees), interest, penalties or judgments made against it arising from or incurred in relation to all taxes in respect of all Consolidated Returns other than those taxes for which Subsidiary is responsible under this Agreement, and

(ii) Make any payment, remove any lien and take any action reasonably necessary to prevent Subsidiary from incurring such liabilities, losses, expenses or damages. Subsidiary shall not be entitled to indemnification by Parent pursuant to this paragraph 6 unless such Subsidiary has made all payments required of it pursuant to paragraph 3, 4 and 5 of this Agreement and fully complied with subparagraph (a) of paragraph 4 of this Agreement.

(c) Payment pursuant to the indemnity provided in this paragraph 6 shall be made within fifteen (15) days of notice that a payment requiring indemnification under this paragraph 6 has been made by the Parent or the Subsidiary.

(d) Neither Subsidiary nor any Sub-Subsidiary shall knowingly take or fail to take any action that could reasonably be expected to preclude Parent's ability to undertake (as determined in its sole discretion) a Distribution.

7. DEFAULT INTEREST.

Where any payment required by this Agreement to be made from one party to another is not made within ten days of the time provided under this Agreement, the amount not timely paid shall bear interest at the rate established pursuant to section 6621(a) (2) of the Code.

8. TERMINATION OF AFFILIATION.

The obligations of Parent and Subsidiary (including any Sub-Subsidiary) set forth under

this Agreement shall be unconditional and absolute, and shall remain in effect beyond Deconsolidation and without limitation as to time until all periods of limitations, including any extension or waiver periods for returns covered under this Agreement, have expired and no further carrybacks to such periods are possible, and for 30 days thereafter. Furthermore, the rights and obligations of the Parties under this Agreement may not be assigned by either Party without the prior written consent of the other Party to this Agreement.

9. RESOLUTION OF DISPUTES.

(a) Any dispute concerning the calculation or basis of the Separate Return Tax Liability for each Subsidiary or any Payment provided for in Section 4 of this Agreement shall be ultimately resolved (if necessary) by a law firm or accounting firm, selected jointly by Parent and Subsidiary, utilizing the allocation and payment rules and procedures as prescribed in this Agreement, and whose judgment shall be conclusive and binding upon the parties in absence of manifest error.

(b) Fees and other expenses of such law or accounting firm shall be paid equally (50%) by Parent and Subsidiary.

(c) Any other dispute or ambiguity occurring under this Agreement shall be resolved by Parent in a reasonable manner and consistent with the principles and procedure set forth in this Agreement. The judgment of Parent shall be conclusive and binding upon each of the parties to this Agreement.

10. INFORMATION AND EXPENSES.

Parent is authorized to retain accountants and attorneys for the purpose of preparing the Group’s Tax Returns provided for herein, and Subsidiary agrees to pay all costs incurred by Subsidiary in furnishing records, documents or information in the form requested by Parent in connection with the preparation of any such returns. Subsidiary shall promptly provide Parent with such records, documents and information, as Parent shall request in connection with the preparation of such returns. Parent shall be authorized to retain accountants and attorneys for the purpose of preparing any of the refund claims provided for herein, and for representation in connection with any Subsidiary disputes with the IRS. In cases where the action taken is Subsidiary specific or where Subsidiary has agreed that the action taken is appropriate, Subsidiary agrees to pay the costs reasonably allocated to it by Parent of employing such attorneys and accountants (including associated court costs), and to bear the costs incurred by it in furnishing records, documents and testimony in connection with any such matter.

11. MISCELLANEOUS PROVISIONS.

(a) This Agreement contains the entire understanding of the parties hereto with respect to the subject matter contained herein and supercedes all prior written, oral or implied understandings, representations and agreements among the parties with respect thereto. No alteration, amendment, or modification of any of the terms of this Agreement shall be valid unless made by an instrument signed in writing by an authorized officer of each party.

(b) This Agreement shall be binding upon and inure to the benefit of each party hereto, its respective successors and assigns, and each Member of the Group not a party hereto.

(c) This Agreement is not intended to benefit any person other than the parties hereto, each of their respective successors and assigns, and Members of the Group not a party hereto. No person not (i) a party, (ii) a party's successor or assign or (iii) a Member of the Group shall be a third party beneficiary hereof.

(d) This Agreement shall be governed by, interpreted and enforced in accordance with the laws of the State of California (regardless of the laws that might be applicable under principles of conflicts of laws).

(e) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(f) The descriptive headings of the paragraphs of this Agreement are inserted for convenience only and shall not constitute a part hereof.

(g) Any notice or other communication required or permitted under this Agreement shall be in writing and shall be personally delivered or sent by certified or registered United States mail postage prepaid, to the parties at the following addresses (or at such other address as a party may specify by notice to the others):

If to Parent:	
Company Name	Cypress Semiconductor Corporation
Street Address	3901 North First Street
City, State Zip	San Jose, CA 95134
Attention:	Brad Buss, Chief Financial Officer
If to Subsidiary:	
Company Name	SunPower Corporation
Street Address	430 Indio Way
City, State, Zip	Sunnyvale, CA 94086
Attention:	Emmanuel Hernandez, Chief Financial Officer

Any such notice or communication shall be effective and be deemed to have been given as of the dates delivered or mailed, as the case may be; provided that any notice or communication changing any of the addresses set forth above shall be effective and deemed to have been given only upon its receipt.

(h) Where the context so requires, the word "person" shall include a corporation, firm, partnership or other form of association or entity.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date first above written.

Cypress Semiconductor Corporation

By: _____

SunPower Corporation

By: _____

Exhibit 10.17

Master Transition Services Agreement

between

Cypress Semiconductor Corporation

and

SunPower Corporation

October 6, 2005

MASTER TRANSITION SERVICES AGREEMENT

This Master Transition Services Agreement ("Agreement") is entered into as of October 6, 2005 (the "Effective Date"), between Cypress Semiconductor Corporation, a Delaware corporation ("Cypress"), and SunPower Corporation, a California corporation ("SunPower"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in Article I hereof.

RECITALS

WHEREAS, Cypress and SunPower entered into a Master Separation Agreement dated as of October 6, 2005, as may be amended from time to time (the "Separation Agreement") and other Ancillary Agreements to delineate and clarify their relationship and further separate the businesses conducted by Cypress and SunPower (the "Separation").

WHEREAS, in connection with the Separation, the parties desire to set forth certain agreements regarding transition services between the parties.

WHEREAS, this Agreement shall be void and of no force and effect until the occurrence of the "Separation Date" as defined in the Separation Agreement (hereinafter referred to as the "Effective Date"), at which time this Agreement shall become effective.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

For the purpose of this Agreement, the following capitalized terms shall have the following meanings:

1.1 Additional Services. "Additional Services" has the meaning set forth in Section 2.2(a) hereof.

1.2 Agreement. "Agreement" has the meaning set forth in Section 2.1 hereof.

1.3 Ancillary Agreements. "Ancillary Agreements" has the meaning set forth in the Separation Agreement.

1.4 Change of Control. "Change of Control" shall mean (a) such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of common stock then outstanding of SunPower; (b) the consummation of any purchase or acquisition by any person, entity or "group" (as defined

under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) other than Cypress of more than a 40% interest in the total outstanding voting securities or voting power thereof of SunPower, (c) any merger, consolidation, business combination or similar transaction involving SunPower pursuant to which the equity interests held in SunPower and retained following such transaction or issued to or otherwise received in such transaction by the shareholders of SunPower immediately preceding such transaction constitute less than 50% of the aggregate equity interests in the surviving or resulting entity of such transaction or any direct or indirect parent thereof, (d) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of assets of SunPower representing more than 50% of the book value or fair market value of the assets of SunPower and its subsidiaries taken as a whole, or (e) any liquidation or dissolution of SunPower.

1.5 Cost. "Cost" means all direct and indirect costs to Cypress to perform a Service under this Agreement, including, but not limited to, (1) all wages, salaries and fees of all personnel used to perform the Service; (2) all payroll charges for such personnel, such as unemployment and social security taxes, workers' compensation, health, accident and group insurance, and other so-called fringe benefits; (3) all costs of plant and office space, materials and supplies used to perform the Services; (4) insurance costs incurred in connection with the Services; (5) the cost of equipment, software or hardware used in the performance of the Services; (6) the depreciation of any equipment or capital assets used in the performance of the Services; (7) legal, accounting or other professional fees incurred in the ordinary course of business; (8) a portion of Cypress's costs with respect to utilities, occupancy, supervisory and clerical compensation and the other overhead burden of the department delivering the Service, which may include an allocation of costs incurred by supporting departments and other applicable general and administrative expenses to the extent reasonably allocable to the delivery of the Service and (9) all other direct and indirect expenses, which Cypress in its reasonable business judgment, deems appropriate or necessary for the performance of the requested Service.

1.6 Expiration Date. "Expiration Date" has the meaning set forth in the Section 3.1 hereof.

1.7 Impracticability. "Impracticability" has the meaning set forth in Section 2.4 hereof.

1.8 Master Transition Service Schedule. "Master Transition Service Schedule" has the meaning set forth in Section 2.1 hereof.

1.9 Separation Agreement. "Separation Agreement" has the meaning set forth in the Recitals hereof.

1.10 Separation Date. "Separation Date" has the meaning set forth in the Separation Agreement.

***1.11 Subcontractor*.** "Subcontractor" means any individual, partnership, corporation, firm, association, unincorporated organization, joint venture, trust or other entity engaged to perform hereunder.

ARTICLE II

SERVICES

***2.1 Services Generally; Master Transition Service Schedule*.** This Agreement governs the provision of transitional services by Cypress to, and as requested by, SunPower. Each service shall be provided pursuant to, and governed by, this Agreement (as defined below) and as described in further detail in the schedule of services that is attached hereto as Exhibit A and incorporated herein by reference ("Master Transition Service Schedule"). Each of the services described in the Master Transition Service Schedule shall be referred to herein as a "Service," and collectively (including Additional Services) as "Services." This Agreement together with the Master Transition Service Schedule shall be defined as the "Agreement".

***2.2 Additional Services*.**

(a) From time to time after the Effective Date and during the term of this Agreement, the parties may identify additional services that one party shall provide to the other party in accordance with the terms of this Agreement (the "Additional Services"), and in such case, the parties shall modify the Master Transition Service Schedule to provide for such Additional Services.

(b) Except as provided in the next sentence, Cypress shall be obligated to perform, at a charge to be mutually agreed upon by the parties and subject to Section 4.1, any Additional Service that: (i) was provided by Cypress immediately prior to the Separation Date and that SunPower and Cypress agree was inadvertently or unintentionally omitted from the Master Transition Service Schedule, or (ii) is essential to effectuate an orderly transition under the Separation Agreement. Notwithstanding the foregoing, if Cypress reasonably believes that the performance of Additional Services set forth in subparagraphs (i) or (ii) would significantly disrupt its operations or materially increase the scope of its responsibilities under this Agreement, Cypress and SunPower shall negotiate in good faith to establish terms under which Cypress would provide such Additional Services, but Cypress shall not be obligated to provide such Additional Services if, following good faith negotiation, it is unable to reach agreement on such terms.

***2.3 Service Boundaries*.** Except as otherwise provided:

(a) Cypress shall be obligated to provide the Services only to the extent and only at the locations that such Services were provided by Cypress to SunPower immediately prior to the Effective Date;

(b) Cypress shall be obligated to provide the Services only to the extent necessary to permit SunPower to conduct the business of SunPower substantially in the manner it was conducted prior to the Effective Date;

(c) Cypress shall not be obligated to hire any additional employees or to maintain the employment of any specific employee or any specific number of employees in connection with this Agreement;

(d) Cypress shall not be obligated to purchase, lease or license any additional equipment, software or other asset or to maintain any existing lease, license or other contract;

(e) Cypress shall not be obligated to pay any costs related to the transfer or conversion of SunPower's data to Cypress or any alternate supplier of Services;

(f) Cypress shall not be obligated to perform any Service it believes in good faith results or could result in a conflict of interest between the parties or a breach of contract or other obligation owed to a third party by Cypress; and

(g) Cypress shall not be obligated to perform any Service it believes would significantly disrupt its operations or materially increase the scope of its responsibilities under this Agreement.

***2.4 Impracticability*.** Cypress shall not be obligated to provide any Service to the extent the performance of such Service becomes or would become impracticable as a result of a cause or causes outside the control of Cypress (including but not limited to a Force Majeure (as defined in Section 7.10) or unfeasible technological requirements), or to the extent the performance of such Services would require Cypress or SunPower to violate, or result in Cypress's or SunPower's violation of, any applicable laws, rules or regulations or would result in Cypress's or SunPower's breach of any applicable contract or a real or potential conflict of interest between the parties hereto (any such reason not to provide Services as a result of this section shall be referred herein to as by reason of "Impracticability").

ARTICLE III

TERM; TERMINATION

***3.1 Term*.** The term of this Agreement shall commence on the Effective Date and shall remain in effect until the earlier of three (3) years or until 90 days following a Change of Control (provided that if at any time, as a result of such a Change of Control, more than 50% of the assets or equity interests of SunPower are beneficially owned by a single person, entity or "group" (as defined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) other than Cypress then this Agreement shall, at the option of Cypress, terminate immediately prior to such Change of Control) (the "Expiration Date"), unless earlier terminated pursuant to this Article III. During the 90 day period prior to the Expiration Date, at the

reasonable request of SunPower, Cypress will use commercially reasonable efforts to make the Cypress personnel who performed services hereunder available for the purpose of training SunPower personnel who will, following the Expiration Date, perform such services for SunPower; *provided*, that SunPower shall pay Cypress charges determined in accordance with the Master Transition Service Schedule and Section 4.1 hereof for such training. This Agreement may be extended by the parties in writing, either in whole or with respect to one or more of the Services. The parties may agree on an earlier expiration date respecting a Service by specifying such date on the Master Transition Service Schedule for that Service.

***3.2 Termination*.** SunPower may terminate this Agreement, either with respect to all or with respect to any one or more of the Services, for any reason or for no reason, at any time upon ninety (90) days prior written notice to Cypress. In addition, either party may terminate this Agreement, in whole or with respect to a specific Service, if (a) the other party breaches a material provision and does not cure such breach (or does not take reasonable steps required under the circumstances to cure such breach going forward) within thirty (30) days after being given notice of the breach or (2) either party may terminate or suspend this Agreement immediately and without liability if the other party (a) files a voluntary petition in bankruptcy or otherwise seeks protection under any law for the protection of debtors; (b) a proceeding is instituted against the other party under any provision of any bankruptcy laws which is not dismissed within ninety (90) days; (c) the other party is adjudged bankrupt; (d) a court assumes jurisdiction of all or a substantial portion of the assets of the other party under a reorganization law; (e) a trustee or receiver is appointed by a court for all or a substantial portion of the assets of the other party; (f) the other party becomes insolvent or ceases or suspends all or substantially all of its business; or (g) the other party makes an assignment of the majority of its assets for the benefit of creditors.

Termination under this Section 3.2 shall not relieve SunPower of its obligation to pay in full any charges for Services that have been incurred up to the date of termination of this Agreement.

***3.3 Survival*.** Those Sections of this Agreement that, by their nature, are intended to survive termination will survive in accordance with their terms. Notwithstanding the foregoing, in the event of any termination with respect to one or more, but less than all Services, this Agreement shall continue in full force and effect with respect to any Services not terminated hereby.

ARTICLE IV

COMPENSATION

***4.1 Charges for Services*.** SunPower shall pay Cypress the charges, if any, set forth on the Master Transition Service Schedule for each of the Services listed therein, as adjusted from time to time in accordance with the processes and procedures established under Section 4.4 hereof. However, if the term of this Agreement is extended beyond the Expiration Date with respect to any Service or if there is any material change in the fundamental assumptions used by the Parties in originally determining the costs to be charged, SunPower shall pay Cypress adjusted charges that are determined in a manner consistent with such changed assumptions. The parties shall use good faith

efforts to discuss any situation in which the actual charge for a Service is reasonably expected to exceed the estimated charge, if any, set forth on the Master Transition Service Schedule for a particular Service; *provided, however*, that the incurrence of charges in excess of any such estimate on the Master Transition Service Schedule shall not relieve SunPower of its obligation to pay Cypress or justify stopping the provision of, or payment for, Services under this Agreement.

***4.2 Payment Terms*.** Cypress shall bill SunPower quarterly for all charges incurred under this Agreement during the immediately preceding quarter. SunPower shall pay such charges within fifteen (15) days after receipt of an invoice therefor. Late payments shall bear interest at the lesser of 10% per year or the highest interest rate permitted by applicable law.

***4.3 Performance Under Ancillary Agreements*.** Notwithstanding anything to the contrary contained herein, SunPower shall not be charged under this Agreement for any obligations that are specifically required to be performed under the Separation Agreement or any other Ancillary Agreement, and any such other obligations shall be performed and charged for (if applicable) in accordance with the terms of the Separation Agreement or such other Ancillary Agreement.

***4.4 Pricing Adjustments*.**

(a) The parties shall agree on a process and procedure for conducting internal audits and making adjustments to charges as a result of the transfer of employees and functions between parties, the discovery of errors or omissions in charges and the true-up of amounts owed to either party.

(b) In the event of a tax audit adjustment relating to the pricing of any or all Services provided pursuant to this Agreement in which it is determined by a taxing authority that any of the charges, individually or in combination, did not result in an arms-length payment, then the parties may agree to make corresponding adjustments to the charges in question for such period to the extent necessary to achieve arms-length pricing. Any adjustment made pursuant to this Section 4.4 at any time during the term of this Agreement or after termination of this Agreement shall be reflected in the parties' legal books and records, and the resulting underpayment or overpayment shall create, respectively, an obligation to be paid in the manner specified in Section 4.2.

ARTICLE V

GENERAL OBLIGATIONS; STANDARD OF CARE

***5.1 Cypress Performance Metrics*.** Subject to Section 2.3 and Section 2.4 and any other terms and conditions of this Agreement, Cypress shall maintain sufficient resources to perform its obligations hereunder. Cypress will comply with the same specific performance metrics for a Service that it uses for its own operations regarding services that are comparable to each Service. Where Cypress does not use similar services for its own operations, Cypress shall use commercially reasonable efforts to provide Services in accordance with the policies, procedures and practices in

effect immediately prior to the Effective Date and shall exercise the same care and skill as it exercises in performing similar services for itself.

***5.2 SunPower Performance Metrics*.** Specific performance metrics for SunPower for a Service may be agreed upon by the Parties. Where none is so specifically agreed, SunPower shall use commercially reasonable efforts, in connection with receiving Services, to follow the policies, procedures and practices in effect immediately prior to the Effective Date, including providing information and documentation sufficient for Cypress to perform the Services as they were performed immediately prior to the Effective Date and making available, as reasonably requested by Cypress, sufficient resources, access to SunPower employees and timely decisions, approvals and acceptances in order that Cypress may perform its obligations hereunder in a timely manner. SunPower shall at all times remain primarily responsible for compliance with all applicable law with respect to any Service performed by Cypress.

***5.3 Transitional Nature of Services; Changes*.** The parties acknowledge the transitional nature of the Services and that Cypress, in its sole discretion, may make changes from time to time in the manner of performing the Services. Cypress will use its best efforts to promptly notify SunPower of any material changes in the manner of performing the Services.

***5.4 Responsibility for Errors; Delays*.** Cypress's sole responsibility to SunPower for errors or omissions committed by Cypress in performing the Services shall be to correct such errors or omissions in the Services; *provided*, *however*, that SunPower must promptly advise Cypress of any such error or omission of which it becomes aware after having used reasonable efforts to detect any such errors or omissions in accordance with the standard of care set forth in Section 5.1.

***5.5 Good Faith Cooperation; Consents*.** The parties shall use good faith efforts to cooperate with each other in all matters relating to the provision and receipt of Services. Such cooperation shall include exchanging information, performing true-ups and adjustments, and obtaining all third-party consents, licenses, sublicenses or approvals necessary to permit each party to perform its obligations hereunder (including by way of example, not by way of limitation, rights to use third-party software needed for the performance of Services). The costs of obtaining such third-party consents, licenses, sublicenses or approvals shall be borne by SunPower. Each party shall maintain, in accordance with its standard document retention procedures, documentation supporting the information relevant to cost calculations performed to determine the charges for the Services set forth in the Master Transition Service Schedule and cooperate with the other party in making such information available as needed.

***5.6 Alternatives*.** If Cypress reasonably believes it is unable to provide any Service because of a failure to obtain necessary consents, licenses, sublicenses or approvals or because of Impracticability, the parties shall cooperate to determine the best alternative approach. Until such alternative approach is agreed upon by the parties or the problem is otherwise resolved to the satisfaction of the parties, Cypress shall use reasonable efforts, subject to Section 2.3 and Section 2.4, to continue providing the Service. SunPower shall be solely responsible for the cost of any agreed upon alternative approach.

***5.7 Confidentiality*.** For the avoidance of doubt, the provisions of Section 3.6 of the Separation Agreement shall govern the confidentiality restrictions applicable to information that is subject to this Agreement.

***5.8 Relationship Between the Parties*.** The relationship between the parties established under this Agreement is that of independent contractors, and neither party is an employee, agent, partner, or joint venturer of or with the other. Nothing contained in this Agreement shall be construed to give either party the power to direct and control the day-to-day activities of the other. All financial and other obligations associated with SunPower's business are the sole responsibility of SunPower.

Cypress shall be solely responsible for any employment-related taxes, insurance premiums or other employment benefits respecting Cypress's personnel's performance of Services under this Agreement. SunPower agrees to grant Cypress personnel access to sites, systems, employees and information (subject to the provisions of confidentiality in Section 5.7 hereof) as necessary for Cypress to perform its obligations hereunder. Cypress shall use all commercially reasonable efforts to cause its personnel to obey any and all security regulations and other published policies of SunPower.

***5.9 Subcontractor*.** Cypress may engage a Subcontractor to perform all or any portion of Cypress's duties under this Agreement; *provided*, *however*, that any such Subcontractor agrees in writing to be bound by the confidentiality obligations of Section 5.7; and *provided further,* that Cypress remains responsible for the performance of such Subcontractor. The cost of any Subcontractor engaged by Cypress shall be the sole responsibility of SunPower. Cypress shall notify SunPower if the costs incurred for the engagement of any Subcontractor exceed $25,000 in any calendar year.

ARTICLE VI

INDEMNIFICATION, WARRANTY AND LIMITATION OF LIABILITY

***6.1 Indemnification*.** SunPower shall indemnify and hold harmless Cypress, its successors and Affiliates, and their respective officers, directors, employees, and agents from and against all claims, liabilities, obligations, suits, causes of action, or expenses (including reasonable attorney's fees) (collectively "Claims") resulting, directly or indirectly, from or in connection with any act or omission of Cypress done at the direction of SunPower; SunPower's use, interpretation or communication of advice, results or information provided to SunPower by Cypress; any failure by SunPower to comply with applicable law with respect to any Service provided by Cypress; or any act or omission of SunPower in connection with the Services. Disputes, controversies and claims hereunder shall be subject to the terms of Section 3.3 of the Separation Agreement and, as applicable, Section 1.5, Section 1.6 and Article II of the Indemnification and Insurance Matters Agreement attached as Exhibit A to the Separation Agreement.

6.2 Disclaimer of Warranties. CYPRESS MAKES NO WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THE SERVICES, INCLUDING ANY ADVICE, INFORMATION OR RESULTS PROVIDED IN CONNECTION THEREWITH, OR OTHER DELIVERABLES PROVIDED BY CYPRESS OR ITS PERSONNEL HEREUNDER. ALL SERVICES, INCLUDING ANY ADVICE, INFORMATION OR RESULTS PROVIDED IN CONNECTION THEREWITH, OR ANY OTHER DELIVERABLE PROVIDED BY CYPRESS OR ITS PERSONNEL ARE PROVIDED "AS-IS", SUBJECT TO OBLIGATIONS SET FORTH IN THIS AGREEMENT, AND CYPRESS MAKES NO WARRANTY AS TO THEIR ACCURACY, APPLICABILITY OR COMPLETENESS.

6.3 Limitation of Liability. IN NO EVENT SHALL CYPRESS BE LIABLE TO SUNPOWER FOR ANY ACTUAL, DIRECT, SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT OR CYPRESS'S PERFORMANCE OF THE SERVICES, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; *PROVIDED, HOWEVER,* THAT THE FOREGOING LIMITATIONS SHALL NOT LIMIT EITHER PARTY'S INDEMNIFICATION OBLIGATIONS SET FORTH IN THE INDEMNIFICATION AND INSURANCE MATTERS AGREEMENT.

ARTICLE VII

MISCELLANEOUS

7.1 Entire Agreement. This Agreement, the Separation Agreement and the other Ancillary Agreements and the exhibits and schedules referenced or attached hereto and thereto, constitute the entire agreement between the parties with respect to the subject matter hereof and thereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof and thereof.

7.2 Governing Law. This Agreement shall be construed in accordance with, and governed by, the laws of the State of California, excluding its conflict of law rules. The Superior Court of Santa Clara County and/or the United States District Court for the Northern District of California shall have jurisdiction and venue over any claims the parties that are permitted to be brought in a court of law pursuant to Section 8.4 below.

7.3 Notices. Any notice or communication given under the terms of this Agreement shall be in writing and shall be delivered in person, sent by any public or private express delivery service, signature required, or deposited with the United States Postal Service or equivalent local or successor agency, certified or registered mail, return receipt requested, postage pre-paid, addressed as set forth below, or at such other address as a party may from time to time designate by notice under this Article VII. Notice given by personal delivery or by public or private express delivery service shall be effective

upon delivery, notice sent by mail shall be deemed to have occurred upon deposit of the notice in the United States mail. The inability to deliver a notice because of a changed address of which no notice was given or a rejection or other refusal to accept any notice shall be deemed to be the receipt of the notice as of the date of such inability to deliver or rejection or refusal to accept. Any notice to be given by Cypress may be given by the legal counsel and/or the authorized agent of Cypress.

If to SunPower: SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
Attn: Emmanuel Hernandez, CFO

If to Cypress: Cypress Semiconductor Corporation
198 Champion Court
San Jose, CA 95134
Attn: Brad Buss, CFO

7.4 Counterparts. This Agreement, including the exhibits and schedules hereto, may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

7.5 Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors in interest, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. Neither party may assign this Agreement or any rights or obligations hereunder, without the prior written consent of the other party, and any such assignment shall be void. Any permitted assignee shall agree to perform the obligations of the assignor of this Agreement, and this Agreement shall inure to the benefit of and be binding upon any permitted assignee.

7.6 Severability. If any term or other provision of this Agreement or the exhibits or schedules attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

7.7 Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of either party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or

agreement herein, nor shall any single or partial exercise or waiver of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement or the exhibits or schedules attached hereto are cumulative to, and not exclusive of, any rights or remedies otherwise available.

7.8 Amendment. No change or amendment shall be made to this Agreement or the exhibits or schedules attached hereto except by an instrument in writing signed on behalf of each of the parties to such agreement.

7.9 Interpretation. The headings contained in this Agreement, in any exhibit or schedule attached hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any capitalized term used in any exhibit or schedule but not otherwise defined therein, shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to an article, section, exhibit or schedule, such reference shall be to an article or section of, or an exhibit or schedule to, this Agreement, unless otherwise indicated.

7.10 Force Majeure. Each party shall be excused for any failure or delay in performing any of its obligations under this Agreement, other than the obligations of SunPower to make certain payments to Cypress pursuant to Article IV hereof for Services rendered, if such failure or delay is caused by any act of God or public enemy, any accident, explosion, fire, storm, earthquake, flood, or any other circumstance or event beyond the reasonable control of the party relying upon such circumstance or event ("Force Majeure").

IN WITNESS WHEREOF, the parties have signed this Master Transition Services Agreement effective as of the date first set forth above.

CYPRESS SEMICONDUCTOR CORPORATION	**SUNPOWER CORPORATION**
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

[SIGNATURE PAGE TO TRANSITION SERVICES AGREEMENT]

EXHIBIT A

MASTER TRANSITION SERVICE SCHEDULE

Financial Services

Cypress shall provide the following financial and corporate accounting services ("Financial Services") as requested by SunPower on the following terms and conditions:

1. Tax, Treasury and Corporate Finance & Accounting Services: SunPower shall have access to, be permitted to consult with and request services from Cypress personnel in each of the Cypress Tax, Treasury, Corporate Finance and Accounting Departments. Cypress makes no guarantee of the availability of such personnel or the response time for requests made of such personnel. Such personnel shall have the ability to prioritize any SunPower request in light of their current workload. Such personnel shall have complete discretion to decline at any time any SunPower request that results, or may result, in a professional, ethical or personal conflict of interest.

2. Business Insurance: SunPower shall be permitted to remain on Cypress insurance policies, including, but not limited to Cypress's general liability, property, casualty, flood and fire and automobile, but specifically excluding Cypress's D&O policy, under the following conditions: (1) Cypress's insurance carriers continue to permit SunPower to remain on Cypress policies, (2) no Change of Control occurs, (3) SunPower does not cause, directly or indirectly (e.g. due to claim activity), an increase in Cypress's premiums on such policies, and (4) the benefit described herein does not cause a real or potential conflict of interest or hardship for Cypress. Cypress shall, in its sole discretion, determine whether or not the above conditions are being met at any time. In the event of an increase in Cypress's premiums, SunPower shall be solely responsible for any increase in Cypress's premiums that are a direct or indirect result of SunPower's business or claim activity.

   In the event one of the conditions set forth above triggers removal of SunPower from Cypress's insurance policies, Cypress will provide prompt notice of such fact.

3. Stock Option Administration. At no time shall Cypress be responsible for or provide services related to the administration of SunPower's stock option programs, except that Cypress will process any Cypress stock option grants held by SunPower employees as of the Effective Date.

4. Charge: SunPower will be charged quarterly for Financial Services used in the preceding fiscal quarter. The charge to SunPower for Financial Services will be an allocation of each Department's Costs which will be based on SunPower's level of

usage, which shall be reviewed with SunPower for adjustment quarterly, plus any identifiable incremental costs (e.g., cost of Subcontractor that is engaged specifically for a SunPower project).

IT Services

Cypress shall provide the following Information Technology Services ("IT Services") as requested by SunPower on the following terms and conditions:

1. Initial Set-up Consultation: SunPower shall have reasonable access to Cypress's Information Technology personnel ("IT Personnel") who can assist SunPower in identifying the requirements to set-up the following Cypress Information Technology programs and services ("CY IT Programs") for SunPower's independent use:
   - ECN system, including the PTO system
   - Bridge codes
   - Document Management System, including Memo/Spec Logs
   - Peoplesoft
2. Security: Cypress shall be under no obligation to provide access to the CY IT Programs if they cannot be provided on a secure basis (which shall be determined in Cypress's sole discretion), such that SunPower shall not have access to Cypress databases or other internal information, or if Cypress is not permitted by contract to provide such CY IT Programs to SunPower.
3. CY IT Programs: In the event the CY IT Programs can be adapted for SunPower's independent, secure use and SunPower and Cypress have agreed on the charge SunPower will pay Cypress to set-up and maintain SunPower's use of the CY IT Programs, Cypress shall make such CY IT Programs available to SunPower along with access to any IT personnel required to maintain such programs.
4. Personnel: SunPower shall have access to, be permitted to consult with and request services from IT Personnel. Cypress makes no guarantee of the availability of such IT personnel or the response time for requests made to such personnel. IT personnel shall have the ability to prioritize any SunPower request in light of their current workload.
5. Reliability: Cypress shall not be liable any damages to SunPower for any downtime, planned or not, or any other interruption of any IT Service provided to SunPower.
6. Charge: SunPower shall be solely responsible for any and all costs or expenses required to set-up or maintain the CY IT Programs for SunPower's use. IT Services

shall be charged on a per project basis. Accordingly, SunPower shall, in advance of any work being initiated by IT personnel, negotiate with the appropriate Cypress representative, to be identified by Cypress's Chief Financial Officer, the charge for any requested IT Service.

HR Services

Cypress shall provide the following human resources services ("HR Services") as requested by SunPower on the following terms and conditions:

1. Personnel: SunPower shall have access to, be permitted to consult with and request services from Cypress human resources and payroll personnel ("HR Personnel"). SunPower shall also have access to HR resources it currently utilizes, including access to Cypress's online recruiting service. Cypress makes no guarantee of the availability of HR Personnel or the response time for requests made to HR Personnel. HR Personnel shall have the ability to prioritize any SunPower request in light of their current workload. HR Personnel shall have complete discretion to decline at any time any SunPower request that results, or may result, in a professional, ethical or personal conflict of interest.

2. Payroll Services: Cypress shall perform payroll services, including, but not limited to, paycheck/bonus processing, W-2 administration, tax withholding and filings and the like, upon request of SunPower. SunPower shall be permitted to access, consult with and make requests for assistance from Cypress Payroll personnel. Cypress makes no guarantee of the availability of such personnel or the response time for requests made to such personnel. Such personnel shall have the ability to prioritize any SunPower request in light of their current workload.

3. Employee Benefit Plans: Subject to the Employee Matters Agreement between Cypress and SunPower of even date herewith ("Benefit Plan Agreement"), HR Personnel shall administer and maintain the employee benefit plans more fully described in the Benefit Plan Agreement, for the benefit of SunPower and its employees until such time as SunPower and its employees are not longer participants such plan(s).

   (a) Employee Benefit Plans Charge: SunPower and Cypress shall negotiate a flat fee for SunPower's share of the administrative costs associated with the operation and maintenance of Cypress's employee benefit plans as more fully described in the Benefit Plan Agreement.

4. Employee Communication: Unless specifically directed by SunPower, Cypress shall not be responsible for communicating any information to SunPower employees or ensuring the accuracy of any communication made by SunPower to its employees.

Cypress shall under no circumstance be responsible for any commitment or Service promised to SunPower employees by SunPower.

5. Transition Services: SunPower may consult with and request assistance from HR Personnel in connection with SunPower's efforts to establish its own health and welfare benefit plans as more fully described in the Benefit Plan Agreement.

   (a) Transition Services Charge: SunPower shall be solely responsible for any and all costs or expenses required to set-up its own health and welfare plans. To the extent that HR Personnel are asked to assist in the process, SunPower shall, in advance of any work being initiated by HR personnel, negotiate with the appropriate Cypress representative, to be identified by Cypress's Chief Financial Officer, the charge for such a project.

6. Cypress University ("CYU"): SunPower shall have access to existing and future CYU programs and the Cypress personnel who are responsible for conducting the CYU Program. SunPower will also have the ability to request development of a new CYU course. , the cost of which shall be borne directly and solely by SunPower.

   (a) CYU Charge: SunPower shall negotiate, in advance of any work being initiated by CYU Personnel, the charge to be paid by SunPower for the development of a new course. For all other CYU services, SunPower will be billed a percentage of the CYU department's internal costs based on their usage of CYU courses, tools and other resources which will be tracked electronically via the CYU system.

7. Significant Projects: SunPower may from time to time request assistance from HR Personnel for a long-term, significant or complex HR project or initiative, the scope of which is beyond the day-to-day HR Services currently used by SunPower ("Significant HR Project"). HR Personnel shall have the discretion to accept or reject such projects.

   (a) Significant Project Charge: In the event HR Personnel accept a "Significant HR Project", SunPower shall negotiate, in advance of any work being initiated by HR Personnel, the charge for such Significant HR Project.

8. Charge: Except where specifically address above, SunPower will be charged quarterly for HR Services used in the preceding fiscal quarter. The charge to SunPower for HR Services performed by Cypress will be an allocation of the HR Department's Costs based on SunPower's level of usage, which shall be reviewed for adjustment quarterly, plus any identifiable incremental costs (e.g., cost of Subcontractor that is engaged specifically for a SunPower project).

Legal Services

Cypress shall provide the following "Legal Services" as requested by SunPower on the following terms and conditions:

1. Personnel: SunPower shall be permitted to access, consult with and make requests for assistance from Cypress Legal Department personnel. Cypress makes no guarantee of the availability of such personnel or the response time for requests made to such personnel. Such personnel shall have the ability to prioritize any SunPower request in light of their current workload.

2. Significant Projects: SunPower may from time to time request assistance from HR Personnel for a long-term, significant or complex HR project or initiative, the scope of which is beyond the day-to-day HR Services currently used by SunPower ("Significant HR Project"). HR Personnel shall have the discretion to accept or reject such projects.

   (a) Significant Project Charge: In the event HR Personnel accept a "Significant HR Project", SunPower shall negotiate, in advance of any work being initiated by HR Personnel, the charge for such Significant HR Project.

3. Conflict of Interest: Cypress's Legal Department shall have complete discretion to decline at any time any SunPower request that results, or may result, in a professional, ethical or personal conflict of interest. Under no circumstance will the Legal Department be under any obligation to respond to or accept a SunPower request for Services that results, or could result, in a real or potential conflict of interest between the Legal Department's representation of Cypress and SunPower.

4. Charge: SunPower will be allocated a portion of the Cypress Legal Department's Costs based on SunPower's percentage of use of the Legal Department's overall time in any given calendar month. SunPower shall also be solely responsible for any external legal or other professional fees incurred in connection with the Legal Department's delivery of Legal Services to SunPower.

Exhibit 10.18

WAFER MANUFACTURING AGREEMENT

THIS WAFER MANUFACTURING AGREEMENT ("Agreement") is entered into as of October 6, 2005, by and between SunPower Corporation, a California corporation ("SunPower"), Cypress Semiconductor Corporation ("Cypress"), a Delaware corporation ("Manufacturer").

WITNESSETH

WHEREAS, Manufacturer owns and operates semiconductor fabrication facilities where it manufacturers integrated circuits on wafers in support of Manufacturer's requirements and in support of third parties;

WHEREAS, SunPower desires that Manufacturer manufacture and deliver to SunPower wafers in any of the Manufacturer's current and future processes. The circuits produced on these wafers will be of SunPower-designed devices in accordance with SunPower's Contract Specifications (as defined below) and set forth in a Wafer Purchase Order.

WHEREAS, this Agreement shall be void and of no force and effect until the occurrence of the "Separation Date" as defined in that certain Master Separation Agreement (the "Separation Agreement") between SunPower and Cypress dated as of October 6, 2005, as may be amended from time to time, (hereinafter referred to as the "Effective Date"), at which time this Agreement shall become effective.

NOW THEREFORE, in consideration of the agreements hereinafter set forth and other good and valuable consideration received by each of the parties hereto, the parties agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1. Affiliate or Affiliates. "Affiliate" or "Affiliates" shall mean any corporation, firm, partnership, or other entity, whether de jure or de facto, that directly or indirectly owns, is owned by, or is under common ownership with a party to this Agreement to the extent of at least 50 percent of the equity having the power to vote on or direct the affairs of the entity, and any person, firm, partnership, corporation, or other entity actually controlled by, controlling, or under common control with a party to this Agreement.

Section 1.2. Change of Control. "Change of Control" shall mean (a) such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of SunPower's common stock then outstanding; (b) the consummation of any purchase or acquisition by any person, entity or "group" (as defined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) other than Cypress of more than a 40% interest in the total outstanding voting securities or voting power thereof of SunPower, (c) any merger, consolidation, business combination or similar transaction involving SunPower pursuant to which the equity interests held in SunPower and retained following such transaction

or issued to or otherwise received in such transaction by the shareholders of SunPower immediately preceding such transaction constitute less than 50% of the aggregate equity interests in the surviving or resulting entity of such transaction or any direct or indirect parent thereof, (d) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of assets of SunPower representing more than 50% of the book value or fair market value of the assets of SunPower and its subsidiaries taken as a whole, or (e) any liquidation or dissolution of SunPower.

Section 1.3 Contract Manufacturing. "Contract Manufacturing" shall mean and include any or all of the following:

a. fabrication of Wafers in accordance with the Contract Specifications (as defined in Section 1.4);

b. procuring materials to be used in such fabrication operations;

c. performing general accounting and bookkeeping services related to the fabrication of Wafers; and

d. providing such other services related to the fabrication of Wafers as SunPower may reasonably request from time to time.

Section 1.4. Contract Specifications. "Contract Specifications" shall mean and include any and all designs, drawings, masks, reticles, models, specifications, manufacturing data and procedures, performance data, know-how and other technical information relating to the design, manufacture and/or operation of the Wafers, which are provided by SunPower to Manufacturer for the purpose of manufacturing and reworking Wafers pursuant to this Agreement.

ARTICLE II
SUPPLY

Section 2.1. Supply. Manufacturer hereby agrees to manufacture and sell wafers to SunPower and SunPower hereby agrees to purchase the Wafers from Manufacturer in accordance with and subject to the terms and conditions hereof. All Manufacturer fabrication performed under this Agreement shall be done, to the extent possible, at the Cypress Round Rock, TX facility.

Section 2.2. Contract Specifications. From time to time during the term of this Agreement, SunPower shall provide Manufacturer with data and documents embodying the Contract Specifications required to permit Manufacturer to fabricate the Wafers. Manufacturer's obligation to perform under Section 2.1 shall be subject to Manufacturer's approval and acceptance of the Contract Specification provided by SunPower. The Contract Specifications that are presently being used by Manufacturer to fabricate wafers for SunPower are deemed approved and accepted by Manufacturer. Manufacturer will not unreasonably withhold approval or consent to Contract Specifications that are commercially reasonable variations of the Contract Specifications that are presently being used by Manufacturer to fabricate wafers for SunPower;

provided, that Manufacturer will not be required to purchase additional equipment or supplies, license third party technology, modify existing processes or otherwise incur any additional expenses that are either outside of the ordinary course of business or are not fully reimbursed by SunPower or incur any other difficulties in order to support the SunPower Contract Specification and any of the foregoing shall constitute reasonable grounds for Manufacturer to withhold approval or consent to Contract Specifications.

Section 2.3. Forecasts: Product Orders. SunPower agrees that it will provide Manufacturer with a written six-month rolling forecast of SunPower's anticipated volume requirement for Wafers, at least ten (10) days prior to the start of Manufacturer's fiscal quarter, which forecast shall specify the codes and quantities of Wafers desired by SunPower and a proposed delivery date. The first three (3) months of such forecast shall be firm and shall constitute a firm purchase order ("Order"). Provided the Order is in accordance with the terms and conditions of this Agreement and Manufacturer has accepted SunPower's Contract Specifications, such Order shall be deemed accepted by Manufacturer. Manufacturer shall arrange for the shipment and insurance of such Wafers, as directed by SunPower or its authorized representative, the cost of which shall be borne by SunPower. Manufacturer shall exercise its best efforts to supply the Wafers to SunPower in accordance with the delivery date specified in the Order or a separate delivery schedule agreed to in writing by the parties.

Section 2.4 Cancellation. If SunPower cancels a firm Order, SunPower shall nevertheless be liable for and pay Manufacturer the Purchase Price (as defined in Section 3.1 herein) for such Wafers, *provided*, that SunPower may without liability reschedule up to 20% of the units covered by a firm Order one time for an additional period not to exceed 60 days. In addition, as to Wafers not yet started, SunPower may change product mix within the process platform within the first three (3) months of the forecast.

Section 2.5. Quality Standards. Manufacturer shall exercise its best efforts to utilize adequate equipment, machinery, production methods and manufacturing quality control procedures to ensure that the Wafers meet the Contract Specifications and comply with Cypress' then-current internal quality standard policies.

Section 2.6. Right of Inspection. SunPower and/or its agents and representatives shall have the right to inspect the Wafers, both finished and in the process of manufacture at any time during Manufacturer's normal business hours. Manufacturer shall implement any changes requested by SunPower in the manner in which Manufacturer manufactures, rebuilds, stores or ships the Wafers, which changes are necessary to bring the Wafers into conformance with the Contract Specifications.

Section 2.7 Shipment Terms. All shipments are F.O.B. Manufacturer's plant. Title to products and risk of loss shall pass to SunPower upon delivery to the carrier at the shipping point. In the event of a conflict between Manufacturer's standard terms and conditions for the sale of good and this Section 2.7, the terms set forth in this Section 2.7 shall control.

ARTICLE III
PRICING; PAYMENTS

Manufacturer shall offer SunPower pricing that is consistent with the then current Cypress specification entitled “Transfer Pricing Methodology” (the “Purchase Price”). Manufacturer will communicate the Purchase Price for the fiscal quarter in which the Effective Date falls within ten (10) days of the execution of this Agreement. Thereafter, Manufacturer will communicate to SunPower the Purchase Price for the upcoming fiscal quarter during the last week of each of Manufacturer’s fiscal quarters. The Purchase Price for the Contract Manufacturing for each quarter shall be payable by SunPower to Manufacturer no later than fifteen (15) calendar days following invoice (“Grace Period”). All Purchase Price amounts shall be payable in United States dollars. Interest shall accrue at the rate of LIBOR plus 1.0% per annum from the expiration of the 15-day Grace Period.

ARTICLE IV
INDEMNIFICATION

Section 4.1. Indemnification by SunPower. SunPower, at its own expense, shall defend, indemnify and hold Manufacturer harmless from and against any and all expenses, costs, losses, liabilities, and/or damages incurred in connection with any and all claims, suits and/or actions brought against Manufacturer but only to the extent such suit is based upon a claim of infringement relating to the Contract Specification. Manufacturer shall give SunPower prompt written notice of any such infringement. Manufacturer shall be permitted to retain control over the settlement or resolution of any such claim subject to indemnification under this Section 4.1, including right to settle or to conduct the defense thereof, provided they provide SunPower with complete access to all information regarding such claim, resolution, settlement (real or proposed) or defense. No cost or expense shall be incurred on behalf of Manufacturer without SunPower’s written consent, such consent not to be unreasonably withheld. In the event that the Wafers supplied hereunder by Manufacturer in the form as specified above are found or held to constitute infringement or violation and that their use is enjoined, if and only if this is due to infringement by SunPower’s intellectual property and not in any way due to infringement by Manufacturer’s intellectual property, the Manufacturer may immediately terminate this Agreement (except for the provisions that survive such termination) and the Manufacturer may under this condition only, in addition to any other remedies it may have, retain all monies paid to it by SunPower hereunder. This provision shall survive any expiration or termination of this Agreement. SunPower shall not be responsible in any manner whatsoever for any settlement made by Manufacturer without SunPower’s written permission or for any costs incurred by Manufacturer that are or were associated with such settlement and/or activities reasonably related to or reasonably leading to such settlement.

Section 4.2 Indemnification by Manufacturer. The Manufacturer, at its own expense, shall defend, indemnify and hold SunPower harmless from and against any and all expenses, costs, losses, liabilities, and/or damages incurred in connection with any and all claim, suits and/or actions brought against SunPower, but only to the extent based on a claim that the manufacturing, assembling, product testing or packaging process employed by Manufacturer infringes or violates any patent, copyright or other intellectual property right of a third party and only to the extent such claim or action: (i) is attributable solely to Manufacturer’s design or manufacturing, assembly, testing processes or, (ii) arises out of, in relation to or in connection with the unauthorized use of SunPower’s Contract Specification or SunPower’s proprietary

information. Notwithstanding anything to the contrary, Manufacturer shall not have any liability, and shall not have any defense or indemnification obligations, with respect to any claim or action to the extent arising out of or relating to (i) any portions of the Contract Manufacturing specified by SunPower or (ii) any other materials, designs, or other items provided or specified by SunPower. No cost or expense shall be incurred on behalf of SunPower without the Manufacturer's written consent. Manufacturer shall indemnify and hold SunPower harmless from and against any cost, damages and fees reasonably incurred by SunPower that are attributable to such claim or action; provided that: (a) SunPower gives Manufacturer reasonably prompt notice in writing of any such claim or action and permits Manufacturer, through counsel of its choice, to defend such claim or action; and (b) SunPower provides Manufacturer with information, assistance and authority, at Manufacturer's expense, to enable Manufacturer to defend such claim or action. This provision shall survive any expiration or termination of this Agreement. Manufacturer shall not be responsible in any manner whatsoever for any settlement made by SunPower without Manufacturer's written permission or for any costs incurred by SunPower that are or were associated with such settlement and/or activities reasonably related to or reasonably leading to such settlement.

4.2.1 In the event of an infringement for which Manufacturer has responsibility under this Section 4.2, Manufacturer shall have the right to, as Manufacturer's sole obligation and SunPower's sole remedy on a going forward basis, to:

4.2.1.1 procure for SunPower from the person(s) claiming infringement the right to use, distribute and sell the Wafer;

4.2.1.2 modify the allegedly infringing item to make it non-infringing, or substitute the allegedly infringing item with a non-infringing one, provided that the functionality or performance of the modified or substituted item remains substantially the same and in any event meets SunPower's reasonable satisfaction; or

4.2.1.3 if the foregoing are not commercially practicable, terminate this Agreement and refund any monies paid by SunPower to Manufacturer for Wafers not yet delivered.

This Section 4.2.1 states Manufacturer's and SunPower's entire liability and obligation with respect to intellectual property infringement or claims therefor and is expressly subject to Article VII (Limitation of Liabilities).

Section 4.3 Procedures. Disputes, controversies and claims hereunder shall be subject to the terms of Section 3.3 of the Separation Agreement and Section 1.5, Section 1.6 and Article II of the Indemnification and Insurance Matters Agreement attached as Exhibit A to the Separation Agreement.

ARTICLE V
U.S. EXPORT CONTROLS

Manufacturer specifically acknowledges that certain of the technical data used in performing the Contract Manufacturing under this Agreement may be subject to United States export and related controls. In the exercise of its rights and the performance of its duties hereunder, Manufacturer shall comply strictly with all requirements of the Export Administration Regulations or other applicable regulations of the United States government. Without limiting the generality of the foregoing obligation, Manufacturer hereby expressly agrees that, without the prior written authorization of SunPower and the appropriate United States governmental agency, Manufacturer will not, and will cause its representatives to agree not to (a) export, re-export, divert or transfer any of such technical data, or any direct product thereof, to any country to which such transfer is then prohibited by export or other regulations of the United States government; or (b) export, re-export, divert or transfer any of such technical data, or any direct product thereof, to any national of any country to which such transfer is then prohibited by export or other regulations of the United States government. Manufacturer shall make its records available to SunPower at SunPower's reasonable request and expense, in order to permit SunPower to confirm Manufacturer's compliance with its obligations as set forth in this Article V.

ARTICLE VI
TERM AND TERMINATION

Section 6.1. Term. The term of this Agreement shall be for a period of three years from the Effective Date, unless terminated earlier as provided in this Article VI.

Section 6.2. Termination at Will. This Agreement may be terminated at any time by the unanimous written consent of the parties.

Section 6.3. Termination for Cause. Any party shall have the right to terminate this Agreement at any time, by giving written notice to the party in default on the occurrence of any of the following events:

a. The default of a party with respect to any of its obligations under this Agreement, and its failure to cure any such default within thirty (30) days following the date of notice to it from another party identifying such default;

b. Any act, determination, filing, judgment, declaration, notice, appointment of receiver or trustee, failure to pay debts, or other events under any law applicable to a party indicating the insolvency or bankruptcy of the party;

c. The taking of any extraordinary governmental action, including, without limitation, seizure or nationalization of assets, stock or other property relating to a party; or

d. Any other event that shall cause a party to have concern about the financial stability of another party.

Section 6.4. Termination upon Change of Control. Notwithstanding Section 6.1, Manufacturer shall have the right to terminate this Agreement without cause upon a Change of

Control of SunPower. Termination under this Section 6.4 shall be effective upon thirty (30) days prior written notice to SunPower, provided that if such termination is pursuant to a Change of Control of SunPower proximately caused solely by sales or distributions by Cypress of shares of SunPower capital stock, then such termination shall be effective upon sixty (60) days prior written notice to SunPower. In the event of termination pursuant to this Section 6.4, the Parties hereto reserve the right to negotiate in good faith mutually agreeable terms under which the manufacturing arrangement set forth in this Agreement may continue, which terms shall be memorialized in an Agreement to be signed within sixty (60) days of the effective date of termination pursuant to this Section 6.4.

Section 6.5 Effect of Termination of this Agreement. In the event of a termination of this Agreement pursuant to this Article VI, the parties shall negotiate in good faith to determine a reasonable winding-up procedure.

ARTICLE VII
WARRANTY, DISCLAIMER AND LIMITATION OF LIABILITY

Section 7.1 Wafer Warranty. Manufacturer represents and warrants to SunPower that the Wafers delivered pursuant to this Agreement, at the time of delivery and for a period of twelve (12) months thereafter, shall: (i) be free from defects in material or workmanship, and (ii) conform to SunPower's Contract Specification attached to or accompanying SunPower's purchase order, provided Cypress has previously approved and accepted such Contract Specification. SunPower's exclusive remedy for a breach of this warranty and Manufacturer's obligations with respect to defective Wafers delivered hereunder shall be limited to, at the sole discretion of Manufacturer, either replacement of the defective or non-conforming Wafer(s) or a refund of the Purchase Price paid therefore.

Section 7.2 Exclusions. The warranty provided herein shall not apply to defects or claims due to abuse, misuse, accident, alteration, neglect, conditions outside the specification or design provided by SunPower, unauthorized repair, improper application or combination with products or other items not provided by Manufacturer. No warranty is provided with respect to applications where failure to perform can reasonably be expected to result in significant injury (including, without limitation, navigation, weaponry, aviation or nuclear equipment, or for surgical implant or to support or sustain life). SunPower will indemnify, defend and hold harmless Manufacturer from all claims, damages and liabilities arising out of any of matters excluded under this Section 7.2.

Section 7.3 Disclaimer. CONTRACTOR EXPRESSLY DISCLAIMS ANY WARRANTY OF SUNPOWER'S CIRCUIT PERFORMANCE REQUIREMENTS. THE EXPRESS WARRANTY GRANTED ABOVE SHALL EXTEND DIRECTLY TO SUNPOWER AND NOT TO SUNPOWER'S CUSTOMERS, AGENTS OR REPRESENTATIVES AND EXCEPT FOR WARRANTY OF TITLE, IS IN LIEU OF ALL OTHER WARRANTIES, WHETHER EXPRESSED OR IMPLIED, INCLUDING ANY IMPLIED WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT AND MERCHANTABILITY, SUCH OTHER WARRANTIES BEING SPECIFICALLY DISCLAIMED BY CONTRACTOR. THE EXCLUSIONS AND DISCLAIMERS SET FORTH HEREIN APPLY TO ANY WAFERS, SERVICES OR OTHER

ITEMS PROVIDED BY CONTRACTOR TO SUNPOWER IN CONNECTION WITH THIS AGREEMENT.

Section 7.4 Limitation of Liability. IN NO EVENT SHALL CONTRACTOR BE LIABLE TO SUNPOWER OR VICE VERSA FOR ANY SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES WHATSOEVER IN CONNECTION WITH THIS AGREEMENT, EVEN IF EITHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OR CERTAINTY OF SUCH DAMAGES. IN NO EVENT SHALL CONTRACTOR'S LIABILITY FOR ANY BREACH OR ALLEGED BREACH OF THIS AGREEMENT EXCEED THE TOTAL AMOUNT OF MONEY PAID FOR WAFERS SOLD HEREUNDER FOR THE ONE YEAR PERIOD IMMEDIATELY PRECEDING THE ACCRUAL OF SUCH CLAIM. IN NO EVENT SHALL SUNPOWER'S LIABILITY FOR ANY BREACH OR ALLEGED BREACH OF THIS AGREEMENT EXCEED THE TOTAL AMOUNT OF PURCHASE ORDERS SUBMITTED AND ACCEPTED HEREUNDER FOR THE ONE YEAR PERIOD IMMEDIATELY PRECEDING THE ACCRUAL OF SUCH CLAIM.

ARTICLE VIII
CONFIDENTIAL INFORMATION

Section 8.1 Confidential Information. For the avoidance of doubt, the provisions of Section 3.6 of the Separation Agreement shall govern the confidentiality restrictions applicable to information that is subject to this Agreement.

ARTICLE IX
MISCELLANEOUS

Section 9.1. Notices. Any and all notices, elections, offers, acceptances, and demands permitted or required to be made under this Agreement shall be in writing, signed by the person giving such notice, election, offer, acceptance, or demand and shall be delivered personally, or sent by registered or certified mail, return receipt requested or delivered by overnight delivery service to the party, at the addresses below or such other address as may be supplied in writing. The date of personal delivery or the date of mailing, as the case may be, shall be the date of such notice, election, offer, acceptance, or demand.

If to SunPower: SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
Attn: Emmanuel Hernandez, CFO

If to Manufacturer: Cypress Semiconductor Corporation
198 Champion Court
San Jose, CA 95134
Attn: Brad Buss, CFO

Section 9.2. Force Majeure. If the performance of any part of this Agreement by either party, or of any obligation under this Agreement, is prevented, restricted, interfered with or

delayed by reason of any cause beyond the reasonable control of the party liable to perform, unless conclusive evidence to the contrary is provided, the party so affected shall, on giving written notice to the other party, be excused from such performance to the extent of such prevention, restriction, interference or delay, provided that the affected party shall use its reasonable best efforts to avoid or remove such causes of nonperformance and shall continue performance with the utmost dispatch whenever such causes are removed. When such circumstances arise, the parties shall discuss what, if any, modification of the terms of this Agreement may be required in order to arrive at an equitable solution.

Section 9.3. Assignment. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto, and it is not the intention of the parties to confer third-party beneficiary rights upon any other Person. Neither Party may assign their respective rights or obligations under this Agreement without prior written consent from the other Party.

Section 9.4. Amendment. No change, modification, or amendment of this Agreement shall be valid or binding on the parties unless such change or modification shall be in writing signed by the party or parties against whom the same is sought to be enforced.

Section 9.5. Remedies Cumulative. The remedies of the parties under this Agreement are cumulative and shall not exclude any other remedies to which the party may be lawfully entitled.

Section 9.6. Further Assurances. Each party hereby covenants and agrees that it shall execute and deliver such deeds and other documents as may be required to implement any of the provisions of this Agreement.

Section 9.7. No Waiver. The failure of any party to insist on strict performance of a covenant hereunder or of any obligation hereunder shall not be a waiver of such party's right to demand strict compliance therewith in the future, nor shall the same be construed as a novation of this Agreement

Section 9.8. Entire Agreement. This Agreement and its Exhibits attached hereto and incorporated herein by this reference, the ordering information on SunPower's Contract Specification and Manufacturer's order acknowledgments, constitute the entire Agreement between the parties relative to the manufacture, supply, purchase and sale of the Wafers hereunder. This Agreement supersedes and replaces all prior or contemporaneous agreements, written and verbal, between the parties regarding the Wafers. Any addition to or modification of this Agreement shall not be binding unless in writing and signed by authorized representatives of both parties.

Section 9.9. Captions. Titles or captions of articles and paragraphs contained in this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit, extend, or describe the scope of this Agreement or the intent of any provision hereof.

Section 9.10. Number and Gender. Whenever required by the context, the singular number shall include the plural, the plural number shall include the singular, and the gender of any pronoun shall include all genders.

Section 9.11. Counterparts. This Agreement may be executed in multiple copies, each of which shall for all purposes constitute an Agreement, binding on the parties, and each partner hereby covenants and agrees to execute all duplicates or replacement counterparts of this Agreement as may be required.

Section 9.12. Applicable Law. THIS AGREEMENT AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT SHALL BE GOVERNED BY, AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA, U.S.A., EXCLUDING ITS RULES GOVERNING CONFLICTS OF LAWS. THE COURTS LOCATED WITHIN CALIFORNIA SHALL HAVE EXCLUSIVE JURISDICTION TO ADJUDICATE ANY DISPUTES ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT. ALL PARTIES SPECIFICALLY CONSENT TO THE EXERCISE OF PERSONAL JURISDICTION BY SUCH COURTS.

Section 9.13. Severability. In the event any provision, clause, sentence, phrase, or word hereof, or the application thereof in any circumstances, is held to be invalid or unenforceable, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder hereof, or of the application of any such provision, sentence, clause, phrase, or word in any other circumstances.

Section 9.14. Costs and Expenses. Unless otherwise provided in this Agreement, each party shall bear all fees and expenses incurred in performing its obligations under this Agreement.

Section 9.15 Relationship of Parties. The parties hereto intend to establish a relationship of manufacturer/supplier and customer and as such are independent contractors with neither party having authority as an agent or legal representative of the other to create any obligation, express or implied, on behalf of the other.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date first written above by their duly authorized officers.

Cypress Semiconductor Corporation	SunPower Corporation
Brad Buss Vice-President, Finance & Administration, Chief Financial Officer	Emmanuel Hernandez Chief Financial Officer

Exhibit 10.19

CONTRACT OF LEASE

KNOW ALL MEN BY THESE PRESENTS:

This Contract of Lease ("Lease") is made and entered into this 6th day of October, 2005, in San Jose, California, by and between;

CYPRESS MANUFACTURING LTD – PHIL. BRANCH, a foreign corporation licensed to do business in the Philippines, with principal address at Gateway Business Park, Gen. Trias, Cavite, represented in this act by its Managing Director, Mr. Conrado Leal, hereinafter referred to as the **Lessor;**

-and-

SUNPOWER PHILIPPINES MANUFACTURING LIMITED – PHIL. BRANCH, a foreign corporation duly licensed to do business under the laws of the Philippines, with office address at 100 Trade Avenue, Phase 4, Special Economic Zone, Laguna Technopark, Biñan, Laguna, represented in this act by its Chief Finance Officer, Emmanuel Hernandez, hereinafter referred to as the **Lessee;**

WITNESSETH: That

WHEREAS, the Lessor is the registered, legal owner of a building which has a floor area of Twenty Thousand Forty Nine and 55/100 (20,049.55) square meters located at the plant site at 100 Trade Avenue, Phase IV, Special Economic Zone, Laguna Technopark, Biñan, Laguna (the Building) and covered by Tax Declaration No. 003-09-08872 of Biñan, Laguna, dated 29 March 2000 hereinafter referred to as the "Building".

WHEREAS, the Lessor has likewise acquired the leasehold rights and interests (the "Leasehold Rights and Interests") over the parcel of land on which the Building is located with an area consisting of Eighty Eight Thousand Seven Hundred Five (88,705) square meters, more or less, constituting a portion of the land (the "Leased Land") covered by Transfer Certificate of Title No. T-433155 (the "TCT") issued by the Registry of Deeds for the Province of Laguna, Calamba Branch, hereafter referred to as the "Premises";

WHEREAS, the Lessee desires to lease the above mentioned Building and to sublease the Premises and the Lessor is willing to lease and sublease the Building and Premises unto the Lessee subject to the terms and conditions specified herein.

WHEREAS, this Lease shall be void and of no force and effect until the occurrence of the "Separation Date" as defined in that certain Master Separation Agreement (the "Separation Agreement") between Lessor and Lessee dated as of October 6, 2005, as may be amended from time to time, (hereinafter referred to as the "Effective Date"), at which time this Agreement shall become effective.

NOW, THEREFORE, for and in consideration of the covenants and agreement hereinafter set forth, the Lessor agrees and consents to lease unto the Lessee with option to purchase, the aforementioned Building

and to sublease unto the Lessee with option to purchase the Leasehold Rights and Interest over the Premises under the following terms and conditions:

1. PERIOD

The term of this Lease shall be fifteen years, commencing on the Effective Date, renewable thereafter on terms and conditions mutually agreed upon by Lessor and Lessee, provided written notice of intent to renew or extend is served by the Lessee on the Lessor at least one hundred twenty (120) days prior to the expiration of this Lease.

2. RENTAL RATE

(a) **Rental Rate.** Until the earlier of 10 years from the Effective Date of this Lease or a Change of Control of SunPower (as defined below), the rental rate for the use and occupancy of the Building and Premises, exclusive of value added tax (VAT), if any, shall be equivalent to Lessor's costs to own, operate, manage and/or maintain, as the case may be, the Building and Premises ("Cost"). "Cost" shall include, but not be limited to, Lessor's (1) expenses to manage, operate, service and maintain the Building and Premises, including, but not limited to, (a) the cost of repair and maintenance of the Building and Premises; (b) any management fees relating to the Building or Premises; and (c) the cost of any installation or improvement required by reason of any applicable law; (2) wages, salaries and fees of all operating, auditing, accounting, maintenance and management personnel in connection with the Building and Premises; (3) all payroll charges for such personnel, such as unemployment and social security taxes, workers' compensation, health, accident and group insurance, and other so-called fringe benefits; (4) insurance costs incurred in connection with the Building and Premises; (5) licenses, permits and inspection fees incurred in connection with the Building and Premises; (6) the cost of furnishings and equipment not treated by Lessor as capital expenditures of the Building and Premises; (7) depreciation of the Building or Premises; (8) real estate and personal property taxes on property used in the operation, maintenance, service and management of the Building and Premises; (9) the cost, as reasonably amortized by Lessor, with interest at the rate of ten percent (10%) per annum on the unamortized amount, of any capital improvement made after completion of initial construction of the Building and Premises; (10) legal fees associated with the preparation, interpretation and/or enforcement of leases; and (11) all other direct and indirect expenses, which Lessor in its reasonable business judgment, deems appropriate or necessary for the operation, maintenance and management of the Building and Premises. Lessor will consult with Lessee concerning the calculation of Costs at the request of Lessee on a quarterly basis.

For the remaining Term of the Lease or upon a Change of Control, the rental rate for the use and occupancy of the Building and Premises, exclusive of VAT, if any, shall be adjusted to the market rate ("Adjusted Rental Rate"), which shall be determined in Cypress's sole discretion by a market analysis of at least three comparable rental rates for unimproved manufacturing buildings in the area surrounding the Premises. Lessor shall deliver notice of the Adjusted Rental Rate by written notice delivered at least sixty (60) days prior to the effective date of the Adjusted Rental Rate. VAT due on rentals, if any, during the term of the Lease shall be paid in addition to the rental rate and the Adjusted Rental Rate. All rent due under this Lease shall be due and payable on the last day of the calendar month. Lessor will consult with Lessee concerning the calculation of any Adjusted Rental Rate at the request of Lessee.

For purposes of this Lease, "Change of Control" shall mean (a) such time as Cypress Semiconductor Corporation, a Delaware corporation and parent company of Lessor ("Cypress"), ceases to own at least a majority of the aggregate number of shares of all classes of common stock then outstanding

of SunPower Corporation, a California corporation and parent company of Lessee ("SunPower"); (b) the consummation of any purchase or acquisition by any person, entity or "group" (as defined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) other than Cypress of more than a 40% interest in the total outstanding voting securities or voting power thereof of SunPower, (c) any merger, consolidation, business combination or similar transaction involving SunPower pursuant to which the equity interests held in SunPower and retained following such transaction or issued to or otherwise received in such transaction by the shareholders of SunPower immediately preceding such transaction constitute less than 50% of the aggregate equity interests in the surviving or resulting entity of such transaction or any direct or indirect parent thereof, (d) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of assets of SunPower representing more than 50% of the book value or fair market value of the assets of SunPower and its subsidiaries taken as a whole, or (e) any liquidation or dissolution of SunPower.

(b) **Cost Estimate.** Lessor shall use commercially reasonable efforts to notify Lessee at least ten (10) days prior to the Effective Date or the beginning of a calendar year, as the case may be, of the estimated Lessor Costs for such calendar year and Lessee's monthly installment of such estimate. If, however, Lessor is not able to give such estimate prior to the Effective Date or the beginning of a calendar year, as provided herein, as the case may be, Lessee shall continue to pay monthly installments of rent based on the last notification received from Lessor until Lessor gives notice of the new estimate of rent and Lessee's monthly installment. Lessee shall pay to Lessor the new monthly installment amount of rent when the next monthly installment of rent is due. If at any time during the calendar year, Lessor reasonably believes that its estimate of Costs will not cover the actual Costs for the calendar year, Lessor shall give written notice to Lessee of the new estimate of Costs and Lessee's monthly installment and Lessee shall pay to Lessor the new monthly installment amount of Costs when the next monthly installment of rent is due.

Within ninety (90) days after the end of a calendar year, Lessor shall give to Tenant a statement reconciling Lessor's actual Costs for a calendar year and Tenant's payments of estimated rent applicable to such calendar year ("Reconciliation Statement"); provided, however, if Lessor fails to give the Reconciliation Statement, Lessor does not waive its right to recover additional rent that is due and payable pursuant to this Section 2(b) unless more than twelve (12) months has pass since the end of the calendar year in question. If the Reconciliation Statement indicates that Lessee owes additional rent, then within ten (10) days of Tenant's receipt of the Reconciliation Statement, Lessee shall pay to Lessor the amount of such underpayment. If the Reconciliation Statement indicates that Lessee is entitled to a refund of additional rent already paid, Lessor shall credit Lessee for the amount of such overpayment against the next maturing installment(s) of additional rent, or if after the termination of this Lease, Lessor shall pay to Lessee such refund so long as a Lessee Default does not then exist. Since the reconciliation for the calendar year in which the Lease terminates will occur after such termination, Lessee's obligation to pay additional rent under this Section 2(b) shall survive the termination of this Lease. Lessee shall pay to Lessor a penalty of $500 for each day from the date that such additional rent is due through the date that Lessor receives such past due rent. Lessor will consult with Lessee concerning the calculation of each Reconciliation Statement at the request of Lessee on an annual basis.

(c) **Rent Obligation.** Lessee shall pay to Lessor all rent when due without demand, deduction or set off, except as provided in this Lease. Payment by the Lessee of rent shall be net of the whole amount of the withholding tax on rentals, if any is due. The Lessee, if required, shall, pursuant to appropriate laws, rules and regulations, deduct the withholding tax on rental payments and remit the same to the Bureau of Internal Revenue. The Lessee, if required, shall furnish the Lessor a duly certified written statement showing the payments made by the Lessee to the Lessor during the quarter and the

amount of taxes withheld therefrom together with a copy of the Remittance Return and the corresponding tax receipts. Lessee's obligation to pay rent is independent from any of Lessor's obligations in this Lease. Lessee shall pay to Lessor a penalty of $500 for each day from the date that such rent is due through the date that Lessor receives such past due rent.

3. WATER, ELECTRICITY, TELEPHONE AND OTHER UTILITIES

The Lessee shall be responsible for the payment of association dues, water, electricity, and other services for the maintenance of the Building and Premises for the duration of the Contract of Lease. The Lessee warrants that payment of said utilities shall be timely made.

4. OPTION TO PURCHASE

Lessee shall have the right to purchase the Building and all Leasehold Rights and Interests from the Lessor at any time during the term of this Agreement by giving written notice to Lessor, provided, however, if Lessor receives a bona fide firm offer from a third party for the purchase of the Building and acquisition of the Leasehold Rights and Interests over the Premises ("Purchase Offer") and Lessor provides Lessee with written notice of such firm offer, then Lessee's shall have thirty (30) days to exercise its option to purchase under this Section 4 by delivering written notice to Lessor of its intent to do so. If Lessee fails to exercise its option to purchase within such thirty (30) day notice period or fails to consummate a purchase of the Building and the Leasehold Rights and Interests over the Premises within 60 days of delivery by Lessee to Lessor of notice of its intent to exercise its option to purchase under this Section 4, then Lessee's option to purchase under this Section 4 shall terminate and Lessor shall have the right to accept such Purchase Offer; *provided* that if Lessor does not thereafter consummate, or enter into a binding agreement to consummate, such Purchase Offer within ninety (90) days after the termination of Lessee's option to purchase under this Section 4, then Lessee's option to purchase under this Section 4 shall not terminate with respect to such Purchase Offer and shall remain in effect. Until the earlier of 10 years from the Effective Date of this Lease or a Change of Control of SunPower, the purchase price for the sale of the Building and acquisition of Leasehold Rights and Interests over the Premises to Lessee shall be the original purchase price for the Building and rental or acquisition cost for the Leasehold Rights and Interests paid by Cypress Semiconductor Corporation, a Delaware corporation and Lessor's parent company ("Cypress"), plus interest computed using a 30 day LIBOR starting on the date of purchase by Cypress until the sale to Lessee. If Lessee shall exercise its right to purchase the Building and all Leasehold Rights and Interests from the Lessor at any time following the earlier of 10 years from the Effective Date of this Lease or a Change of Control of SunPower, the purchase price for the sale of the Building and acquisition of Leasehold Rights and Interests over the Premises to Lessee shall be adjusted to equal the market value of the Building and the Leasehold Rights and Interests over the Premises ("Adjusted Purchase Price"), which shall be determined in Cypress's sole discretion by a market analysis of at least three comparable sale prices for similar manufacturing buildings in the area surrounding the Premises. Lessor will consult with Lessee concerning the calculation of any Adjusted Purchase Price at the request of Lessee. In the event the Lessee exercises its option to acquire the Leasehold Rights and Interests over the Premises, the Lessee shall assume all the rights and obligations of Lessor, including any terms, conditions or limitations under its contract of lease with the owner of the Premises.

5. USE OF THE PREMISES

The Lessee shall use the Building and PREMISES for the manufacture of solar cells and other related activities. The Lessee and the Lessor shall comply with the existing rules and regulations, any and all reasonable rules and regulations which may be promulgated from time to time by the LTI Association, and will follow all the rules and regulations, ordinances and laws issued by the Health or other constituted

local or national authorities arising from or regarding the use, occupancy, sanitation and safety of the Building and Premises, and all applicable provisions of Philippine law and regulations, more particularly to PEZA registered enterprises. Lessee also binds itself to pay all duties and assessments imposed by PEZA on the Premises and to comply with its rules and regulations.

In this regard, the Lessor warrants that all consents, approvals, license and authorization required of any governmental authority, including the PEZA, necessary for Lessor's execution, delivery and performance of this Lease, and the enforceability of this Lease have been obtained and are in full force and effect and the execution, delivery and performance of this Lease do not and will not violate any law, regulation or judgment or constitute a breach of default under any agreement binding upon the Lessor or any of its property, and that the execution, delivery and performance of this Lease is pursuant to and is in accordance with the Lessor's registered activity under its Certificate of Registration and as provided in its Registration Agreement with the PEZA.

6. IMPROVEMENTS AND ALTERATIONS

The Lessee may not make any major structural changes, alterations or improvements in the Building and Premises for its own account without the prior written consent of Lessor, such consent not to be unreasonably withheld. Such changes, alterations or improvements, if approved, shall be made at Lessee's sole cost.

7. MAINTENANCE AND REPAIRS

The Lessee shall keep the Building and Premises in a clean and sanitary condition and shall keep it at all times in very good condition. Lessee, at its sole cost and expense, shall be responsible for the repair, maintenance and any required improvements to the Building and/or the Premises, including, but not limited to, the electrical, plumbing, heating, ventilation and air-conditioning system, the foundation, walls, ceilings, windows and roof of the Building and all signs, sidewalks, lighting facilities, landscaping and other improvements that are part of the Premises.

8. TAXES, FRANCHISE FEE AND INSURANCE

(a) **Taxes; Franchise Fee.** During the term of this Lease and any renewal or extension thereof, the Lessee shall be liable for all real estate taxes and other government and national taxes associated with the Building and Premises, as applicable. Starting January 2006, the Lessee shall pay to PEZA a franchise fee in the amount of PhP12,000.00 on or before the 5th day of January of each year without necessity of demand. In case of delinquency in the payment thereof, the Lessee is liable to bear interest at the rate of one (1%) per month computed from the date of delinquency. Other government assessments, fire insurance of the Building and Premises shall be for the account of the Lessee.

(b) **Liability Insurance.** Lessee shall, during the term of this Lease, keep in full force and effect, a policy or policies of commercial general liability insurance for bodily injury, personal injury (including wrongful death) and damage to property resulting from (i) any occurrence in the Building or Premises, (ii) any act or omission by Lessee or its respective invitees, agents, representatives, contractors or employees anywhere in the Building or Premises, (iii) the business operated by Lessee in the Building or Premises, and (iv) the contractual liability of Lessee to Lessor pursuant to the indemnification provisions of Article 13 below, which coverage shall not be less than Ten Million and No/100 Dollars ($10,000,000.00), combined single limit, per occurrence.

(c) **Casualty Insurance.** Lessee shall, during the term of this Lease, keep in full force and effect, a policy or policies of so called "All Risk" or "All Peril" insurance, including coverage for vandalism or malicious mischief, insuring the Lessee improvements and Lessee's stock in trade, furniture, personal property, fixtures, equipment and other items in the Building or Premises, with coverage in an amount equal to the book value.

(d) **Insurance Requirements.** Each insurance policy and certificate of such insurance policy obtained by Lessee pursuant to this Lease shall contain a clause that the insurer will provide Lessor with at least thirty (30) days prior written notice of any material change, non-renewal or cancellation of the policy. Each such insurance policy shall be with an insurance company reasonably acceptable to Lessor. A certificate evidencing the coverage under each such policy, as well as a certified copy of the required additional insured endorsement(s) shall be delivered to Lessor prior to commencement of the Lease. All insurance policies required pursuant to this Article 8 shall be written as primary policies, not contributing with or in excess of any coverage which Lessor may carry. Each insurance policy shall contain an endorsement naming Lessor as an additional insured, and may be carried under a blanket policy insurer. Lessee shall procure and maintain all policies entirely at its own expense and shall, at least twenty (20) days prior to the expiration of such policies, furnish Lessor with renewal certificates of such policies. Lessee shall not do or permit to be done anything which shall invalidate the insurance policies maintained by Lessor or the insurance policies required pursuant to this Article 8 or the coverage under such policies.

(e) **Insurance by Lessor.** Subject to the following sentence, Lessor shall, during the term of this Lease, procure and maintain commercial general liability insurance against injuries to persons occurring in, upon or about the Building and for property damage to the Building, the cost of which shall be Costs for purposes of Section 2(a) hereof. Lessor may meet its insurance requirements through an umbrella or excess insurance policy and, in its sole discretion, shall have the right to self-insure in whole or in part and to determine the amount of any deductible or the extent of coverage under Lessor's insurance.

9. SALE, TRANSFER AND MORTGAGE

The Lessor reserves the right to sell, transfer, mortgage or otherwise dispose of the Building or its Leaseholder Rights and Interests over the Premises provided the Lessee's rights under this lease are respected, including the Lessee's option to purchase under Section 4 of this Lease. The Lessee agrees to allow the Lessor or its authorized representatives, together with the prospective buyers, to enter the Building or Premises at reasonable hours and upon prior written notice and arrangement made by the Lessor with the Lessee. Lessor shall provide prior written notice to Lessee of any real or proposed sale of the Building or Leasehold Rights or Interests over the Premises. The Lessor agrees that in the event such a sale, transfer, mortgage or other disposition of the Building or Leasehold Rights and Interests over the Premises occurs in favor of a third party, the conditions embodied in this Lease shall be respected and honored by the Lessor and such third party.

10. DAMAGE TO BUILDING OR PREMISES

(a) **Obligation to Repair.** In the event of any damage to the Building, Lessee shall promptly notify Lessor in writing. If the Building, or any part of the Building are damaged by fire or other casualty

covered by Lessor or Lessee's insurance policies and not due to negligent act of Lessee, its employees, invitees, agents, contractors or representatives, then Lessor shall be obligated to use the proceeds from such insurance policies to repair the damage to the Building, excluding any alterations or improvements made by Lessee, unless this Lease is terminated in accordance with the provisions of Section 10(b) below. In the event the proceeds from the insurance policies are not sufficient to repair the damage to the Building and Lessor has not terminated pursuant to Section 10(b) below, then Lessee shall be responsible for the remaining cost of repairing the Building. Until such repairs by Lessor are completed, the rent due under this Lease shall be abated in proportion to the part of the Building which is unusable by Lessee in the conduct of its business. If, however, such damage is due in whole or in part to the fault, negligence or neglect of Lessee or any of its respective agents, employees, representatives, contractors or invitees, there shall be no abatement of rent and Lessee shall be required to repair all such damage at its sole cost and expense. There shall be no abatement of rent on account of damage to the Building unless such damage materially impairs Lessee's ability to conduct business for a period of thirty (30) consecutive days, only then shall rental abatement apply.

(b) **Lessor's Option.** If the damage is not fully covered by Lessor's insurance, or if Lessor determines in good faith that the cost of repairing the damage is more than one-third of the then replacement cost of the Building, or if Lessor has determined in good faith that the required repairs to the Building cannot be made within a ninety (90) day period, or in the event a holder of a mortgage or a deed of trust against the Building or the Premises requires that all or any portion of the insurance proceeds be applied in reduction of the mortgage debt, or if such damage occurs during the final year of the Lease Term, then Lessor may, by written notice to the other party within thirty (30) days after the occurrence of such damage, terminate this Lease as of the date set forth in Lessor's notice to Lessee. Nothing in this Article 10(b) shall be construed as a limitation of Lessee's liability for any such damage, should such liability otherwise exist.

11. WAIVER OF SUBROGATION

Lessor and Lessee each hereby waives its rights and the subrogation rights of its insurer against the other party and any other Lessees of space in the Building or the Premises as well as their respective officers, employees, agents, authorized representatives and invitees, with respect to any claims including, but not limited to, claims for injury to any persons, and/or damage to the Building or Premises and/or any fixtures, equipment, personal property, furniture, improvements and/or alterations in or to the Building or Premises, which are caused by or result from (a) risks or damages required to be insured against under this Lease, or (b) risks and damages which are insured against by insurance policies maintained by Lessor and Lessee from time to time. Lessor and Lessee shall obtain for the other party from its insurers under each policy required by this Lease or otherwise maintained a waiver of all rights of subrogation which such insurers of Lessor or Lessee might otherwise have against the other party.

12. LESSOR'S RIGHT TO PERFORM LESSEE OBLIGATIONS

All covenants and agreements to be performed by Lessee under any of the terms of this Lease shall be performed by Lessee at Lessee's sole cost and expense and without any abatement of rent unless otherwise provided for in this Lease. If Lessee shall fail to pay any sum of money, other than rent, required to be paid by it under this Lease, or shall fail to perform any other act on its part to be performed under this Lease, and such failure shall continue for ten (10) days after notice of such failure by Lessor (or such shorter period of time as may be reasonable in the event of an emergency), Lessor may (but shall not be obligated to do so) without waiving or releasing Lessee from any of Lessee's obligations, make any such payment or perform any such other act on behalf of Lessee. All sums so paid by Lessor and all necessary incidental costs, together with interest at ten percent (10%) per annum shall be payable to Lessor as "Additional Rent" with the next monthly installment of rent.

13. INDEMNIFICATION AND EXCULPATION

(a) **Indemnification.** Lessee shall indemnify, protect, defend and hold Lessor harmless for, from and against all claims, damages, losses, costs, liens, encumbrances, liabilities and expenses, including reasonable attorneys', accountants' and investigators' fees and court costs (collectively, the "Claims"), however caused, arising in whole or in part from Lessee's use of all or any part of the Building or Premises or the negligent conduct of Lessee's business or from any improper activity, work or thing done, permitted or suffered by Lessee or by any invitee, representative, agent, contractor, employee or sublessee of Lessee in the Building or Premises, and shall further indemnify, protect, defend and hold Lessor harmless for, from and against all Claims arising in whole or in part from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease or arising in whole or in part from any act, neglect, fault or omission by Lessee or by any invitee, representative, agent, employee or sublessee of Lessee anywhere in the Building or Premises. In case any action or proceeding is brought against Lessor to which this indemnification shall be applicable, Lessee shall pay all Claims resulting therefrom. Disputes, controversies and claims hereunder shall be subject to the terms of Section 1.5, Section 1.6 and Article II of the Indemnification and Insurance Matters Agreement attached as Exhibit A to the Separation Agreement. The obligations of Lessee under this Article 13 shall survive the expiration or earlier termination of this Lease. Lessor shall not be liable for, and Lessee will indemnify and save Lessor harmless of and from all fines, suits, damages, claims, losses, and actions (including reasonable attorney's fee at both the trial and appellate levels) for any injury to person or damage to or loss of property on or about the Building or Premises.

(b) **Exculpation.** Unless otherwise provided for in this Lease, Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property, injury and death to persons and all claims of any other nature resulting from Lessee's use of all or any part of the Building or Premises. Neither Lessor nor its agents or employees shall be liable for any damaged property of Lessee entrusted to any employee or agent of Lessor or for loss of or damage to any property of Lessee by theft or otherwise. Lessor shall not be liable for any injury or damage to persons or property resulting from any cause, including, but not limited to, fire, explosion, falling plaster, steam, gas, electricity, sewage, odor, noise, water or rain which may leak from any part of the Building or from the pipes, appliances or plumbing works in the Building, or from the roof of any structure on the Property, or from any streets or subsurface on or adjacent to the Building or the Property, or from any other place or resulting from dampness or any other causes, unless caused by the gross negligence or willful misconduct of Lessor. Neither Lessor nor its employees or agents shall be liable for any defects in the Building or Premises, nor shall Lessor be liable for the negligence or misconduct, including, but not limited to, criminal acts, by maintenance or other personnel or contractors serving the Building or Premises, other Lessees or third parties, unless Lessor is found grossly negligent or is guilty of willful misconduct. All property of Lessee kept or stored in the Building or Premises shall be so kept or stored at the risk of Lessee only, and Lessee shall indemnify, defend and hold Lessor harmless for, from and against any Claims arising out of damage to the same, including subrogation claims by Lessee's insurance carriers, unless such damage shall be caused by the gross neglect of Lessor and through no fault of Lessee. None of the events or conditions set forth in this Article 13 shall be deemed a constructive or actual eviction or result in a termination of this Lease, nor shall Lessee be entitled to any abatement or reduction of rent by reason of such events or condition. Lessee shall give prompt notice to Lessor with respect to any defects, fires or accidents which Lessee observes in the Building or Premises.

14. DEFAULT

(a) **Events of Default.** The occurrence of any of the following events shall constitute a material default and breach of this Lease by the Lessee:

(1) Failure of the Lessee to pay any installment of rent within ten (10) business days following its due date after receipt of prior written notice;

(2) Failure of the Lessee to pay any other sum payable under this Lease within thirty (30) days after written notice therefor is delivered to the Lessee;

(3) Default by the Lessee in the performance of any of the Lessee's covenants, agreements or obligations hereunder (excluding a default in the payment of rent or other monies due) which continues for thirty (30) days after written notice thereof is delivered to the Lessee by the Lessor (unless said default takes longer than thirty (30) days to cure in which case a material default and breach of this Lease shall occur if Lessee does not cure such default as soon as practicable following written notice thereof); or

(4) Filing by or against the Lessee or SunPower in any court, pursuant to any statute, either in the United States or of any other state, a petition in bankruptcy or insolvency, or for reorganization or for appointment of a receiver or trustee of all or a substantial portion of the property owned by the Lessee or SunPower or if the Lessee or SunPower makes an assignment for the benefit of creditors, or any execution or attachment shall be issued against the Lessee or SunPower or all or a substantial portion of the Lessee or SunPower's property, whereby all or any portion of the Building and Premises covered by this Lease or any improvements thereon shall be taken or occupied or attempted to be taken or occupied by someone other than the Lessee or SunPower, except as may herein be otherwise expressly permitted, and such adjudication, appointment, assignment, petition, execution or attachment shall not be set aside, vacated, discharged or bonded within thirty (30) days after the determination, issuance or filing of the same;

(b) **Lessor's Remedies.** In the event of a default by the Lessee under this Lease, the Lessor shall have all rights and remedies allowed by law or equity including, but not limited to, the following:

(1) **Termination - Damages.** In addition to any other remedy available to the Lessor at law or in equity, all of which other remedies are reserved unto the Lessor, upon a material default and breach of this Lease (as defined in Section 14(a) above), the Lessor shall have the right to immediately terminate the Lessee's right to possession of the Building and Premises and/or this Lease and all rights of the Lessee hereunder, by delivering a written notice of termination to the Lessee. In the event that the Lessor elects to so terminate such possession and/or this Lease the Lessor shall have the right to recover from the Lessee the following:

(i) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) Any other actual damages of Lessor permitted by law; plus

(iii) Reasonable attorneys' fees incurred by the Lessor as the result of such material default and breach and costs in the event suit is filed by the Lessor to enforce any remedy.

The term "rent" as used herein shall be deemed to be the rent under Section 2 above, "Additional Rent" and all other sums required to be paid by the Lessee pursuant to the terms of this Lease.

As used in subparagraphs (i) above, the "worth at the time of award" shall be determined by allowing interest or discounting, as the case may be, at the rate equal to the discount rate of the Federal Reserve Bank of San Francisco at the time of the award.

A termination of Lessee's rights to possession of the Building and Premises under this Section 14(b) shall not release or discharge the Lessee from any obligation under this Lease but shall constitute only a termination of the right of the Lessee to possess and occupy the Building and Premises, unless otherwise specifically stated by the Lessor in writing at the time of such termination.

(2) **Enforcement.** In the event of a default and abandonment of the Building and Premises by the Lessee under this Lease, the Lessor may, from time to time, without terminating this Lease, either recover all rent as it becomes due or re-let the Building and/or Premises or any part thereof for such term or terms and at such rent and upon such other terms and conditions as the Lessor, in the Lessor's sole discretion, may deem advisable with the right to make alterations and repairs to the Building and/or Premises, the cost of which shall be chargeable to the Lessee.

If the Lessor shall elect to so re-let the Building and/or Premises, rents received by the Lessor therefrom shall be applied as follows: first, to reasonable attorneys' fees incurred by the Lessor as a result of the Lessee's default; second, to the cost of suit if an action is filed by the Lessor to enforce the Lessor's remedies; third, to the payment of any indebtedness other than rent due under this Lease from the Lessee; fourth, to the payment of any cost of such re-letting; fifth, to the payment of the cost of any alterations and repairs to the Building or Premises; and sixth, to the payment of rent due and unpaid hereunder and the residue, if any, shall be held by the Lessor and applied in payment of future rent as the same may become due and payable hereunder. Should that portion of such rent received from any re-letting during any month which is applied to the payment of rent hereunder be less than the rent payable during the month by the Lessee hereunder, the Lessee shall pay such deficiency to the Lessor. The Lessee shall also pay to the Lessor as soon as ascertained any costs and expenses incurred by the Lessor in re-letting or in making the alterations and repairs to the Building and/or Premises, the cost of which is not covered by the rents received from such re-letting.

(3) **Non-Termination - Re-Entry.** In addition to the other rights of the Lessor herein provided, the Lessor shall have the right, without terminating this Lease, at its option, to re-enter and re-take possession of the Building and/or Premises and all improvements thereon and collect rents from any sublessees and/or sublet the whole or any part of the Building and/or Premises for the account of the Lessee, upon any terms or conditions determined by the Lessor. In such event of subleasing, the Lessor shall have the right to collect any rent which may become payable under any sublease and apply the same first to the payment of expenses incurred by the Lessor in dispossessing the Lessee and in subletting the Building and/or Premises and, thereafter, to the payment of the rent and other amounts payable by the Lessee under this Lease required to be paid by the Lessee in fulfillment of the Lessee's covenants hereunder; and the Lessee shall be liable to the Lessor for the payment of the rent and other amounts required to be paid by the Lessee under this Lease, less any amounts actually received by the Lessor from a sublease and after payment of expenses incurred, applied on account of the rent and other amounts due hereunder. In the event of such election, the Lessor shall not be deemed to have terminated this Lease by taking possession of the Building and/or Premises unless written notice of termination has been given by the Lessor to the Lessee.

(4) **No Termination.** No re-entry or taking possession of the Building and/or Premises by the Lessor pursuant to the provisions of this Lease shall be construed as an election to terminate this Lease unless a written notice of such intention is delivered by the Lessor to the Lessee. Notwithstanding a re-letting without termination by the Lessor due to the default by the Lessee, the Lessor may at any time after such re-letting elect to terminate this Lease for such default.

15. NOTICES

Any notice or communication given under the terms of this Lease shall be in writing and shall be delivered in person, sent by any public or private express delivery service, signature required, or deposited with the United States Postal Service or equivalent local or successor agency, certified or registered mail, return receipt requested, postage pre-paid, addressed as set forth below, or at such other address as a party may from time to time designate by notice under this Article 15. Notice given by personal delivery or by public or private express delivery service shall be effective upon delivery, notice sent by mail shall be deemed to have occurred upon deposit of the notice in the United States mail. The inability to deliver a notice because of a changed address of which no notice was given or a rejection or other refusal to accept any notice shall be deemed to be the receipt of the notice as of the date of such inability to deliver or rejection or refusal to accept. Any notice to be given by Lessor may be given by the legal counsel and/or the authorized agent of Lessor.

If to Lessee:	SunPower Corporation 430 Indio Way Sunnyvale, CA 94085 Attn: Emmanuel Hernandez, CFO
If to Lessor:	Cypress Semiconductor Corporation 198 Champion Court San Jose, CA 95134 Attn: Brad Buss, CFO

16. MISCELLANEOUS

(a) **Modification of Contract.** This Contract shall not in any way be amended, modified or annotated except by virtue of a written instrument signed by the duly authorized representative of the Lessor and the Lessee.

(b) **Assignment.** The terms and provisions of this Lease are intended solely for the benefit of each party hereto, and it is not the intention of the parties to confer third-party beneficiary rights upon any other Person. Neither Party may assign their respective rights or obligations under this Agreement without prior written consent from the other Party.

(c) **Relationship of Parties.** This Lease shall create the relationship of Lessor and Tenant between Lessor and Lessee. The parties have no intention to create a joint venture, partnership or principal and agent relationship.

(d) **Counterparts.** The parties may execute several copies of this Lease. All copies of this Lease bearing original signatures of the parties shall constitute one and the same Lease, binding upon all parties. If a variation or discrepancy among counterparts occur, the original copy of this Lease in Lessor's possession shall control.

(e) **Entire Agreement.** This Lease contains the entire understanding between the parties and supersedes any prior understanding or agreements between them respecting the subject matter. No representations, arrangement, or understandings except those fully expressed herein, are or shall be binding upon the parties. No changes, alterations, modifications, additions or qualifications to the terms of this Lease shall be made or be binding unless made in writing and signed by each of the parties.

(f) **Remedies Cumulative.** The remedies of the parties under this Lease are cumulative and shall not exclude any other remedies to which the party may be lawfully entitled.

(g) **Further Assurances.** Each party hereby covenants and agrees that it shall execute and deliver such deeds and other documents as may be required to implement any of the provisions of this Lease.

(h) **No Waiver.** The failure of any party to insist on strict performance of a covenant hereunder or of any obligation hereunder shall not be a waiver of such party's right to demand strict compliance therewith in the future, nor shall the same be construed as a novation of this Lease.

(i) **Costs and Expenses.** Unless otherwise provided in this Lease, each party shall bear all fees and expenses incurred in performing its obligations under this Lease.

(j) **Governing Law; Invalidity of any Provisions.** This Lease shall be subject to and governed by the laws of the jurisdiction in which the Building and Premise are located exclusive of its conflict of laws principles. If any Lease provision is rendered invalid or unenforceable, then that provision and the remainder of this Lease shall continue in effect and be enforceable to the fullest extent permitted by applicable laws.

IN WITNESS WHEREOF, the parties have caused these presents to be signed on the date and place first mentioned.

CYPRESS MANUFACTURING LTD

NEIL WEISS
Lessor

SUNPOWER PHILIPPINES MFG LTD

EMMANUEL HERNANDEZ
Lessee

Signed in the Presence of:

ACKNOWLEDGMENT

SAN JOSE, CALIFORNIA)
)

BEFORE ME, a Notary Public, for and in San Jose, California, this 6th day of October, 2005, personally appeared the following:

Emmanuel Hernandez
Neil Weiss

All of whom are known to me and to me known to be the same persons who executed this foregoing Agreement and acknowledged to me that they executed the same on their own voluntary act and deed.

This instrument refers to a CONTRACT OF LEASE consisting of thirteen (13) pages including this page wherein the acknowledgment is written and signed by the parties and their instrumental witness on each and every page thereof.

WITNESS MY HAND AND SEAL, on the date and place first above written.

NOTARY PUBLIC

Exhibit 10.22

AMENDMENT NO. 1

TO

NOTE PURCHASE AND LINE OF CREDIT AGREEMENT

This **AMENDMENT NO. 1 TO NOTE PURCHASE AND LINE OF CREDIT AGREEMENT** (as amended, restated and otherwise modified from time to time, this "Amendment") is entered into as of May 25, 2004 and effective as of March 3, 2003 (the "Effective Date"), by and between **SUNPOWER CORPORATION** a California corporation ("Company") with its principal executive office at 430 Indio Way, Sunnyvale, California 94085 and **CYPRESS SEMICONDUCTOR CORPORATION**, a Delaware corporation ("Purchaser").

RECITALS

WHEREAS, Purchaser and Company are party to that certain Note Purchase and Line of Credit Agreement, dated as of May 30, 2002 (as amended, restated or modified from time to time, the "Agreement"), pursuant to which, among other things: (i) Purchaser agreed to purchase certain unsecured senior convertible promissory notes from Company (each a "Note" and collectively the "**Notes**") under the terms set forth in Section 1 of the Agreement; (ii) Purchaser agreed to provide Company with cash borrowings, capital equipment, lines of credit or guarantees, up to an aggregate principal amount not to exceed $25,000,000 (the "Maximum Amount"), as provided in Section 2 of the Agreement; and (iii) Company agreed to issue one or more warrants to purchase equity securities of Company under the terms and conditions set forth in the Agreement.

WHEREAS, as of the date hereof, Company has issued nine Notes in favor of Purchaser in an aggregate principal amount of $3,600,000 and pursuant to the terms of the Agreement, Company is no longer able to request borrowings from Purchaser pursuant to Section 1 of the Agreement.

WHEREAS, Purchaser has previously extended amounts pursuant to Section 2 of the Agreement pursuant to demand notes (the "Demand Notes"), which amounts are in the aggregate, in excess of the Maximum Amount, and now Company and Purchaser desire to amend certain provisions of the Agreement to: (i) increase the Maximum Amount to $30,000,000; (ii) provide for the amendment and restatement of the Demand Notes into a single new note (as amended, restated or otherwise modified from time to time, the "Line of Credit Note") to reflect the increase in the Maximum Amount, and to revise and supplement certain other terms of the Demand Notes; (iii) provide for the issuance of a warrant to purchase common stock of Company relating to the increase in the Maximum Amount and in replacement of any warrants previously issued under the Agreement and no longer outstanding; and (iv) make certain other amendments and modifications to the Agreement to reflect the terms of the lending arrangements between Company and Purchaser.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing, and the representations, covenants and conditions set forth below, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to such terms in the Agreement.

2. Amendment of Agreement. Subject to the terms and conditions hereof, effective as of the Effective Date, the Agreement is amended as follows:

(a) Recital B to the Agreement is hereby amended by replacing "$25,000,000" in the third line of the recital with "$30,000,000 (the "Maximum Principal Amount)."

(b) Section 1(a) of the Agreement is hereby amended by replacing the words "Exhibit A" at the end of the third line, with the language "Exhibit A-1".

(c) Section 2(a) of the Agreement is hereby amended by: (i) deleting the first sentence and replacing it with the following, "In addition to the Notes referred to in Section 1 hereof, Purchaser may in its sole discretion, to the extent requested by Company: (i) provide cash advances to Company; (ii) provide Company with capital equipment for Company's planned manufacturing facility ("Capital Equipment"); (iii) provide Company with a line of credit, on commercially reasonable terms, to purchase Capital Equipment; (iv) provide guarantees to the Company for (A) one or more lines of credit for Company to purchase Capital Equipment or (B) other purposes to be permitted in the sole discretion of the Purchaser; or (v) any combination of the foregoing. Each of the foregoing types of advances (each an "Advance" and collectively the "Advances") shall count towards the Maximum Principal Amount and shall be valued at the face or actual amount, including any guarantees, which shall reflect the face amount of the underlying obligations."; and (ii) deleting the remainder of Section 2(a).

(d) Section 2(b) is hereby deleted in its entirety and replaced with the following:

"(b) *Line of Credit Note*. The Advances referred to it Section 2(a), above, will be made pursuant to a promissory note to be executed by Company in favor of Purchaser in substantially the form of Exhibit A-2 to this Agreement (as amended, restated or modified from time to time, the "Line of Credit Note" and taken together with the Notes, the "Company Notes"), in an amount not to exceed the Maximum Principal Amount and containing such terms and conditions as more fully set forth in the Line of Credit Note."

(e) Section 2(c) is hereby deleted in its entirety and replaced with the following:

"(c) *Advances*. Company may request Advances under the Line of Credit Note from time to time in writing. Company may request Advances through the earlier of March 1, 2005 or the occurrence of an Event of Default (as defined in the Line of Credit Note). Advances may be repaid at any time without penalty. Advances made under Section 2(a)(i) and Section 2(a)(ii) may not be repaid and reborrowed, however, Advances under Section 2(a)(iii), (iv) or (v) (except to the extent including a portion under Sections 2(a)(i) or Section 2(a)(ii)) may be repaid reborrowed at such time that the line of credit or the obligation underlying the guarantee is repaid, released and terminated in its entirety. "

(f) A new Section 3, is hereby added as follows, and the remaining Sections of the Agreement are correspondingly renumbered:

"3. **Warrant**.

Company shall issue Purchaser a warrant (the "Warrant") to purchase Company common stock, substantially in the form of Exhibit B hereto. As more fully set forth in the Warrant, the Warrant shall be exercisable for that number of shares of Company common stock equal to the quotient obtained by dividing ten percent (10%) of the Maximum Principal Amount by $0.70, with a per share exercise price of $0.07."

(g) Section 5 (as renumbered) is hereby amended to replace any references to "Note" or "Notes", with references to "Company Notes" and with such grammatical changes as necessary to reflect such amended references.

(h) The preamble to Section 6 (as renumbered) is hereby amended and restated in its entirety to read as follows: "Purchaser's obligation to purchase Notes at each Closing and to make any Advance under the Line of Credit Note under this Agreement, is subject to the satisfaction of all of the following conditions, any of which may be waived in whole or in part by the Purchaser:".

(i) Section 6(b) (as renumbered) is hereby amended by replacing the term "Note" at the end of the Section with the language, "Company Note".

(j) Section 6(c) (as renumbered) is hereby amended by: (i) replacing the word "Note" and the beginning of the second line with the following, "Company Note" and (ii) replacing the words "the Note" at the end of the second line with the following language, "each Company Note".

(k) Section 6(d) (as renumbered) is hereby amended and restated in its entirety to read as follows:

"(d) Company Notes. Each Company Note being purchased pursuant to this Agreement, in the form attached hereto as Exhibit A-1 or Exhibit A-2, respectively, shall have been duly executed and delivered by the Company."

(l) Section 7 (as renumbered) is hereby amended replacing each reference to "Notes" with a reference to "Company Notes" with such grammatical changes as necessary to reflect such amended references.

(m) The heading to Exhibit A to the Agreement is hereby amended by replacing the words "Exhibit A" with the language "Exhibit A-1.

(n) A new Exhibit A-2, the Line of Credit Note, is hereby added as Exhibit A-2 to the Agreement, in the form attached to this Amendment as Exhibit A.

(o) Exhibit B to the Agreement is hereby deleted in its entirety and replaced with the form of Warrant attached as Exhibit B to this Amendment.

3. Line of Credit Note and Warrant. Concurrently with the execution of this Amendment, Purchaser and Company hereby agree to execute and deliver the Line of Credit Note and Company agrees to execute and deliver the Warrant.

4. Reservation of Rights. Company acknowledges and agrees that neither the execution nor delivery by Purchaser of this Amendment shall be deemed to create a course of dealing or otherwise obligate Purchaser to execute similar amendments under the same or similar circumstances in the future.

5. Limited Amendment/Execution. Except as expressly stated herein above, Company and Purchaser intend that the terms and provisions of the Agreement remain unchanged and in full force and effect.

6. Miscellaneous.

(a) This Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(b) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Transmission of signatures of any party by facsimile shall for all purposes be deemed the delivery of original, executed counterparts thereof.

(c) This Amendment may not be amended except in accordance with the provisions of Section 6(a) of the Agreement.

(d) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Agreement, respectively.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the date first written above and effective as of the Effective Date.

COMPANY:

SUNPOWER CORPORATION
a California corporation

By: /s/ Jay Peir
Name: Jay Peir
Title: Chief Financial Officer

PURCHASER:

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ Neil H. Weiss
Name: Neil H. Weiss
Title: Vice President, Treasurer

EXHIBIT A

FORM OF LINE OF CREDIT NOTE

THIS NOTE AND THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO COMPANY THAT SUCH REGISTRATION IS' NOT REQUIRED.

SUNPOWER CORPORATION

LINE OF CREDIT NOTE

This line of credit note (this "Note") amends and restates in their entirety each of those certain demand notes dated as of March 3, 2003, April 1, 2003, April 23, 2003, June 10, 2003, July 9, 2003, August 7, 2003, September 10, 2003, October 22, 2003 and January 26, 2004, issued by Company (as defined below) in favor of Holder (as defined below). This Note is the "Line of Credit Note" under the Note Purchase Agreement (as defined below) and is effective as of May 30, 2002 (the "Effective Date").

$30,000,000 May 25, 2004
San Jose, California

FOR VALUE RECEIVED, SUNPOWER CORPORATION, a California corporation ("Company") promises to pay to CYPRESS SEMICONDUCTOR CORPORATION, a Delaware corporation ("Holder"), or its registered assigns, the aggregate principal amount of Thirty Million Dollars ($30,000,000) (the "Maximum Principal Amount") or such lesser amount outstanding as of the date of payment, together with accrued interest thereon as provided in Section 3 of this Note. The aggregate outstanding principal amount of this Note plus accrued and unpaid interest thereon shall be due and payable on the earlier to occur of the Maturity Date or such time when the Obligations are accelerated in accordance with the terms of this Note following an Event of Default hereunder.

The parties hereto may from time to time indicate each Advance on Schedule I to this Note, but which shall not be dispositive evidence as to the outstanding indebtedness hereunder without the written confirmation of Holder.

1. **Definitions**. As used in this Note, the following capitalized terms have the following meanings:

(a) "Advance" has the meaning given to such term in the Note Purchase Agreement.

(b) "Affiliate," with respect to any Person, means (i) any director, officer or employee of such Person, (ii) any Person directly or indirectly controlling or controlled by or under

direct or indirect common control with such Person, and (iii) any Person beneficially owning or holding 5% or more of any class of voting securities of such Person or any corporation of which such Person beneficially owns or holds, in the aggregate, 5% or more of any class of voting securities. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

(c) "Event of Default" has the meaning given to such term in Section 6 hereof.

(d) "Holder" shall mean the Person specified in the Recitals to this Note or any Person who shall at the time be the registered holder of this Note.

(e) "Lien" shall mean, with respect to any property, any security interest, mortgage, pledge, lien, claim, charge or other encumbrance in, of, or on such property or the income therefrom, including, without limitation, the interest of a vendor or lessor under a conditional sale agreement, capital lease or other title retention agreement, or any agreement to provide any of the foregoing, and the filing of any financing statement or similar instrument under the Uniform Commercial Code of the State of California or comparable law of any jurisdiction.

(f) "Note Purchase Agreement" shall mean the Note Purchase and Line of Credit Agreement, dated May 30, 2002, as amended, modified or, supplemented from time to time, entered into by and between Company and Holder.

(g) "Obligations" shall mean and include all loans, advances, debts, liabilities and obligations, howsoever arising, owed by Company to Holder of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), now existing or hereafter arising under or pursuant to the terms of this Note and the Note Purchase Agreement, including all interest, fees, charges, expenses, attorneys' fees and costs and accountants' fees and costs chargeable to and payable by Company hereunder and thereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U.S.C. Section 101 et seq), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding.

(h) "Person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

(i) "Senior Indebtedness" shall mean the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of Company to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which sometimes engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, whether or not secured, and (ii) any such

indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

(j) "SVB Agreement" shall mean the Loan and Security Agreement dated as of September 25, 2003, entered into by and between Holder and Silicon Valley Bank.

2. **Advances**. Company may request and Holder shall make an Advance as provided in the Note Purchase Agreement. In no event will Holder be obligated to make any Advance (i) if an Event of Default has occurred and is continuing, and/or (ii) after March 31, 2005 and/or (ii) to the extent the aggregate principal amount of all outstanding Advances would exceed the Maximum Principal Amount.

3. **Interest**.

(a) General. Interest shall accrue on the outstanding principal amount of this Note at an annual rate of seven percent simple interest, until the outstanding principal amount of this Note shall be paid in full.

(b) Guarantees. Advances constituting guarantees made pursuant to Section 2(a)(iv) of the Note Purchase Agreement shall not bear interest (but shall be considered part of the aggregate principal amount hereof for all other purposes) with respect to a particular guarantee for so long as such guarantee remains undrawn and Holder is not required to make any payment or otherwise advance funds with respect thereto. At such time as Holder is required to make any payment or other advance of funds with respect such guaranty, the entire amount paid or advanced by Holder shall bear interest as provided in Section 3(a), above.

4. **Payment**. From the Effective Date through May 1, 2004, interest will accrue on this Note as provided in Section 3 hereof. Beginning on June 1, 2004 and on the first business day of each month thereafter through May 1, 2007, Company will make payments to Holder of accrued interest on the outstanding aggregate principal amount of this Note (subject to Section 3(b)) for the preceding month, based on a month of thirty-days and a year of twelve thirty-day months. Thereafter, the outstanding principal balance under this Note plus accrued and unpaid interest thereon (subject to Section 3(b)) shall be fully amortized and payable in sixty (60) consecutive equal monthly payments. Each such principal and interest payment shall be payable on the first business day of each month commencing June 2007 with the last payment to be made on the first business day of May 2012.

5. **Prepayment**.

(a) General. Upon ten (10) days prior written notice to Holder, Company may prepay this Note in whole or in part without penalty or premium; provided, however, that Company may not make partial prepayments more frequently than once in any given calendar quarter. Any prepayment shall include the interest accumulated since the last payment under the Note on the principal being prepaid. Amounts prepaid may not be reborrowed except as provided in the Note Purchase Agreement.

(b) Optional Prepayment Upon an Equity Financing. If after the Effective Date Company raises in an equity financing gross proceeds in excess of Ten Million Dollars ($ 10,000,000) (excluding therefrom proceeds attributable to the sale of equity to Holder or any of its successors, assigns or Affiliates), then, upon the election of Holder made within ten (10) days of notice by Company to Holder of the closing of such financing, such amount of the outstanding principal balance of this Note as may be determined in the sole discretion of Holder, but not to exceed fifty percent (50%) of the net proceeds received by Company from such equity financing, shall be prepaid within five (5) days after receipt by Company of Holder's election. As used in this Section 5(b) "net proceeds" means the proceeds received by Company after deducting the fees and costs incurred by Company and paid or payable to investment banking, legal, and accounting professionals in connection with the equity financing.

6. **Events of Default**. The occurrence of any of the following shall constitute an "Event of Default" under this Note:

(a) Failure to Pay. Company shall fail to pay when due any principal or interest payment and such payment shall not have been made within five (5) days thereafter;

(b) Other Notes. A default or event of default shall occur and be continuing under any other Company Note (as defined in the Note Purchase Agreement);

(c) Voluntary Bankruptcy or Insolvency Proceedings. Company or any of its Subsidiaries shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature, (iii) make a general assignment for the benefit of its or any of its creditors, (iv) be dissolved or liquidated, (v) become insolvent (as such term may be defined or interpreted under any applicable statute), (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it, or (vii) take any action for the purpose of effecting any of the foregoing;

(d) Involuntary Bankruptcy or Insolvency Proceedings. Proceedings for the appointment of a receiver, trustee, liquidator or custodian of Company or any of its Subsidiaries or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to Company or any of its Subsidiaries or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within thirty (30) days of commencement;

(e) SVB Agreement Covenant Default. Company causes Holder to default on its SVB Agreement due to violating a covenant in Section 7 of the SVB Agreement; or

(f) Acquisition. If (i) Company merges with or into or consolidates with another Person in which Company is not the surviving entity (other than a merger effectuated solely for the

purpose of changing Company's jurisdiction of formation), (ii) Company sells, exclusively licenses or leases all or substantially all of Company's assets and properties, or (iii) any other form of corporate reorganization occurs in which the shareholders of Company immediately prior to such corporate reorganization do not own a majority of the outstanding shares of the surviving corporation by virtue of their shares in Company.

7. **Rights of Holder upon Default**. Upon the occurrence or existence of any Event of Default other than described in Section 6(c) or Section 6(d), and at any time thereafter during the continuance of such Event of Default, Holder may by written notice to Company, declare all outstanding Obligations payable by Company hereunder to be immediately due. Upon the occurrence or existence of any Event of Default described in Section 6(c) or Section 6(d), immediately and without notice, all outstanding Obligations payable by Company hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Holder may exercise any other right power or remedy granted to it by this Note or otherwise permitted to it by law, either by suit in equity or by action at law, or both.

8. **No Subordination**. Except for Company's obligations for the Senior Indebtedness (as specifically defined in this Note), to which the indebtedness evidenced by this Note is expressly subordinated, the repayment obligations of Company set forth in this Note and the indebtedness evidenced hereby shall be senior in right of payment to, and shall not subordinate to or be subject to the prior payment of interest, principal or otherwise (whether in cash or cash equivalents), or to the maturity of, any existing or future indebtedness of Company. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of Company's Senior Indebtedness.

(a) Insolvency Proceedings. If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of Company, (i) no amount shall be paid by Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with Company by or on behalf of Holder of this Note which shall assert any right to receive any payments in respect of the principal of and interest on this Note except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding.

(b) Default on Senior Indebtedness. If there shall occur an event of default which has been declared in writing with respect to any Senior Indebtedness, as defined therein, or in the instrument under which it is outstanding, permitting the holder to accelerate the maturity thereof and Holder shall have received written notice thereof from the holder of such Senior Indebtedness, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note, unless within one hundred eighty (180) days after the happening of such event of default, the' maturity of such Senior Indebtedness shall not have been accelerated. Not more than one notice may be given to Holder pursuant to the terms of this Section 8(b) during any 360-day period.

(c) Further Assurances. By acceptance of this Note, Holder agrees to execute and deliver customary forms of subordination agreement requested from time to time by holders of Senior Indebtedness, and as a condition to Holder's rights hereunder, Company may require that Holder execute such forms of subordination agreement; provided that such forms shall not impose on Holder terms less favorable than those provided herein.

(d) Other Indebtedness. No future indebtedness shall be senior in any respect to the indebtedness represented by this Note without the consent of Holder. Also, Company shall not enter into any debt financing representing obligations or potential obligations in excess of five hundred thousand ($500,000) without the prior written consent of Holder. Exhibit A, to this Note lists all Company debt that is senior to this Note as of the Effective Date and the date hereof.

(e) Subrogation. Subject to the payment in full of all Senior Indebtedness, Holder shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 8) to receive payments and distributions of assets of Company applicable to the Senior Indebtedness. No such payments or, distributions applicable to the Senior Indebtedness shall, as between Company and its creditors, other than the holders of Senior Indebtedness and Holder, be deemed to be a payment by Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which Holder would be entitled except for the provisions of this Section 8 shall, as between Company and its creditors, other than the holders of Senior Indebtedness and Holder, be deemed to be a payment by Company to or on account of the Senior Indebtedness.

(f) No Impairment. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 8 to receive cash, securities or other properties otherwise payable or deliverable to Holder, nothing contained in this Section 8 shall impair, as between Company and Holder, the obligation of Company, subject to the terms and conditions hereof, to pay to Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent Holder, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(g) Lien Subordination. Any Lien of Holder, whether now or hereafter existing in connection with the amounts due under this Note, on any assets or property of Company or any proceeds or revenues therefrom which Holder may have at any time as security for any amounts due and obligations under this Note shall be subordinate to all Liens now or hereafter granted to a holder of Senior Indebtedness by Company or by law, notwithstanding the date, order or method of attachment or perfection of any such Lien or the provisions of any applicable law.

(h) Reliance of Holders of Senior Indebtedness. Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness

evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

9. **Successors and Assigns**. Subject to the restrictions on transfer described in Sections 11 and 12 below, the rights and obligations of Company and Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. **Waiver and Amendment**. Any provision of this Note may be amended, waived or modified upon the written consent of Company and Holder.

11. **Transfer of this Note**. This Note may be transferred to an Affiliate of Holder. With respect to any other offer, sale or other disposition of this Note, Holder will give written notice to Company prior thereto, describing briefly the manner thereof, together with a written opinion of Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration or qualification (under any federal or state law then in effect). Upon receiving such written notice and a reasonably satisfactory opinion of counsel, if so requested, Company, as promptly as practicable, shall notify Holder that Holder may sell or otherwise dispose of this Note, all in accordance with the terms of the notice delivered to Company. If a determination has been made pursuant to this Section 12 that the opinion of counsel for Holder is not reasonably satisfactory to Company, Company shall so notify Holder promptly after such determination has been made. Upon transfer this Note shall retain the legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act of 1933, as amended (the "Act"), unless in the opinion of counsel for Company such legend is not required in order to ensure compliance with the Act. Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing, transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of Company. Prior to presentation of this Note for registration of transfer, Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and Company shall not be affected by notice to the contrary.

12. **Assignment by Company**. Neither this Note nor any of the rights, interests or obligations hereunder may be assigned, by operation of law or otherwise, in whole or in part, by Company without the prior written consent of Holder.

13. **Notices**. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or mailed by registered or certified mail, postage prepaid, or by recognized overnight courier or personal delivery at the respective addresses of the parties as set forth on the register maintained by Company. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when received.

14. **Pari Passu Notes**. Holder acknowledges and agrees that the payment of all or any portion of the outstanding principal amount of this Note and all interest hereon shall be pari passu in right of payment and in all other respects to (i) all other Company Notes (as defined in the Note

Purchase Agreement) issued pursuant to the Note Purchase Agreement and (ii) that promissory note issued by Company to Holder dated February 11, 2003 in the principal amount of $2,500,000.

15. **Payment**. Payment shall be made in lawful currency of the United States.

16. **Expenses; Waivers**. If action is instituted to collect this Note, Company promises to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred in connection with such action. Except as otherwise provided herein, Company hereby waives notice of default, presentment or demnd for payment, protest or notice of nonpayment or dishonor and all other notices or demands relative to this instrument.

17. **Governing Law**. This Note and all actions arising out of or in connection with this Note shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the undersigned have caused this Note to be issued as of the date first written above.

COMPANY:

SUNPOWER CORPORATION

By: /s/ Jay Peir
Title: Chief Financial Officer

AGREED AND ACCEPTED:

HOLDER:

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ Neil H. Weiss
Title: Vice President, Treasurer

SCHEDULE 1

To Line of Credit Note

DATE ADVANCE FUNDED	PRINCIPAL AMOUNT OF ADVANCE	COMPANY ACKNOWLEDGMENT	HOLDER ACKNOWLEDGMENT
03/03/03	530,862.00		
04/01/03	600,000.00		
04/23/03	860,000.00		
06/10/03	1,500,000.00		
07/09/03	1,100,000.00		
08/07/03	6,300,000.00		
09/10/03	4,600,000.00		
10/22/03	7,600,000.00		
1/26/04	5,500,000.00		

EXHIBIT A

SUNPOWER CORPORATION - EXISTING SENIOR INDEBTEDNESS

None.

EXHIBIT B

Warrant

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES AND ANY SECURITIES OR SHARES ISSUED HEREUNDER MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SECURITIES AND RESTRICTING THEIR TRANSFER OR SALE MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD HEREOF TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICES.

No. WC-_ 4,285,715 shares

WARRANT TO PURCHASE COMMON STOCK
OF
SUNPOWER CORPORATION

This certifies that, for value received, to wit the purchase of an unsecured promissory note dated _____, 2003 (the "Note") of SUNPOWER CORPORATION, a California corporation (the "Company"), CYPRESS SEMICONDUCTOR CORPORATION, a Delaware corporation ("Holder") is entitled, subject to the terms and conditions set forth below, to purchase from the Company, in whole or in part, up to 4,285,715 fully paid and nonassessable shares of Common Stock of the Company (the "Warrant Shares") at a purchase price per share of $0.07 (the "Exercise Price"). The rights, preferences, privileges and restrictions of the Warrant Shares are set forth in the Company's Amended and Restated Articles of Incorporation as in effect on the date hereof. The number, character and Exercise Price of such shares of Common Stock are subject to adjustment as provided below and all references to "Warrant Shares" and "Exercise Price" herein shall be deemed to include any such adjustment or series of adjustments. The term "Warrant" as used herein shall mean this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein.

1. Exercisability of Warrant. Subject to the terms and conditions set forth herein, this Warrant shall be exercisable during the term commencing on the date hereof and ending at 5:00 p.m., Pacific Standard Time, on _____, 2113 (the "Warrant Expiration Date"). At any time prior to the Warrant Expiration Date, this Warrant may be exercised in whole or in part, cumulatively as to that percentage of the Warrant Shares equal to the quotient obtained by dividing the largest unpaid principal balance outstanding under the Note on any date subsequent to the date set forth on page 8 below by $30,000,000; provided, however, that this Warrant shall become exercisable as to all of the remaining Warrant Shares (a) if prior to the first business day in March, 2005, the Company has not requested to borrow monies from Holder under the Note such that if Holder had acceded to such requests the largest unpaid principal balance under the Note from the date of the Note through the first business day in March, 2005, would be $30,000,000 or (b) if, prior to the first business day in March, 2005, either the Company conducts an initial public offering of its stock registered with the SEC or all or substantially all of the assets of the Company or more than eighty percent (80%) of the outstanding stock of the Company is sold, including via merger, to a person or entity other than Cypress or an affiliate of Cypress as the term affiliate is defined in SEC Rule 405.

2. Exercise of Warrant. This Warrant may be exercised by the Holder by the surrender of this Warrant to the Company, with the Notice of Exercise annexed hereto duly completed and executed on behalf of the Holder, at the office of the Company (or such other office or agency of the Company as it may designate by notice in writing to the Holder appearing on the books of the Company) during the Exercise Period, and:

A. If the Holder elects to exercise this Warrant in cash, the delivery of payment to the Company, for the account of the Company, by cash, wire transfer of immediately available funds to a bank account specified by the Company, or by certified or bank cashier's check, of the Exercise Price for the number of Warrant Shares specified in the Exercise Notice in lawful money of the United States of America; or

B. If the Holder elects to make a Net Issue Exercise without the payment of cash, the election to receive a number of shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled), as set forth on the Exercise Notice and calculated using the following formula:

$$X = \frac{(Y)(A - B)}{A}$$

Where:
- X - The number of shares of Common Stock to be issued to Holder.
- Y - The number of shares of Common Stock subject to this Warrant at the date of exercise or, if only a portion of the Warrant is being exercised, the portion of the Warrant being cancelled.
- A - The fair market value of one share of Common Stock.
- B - Exercise Price (as adjusted to the date of such calculations)

For purposes of this Section 2(B), if the Common Stock is traded in a public market, the fair market value of the Common Stock shall be the closing price of the Common Stock reported for the business day immediately before Holder delivers its Notice of Exercise to the Company. If the Common Stock is not traded in a public market, the Company's Board of Directors shall determine fair market value in their good faith judgment.

The Company agrees that such Warrant Shares shall be deemed to be issued to the Holder as the record holder of such Warrant Shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for the Warrant Shares as aforesaid. A stock certificate or certificates for the Warrant Shares specified in the Exercise Form shall be delivered to the Holder as promptly as practicable, and in any event within 10 days, thereafter. If this Warrant shall have been exercised only in part, the Company shall, at the time of delivery of the stock certificate or certificates, deliver to the Holder a new Warrant evidencing the rights to purchase the remaining Warrant Shares, which new Warrant shall in all other respects be identical with this Warrant. No adjustments shall be made on Warrant Shares issuable on the exercise of this Warrant for any cash dividends paid or payable to holders of record of Common Stock prior to the date as of which the Holder shall be deemed to be the record holder of such Warrant Shares.

3. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at its expense shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor and amount.

4. Rights of Warrant Holder. Subject to Sections 7 and 9 of this Warrant, the Holder shall not be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company that may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value, or change of stock to no par value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Warrant shall have been exercised as provided herein.

5. Transfer of Warrant.

A. Warrant Register. The Company will maintain a register (the "Warrant Register") containing the name and address of the Holder. The Holder of this Warrant may change its address as shown on the Warrant Register by written notice to the Company requesting such change. Any notice or written communication required or permitted to be given to the Holder may be delivered or given by mail to such Holder as shown on the Warrant Register and at the address shown on the Warrant Register. Until this Warrant is transferred on the Warrant Register of the Company, the Company may treat the Holder as shown on the Warrant Register as the absolute owner of this Warrant for all purposes, notwithstanding any notice to the contrary.

B. Warrant Agent. The Company may, by written notice to the Holder, appoint an agent for the purpose of maintaining the Warrant Register referred to in Section 5(A) above, issuing the Warrant Shares or other securities then issuable upon the exercise of this Warrant, exchanging this Warrant, replacing this Warrant, or any or all of the foregoing. Thereafter, any such registration, issuance, exchange, or replacement, as the case may be, shall be made at the office of such agent.

C. Transferability and Nonnegotiability of Warrant. This Warrant may be transferred to a wholly owned subsidiary of Holder, and, with the prior written consent of the Company, which may be granted or withheld in the sole discretion of the Company, to other entities or persons. This Warrant may not be transferred or assigned without compliance with all applicable federal and state securities laws by the transferor and the transferee (including the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if such are requested by the Company). However, no investment representation letter

or opinion of counsel shall be required for any transfer of this Warrant or any shares of Common Stock issued upon exercise hereof or conversion thereof in compliance with Rule 144 or Rule 144A of the Securities Act of 1933, as amended (the "Securities Act"). Subject to the provisions of this Warrant with respect to compliance with the Securities Act, title to this Warrant may be transferred by endorsement (by the Holder executing the Assignment Form annexed hereto) and delivery in the same manner as a negotiable instrument transferable by endorsement and delivery.

D. Exchange of Warrant Upon a Transfer. On surrender of this Warrant for exchange, properly endorsed on the Assignment Form and subject to the provisions of this Warrant with respect to compliance with the Securities Act and with the limitations on assignments and transfers as contained in this Section 5, the Company at its expense shall issue to or on the order of the Holder a new warrant or warrants of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, for the number of Warrant Shares issuable upon exercise hereof.

E. Compliance with Securities Laws.

i. The Holder of this Warrant, by acceptance hereof, represents that it is an "accredited investor" within the meaning of Rule 501 under the Securities Act, as presently in effect.

ii. The Holder acknowledges that this Warrant and the shares of Common Stock to be issued upon exercise thereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any shares of Common Stock to be issued upon exercise thereof except under circumstances that will not result in a violation of the Securities Act or any applicable state securities laws. Upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of Common Stock so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment, and not with a view toward distribution or resale.

iii. This Warrant and all shares of Common Stock issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form (in addition to any legend required by state securities laws):

> THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES AND ANY SECURITIES OR SHARES ISSUED HEREUNDER MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SECURITIES AND RESTRICTING THEIR TRANSFER OR SALE MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD HEREOF TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICES.

The Company agrees to remove promptly, upon the request of the holder of this Warrant and Securities issuable upon exercise of the Warrant, the legend set forth in Section 5(E)(iii) above from the documents/certificates for such securities upon full compliance with this Agreement and Rules 144 and 145.

6. Reservation of Stock. The Company represents, warrants and covenants that:

A. The Company has reserved from its authorized and unissued shares of Common Stock (or other shares issuable upon exercise of the Warrant) a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of this Warrant.

B. Upon issuance by the Company of the Warrant Shares pursuant to exercise of this Warrant as provided herein and receipt by the Company of the Exercise Price, the Warrant Shares so purchased and issued shall be fully paid, non-assessable and free from all taxes, liens and charges in respect of the issue thereof (provided that the Holder shall bear any taxes in respect of any contemporaneously occurring transfer thereof effected at the request of the Holder).

C. This Warrant has been duly authorized and executed by the Company, and is a valid and binding obligation of the Company enforceable in accordance with its terms. The Company will not amend the rights, preferences, privileges or restrictions of the Common Stock without the affirmative consent of the Holder.

7. Notices.

A. Whenever the Exercise Price or number of shares purchasable hereunder shall be adjusted pursuant to Section 9 hereof, the Company shall issue a certificate signed by its Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first-class mail, postage prepaid) to the Holder of this Warrant.

B. In case:

i. the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or other distribution, or any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right;

ii. of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation, or any conveyance of all or substantially all of the assets of the Company to another corporation;

iii. of any voluntary dissolution, liquidation or winding-up of the Company;

iv. of the filing of the Company's first registration statement with the U.S. Securities and Exchange Commission (the "SEC");

then, and in each such case, the Company will mail or cause to be mailed to the Holder or Holders a notice specifying, as the case may be, (A) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, (B) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation, winding-up, redemption or conversion is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up, or (C) the anticipated date on which the Company expects its first registration statement with the SEC to become effective. Such notice shall be mailed at least fifteen (15) days prior to the date therein specified.

C. All such notices, advices and communications shall be deemed to have been received (i) in the case of personal delivery, on the date of such delivery and (ii) in the case of mailing, on the third business day following the date of such mailing if sent to a U.S. address and on the tenth (10th) business day following the date of such mailing if sent to an address outside the U.S.

8. Amendments. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the Company or the Holder of the Warrant against which enforcement of such change, waiver, discharge or termination is sought.

9. Adjustments. The Exercise Price and the number of Warrant Shares purchasable hereunder are subject to adjustment from time to time as follows:

A. Reclassification, etc. If the Company, at any time while this Warrant remains outstanding and unexpired by reclassification of securities or otherwise, shall change the Common Stock into the same or a different number of securities of any other class or classes, the Warrant shall thereafter be similarly changed, subject to further adjustment as provided in this Section 9.

B. Split, Subdivision or Combination of Shares. If the Company at any time while this Warrant remains outstanding and unexpired shall split, subdivide or combine the Common Stock into a different number of securities of the same class, then (i) in the case of a split or subdivision, the Exercise Price shall be proportionately decreased and the securities issuable upon exercise of this Warrant shall be proportionately increased, and (ii) in the case of a combination, the Exercise Price shall be proportionately increased and the securities issuable upon exercise of this Warrant shall be proportionately decreased.

C. Adjustments for Dividends in Stock or Other Securities or Property. If while this Warrant remains outstanding and unexpired the holders of the securities as to which purchase rights under this Warrant exist at the time shall have received, or, on or after the record date fixed for the determination of eligible shareholders, shall have become entitled to receive,

without payment therefor, other or additional stock or other securities or property (other than cash) of the Company by way of dividend, then and in each case, this Warrant shall represent the right to acquire, in addition to the number of shares of the security receivable upon exercise of this Warrant, and without payment of any additional consideration therefor, the amount of such other or additional stock or other securities or property (other than cash) of the Company that such holder would hold on the date of such exercise had it been the holder of record of the security receivable upon exercise of this Warrant on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock available by it as aforesaid during such period, giving effect to all adjustments called for during such period by the provisions of this Section 9.

D. Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section 9, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of this Warrant a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request, at any time, of any such Holder, furnish or cause to be furnished to such Holder a like certificate setting forth: (i) such adjustments and readjustments; (ii) the Exercise Price at the time in effect; and (iii) the number of shares and the amount, if any, of other property that at the time would be received upon the exercise of the Warrant.

E. No Impairment. The Company will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 9 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holders of this Warrant against impairment.

10. Miscellaneous.

A. This Warrant shall be governed by the laws of the State of California as applied to agreements entered into in the State of California by and among residents of the State of California, without regard to the principles of conflict of laws thereof.

B. In the event of a dispute with regard to the interpretation of this Warrant, the prevailing party may collect the cost of attorney’s fees, litigation expenses or such other expenses as may be incurred in the enforcement of the prevailing party’s rights hereunder.

C. The holder hereof agrees to be bound by such market standoff provisions (i.e., restrictions on stock resale provisions following the Company’s sale of securities in the public market) as contained in the Company’s Investors Rights Agreement dated May 30, 2002.

D. This Warrant shall be exercisable as provided for herein, except that in the event that the Warrant Expiration Date shall fall on a Saturday, Sunday or United States federally recognized holiday, the Warrant Expiration Date shall be extended to 5:00 p.m. Pacific time on the business day following such Saturday, Sunday or recognized holiday.

E. This Warrant and any document or agreements executed by the parties pursuant to this Warrant constitute the full and complete understanding of the parties hereto with respect to

the subject matter hereof and supersede all previous agreements or understandings, written or oral, between the parties with respect thereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, SUNPOWER CORPORATION has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: _____, 2003

COMPANY:

SUNPOWER CORPORATION

By: _____

Title: _____

NOTICE OF EXERCISE

To: SUNPOWER CORPORATION

The undersigned hereby elects to purchase _____ shares of Common Stock of SUNPOWER CORPORATION pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price for such shares in full.

In exercising this Warrant, the undersigned hereby confirms and acknowledges that the shares of Common Stock to be issued upon exercise hereof are being acquired solely for the account of the undersigned and not as a nominee for any other party, or for investment, and that the undersigned will not offer, sell or otherwise dispose of any such shares of Common Stock except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any applicable state securities laws.

Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

_____
(Name)

_____
(Name)

_____ _____
(Date) (Signature)

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under the within Warrant.

Name of Assignee Address

and does hereby irrevocably constitute and appoint _____ to make such transfer on the books of SUNPOWER CORPORATION, maintained for the purpose, with full power of substitution in the premises.

The undersigned also represents that, by assignment hereof, the Assignee acknowledges that this Warrant and the shares of stock to be issued upon exercise hereof are being acquired for investment and that the Assignee will not offer, sell or otherwise dispose of this Warrant or any shares of stock to be issued upon exercise hereof except under circumstances which will not result in a violation of the Securities Act of 1933, as amended, or any applicable state securities laws. Further, the Assignee has acknowledged that upon exercise of this Warrant, the Assignee shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of stock so purchased are being acquired for investment and not with a view toward distribution or resale.

Dated: _____

_____

WACKER POLYSILICON

SUPPLY AGREEMENT

between Wacker-Chemie GmbH
Hanns-Seidel-Platz 4
81737 Munich
Federal Republic of Germany

- hereinafter referred to as “WACKER” –

and SunPower Corporation
430 Indio Way
Sunnyvale, CA 94085
U.S.A.

- 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:

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 and not subject to any change until 31.12.2017.

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 ex Works Burghausen (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 will 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**.

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION.

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.

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION.

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 01.01.2006 and will endure for a defined period of 12 years.

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 GmbH WACKER POLYSILICON		SunPower Corp.
Date: 23.08.05		Date: 8-23-05
/s/ E. Schindlbeck	/s/ R. Huber	/s/ PM Pai
Ewald Schindlbeck President	Reimund Huber Director Marketing & Sales	PM PAI COO

Appendix A

Products:

Specification PCL-NCS (A)

Annual quantities / Prices:

Calendar year	Quantity	Price (Euro/kg)(*1)
2008	*** kg	***
2009	*** kg	***
2010	*** kg	***
2011	*** kg	***
2012	*** kg	***
2013	*** kg	***
2014	*** kg	***
2015	*** kg	***
2016	*** kg	***
2017	*** kg	***

Prepayment schedule

The BUYER will pay the below stated amounts to the account of WACKER on the specified date.

01.01.2006 EURO *** (*** and ***)

(*1) WACKER will repay the above prepayment with each shipment by *** the agreed price of *** Euro/kg by *** Euro/kg for the above agreed annual quantity. WACKER's invoice will state the agreed price of Euro/kg *** on the invoice, but will make note, that the buyer has only to pay Euro/kg ***. In case the BUYER does fail to take the full amount of the annual quantity in one respective calendar year the *** does not have to *** the respective amount.

*** CONFIDENTIAL MATERIAL REDACTED AND SEPARATELY FILED WITH THE COMMISSION.

Appendix B

General Conditions of sale

1. Generally:

All our supplies and services as well as ail 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 change 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 12%, but at least 8% 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 borned 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, operation 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 of 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 removing 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 If 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 fulfillment of any form requirements necessary for such purpose.

11. Place of Fulfillment, 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 Unified 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

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Registration Statement on Form S-1 of our reports dated August 25, 2005 relating to the consolidated financial statements of SunPower Corporation, which appear in such Registration Statement. We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
San Jose, California
October 10, 2005

Exhibit 24.2

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas H. Werner and Emmanuel T. Hernandez, and each of them, his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and his or her name, place and stead, in any and all capacities, to sign any and all amendments, including post-effective amendments, to the Registration Statement on Form S-1 of SunPower Corporation (Registration No. 333-127854) (the "Registration Statement"), and any registration statement relating to the offering covered by such Registration Statement and filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

This Power of Attorney has been signed below by the following persons in the capacities and on the dates indicated.

Dated: October 6, 2005	/s/ W. Steve Albrecht W. Steve Albrecht
Dated: October 7, 2005	/s/ Betsy S. Atkins Betsy S. Atkins
Dated: October 7, 2005	/s/ Patrick Wood Patrick Wood

PILLSBURY WINTHROP SHAW PITTMAN LLP
2475 HANOVER STREET
PALO ALTO, CALIFORNIA 94304

October 11, 2005

VIA ELECTRONIC TRANSMISSION

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0406
Mail Stop 6010

Attn: Ms. Mary Beth Breslin

Re: SunPower Corporation - Registration Statement on Form S-1
(File No. 333-127854)

Ladies and Gentlemen:

On behalf of SunPower Corporation (the "Registrant"), we enclose for filing under the Securities Act of 1933, as amended, (the "Securities Act") Amendment No. 1 to the above-referenced registration statement (the "Registration Statement") together with exhibits thereto.

Amendment No. 1 to the Registration Statement contains revisions that have been made in response to comments received from the staff (the "Staff") of the Securities and Exchange Commission (the "Commission") in their letter dated September 21, 2005. Set forth below are the Registrant's responses to the Staff's comments. The number of the responses and headings set forth below correspond to the numbered comments and headings on the letter from the Staff. Copies of the Staff's letter and marked copies of Amendment No. 1 to the Registration Statement are being provided supplementally with copies of this letter for the convenience of the Staff.

General

1. *Please confirm that any preliminary prospectus you circulate will include all non-Rule 430A information. This includes the price range and related information based on a bona fide estimate of the public offering within that range. Also note that we may have additional comments after you include this information.*

Response: The Registrant confirms that any preliminary prospectus to be circulated will include all non-Rule 430A information, including the price range and related information, based on a bona fide estimate of the public offering price within that range.

Graphics

2. *Please clarify whether you are currently selling the solar panels shown in the graphics on the inside front cover page, or whether those panels will not be shipped until 2006 as disclosed on page 66. Also, please explain to us how you selected the conventional 150 watt solar panel to compare with your company's product.*

Response: The Registrant supplementally notes that new images of the Registrant's solar panels, the SPR-200, and a conventional 165 watt solar panel have been included in Amendment No. 1 to the Registration Statement. The Registrant confirms that the products displayed in these images are currently being sold to customers. The Registrant's disclosure on page 70 under the subheading "Solar Panels" states that the SPR-200, SPR-210 and SPR-90 are current products, while the SPR-215 and SPR-220 are planned to ship in 2006 and SPR-100 is planned to ship by the end of 2005. The Registrant supplementally notes it selected to compare the SPR-200 to a conventional 165 watt solar panel because this 165 watt solar panel is neither at the top end nor the low end of the efficiency spectrum of competing products and is an actual product sold by the largest solar panel manufacturer.

3. *Please revise the artwork so that it places greater emphasis on the products that SunPower actually manufactures and sells, and less emphasis on the application in which those products are used, such as the residential solar system shown in the top half of the inside front cover page and the power plant shown in the top half of your inside back cover page. Although we will not object if the artwork includes references to applications in which your products are used, the artwork should focus primarily upon your products rather than on those applications.*

Response: As discussed with the Staff, the artwork has been revised by moving the picture of the solar cells and solar panels, which the Registrant manufactures, to the top of their respective pages and the applications of the products to the bottom of the respective pages. In addition, language has been added to clearly explain that the rooftop and arrays shown in the application images are not the Registrant's products but that the Registrant's solar technology is in use in these applications.

Cover Page

4. *Please revise to briefly describe the extent to which you will be controlled by Cypress following the offering. Quantify the number of shares that Cypress will own and the percentage of total votes that Cypress will control.*

Response: The requested disclosure has been added to the cover page and the sections entitled "The Offering," "Risk Factors," and "Description of Capital Stock." The Registrant notes that the percentage of voting control that Cypress will have following the offering will be included in a subsequent amendment after the size of the offering has been determined.

Summary, page 1

Our Company, page 1

5. *The disclosure in the summary should be a balanced presentation of your business. Revise to indicate your historical losses, your accumulated deficit, and the fact that you have only been selling solar cells since late 2004. Also expand to balance the disclosure of your strengths with a realistic picture of the challenges you face, many of which are identified in your risk factors section.*

Response: The requested disclosure has been added to the section entitled "Prospectus Summary."

6. *Please provide us independent, objective support for your statements regarding your leadership position and the "superior" performance of your products, including the ability of your solar cells to "generate up to 50% more power per unit" area than conventional solar cells and your "efficient use of silicon." Also revise the filing so that the basis for each statement is clear from the context of your disclosure.*

Response: The Registrant has revised the sections entitled "Prospectus Summary" and "Business" in response to the Staff's comment.

Efficiency is the measurement of a solar cell's ability to generate power per unit area. The Registrant supplementally notes that, based on data provided by Navigant Consulting's Photovoltaic Service Program, a third-party industry consulting firm, the average efficiency for a multicrystalline solar cell efficiency is 14.1%. A copy of Navigant's documentation of average conventional solar cell efficiencies is being provided supplementally to the Staff. The Registrant's solar cells have been tested by the National Renewable Energy Laboratory as achieving a 21.5% efficiency. A copy of the data sheet regarding the test from the National Renewable Energy Laboratory is being provided supplementally to the Staff. Using that statistic, the Registrant's solar cells are 50.3% more efficient than the average multicrystalline solar cell efficiency reported by Navigant. Multicrystalline solar cells make up a majority of the conventional solar cells sold today.

The Registrant also supplementally notes that, at the 2nd Solar Silicon Conference held in April 2005, Hubert Aulich of PV Crystalox Solar AG estimated that the solar industry's rate of silicon consumption is 13 grams per watt at the high end, and Michael Rogol of CLSA Asia-Pacific Markets estimated that the solar industry's rate of silicon consumption is 11.5 grams per watt at the low end. Copies of the presentation slides are being provided supplementally to the Staff. The Registrant has calculated its utilization of polysilicon to be 9.2 grams per watt.

Market Opportunity, page 1

7. *With respect to the statistics cited here and throughout your prospectus, please tell please tell us whether the industry sources consented to your use of their data and*

whether any reports were prepared specifically for your use. Also tell us whether you are aware of or sought any contradictory data.

Response: The Registrant supplementally notes that the industry sources cited on page 1 and throughout the prospectus have consented to the use of their data, except for industry sources whose data is in the public domain and consent is not required. The Registrant notes that none of the reports were prepared specifically for its use. The Registrant supplementally notes that it is not aware of, nor has it sought, any significantly contradictory data.

8. *In the last paragraph on page 1 you describe the benefits of solar power systems as an energy source. Please balance the description of the benefits of solar power with equally prominent disclosure of its shortcomings.*

Response: The requested disclosure has been added to the section entitled "Prospectus Summary."

Our Strengths, page 2

9. *In the third bullet point, where you describe efficient silicon utilization, please quantify your efficiency levels and compare them to the efficiency levels maintained by conventional silicon cells. Provide independent objective support for your quantification.*

Response: The requested disclosure has been added to the section entitled "Prospectus Summary" and "Business." The Registrant respectfully refers the Staff to its response to the Staff's comment no. 6 with respect to the support for such quantification.

Our Strategy, page 2

10. *In the second bullet point and throughout the prospectus, please describe what it means to operate certain amount of megawatt per year production lines so that investors who may not be familiar with your industry may understand this term in context.*

Response: The requested disclosure has been added to the sections entitled "Prospectus Summary" and "Business."

Our Relationship with Cypress Semiconductor Corporation, page 3

11. *Please expand your disclosure of your various agreements with Cypress to discuss the nature of the financial terms of such agreements so that investors can understand the impact of such agreements on your operations. For example, on page 88 you describe such terms to be at cost or alternatively at the rate charged to other Cypress departments.*

Response: The requested disclosure has been added to the sections entitled "Prospectus Summary" and "Related Party Transactions." The Registrant supplementally notes that the master transition services agreement provides that Cypress will provide the Registrant

with financial and corporate accounting, information technology, human resources and legal services, and the Registrant will reimburse Cypress for its direct and indirect costs associated with performing these services for the Registrant or pay Cypress for these services at the rate negotiated with Cypress. The "cost to Cypress" for providing these services to the Registrant will include, but is not limited to, a proportional allocation of the incurrence of the following, which will be based on the Registrant's level of usage: (1) salaries, wages, fees and payroll charges for the personnel providing such services to the Registrant, (2) costs of plant, office space, materials and supplies used for providing such services to the Registrant, (3) insurance costs associated with the provision of these services to the Registrant, (4) the cost of equipment, software and hardware used to provide the Registrant with these services, (5) the depreciation of any capital equipment assets used to provide the Registrant with these services, (6) legal, accounting and other professional fees that Cypress incurs in providing the Registrant with these services, (7) utilities, occupancy, supervisory, administrative, clerical and other similar overhead costs that Cypress incurs in providing the Registrant with these services and (8) any other direct or indirect expenses that Cypress incurs in providing the Registrant with these services. The Registrant shall have access to such transition services until the earlier of three years or a change of control of the Registrant.

The Registrant supplementally notes that the employee matters agreement will provide that, in exchange for Cypress providing the Registrant with access to Cypress' employee benefit and insurance plans and arrangements, the Registrant will reimburse Cypress for the Registrant's share of the cost of such plan benefits and arrangements as well as Cypress' cost to provide the Registrant with these services, in accordance with the cost formula described in the master transition services agreement. The Registrant shall be permitted to participate in Cypress' employee benefits and insurance plans until the earlier of three years or until such time as the law or such plans prohibits such participation, a change of control of the Registrant or Registrant's participation causes an adverse consequence to Cypress.

The Registrant supplementally notes that the lease agreement will provide that the Registrant lease its manufacturing facility in the Philippines from Cypress for a period of 15 years, the first 10 years of which shall be at a rate equal to the cost to Cypress for owning, operating, managing and maintaining the Philippines premises, which includes both the building and the land. The "cost to Cypress" for owning, operating, managing and maintaining the Philippines premises will include, but not limited to, the following: (1) expenses to manage, operate, service and maintain in the premises, including but not limited to, (a) the cost of repair and maintenance of the premises and (b) management fees related to cost of any installation or improvement required by applicable law, (2) salaries, wages, fees and payroll charges for administrative, accounting, operating, auditing, maintenance and management personnel responsible for the premises, (3) insurance costs associated with the premises, (4) license, permit and inspection fees, (5) the costs of non-capital furnishings and equipment located on the premises, (6) depreciation, (7) taxes, (8) amortized capital improvement costs and (9) any other direct or indirect expenses associated with the premises. After the first ten years of the lease or upon a change of control of the Registrant, the Registrant's lease rate will adjust to become the market rate, which will be determined in Cypress' sole discretion and will be

based on a market analysis of at least three comparable rental rates for unimproved manufacturing buildings in the area surrounding the Registrant's Philippines premises. The Registrant shall also have the right to purchase the building at any time during the term of the lease. If the Registrant exercises its purchase option prior to the earlier of the ten-year anniversary of the effective date for the lease or a change of control of the Registrant, then the purchase price shall be equal to Cypress' original purchase price, plus interest computed using a 30-day LIBOR starting on the date of purchase by Cypress until the sale to the Registrant. If the Registrant exercises its purchase option at any time following the earlier of the ten-year anniversary of the effective date for the lease or a change of control of the Registrant, the purchase price shall be equal to the market rate for similarly situated buildings, as reasonably determined by Cypress.

The Registrant supplementally notes the wafer manufacturing agreement will provide that the Registrant will receive pricing consistent with the then current Cypress transfer pricing. The transfer price is equal to the forecasted cost to Cypress to manufacture a particular product. Cypress manufactures each product using a process that requires multiple manufacturing steps. The cost of each manufacturing step for the process is equal to the estimated cost per step for the cost pool in which this step is performed. Cost pools represent major functional areas in the processing of wafers at the fab. The cost per step for a cost pool is equal to the forecasted expenses (e.g., labor, depreciation, materials and maintenance) for the cost pool divided by the planned number of steps in that cost pool. The transfer price is calculated as the sum of the step costs for the specific steps required to manufacture the product. The wafer manufacturing agreement is effective until the earlier of three years from the effective date of the agreement or upon a change of control of the Registrant.

The Registrant supplementally notes that the financial terms of the indemnification and insurance agreement will relate to the Registrant's mutual indemnification of Cypress for liabilities incurred by the other party in connection with matters of the other party's business that occurred prior to the separation date and indemnification for liabilities that arise from and relate solely to the other party's business or the other party's breach of any of the separation agreements. In addition, in connection with insurance coverage, the Registrant will be obligated to reimburse Cypress for all amounts necessary to exhaust or otherwise satisfy all applicable self-insured retentions, amounts for fronted policies, deductibles and retrospective premium adjustments and similar amounts not covered by insurance policies in connection with any of the Registrant's liabilities that Cypress incurs.

The Registrant supplementally notes that the master separation and investor rights agreements do not include financial terms other than the Registrant's obligation to indemnify Cypress and its affiliates and representatives for liabilities that arise in connection with the Registrant's registration or qualification of the Registrant's securities pursuant to the Registrant's registration obligations to Cypress in the investor rights agreement. In connection with any registration of the Registrant's common stock held by Cypress pursuant to the Registrant's registration obligations under the Investor Rights Agreement, the Registrant will be required to pay all registration expenses incurred in connection with such registrations (which include all registration, qualification, and filing

fees, printing expenses, escrow fees, fees and disbursements of counsel for the Registrant and one special counsel for Cypress, state securities law fees and expenses, and expenses of any regular or special audits incident to or required by any such registration).

The Registrant supplementally notes that the financial terms of the tax sharing agreement relate to the Registrant's tax obligation for payment of federal, state, local and foreign taxes and the Registrant's indemnification of Cypress for any tax liabilities that belong to the Registrant. The Registrant tax liability or benefits will be based on a pro forma calculation as if the Registrant were filing a separate income tax return in each jurisdiction, rather than on a combined or consolidated basis with Cypress. The Registrant has added clarifying disclosure in the section entitled "Related Party Transactions—Tax Sharing Agreement."

Use of proceeds, page 4

12. *We note that you intend to use the net proceeds from the offering for the expansion of your manufacturing capacity and for general corporate purposes. Here and on page 35, please revise to quantify the portion of the proceeds of the offering to be used for each purpose indicated. Refer to Item 504 of Regulation S-K.*

Response: The requested disclosure has been added to the sections entitled "The Offering" and "Use of Proceeds."

Risk Factors, page 9

As long as Cypress controls us…, page 26

13. *Please revise to quantify the percentage of voting control that Cypress will have following the offering.*

Response: The requested disclosure has been added to the cover page and the sections entitled "The Offering" and "Risk Factors" (in the factor entitled "As long as Cypress controls us…"). The Registrant notes that the percentage of voting control that Cypress will have following the offering will be included in a subsequent amendment after the size of the offering has been determined.

Our proposed agreements with Cypress…, page 28

14. *Please quantify the limited amount of shares you can sell after this offering before triggering your obligations to indemnify Cypress for tax liabilities and quantify the potential tax liabilities upon such a sale.*

Response: The Registrant supplementally notes that since the determination of the effect of Section 355(e) (in the event there is a spin-off of the Registrant by Cypress) on the ability of the Registrant to issue stock will depend on the precise facts and circumstances at that time, considered in the context of the Treasury Regulations in effect at the time, the Registrant is not able to further quantify the impact of Section 355(e) on the ability of the Registrant to issue its stock.

Use of Proceeds, page 35

15. Please revise to disclose gross proceeds to be paid to affiliates pursuant to the separation agreements or otherwise.

Response: The Registrant supplementally notes that none of the gross proceeds from the offering will be paid to affiliates pursuant to the separation agreements or otherwise, other than to the extent gross proceeds become working capital and are used to reimburse Cypress for the expenses described in the Registration Statement and the response to the Staff's comment no. 11 or the Registrant exercises its option to purchase its Philippines facility from Cypress. Disclosure has been added to the sections entitled "The Offering" and "Use of Proceeds" to clarify that approximately $10 million of the proceeds may be used to purchase the Philippines facility.

Management's Discussion and Analysis, Page 42

Overview, page 43

16. Here and elsewhere in your filing as appropriate, please expand your discussion of your financing activities with Cypress to explain how Cypress's Class A shares will be converted into Class B Shares. Also, explain how the minority equity interest was "retired" in the November 2004 merger.

Response: The requested disclosure has been added under the caption "Overview" in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and to the sections entitled "Selected Consolidated Financial Data," "Related Party Transactions" and "Part II, Item 15." The Registrant supplementally notes that on September 30, 2005, Cypress exchanged all of its outstanding shares of class A common stock for an equal number of shares of class B common stock pursuant to an exchange agreement by and between the Registrant and Cypress.

Six Months Ended June 30, 2004 and 2005, page 50

17. Where changes in financial statement amounts are attributable to several factors, each factor should be separately quantified and discussed to the extent practicable. As an example, we note your disclosure that cost of revenue increased in the six months ended June 30, 2005 due primarily to higher volumes of production and higher costs and volumes of raw materials, among other reasons. Please revise your results of operations and your discussion of liquidity and capital resources accordingly.

Response: The requested disclosure has been added to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." However, the Registrant notes that disclosure has not been added to the "Liquidity and Capital Resources" subsection as this information is currently subject to a pending Request for Confidential Treatment. The Registrant respectfully refers the Staff to its Request for Confidential Treatment of the agreements with Conergy and Solon contained in Exhibits Nos. 10.23 and 10.24, submitted by letter dated August 25, 2005

and to its Request for Confidential Treatment of the agreement with Wacker contained in Exhibit No. 10.22, submitted by letter, dated October 11, 2005, in which the Registrant has requested that certain terms of those agreements remain confidential, including pricing terms.

Total Revenue, page 50

18. *We see that your revenues increased 654% in the six months ended June 30, 2005, primarily due to strong demand for and commercial introduction of your solar cells. Given the material increase in revenues, please revise your disclosures to include an analysis of the underlying reasons and factors contributing to the increase, as required by SAB Topic 13.B. In addition, where possible quantify the reasons for changes in this and other financial statement line items.*

Response: The requested disclosure has been added to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

19. *We note from your disclosures on page 14 that you entered into material supply agreements with Conergy and Solon. Please revise Management's Discussion and Analysis to quantify and discuss any actual or expected impact of this agreement on your results of operations, liquidity and capital resources.*

Response: Disclosure has been added to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" to quantify the percentage of historical revenue attributable to Conergy and Solon. However, the Registrant notes that disclosure has not been added to the "Liquidity and Capital Resources" subsection as this information is currently subject to a pending Request for Confidential Treatment. The Registrant respectfully refers the Staff to its Request for Confidential Treatment of the agreements with Conergy and Solon contained in Exhibits Nos. 10.23 and 10.24, submitted by letter dated August 25, 2005 and to its Request for Confidential Treatment of the agreement with Wacker contained in Exhibit No. 10.22, submitted by letter, dated October 11, 2005, in which the Registrant has requested that certain terms of those agreements remain confidential, including pricing terms.

Year Ended December 31, 2003 and 2004, Page 5l

20. *We see you have presented the sum of the financial data for SunPower Corporation for the period from January 1, 2004 to November 8, 2004, your pre-merger period, and from November 9, 2004 to December 31, 2004, your post merger period and note you are including these combined amounts to improve the comparative analysis. Notwithstanding your current presentation, please also discuss the nature of and reason for any material trends, events and transactions that occurred within each of the referenced combined periods. For example, discuss why research and development expenses and selling, general and administrative expenses during the November 9, 2004 to December 31, 2004 period decreased significantly as a percentage of sales.*

Response: The requested disclosure has been added to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Business, page 59

Our Manufacturing, page 69

21. We note that you have entered into contracts for the supply of polysilicon. Please revise your disclosure to briefly describe the material terms of these agreements. Also file these agreements as exhibits to the registration statement, or tell us why they are not required to be filed. Refer to Item 601(b)(10)(ii)(B)) of Regulation S-K.

Response: The Registrant supplementally notes that it has two agreements with suppliers of polysilicon. One of these agreements, which was entered into on August 23, 2005, is being filed as Exhibit 10.22 with Amendment No. 1 to the Registration Statement, and the Registrant supplementally notes that it is submitting a Request for Confidential Treatment of certain portions of this agreement. The Registrant also supplementally notes that because the other agreement with a supplier is subject to confidentiality, the Registrant will disclose the terms of the agreement in a subsequent filing after working with the supplier to prepare a Request for Confidential Treatment of the agreement and file the redacted agreement with a subsequent amendment. Finally, the Registrant supplementally notes that it does not have material agreements with its other suppliers of polysilicon wafers and polysilicon ingots and has revised the disclosure on page 73 to clarify that the Registrant places all of its orders with its other suppliers of polysilicon wafers and polysilicon ingots on a purchase order basis.

Facilities, page 73

22. Please revise to indicate whether you expect to finalize the agreement in principle with Cypress extending the lease for your primary production facility in the Philippines prior to completion of the offering. Please also file the agreement as an exhibit to the registration statement.

Response: The Registrant supplementally notes the lease agreement has been finalized. The disclosure in the sections entitled "Business" and "Related Party Transactions" and elsewhere in the Registration Statement has been revised accordingly. The Registrant notes the lease agreement is being filed as Exhibit 10.19 to Amendment No. 1.

Management, Page 74

Board of Directors, page 75

23. You state you intend to have five or six directors, three of whom are independent. As you currently have five directors, please explain whether you intend to add new directors prior to the completion of this offering. Also tell us whether you view the directors who are employees of Cypress as independent, and if so, explain why.

Response: The Registrant notes that since the filing of the Registration Statement three directors have resigned and disclosure has been added regarding three new independent directors who have been appointed to the Board. The Registrant is currently in discussions with one additional director. The Registrant supplementally notes its intention to have at least five directors prior to the completion of this offering, at least three of whom would be independent under the rules of the Commission and The Nasdaq National Market. The Registrant supplementally notes that the Board has not considered the independence of T.J. Rodgers, the chief executive officer of Cypress, but intends to do so prior to the completion of the offering.

Related Party Transactions, page 82

24. *We note your disclosure that you retired 14.9 million shares of common stock in exchange for the issuance of 2.5 million shares of Cypress stock to former stockholders and Mr. Rodgers. Please revise to provide this disclosure on an individual basis for each participant in the transaction for whom disclosure pursuant to Item 404 of Regulation S-K is required. Please present the dollar value of this transaction and quantify the amount of each person's interest in the transaction.*

Response: The requested disclosure has been added to the section entitled "Related Party Transactions."

25. *Please explain how you determined members of the board of directors who approved the 2004 reorganization and the January 18, 2005 transactions were "non-Cypress."*

Response: The Registrant supplementally notes that at the time of the approval of the 2004 reorganization and the January 18, 2005 transaction, the Registrant's Board consisted of nine members, only three of whom were affiliated with Cypress and one of whom is a former officer of a subsidiary of Cypress. The members of the Board at that time were: T.J. Rodgers, the chairman of Cypress; Christopher Seams, the executive vice president of sales, marketing and manufacturing of Cypress; Emmanuel Hernandez, then the chief financial officer of Cypress; Thomas Werner, the chief executive officer of the Registrant and a former officer of a subsidiary of Cypress; Richard Swanson, a founder and the president and chief technology officer of the Registrant; Robert Lorenzini, a founder, former employee and then vice-chairman of the board of directors of the Registrant; Yasuo Masuda, the representative of a then significant corporate holder of the Registrant's preferred stock; Mark Wyckoff, the representative of a then significant holder of the Registrant's preferred stock; and Thomas Luten, the representative of a then holder of the Registrant's preferred stock and an affiliate of a significant holder of the debt and equity of the Registrant. Clarifying disclosure has been added to the section entitled "Related Party Transactions."

26. *Please disclose whether the March 2005 and July 2005 transactions were arms-length transactions. Describe who the members of the board of directors were at that time.*

Response: Disclosure has been added to the section entitled "Related Party Transactions" to describe the relationship of the directors who negotiated the March 2005 and July 2005 transactions with Cypress.

The Registrant supplementally notes that, at the time of the approval of the March 2005 and July 2005 transactions, the Registrant's board of directors consisted of: Messrs. Rodgers, Seams, Werner, Swanson and Don Mika, a senior business development director at Cypress. The March 2005 and July 2005 transactions involved an equity investment by Cypress of an aggregate of $142 million. The March transaction was negotiated on behalf of the Registrant by Messrs. Werner and Swanson and the July transaction was negotiated on behalf of the Registrant by Messrs. Werner, Swanson and Hernandez. Messrs. Werner, Swanson and Hernandez hold significant options to purchase the class A common stock of the Registrant, aligning their interests with that of the Registrant. In addition, the Registrant commissioned several third-party evaluations of the fair value of its common stock. The price per share of the July transaction equaled that of a Standard & Poors' evaluation. The March transaction was priced at the same price as the November 2004 acquisition and was slightly lower than the $2.15 per share price contained in the May Standard & Poors' evaluation. The Registrant also notes that while the transactions closed in March 2005 and July 2005, the consideration for the March transaction was the forgiveness of debt incurred over several months prior to March and half of the consideration for the July transaction was the forgiveness of debt incurred over several months prior to July. The Registrant believes that in no event would it have been able to achieve such a large investment on terms as favorable as those offered by Cypress from an unaffiliated third party. The Cypress investments ultimately were both purchases of common stock, the shares of which carry no liquidation preferences, interest payments or additional rights or covenants in favor of Cypress. The Registrant believes its financial profile (losses aggregating to approximately $13.6 million in the first six months of 2005, an accumulated deficit of approximately $56.3 million at June 30, 2005 and operating cash flow for the six months ended June 30, 2005 of $1.2 million) makes it unlikely that a commercial lender would enter into a financing arrangement similar or more favorable to that provided by Cypress. In addition, the Registrant believes that any terms offered by a venture capital investor would have been substantially more onerous and more dilutive that those terms offered by Cypress. The Registrant had urgent needs for funds and would have had to delay construction of its Philippines facility and lay off employees while it tried to arrange for debt or equity financing, both of which were avoided when Cypress agreed to make its loans and convert them into the Registrant's common stock.

Indemnification for Environmental Matters, page 87

27. Please briefly explain what facilities you have or had other than the Sunnyvale or Philippines facilities subject to this environmental indemnification. Please explain whether the liabilities assumed under the third bullet point are limited by their relation to your facilities.

Response: The Registrant supplementally notes that the Sunnyvale and Philippines facilities are the only facilities subject to environmental indemnification and those

liabilities are limited by the relation to those facilities. Disclosure has been added to pages 27 and 92 to clarify that the liabilities assumed under the third bullet point are limited to its Sunnyvale and Philippines facilities.

Tax Sharing Agreement, page 87

28. *It would appear that Cypress will receive benefits from including SunPower on its consolidated tax returns, but that SunPower's tax calculations for filing separately would not include such benefit under the terms of this Tax Sharing Agreement. Please disclose whether the treatment under this agreement is beneficial to SunPower in this respect.*

Response: The Registrant supplementally notes that there is no tax benefit that inures to Cypress by including the Registrant in Cypress' consolidated return. The Registrant's tax liability and benefit will be calculated as if it was filing a separate entity tax return. As such, the Registrant's taxable profit or loss will be independent of Cypress' business activities in determining the Registrant's annual tax expense. The Registrant can continue to use all its separate company tax attributes (e.g., net operating losses, credits, etc.) to offset its current year tax obligation during the time it is consolidated with Cypress. Under the tax sharing agreement between the Registrant and Cypress, after the date the Registrant ceases to be a member of Cypress' consolidated, combined or unitary group for federal or state income tax purposes, as and to the extent that the Registrant becomes entitled to utilize on its separate tax returns portions of those credit or loss carryforwards existing as of such date, the Registrant will distribute to Cypress the tax effect (estimated to be 40%) of the amount of such tax loss carryforwards so utilized, and the amount of any credit carryforwards so utilized.

Master Transition Services Agreement, page 88

29. *You describe the rates at which Cypress will charge you for services under the Master Transition Services Agreement at either "cost" or at the rate charged by other Cypress departments or subsidiaries using these services. Explain which amount will be used in different circumstances. Explain how appropriate allocations of salary and benefits will be determined for "cost" purposes. Also, explain why other subsidiaries would not be paying "cost" for those services, and whether they would be paying more or less otherwise.*

Response: For services covered by the master transition services agreement, the Registrant will be charged at the cost to Cypress or at a rate negotiated with Cypress. The Registrant respectfully refers the Staff to its response to the Staff's comment no. 11 for an explanation of "cost" in the master transition services agreement. The reference to the "rate charged to other Cypress departments or subsidiaries" refers to the price Registrant will pay for wafer manufacturing services which is not covered by the master transition services agreement. The provision of wafer manufacturing services by Cypress is covered under the terms of the wafer manufacturing agreement which are disclosed under a separate heading. The Registrant has revised the disclosure on page 94

to clarify the pricing for each of the transition services and the wafer manufacturing services.

Description of Capital Stock, page 94

30. Please briefly explain the reasons for your reincorporation from California to Delaware.

Response: The requested disclosure has been added to the section entitled “Description of Capital Stock.”

Underwriting, page 105

31. Please identify any members of the underwriting syndicate that will engage in any electronic offer, sale or distribution of the shares and describe their procedures to us. If you become aware of any additional members of the underwriting syndicate that may engage in electronic offers, sales or distributions after you respond to this comment, promptly supplement your response to identify those members and provide us with a description of their procedures.

Briefly describe any electronic distribution in the filing.

Also, in your discussion of the procedures, tell us how your procedures ensure that the distribution complies with Section 5 of the Securities Act. In particular:

- the communications used;
- the availability of the preliminary prospectus,
- the manner of conducting the distribution and sale, like the use of indications of interest or conditional offers; and
- the finding of an account and payment of the purchase price.

Finally, tell us whether you or the underwriters have any arrangements with a third party to host or access your preliminary prospectus on the Internet. If so, identify the party and the website, describe the material terms of your agreement and provide us with a copy of any written agreement. Provide us also with copies all information concerning your company or prospectus that has appeared on their website. Again, if you subsequently enter into any arrangements like this, promptly supplement your response.

Response: Representatives of the underwriters have advised the Registrant that one or more members of the underwriting syndicate may engage in an electronic offer, sale or distribution of the shares and may make a prospectus in electronic format available on the web sites that they maintain or may distribute prospectuses electronically. At the time the representatives send out invitations to participate in the offering to potential syndicate members, the underwriters that have been invited must accept the invitation on the basis that they will not engage in any electronic offer, sale or distribution of shares, or that if

they do engage in such activities, that they will do so only on the basis that the procedures that these underwriters use for electronic offers, sales or distributions have been previously reviewed by the Commission and the Commission raised no objections.

Consistent with this approach, the Registrant respectfully refers the Staff to the following disclosure that is included in the section of the prospectus entitled “Underwriting:”

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

Other than with respect to electronic roadshows conducted in compliance with SEC no-action letters, the Registrant has not, and the underwriters have informed the Registrant that they have not, made any arrangements with a third party to host or access the preliminary prospectus on the internet.

Financial Statements, page F-1

Consolidated Statements of Operations, page F-5

32. *We believe that the portion of deferred stock compensation expense attributable to cost of revenues should be deducted in determining gross profit. Accordingly, please revise the statement and other sections of your filing to include that portion of the expense in the cost of revenues section of the income statement. Please note that, with regard to the remainder of the stock compensation expense, we did not object to your current presentation.*

Response: The Registrant respectfully notes that the Consolidated Statement of Operations presentation does not disclose a gross profit line item.

The Registrant is aware that the adoption of new accounting pronouncements such as FAS 123R will require a change in the current presentation format and as such is prepared to make the required changes upon adoption of such accounting pronouncement in future filings with the Commission.

33. *We see disclosures on page 45 that you do not record amortization expense in separate functional categories of your statement of operations. Please tell us why it is appropriate to not include any amortization in your cost of revenues during the periods presented. Note the guidance at SAB Topic 11(B). Revise the filing as necessary, based on our comment.*

Response: The Registrant respectfully notes that the Consolidated Statement of Operations presentation does not disclose a gross profit line item. The Registrant believes that this presentation is consistent with the guidance in SAB Topic 11B.

Consolidated Statements of Shareholders' Equity (Deficit), page F-6

34. We see in 2005 you issued $4.5 million off warrants in connection with promissory notes. Please tell us why this transaction decreased equity. Revise the filing, as necessary, based on our comment.

Response: The Registrant has revised the disclosure on page F-33 to clarify the conversion of debt and related unamortized discount and conformed the statement of shareholders' equity on page F-6 accordingly The conversion of debt into class A common stock was treated as a capital transaction in accordance with APB Opinion No. 26 "Early Extinguishment of Debt" footnote #1, as this is a transaction between related entities. The fair value of the warrants issued to Cypress was treated as a discount to the debt. The net carrying value of the debt (i.e. debt less unamortized portion of the discount) was credited to equity upon conversion of the debt into equity.

Note 1. The Company and Summary of Significant Accounting Policies, page F-9

Revenue Recognition, page F-12

35. Please revise your disclosure to describe your revenue recognition policy with greater specificity. To the extent that policy differs among significant product lines (i.e. solar electric power products and imaging and infrared detectors, etc.), Please make your disclosure product line specific. Also, please address your revenue recognition policy as it relates to various marketing venues used by the company (i.e. direct sales representatives and distributors). Also, if the policies and sales practices vary in different parts of the world those differences should be discussed.

Response: The Registrant has revised its disclosure to further enhance its revenue recognition policy on page F-12. The Registrant supplementally notes that its revenue recognition policy does not differ across product lines and is consistent across all geographical locations. The Registrant sells its products directly to customers and does not use any distributors for its sales. Shipping terms do differ based on the geographic location of the customer. For example, sales to European customers are generally ex-works, whereas sales to United States customers are generally FOB. All sales are direct, and there are no significant post-shipment obligations or rights of return.

Note 2. Cypress Step Acquisition of SunPower, page F-17

36. We see that effective November 9, 2004, SunPower became a wholly owned subsidiary of Cypress when Cypress exchanged Cypress common stock for all outstanding shares of SunPower common stock. We also see that determination of the fair value of SunPower's net assets as of May 24, 2002 and November 8, 2004 resulting in valuation adjustments (intangible assets and related deferred income taxes) aggregating $3.7 million and $23.2 million, respectively. Please revise the note to specifically disclose how you valued the May 2002 and November 2004 consideration issued on each of the referenced dates. Tell us how the variations complied with general accepted accounting principles. Also, tell us how you concluded the excess of the fair value of the

consideration issued over SunPower's net assets on these dates only required the recognition of intangible assets and did not impact the historical carrying value of any other SunPower's assets and liabilities. We may have further comments after reviewing your response.

Response: The requested disclosure has been added on pages F-18 to F-20. The Registrant recognizes that all assets and liabilities of the Registrant need to be at fair value on each acquisition date, especially to the extent of the minority interest step up on November 8, 2004. The Registrant concluded that there was no material difference between the net carrying value of the Registrant's assets and liabilities and their fair value. Specifically, on November 8, 2004, the Registrant's assets were comprised primarily of fixed assets, which had been recently purchased and accordingly their book value approximated fair value. The other significant assets included (i) accounts receivable wherein the book value and the fair value were the same given their short-term maturities; (ii) inventories wherein there was no need for step up in cost for WIP and finished goods, as the Registrant was experiencing gross margin losses and raw materials had already been reflected at close to its replacement cost as it had recently been purchased. The more significant liabilities consisted of (i) loans and payables owed to Cypress; (ii) trade accounts payable and (iii) accrued liabilities. The carrying value of all liabilities approximated the fair value.

The May 2002 consideration of $8.8 million consisted of $8.3 million in cash and the conversion of $0.5 million of promissory notes and related interest and was negotiated at arms length between the Registrant and Cypress. The November 8, 2004 consideration was negotiated on an arms length basis between Cypress and the minority shareholders of the Registrant and consisted of shares of Cypress common stock valued based on the value of the Cypress common stock.

37. *We see that you recorded an $18.1 million push down adjustment related to purchased technology. Describe to us and revise the filing to disclose the types of technology you recorded, including the various stages of development (if applicable). Discuss the factors you considered pertinent in concluding that the technology should be capitalized.*

Response: The requested disclosures have been added to pages F-18 to F-20. The $18.1 million of purchased technology was comprised of both existing solar technology and imaging detector technology. The acquired solar technology was comprised of design and process technologies that enable a crystalline silicon wafer to capture a high percentage of the sun's energy into electricity. The acquired imaging detector technology was comprised of design and process technologies for high performance, back contact light sensor arrays and infrared detectors that convert incoming photons into electricity, and are designed for low current leakage and high sensitivity.

The Registrant based its decision to capitalize the purchased technology on FAS 141's criteria that an intangible asset that arises from contractual or other legal rights shall be recognized apart from goodwill only if it is separable. These technology-based assets relate to innovations and technological advances of the acquired company.

38. *Refer to disclosures in your Consolidated Statements of Shareholders' Equity (Deficit). Please tell us how you allocated the pushed down effect between additional paid in capital and accumulated deficit, citing any authoritative literature upon which you relied to support the allocations. Also, tell us why you believe the balances in your accumulated deficit account properly reflect changes in your ownership. Specifically, tell us why the pre "purchase" deficit balance was carried forward. We may have further comments after reviewing your responses.*

Response: The Registrant referred to guidance in SAB Topic 5-J, where a purchase transaction that results in an entity becoming substantially wholly owned (as defined in Rule 1-02(aa) of Regulation S-X) establishes a new basis of accounting. The Registrant became substantially owned by Cypress as a result of the November 8, 2004 transaction. The Registrant also notes that it is not aware of any authoritative literature as to the mechanics of push-down accounting, especially for a step acquisition, such as this case.

The application of push-down accounting represents the termination of the old accounting entity and the creation of a new one. The new basis reflects the basis of the acquirer (Cypress). As the Registrant was merged with Cypress through a two step transaction, the new basis of accounting also developed in two steps.

In the absence of such authoritative literature as to the mechanics of push-down accounting, the Registrant believes that the presentation made by it is consistent with the substance of the push-down accounting.

While timing of the push-down was triggered by the minority interest buyout in November 2004, the basis that has been pushed down was developed in two steps. In the first step, Cypress acquired a majority interest and in the second step, Cypress bought out the minority interest to own 100% of the Registrant. The Registrant considered whether it should present only the losses post November 8, 2004 (i.e. reflect a zero retained earnings at November 9, 2004), but concluded that the existing presentation was more representative of how purchase accounting has been be applied in this case.

As a result, the amount that is reflected in the Registrant's accumulated deficit in the Registrant's consolidated balance sheet as of the push-down date (November 9, 2004) reflects its operating results from the initial date of investment by Cypress, which is representative of the losses that have been funded by Cypress.

Note 4. Balance Sheet Components, page F-20

39. *We see that the fair value of your property held for sale was determined by estimating market prices provided by a third party. Please revise the filing to identify the appraisal firm under "Experts" and include their consent in this registration statement. Alternatively, you may state in revised disclosure that management considered a number of factors, including valuation or appraisals, when estimating fair value. Regardless of your decision, your disclosure should clearly indicate that management is responsible for the valuation. Please revise as appropriate.*

Response: The requested disclosure has been added on page F-22.

Note 5. Income Taxes, page F-22

40. Please revise to provide a reconciliation using percentages or dollar amounts of reported income tax expense to income tax expense that would have been reported be using statutory rates. Refer to paragraph 47 of SFAS 109.

Response: The Registrant has revised the disclosure as requested on page F-23.

41. We see you are subject to a tax holiday in the Philippines. To please revise the note to include the dollar and per share effects of the holiday as required by SAB topic 11(c).

Response: The Registrant has revised the disclosure as requested on page F-24.

Note 8. Customer Advances, page F-25

42. Please describe to us the significant terms and conditions related to the customer advances received for expansion of your manufacturing facility. Specifically address why these payments are properly classified as an operating cash flow, citing any authoritative literature upon which you relied. Also disclose the balance subject to repayment and the actual or expected repayment terms.

Response: The Registrant respectfully notes that it has filed a Request for Confidential Treatment of certain significant terms and conditions, including the actual repayment terms, related to the customer advances received, in the agreement with Solon contained Exhibits No. 10.24. The Registrant respectfully refers the Staff to that Request, submitted by letter dated August 25, 2005. The Registrant supplementally notes that based on the terms and conditions of the agreement, settlement of the amounts related to customer advances are to be recognized over product deliveries to the customer at a specified rate through calendar year 2010. Disclosure has been added to page F-26 to clarify.

In evaluating the proper classification of the advances received from the customer in the statement of cash flows, the Registrant analyzed the characteristics of the payments by considering the following factors:

(a) The nature of the business relationship of the payee – The payee is a customer. The payee is not a financial institution or a commercial lender.

(b) The business reason for the advance received from the customer – The cash received represents an advance from the customer to secure supply of the Registrant's product over an extended period of time.

(c) Settlement of the advance – The advances are to be settled primarily through the purchase of the Registrant's product by the customer. Only in the unlikely event if the Registrant is unable to supply the customer with sufficient product over the term of the agreement will the Registrant be required to repay the advance. This would be no

different than a refund of any other customer advance for which the Registrant were unable to deliver the product.

After considering the characteristics noted above of this agreement, the Registrant concluded that the cash received represented an interest bearing customer advance that should be correctly classified as operating cash inflow.

Note 9 Debt, page F-25

43. We see you indicate that several of your notes were repaid during the periods presented. Please revise your debt footnote disclosure to specifically indicate those debt instruments that were converted to equity and those that were repaid with cash.

Response: The Registrant has revised the disclosure in as requested in Note 9.

Note 10. Redeemable Convertible Preferred stock and Shareholders' Equity, page F-27

Common Stock, page F-29

44. We see that in March 2005 you issued 35.2 million class A shares to Cypress in exchange for the cancellation of $58 million of debt held by Cypress. Please tell us and revise the filing to disclose the nature of the 2005 cash inflow of $19.6 million in the statement of cash flows. It is not clear to us if the inflow is related to the aforementioned exchange transaction.

Response: The Registrant has made revisions to the financial statements and related footnotes to further clarify the transaction as requested in Note 10.

Stock Option Program, page F-32

45. Please provide us with an itemized chronological schedule detailing each issuance of your ordinary shares, stock options and warrants since June 2004 through the date of your response. Include the following information for each issuance or grant date:

- *Number of shares issued or issuable in the grant*
- *Purchase price or exercise price per share*
- *Any restriction or vesting terms*
- *Management's fair value per share estimate*
- *How management determined the fair value estimate*
- *Identity of the recipient and relationship to the company*
- *Nature and terms of any concurrent transactions with the recipient*

- Amount of any recorded compensation element and accounting literature relied upon

In the analysis requested above, highlight any transactions with unrelated parties believed by management to be particularly evident of an objective fair value per share determination. Progressively bridge management's fair value per share determinations to the current estimated IPO price per share. Also, indicate when discussions were initiated with your underwriters. We will delay our assessment of your response pending inclusion of the estimated IPO price in the filing.

Response: The Registrant respectfully refers the Staff to its analysis attached hereto as Appendix A.

Exhibits

46. *We note your intention to file a number of exhibits, including your legal opinion, by amendment. Because we may have comments on these exhibits, and on the related disclosure, please file the exhibits allowing adequate time for their review.*

Response: The requested exhibits have been filed except for Exhibits Nos. 1.1, 5.1 and 23.1, which will be filed prior to circulation of any preliminary prospectus.

* * * * *

Questions or comments regarding any matters with respect to the Registration Statement may be directed to the undersigned at (650) 233-4564. Comments can also be sent via facsimile at (650) 233-4545.

Very truly yours,

/s/ Davina K. Kaile
Davina K. Kaile

cc: Mr. Jay Mumford
Mr. Eric Atallah
Mr. Jay Webb

Mr. Thomas H. Werner
Mr. Emmanuel T. Hernandez

APPENDIX A

On behalf of SunPower Corporation ("SunPower" or "the Company"), we would like to supplementally provide the staff of the Securities and Exchange Commission (the "Staff") with information regarding SunPower's history and treatment of options granted, with emphasis on options granted since June 2004. As further discussed below, SunPower has established the fair value of the Company's common stock based on 1) the Company's financial and operational performance, 2) valuations of an independent valuation firm, 3) equity transactions, and 4) estimated IPO market valuations. SunPower retained Duff and Phelps to provide reports on the fair value of the Company's common stock as of May 31, 2005 and July 31, 2005. A copy of the reports will be provided supplementally to the Staff. This analysis will provide you with both a Company overview and a listing of options granted to directors, officers, employees and non-employees.

Company History and Overview

The Company designs, manufactures and sells solar electric power products, or solar power products, based on its proprietary processes and technologies. In addition, SunPower offers high performance imaging detectors based on its solar power technology, primarily for medical imaging applications. Since inception, the Company has focused on the following four main areas:

- **Technology:** development of the underlying technology and fundraising to support these efforts
- **Manufacturing:** commencement of production of solar cells and panels
- **Revenue:** commencement of sales and marketing efforts of its solar power products
- **Management and Corporate Development:** completion of management team and development of corporate identity and structure

Inception to May 2002

SunPower was incorporated in 1985 by Dr. Richard Swanson to develop and commercialize high-efficiency photovoltaic, or solar, cell technology. Its solar cells were initially used in solar concentrator systems, which concentrate sunlight to reflective dish systems. From 1988 to 2000, The Company focused its efforts on developing high-efficiency solar cells and marketing its infrared detectors.

May 2002 to November 2004

In May 2002, Cypress made its initial investment of $8.8 million for 12,915,000 shares of SunPower's series one preferred stock (per share price of $0.6864) at which time it became the Company's majority shareholder. This investment funded operations and the initial development of the Company's solar cell. In 2003 and 2004, the Company continued its A-300 solar cell product and manufacturing process development efforts. In late 2004, SunPower completed the construction of its 215,000 square foot wafer fabrication facility in the Philippines, which is capable of housing four solar cell production lines with a total production capacity of approximately 100 megawatts per year, and installed and qualified its first 25 megawatts per year production line. SunPower funded these activities and its continuing operations through additional loans from Cypress.

November 2004 to June 2005

On November 8, 2004, Cypress completed a reverse triangular merger in which all of the outstanding minority interest of SunPower was retired, effectively giving Cypress 100% ownership of all of SunPower's outstanding shares of capital stock but leaving unexercised warrants and options outstanding. As a condition to the merger transaction, SunPower's Board of Directors also approved an additional Cypress investment of $16 million for 32,000,000 shares of SunPower's series two convertible preferred stock. This round of funding occurred in January 2005. In June 2004, the Non-Cypress members of the SunPower Board approved both the merger and the $16 million series two financings terms.

In late 2004, SunPower shipped its first commercial A-300 solar cells from its Philippines manufacturing facility. In March 2005, Cypress invested $58.0 million for 35,151,515 shares of SunPower's class A common stock. This investment, along with customer advances, funded the purchase of equipment for the Company's second and third 25 megawatts per year production lines in our Philippines manufacturing facility. Through June 2005, SunPower made steady improvements on its output, yields and production costs on its first 25 megawatt line. SunPower also initiated the purchase of equipment for its second and third 25 megawatt lines and signed a multi-year supply agreement with Solon.

During 2005, SunPower also expanded its executive management team with the additions of PM Pai as its Chief Operating Officer, and Emanuel Hernandez as its Chief Financial Officer. In addition, SunPower conducted an underwriter selection process in June 2005.

July 2005 to Present

In July 2005, Cypress purchased an additional 24,000,000 shares of class A common stock in exchange for approximately $20 million of cash, cancellation of all of SunPower's then outstanding indebtedness to Cypress which totaled approximately $40 million, and cancellation of warrants with an average exercise price of $0.07 per share to purchase 7.7 million shares of common stock issued in connection with earlier loans. Based on a Black Scholes calculation, the warrants had a fair value of at least $3.25 per share at the time of their cancellation. As a result of this equity transaction, SunPower no longer has any outstanding indebtedness to Cypress.

Since July 2005, SunPower has continued making improvements on its solar cell and panel production, yields and costs. SunPower also has continued work on the facilities and equipment necessary for its second and third 25 megawatt lines.

On July 20, 2005, SunPower held its organizational meeting, after selecting its underwriters for its initial public offering process.

Options Granted to Directors, Employees and Non-employees since June 2004

The table below outlines, by date of grant, the number of options granted, exercise price, and fair value for options granted since June 2004 to officers, directors, employees, and non-employees.

Date of Option Grant	Grants to Non-Officer Employees	Grants to Directors and Officers	Grants to Non-Employees	Total Options Granted	Vesting Schedule[1]	Exercise Price	Fair Market Value of Common Stock
6/17/04	1,705,400	2,160,200	178,250	4,043,850	5 Years	$1.65	$1.65
8/9/04	125,133	0	0	125,133	Fully Vested	$1.65	$1.65
8/9/04	192,000	50,000	0	242,000	5 Years	$1.65	$1.65
12/16/04	15,000	0	0	15,000	Fully Vested	$1.65	$1.65
12/16/04	1,273,350	0	0	1,273,350	5 Years	$1.65	$1.65
3/17/05	0	850,000	0	850,000	5 Years	$1.65	$1.65
3/17/05	252,750	500,000	26,000	778,750	5 Years	$1.65	$1.65
4/24/05	0	2,083,477	0	2,083,477	3 Years	$1.65	$1.65
6/16/05	233,200	0	0	233,200	5 Years	$2.15	$2.15
7/7/05	561,250	0	0	561,250	5 Years	$3.50	$3.50
8/18/05	69,700	0	0	69,700	5 Years	$3.50	$3.50
9/23/05	72,800	120,000	0	192,800	5 Years	$4.00	$4.00
9/23/05	13,467	0	0	13,467	Fully Vested	$4.00	$4.00

[1] In the standard 5-year grants, 20% of the shares vests after 12 months, and 1/60 of the shares vest each month thereafter

The Company believes that its 1996 Stock Incentive Plan (the “Option Plan”) meets all of the required criteria set forth in APB Opinion No. 25 and in the Internal Revenue Code of 1986, as amended (the “Code”), that are essential to classify employee option grants as non-compensatory. The terms of the Option Plan require that incentive stock options granted by the Company’s Board have exercise prices equal to at least 100% of the fair market value of the Company’s common stock at the time of grant. All options granted since June 2004 were granted pursuant to approval of the Board and were intended to be incentive stock options or were otherwise granted at 100% of the then-current fair market value. The Company believes that the actions of its Board to establish the fair market value of the Company’s common stock at such dates were prudent and done with due care so as to comply with the requirements of APB Opinion No. 25 as to non-compensatory options and to preserve the status of such options as incentive stock options under the Option Plan and the Code.

The Company has booked stock-based compensation expenses for the deemed fair value of variable stock-based compensation of stock and stock options issued to non-employees and consultants, as well as for immature shares purchased by Cypress from employees of SunPower in the November 2004 reverse triangular merger. Stock-based compensation was $781,000 and $184,000 for the year ended December 31, 2004 and the first six months ended June 30, 2005, respectively.

The pricing of SunPower’s options is set by SunPower’s Board of Directors (the “Board”). The Board, which consists of seasoned business executives, has substantial experience in the valuation of privately held start-up companies such as SunPower. In addition, the Board includes individuals that have considerable experience in operating or financing technology companies and, as a group, are familiar with the issues surrounding the valuation of options and other securities of technology companies. In addition, each such directors represents, or is himself, a significant stockholder of the Company and therefore would experience significant dilution in the event of an issuance of common stock at less than fair market value. The absence of a public trading market required the Board to rely on alternative means for determining the deemed fair market value for the common stock.

The following table sets out information relevant to the Board in determining the value of the Company's common stock since June 2004, and is followed by a discussion of option pricing for the specific grants.

METRIC	Q2'04	Q3'04	Q4'04	Q1'05	Q2'05	Q3'05
Net Revenue in $000's	$2,054	$2,502	$4,740	$11,092	$16,400	
Net Income (Loss) in $000's	$(6,220)	$(7,428)	$(10,354)	$(7,237)	$(6,336)	
S&P Valuation (Common $/shr)					$2.13	$3.46
CY Equity Investments			Merger[1]	$58M		$84M
Price / Share			$1.65	$1.65		$3.50
Management Additions				PM Pai	E. Hernandez	
Major Events			Start of commercial production		Solon supply agreement	Org meeting S-1 filed
Stock Grant Prices	$1.65	$1.65	$1.65	$1.65	$1.65 to $2.15	$3.50

[1] As a condition to the merger transaction, SunPower's Board of Directors also approved an additional Cypress investment of $16.0 million for 32,000,000 shares of SunPower's series two convertible preferred stock. This round of funding occurred in January 2005.

Discussions with the underwriters indicated to the Company the potential for an Initial Public Offering price of between $5.50 to $6.50 per share in late Q4 2005 or early Q1 2006, provided the Company:

- Increase its revenues from a projected $76 million in 2005 to over $200 million in 2006.
- Efficiently ramp production and yields on its second and third 25 megawatt per year production lines by early 2006.
- Secure sufficient silicon to support its manufacturing ramp, especially given the current shortage of material in the market.
- Further stabilizes its manufacturing to achieve positive gross margins.
- Successfully implement its thin wafer production plan without adversely affecting manufacturing yield or product reliability.

Additionally, for the Company to achieve such valuation, the capital markets should continue to remain stable with no major events of disruption.

June 2004 to April 2005 ($1.65/shr)

The fair market value of options issued during this time period was based on the $1.65 per share price at which Cypress bought out the minority shareholders in November 2004. By June 2004, Cypress had already offered $1.65 per share for the buyout, which the Board took into consideration when pricing the June 2004 options. The buy-out value was based on a single 25 megawatt solar cell production line that had yet to achieve the projected business model production yields and output, and the Company continued to price its options at $1.65 per share. In maintaining this price through April 2005, the board considered the following factors:

- SunPower was still in its initial phase of commercial production and had not demonstrated it could achieve the targeted production levels and costs.
- The Company experienced negative gross margins that were indicative of the challenges faced in ramping its commercial production.
- SunPower continued to incur losses in Q4'04, Q1'05 and Q2'05.
- SunPower experienced dilution from the issuance of additional shares to Cypress to fund ongoing business activities and capital expenditures. It was also probably that the Company would need to raise more capital to fund its expansion plans and continuing losses.
- SunPower had a highly leveraged capital structure will aggregate debt raised from Cypress of over $70 million through June 2005.

- The Company had not yet secured the silicon supply commitments necessary to fund its planned expansion.

June 2005 ($2.15/shr)

In June 2005, the Company determined that the fair market value of its shares had increased to $2.15, based on:

- An independent contemporaneous valuation done by Duff and Phelps as of May 31, 2005 that valued SunPower's common shares at $2.13 per share
- Progress made by the Company in achieving its business plans including:
  - Launch of high efficiency inverter products and higher efficiency panels in June 2005
  - Signing of a major supply agreement with Solon in April 2005
  - Expansion of its management team to include an experienced COO in March 2005, and a CFO in April 2005
  - Improvements in production outs and yields in the first 25 megawatt line
- However, certain adverse factors were also evaluated, including:
  - Continuing negative gross margins experienced by the Company,
  - Negative financial consequences of increase in price of silicon
  - Uncertain market conditions for availability of silicon

July 2005 to August 2005 ($3.50/shr)

The Company determined that the fair market value of its common shares had further increased to $3.50 base on:

- A second valuation done by Duff and Phelps as of July 31, 2005 that valued SunPower's common shares at $3.46 per share.
- Growth in revenues experienced by the Company.
- Continuing negative gross margins experienced by the Company.
- Uncertain market conditions relating to pricing and availability of silicon.

September 2005 ($4.00/shr)

The board determined that a $4.00 valuation was reasonable based on the following:

- Valuation done by Duff and Phelps as of July 31, 2005, that valued the stock at $3.46 per share.
- Uncertain market conditions relating to pricing and availability of silicon.
- Challenges faced by the Company in achieving its targeted ramp in revenues during the September quarter.

Summary

The increase in the fair market value of the Company since June 2004 has been primarily driven by the following factors:

- The $1.65 per share price at which Cypress bought out the minority shareholders in November 2004.
- Two valuations done by an independent valuation expert, Duff and Phelps, as of May 31, 2005 and July 31, 2005 that valued SunPower's common shares at $2.13 and $3.46 per share respectively.

- Underwriters estimate of a potential Initial Public Offering price of between $5.50 to $6.50 per share in late Q4 2005 or early Q1 2006, provided the Company successfully hits its financial targets and source sufficient silicon supply.
- Company-specific performance, particularly in the first half of 2005, the Company made significant progress in virtually all areas, including manufacturing productivity, capacity expansion, marketing of its products and the depth and breadth of its management team. The most tangible measure of the result has been a greater than 48% increase in net revenues, from $11.1 million in the quarter ended March 30, 2005 to net revenues of $16.5 million in the quarter ending June 30, 2005.

In combination, the above-noted factors are consistent with the fair market values of the Company’s common stock throughout the year.