

SUNPOWER CORP
Form DEF 14C
January 12, 2007
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SCHEDULE 14C

Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934

Check the appropriate box:

- Preliminary information statement
- Definitive information statement
- Confidential, for use of the Commission only (as permitted by Rule 14c-5(d)(2))

SUNPOWER CORPORATION

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

- (1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other *underlying* value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ACTION TAKEN PURSUANT TO

WRITTEN CONSENT OF STOCKHOLDERS

SUNPOWER CORPORATION

3939 NORTH FIRST STREET

SAN JOSE, CA 95134

408-240-5500

TO BE EFFECTIVE ON FEBRUARY 6, 2007

DATE FIRST MAILED TO STOCKHOLDERS: JANUARY 17, 2007

WE ARE NOT ASKING YOU FOR A PROXY AND

YOU ARE REQUESTED NOT TO SEND US A PROXY.

To the stockholders of SunPower Corporation:

This Notice and the accompanying Information Statement are being furnished to the stockholders of SunPower Corporation, a Delaware corporation (the "Company"), in connection with action taken by the holders of at least a majority of the issued and outstanding voting securities of the Company, approving, by written consent dated January 9, 2007 and subject to the passage of 20 calendar days following the date upon which the Company transmits to its shareholders this information statement in satisfaction of its obligations under Rule 14c-2 promulgated under the Securities Exchange Act of 1934, the amendment to the SunPower Corporation 2005 Stock Incentive Plan, as amended (the "Plan"), increasing the number of shares of the Company's Class A common stock reserved for issuance under the Plan by 200,481 shares, for a total of 347,767 shares as of February 6, 2007. On January 10, 2007, pursuant to the terms and subject to the conditions of that certain Agreement and Plan of Merger, dated November 15, 2006 and as amended on December 21, 2006 and January 10, 2007 (the "Merger Agreement"), between the Company, Pluto Acquisition Company LLC ("Merger Sub"), PowerLight Corporation ("PowerLight") and Thomas L. Dinwoodie, as the representative of certain PowerLight shareholders, PowerLight merged with and into Merger Sub, with Merger Sub as the surviving company and a wholly owned subsidiary of SunPower. The Company is obligated under the terms of the Merger Agreement to issue a number of shares of restricted stock (the "Bonus Pool") to specified PowerLight employees. The Company is further obligated to prepare and file with the Securities and Exchange Commission this information statement relating to the action by written consent approving and adopting the amendment to the Plan. The Company believes that the grant of restricted stock awards from shares available for issuance as awards under the Plan will act as a retention incentive for PowerLight employees, who are expected to contribute to the business of the combined company.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Your vote or consent is not requested or required to approve these matters. The accompanying Information Statement is provided solely for your information. The accompanying Information Statement also serves as the notice required by Section 228 of the Delaware General Corporation Law of the taking of a corporate action without a meeting by less than unanimous written consent of the Company's stockholders.

By order of the Board of Directors,

/s/ EMMANUEL T. HERNANDEZ
Emmanuel T. Hernandez
Corporate Secretary

San Jose, California

January 12, 2007

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SUNPOWER CORPORATION

3939 NORTH FIRST STREET

SAN JOSE, CA 95134

INFORMATION STATEMENT

We Are Not Asking You for a Proxy and You are Requested Not To Send Us a Proxy.

ABOUT THIS INFORMATION STATEMENT

General

This Information Statement is being furnished by SunPower Corporation, a Delaware corporation (SunPower or the Company), in connection with action taken by the holders of at least a majority of the Company s issued and outstanding voting securities, approving, by written consent dated January 9, 2007, the amendment to the SunPower Corporation 2005 Stock Incentive Plan, as amended (the Plan), increasing the number of shares (Shares) of SunPower Class A common stock (Class A Common Stock) reserved for issuance under the Plan by 200,481 Shares, for a total of 347,767 Shares as of February 6, 2007. On January 10, 2007, pursuant to the terms and subject to the conditions of that certain Agreement and Plan of Merger, dated November 15, 2006 and as amended on December 21, 2006 and January 10, 2007 (the Merger Agreement), between the Company, Pluto Acquisition Company LLC (Merger Sub), PowerLight Corporation (PowerLight) and Thomas L. Dinwoodie, as the representative of certain PowerLight shareholders, PowerLight merged with and into Merger Sub, with Merger Sub as the surviving company and a wholly owned subsidiary of SunPower. The Company is obligated under the terms of the Merger Agreement to issue a number of shares of restricted stock (the Bonus Pool) to specified PowerLight employees. The Company is further obligated to prepare and file with the Securities and Exchange Commission (the SEC) this information statement relating to the action by written consent approving and adopting the amendment to the Plan. The Company believes that the grant of restricted stock awards from shares available for issuance as awards under the Plan will act as a retention incentive for PowerLight employees, who are expected to contribute to the business of the combined company. This Information Statement is being provided pursuant to the requirements of Rule 14c 2 of the Securities Exchange Act of 1934, as amended (the Exchange Act), to holders of Class A Common Stock and the Company s Class B common stock (Class B Common Stock and, together with the Class A Common Stock, the Common Stock) entitled to vote or give an authorization or consent in regard to the matters acted upon by written consent.

This Information Statement is being mailed on or about January 17, 2007 to the Company s stockholders of record as of January 1, 2007 (the Record Date). The Company anticipates that the amendment to the Plan will take effect on February 6, 2007.

The Company s principal executive offices are located at 3939 North First Street, San Jose, California 95134, and the Company s telephone number is (408) 240-5500.

Reason for the Written Consent

The Amendment to the Plan

On November 13, 2006, the Company s Board of Directors (the Board) approved, subject to stockholder approval, an amendment to the Plan to increase the number of Shares reserved for issuance under the Plan by 200,481 Shares, for a total of 347,767 Shares as of February 6, 2007.

The Action by Written Consent

SunPower s Class B Common Stock, all of which is owned by Cypress Semiconductor Corporation (Cypress), is entitled to eight votes per share while its Class A Common Stock, which is held by all

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stockholders other than Cypress, is entitled to one vote per share. Cypress beneficially owns approximately 75% of the Common Stock and holds approximately 96% of the voting power in SunPower. Cypress has approved by written consent (the Written Consent) the amendment to the Plan which will become effective 20 days after the mailing of this information statement.

Voting and Vote Required

The Company is not seeking consent, authorizations or proxies from you. Section 228 of the Delaware General Corporation Law (Section 228) provides that the written consent of the holders of outstanding shares of voting capital stock having not less than the minimum number of votes which would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted may be substituted for a meeting. Under Section 228, the approval by at least a majority of the outstanding voting power of the Common Stock is required to approve the amendment to the Plan.

As of the Record Date, the Company had 17,587,072 shares of Class A Common Stock and 52,033,287 shares of Class B Common Stock outstanding and entitled to vote. Each share of Class A Common Stock is entitled to one vote, and each share of Class B Common Stock is entitled to eight votes. On the Record Date, Cypress beneficially owned 52,033,287 shares, or 100%, of the Company's Class B Common Stock, representing approximately 96% of the voting power of SunPower's Common Stock. Accordingly, the action by Written Consent executed by Cypress pursuant to Section 228 is sufficient to approve the amendment to the Plan and requires no further stockholder action.

Notice Pursuant to Section 228

Pursuant to Section 228, the Company is required to provide prompt notice of the taking of a corporate action by written consent to the Company's stockholders who have not consented in writing to such action. This Information Statement serves as the notice required by Section 228.

Dissenters' Rights of Appraisal

The Delaware General Corporation Law does not provide dissenters' rights of appraisal to the Company's stockholders in connection with the matters approved by the Written Consent.

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APPROVAL OF THE AMENDMENT TO THE PLAN

The Board approved on November 13, 2006, and Cypress has approved by the Written Consent an amendment to the Plan to increase the number of Shares reserved for issuance under the Plan by 200,481 Shares, for a total of 347,767 Shares as of February 6, 2007. The actual number of Shares reserved under the Plan at any given time is determined in accordance with the formula described under Summary Description of the Plan as Currently in Effect-Plan Limits/Shares Available for Issuance.

The Plan was originally adopted by our Board in August 2005, was amended by our Board on September 23, 2005, and was subsequently approved by our stockholders in October 2005. The Plan is administered by the Compensation Committee of our Board, and provides for several types of stock-based awards for employees, non-employee directors and consultants.

A summary of the amendment to the Plan is set forth below and is followed by a summary of the principal provisions of the Plan as currently in effect. The summary of the Plan is not intended to be exhaustive and is qualified in its entirety by the terms of the Plan. A complete copy of the Plan, as amended, is attached to this proxy statement as Appendix B.

Summary of the Amendment

The amendment to the Plan will increase the number of Shares reserved for issuance under the Plan by 200,481 Shares, for a total of 347,767 Shares as of February 6, 2007.

Because no monetary consideration will be paid by the recipients of the restricted stock awards issued under the Plan, the issuance of restricted stock awards pursuant to the Plan will cause dilution to existing stockholders of the Company.

Summary Description of Plan as Currently in Effect

Awards Available Under the Plan. The Plan provides for the discretionary award of: (i) incentive stock options (ISOs) that satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the Code), as well as stock options that are not ISOs (Nonstatutory Options, together with ISOs, Stock Options); (ii) Shares subject to certain restrictions (Restricted Shares); (iii) stock appreciation rights (SARs); and (iv) bookkeeping entries equivalent to one or more Shares (Stock Units). The Plan also provides for nondiscretionary, automatic grants of Nonstatutory Options to certain non-employee directors. Each type of award is carried out by the execution of an award agreement between us and the recipient that is specific to the type of award. For example, the terms of an award of Stock Options are set out in a Stock Option Agreement.

Eligibility. Stock Options and other stock-based awards may be granted to employees, non-employee directors and consultants under the Plan. ISOs may be granted only to employees. Currently, after giving effect to the acquisition of PowerLight, approximately 1,564 employees, non-employee directors and consultants with the Company are eligible to participate in the Plan.

Plan Limits/Shares Available for Issuance. The Plan currently provides that the aggregate number of Shares authorized for issuance as awards under the Plan will not exceed 396,735 Shares (i) minus the aggregate number of Shares subject to options granted under the Company's 1998 Incentive Stock Plan and 1996 Stock Plan (the Prior Plans) between August 12, 2005, and the effective date of our initial offering of stock pursuant to a registration statement filed by us with the SEC (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, (iii) plus any of the 105,000 shares subject to non-plan options granted during 2004 that lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005, (iv) plus 250,000 Shares. In addition, no participant in the Plan can receive awards for any calendar year that relate to more than 500,000

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Shares. If Restricted Shares or shares issued upon the exercise of Stock Options are forfeited, then such shares will again become available for awards under the Plan. If Stock Units, Stock Options or SARs are forfeited or terminate for any other reason before being exercised, then the corresponding shares will become available for awards under the Plan. If Stock Units are settled, then only the number of Shares (if any) actually issued in settlement of such Stock Units will reduce the number available under the Plan and the balance will again become available for awards under the Plan. If SARs are exercised, then only the number of Shares (if any) actually issued in settlement of such SARs shall reduce the number available under the Plan and the balance will again be available for awards under the Plan.

Administration. The Plan will be administered by our Compensation Committee. The Compensation Committee will consist of two or more directors appointed by the Board. In addition, the composition of the Compensation Committee shall satisfy (i) such requirements as the SEC may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and (ii) such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under Section 162(m)(4)(C) of the Code.

The Board may also appoint one or more separate committees of the Board, each composed of one or more directors who may administer the Plan with respect to employees who are not considered officers or directors under Section 16 of the Exchange Act, may grant awards under the Plan to such employees and may determine

all terms of such grants. The Board may also authorize one or more officers to designate employees, other than officers under Section 16 of the Exchange Act, to receive awards and/or to determine the number of such awards to be received by such persons; provided, however, that the Board must specify the total number of awards that such officers may so award. The Compensation Committee may designate persons other than members of the Compensation Committee to carry out its responsibilities, except that the Compensation Committee may not delegate its authority with regard to the selection for participation of or the granting of Stock Options or other rights under the Plan to persons subject to Section 16 of the Exchange Act.

Stock Options. Both ISOs and Nonstatutory Options are available for grant under the Plan. ISOs may be granted only to employees while Nonstatutory Options may be granted to employees, non-employee directors and consultants. The terms and conditions of an award of Stock Options are determined on a case by case basis and will be evidenced by a Stock Option Agreement between the optionee the Company. Each Stock Option Agreement will specify the number of Shares that are subject to the Stock Option and will provide for the adjustment of the Stock Option in accordance with the adjustment section in the Plan.

The exercise price of a Stock Option will be determined by the Compensation Committee in its sole discretion. The exercise price of an ISO, subject to Internal Revenue Code requirements for 10% stockholders, shall not be less than 100% of the fair market value of a Share on the date of grant, and the Exercise Price of a Nonstatutory Stock Option shall not be less 85% of the fair market value of a Share on the date of grant. The closing price per share of Class A Common Stock on January 11, 2007 was \$43.80.

Each Stock Option Agreement will specify a date when all or any installment of the Stock Option is to become exercisable and also specifies the term of the option; provided that the term of an option shall in no event exceed 10 years from the date of grant. The Stock Option Agreement may provide for accelerated exercisability in the event of the optionee's death, disability, or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the optionee's service. The Compensation Committee may determine, at the time of granting a Stock Option or thereafter, that such Stock Option will become exercisable as to all or part of the Shares subject to the Stock Option in the event that a Change in Control (as defined in the Plan) occurs with respect to the Company. The Board expects that options granted to optionees other than non-employee 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.

Stock Options may be awarded in combination with SARs, and such an award may provide that the Stock Options will not be exercisable unless the related SARs are forfeited. An optionee has none of the rights of a

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stockholder until shares of stock are issued. The Compensation Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents a Stock Option previously granted, or (b) authorize an optionee to elect to cash out a Stock Option previously granted, in either case at such time and based upon such terms and conditions as the Compensation Committee may establish.

A non-employee director who first joins the Board on or after the Effective Date, and was not previously an employee, will be granted automatically an initial Stock Option to purchase 30,000 shares on the date of his or her election or appointment to the Board. The initial Stock Option vests and becomes exercisable over five years, with the first 20% of the shares subject to the initial Stock Option vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter in equal portions over the next four years. Immediately after each of our regularly scheduled annual meetings of stockholders, beginning with the annual meeting occurring immediately after the Effective Date, each returning non-employee director will be automatically granted a Stock Option to purchase 6,000 shares, provided the director has served on the Board for at least six months. These Stock Options will vest and become exercisable monthly in equal portions over a five-year period. The Stock Options granted to non-employee 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.

Restricted Shares. The Compensation Committee may grant Restricted Shares to employees, non-employee directors and consultants. The terms of each award are determined on a case by case basis and will be

evidenced by a restricted stock agreement between the recipient and the Company. Restricted Shares may be sold or awarded under the Plan for such consideration as the Compensation Committee may determine, including (without limitation) cash, cash equivalents, full-recourse promissory notes, past services and future services.

Each award of Restricted Shares may or may not be subject to vesting. Vesting will occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. An award agreement may provide for accelerated vesting in the event of the grantee's death, disability or retirement or other events. The Compensation Committee may determine, at the time of granting Restricted Shares or thereafter, that all or part of the Restricted Shares will become vested in the event that a Change in Control (as defined in the Plan) occurs with respect to the Company.

The holders of Restricted Shares awarded under the Plan have the same voting, dividend and other rights as our other stockholders. A Restricted Stock Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares.

Stock Appreciation Rights. The Compensation Committee may award SARs to employees, non-employee directors and consultants. The number of shares included, the terms of exercise, and the term of each SAR is determined on a case by case basis and will be evidenced by a SAR Agreement between the recipient and the Company. Each SAR Agreement will specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement will also specify the term of the SAR. A SAR Agreement may provide for accelerated exercisability in the event of the recipient's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the recipient's service. The Compensation Committee may determine, at the time of granting a SAR or thereafter, that such SAR will become fully vested as to all Shares subject to such SAR in the event that a Change in Control (as defined in the Plan) occurs with respect to the Company. SARs may be awarded in combination with Stock Options, and such an award may provide that the SARs will not be exercisable unless the related Stock Options are forfeited. A SAR may be included in an ISO only at the time of grant but may be included in a Nonstatutory Option at the time of grant or thereafter. Upon the exercise of a SAR, the recipient will receive cash, Shares, or a combination of the two. The amount of cash and/or the fair market value of Shares received upon exercise of SARs will, in the aggregate, be equal to the amount by which the fair market value (on the date of surrender) of the Shares subject to the SARs exceeds the exercise price.

Stock Units. The Compensation Committee may award Stock Units to employees, non-employee directors and consultants. The terms of each award are determined on a case by case basis and will be evidenced by a

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Stock Unit agreement between the recipient and the Company. No cash consideration is required of the award recipients. The holders of Stock Units have no voting rights. However, prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Compensation Committee's discretion, carry with it a right to dividend equivalents. Settlement of vested Stock Units may be made in the form of cash, Shares, or any combination of the two. The number of Stock Units eligible for settlement may be larger or smaller than the number included in the original award, based on predetermined performance factors.

Each award of Stock Units may or may not be subject to vesting. Vesting will occur, in full or in installments, upon satisfaction of the conditions set out in the Stock Unit agreement. A Stock Unit agreement may provide for accelerated vesting in the event of the participant's death, disability or retirement or other events. The Compensation Committee may determine, at the time of granting Stock or thereafter, that all or part of the Stock Units will become vested in the event that a Change in Control (as defined in the Plan) occurs with respect to the Company.

Adjustments. In the event of a recapitalization, stock split or similar capital transaction, we can make appropriate adjustments to: (i) the number of Shares reserved for issuance under the Plan; (ii) the limitation regarding the total number of Shares underlying awards given to an individual participant in any calendar year; (iii) the number of Nonstatutory Options automatically granted to non-employee directors; and (iv) other adjustments in order to preserve the benefits of outstanding awards under the Plan (including adjustments to the number of Shares covered by each outstanding Stock Option and SAR and the exercise price thereof and in the number of any Stock Units that have not yet been settled).

Effect of Certain Transactions. A Change in Control (defined below) may impact rights to an award made under the Plan. Specifically, the Plan provides that the Compensation Committee may decide, either at the time of the award or after, that in the event of a Change in Control: (i) Restricted Shares and Stock Units vest, and (ii) Stock Options and SARs are exercisable. However, in the event of a merger or other reorganization, all outstanding awards are subject to the terms of the agreement effecting the particular transaction. Any automatic award of Nonstatutory Options to a non-employee director vests in the event of a Change in Control.

Subject to certain exceptions, a Change in Control generally means the occurrence of one of the following:

- (a) the acquisition by any person of our securities representing 50% or more of the combined voting power of the then outstanding securities;
- (b) a merger or consolidation 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
- (c) the sale, transfer or other disposition of all or substantially all of our assets.

To the extent not previously exercised or settled, Stock Options, SARs and Stock Units will terminate immediately prior to our dissolution or liquidation.

Qualifying Performance Criteria. An award may be made subject to the attainment of performance goals for a specified period of time relating to one or more of the following performance criteria: (a) cash flow, (b) earnings per share, (c) earnings before interest, taxes and amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, or (p) market segment shares.

The Compensation Committee may appropriately adjust any evaluation of performance to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim

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judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs, and (v) any extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in managements' discussion and analysis of financial condition and results of operations appearing in our Annual Report to stockholders for the applicable year.

If applicable, the Compensation Committee will determine the qualifying performance criteria not later than the 90th day of the performance period, and shall determine and certify, for each participant, the extent to which the qualifying performance criteria have been met. The Committee may not in any event increase the amount of compensation payable under the Plan upon the attainment of a performance goal to a Participant who is a covered employee within the meaning of Section 162(m) of the Code.

Withholding of Taxes. Each recipient of an award must make arrangements with us to satisfy any tax withholding requirements in relation to any award under the Plan. The Compensation Committee may permit a participant to satisfy all or part of his or her withholding or income tax obligations by having us withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares will be valued at their fair market value on the date when taxes otherwise would be withheld in cash. In no event may a participant have Shares withheld that would otherwise be issued to him or her in excess of the number necessary to satisfy the legally required minimum tax withholding.

Termination and Amendment. The Plan terminates automatically on August 12, 2015, unless terminated earlier by the Board. The Board may amend, modify or terminate the Plan at any time, subject to stockholder approval if required by applicable laws, regulations or rules. Rights and obligations under any award granted before amendment of the Plan will not be materially impaired by such amendment, except with the consent of the participant.

Benefits under the 2005 Stock Incentive Plan

Directors, consultants and employees, including executive officers and employees who are members of the Board, are eligible to participate in the Plan. Future awards under the Plan will be determined by the Board over time based on multiple factors such as competitive analysis, our results and discrete human resource issues. Consequently, except as set forth below, it is impossible to determine the benefits or amounts that will be received in the future under the Plan by any of our executive officers, directors or employees. In fiscal 2006, no awards were made under the Plan to any of our executive officers. Our directors received, in the aggregate, 16,000 Restricted Shares and Stock Options to purchase a total of 18,000 Shares under the Plan in fiscal 2006. Our employees received, in the aggregate, 214,034 Restricted Shares and Stock Options to purchase a total of 25,950 Shares under the Plan in fiscal 2006.

Although the benefits or amounts to be received from future awards under the current Plan are not determinable, with respect to the Restricted Shares to be issued pursuant to the Plan increase, the Bonus Pool allocation has been agreed upon and is set forth in the table below.

2005 Stock Incentive Plan(1)

Name and Position	Dollar Value \$(2)	Number
Thomas H. Werner		
Peter Aschenbrenner		
Emmanuel T. Hernandez		
P.M. Pai		
Richard Swanson		
Executive Group(3)	4,340,009	116,012
Non-Executive Director Group		
Non-Executive Officer Employee Group	3,159,985	84,469

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- (1) Includes Shares that have been allocated to the Bonus Pool and does not include further unallocated awards under the Plan, which are indeterminable at this time.
- (2) Determined based on the number of Shares to be allocated to the individual or group, as applicable, multiplied by the average volume weighted average price of the Class A Common Stock (as reported, absent manifest error, on Nasdaq.com) for the twenty consecutive trading days ending on and including January 9, 2007. This valuation methodology is consistent with that used to determine the number of Shares in the Bonus Pool pursuant to the Merger Agreement.
- (3) Although no awards were made under the Plan to any of our executive officers or directors in fiscal 2006, two individuals Howard Wenger and Bruce Ledesma who were appointed as executive officers of the Company upon the completion of the PowerLight acquisition have been allocated an aggregate of 116,012 Shares under the Bonus Pool. The number in the Executive Group row above represents Restricted Shares to be allocated to these executive officers. Thomas Dinwoodie will also be serving as an executive officer of the Company following the completion of the PowerLight acquisition but has not been allocated Shares under the Bonus Pool.

Federal Income Tax Consequences

The following is a brief summary of some of the federal income tax consequences of certain transactions under the Plan based on federal income tax laws in effect on January 1, 2007. This summary is not intended to be complete and does not describe state or local tax consequences.

Tax Consequences to Participants

Nonstatutory Options. In general, (1) no income will be recognized by an optionee at the time a Nonstatutory Option is granted; (2) at the time of exercise of a Nonstatutory Option, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the Shares and the fair market value of the Shares, if vested, on the date of exercise; and (3) at the time of sale of Shares acquired pursuant to the exercise of a Nonstatutory Option, appreciation (or depreciation) in value of the Shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the Shares have been held.

ISOs. No income generally will be recognized by an optionee upon the grant or exercise of an ISO. The exercise of an ISO, however, may result in alternative minimum tax liability. If Shares are issued to the optionee pursuant to the exercise of an ISO, and if no disqualifying disposition of such Shares is made by such optionee within two years after the date of grant or within one year after the transfer of such Shares to the optionee, then upon sale of such Shares, any amount realized in excess of the option price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss.

If Shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such Shares at the time of exercise (or, if less, the amount realized on the disposition of such Shares if a sale or exchange) over the option price paid for such Shares. Any further gain (or loss) realized by the participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

SARs. No income will be recognized by a participant in connection with the grant of a SAR. When the SAR is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the fair market value of any unrestricted Shares received on the exercise.

Restricted Shares. The recipient of Restricted Shares generally will be subject to tax at ordinary income rates on the fair market value of the Restricted Shares (reduced by the purchase price for such Restricted Shares)

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at such time as the Shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Code (Restrictions). However, a recipient who so elects under Section 83(b) of the Code within 30 days of the date of transfer of the Restricted Shares will have taxable ordinary income on the date of transfer of the Restricted Shares equal to the excess of the fair market value of such Restricted Shares (determined without regard to the Restrictions) over the purchase price, if any, of such Restricted Shares. If a Section 83(b) election has not been made, any dividends received with respect to Restricted Shares that is subject to the Restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

Stock Units. No income generally will be recognized upon the award of Stock Units. The recipient of a Stock Unit award generally will be subject to tax at ordinary income rates on the fair market value of Shares on the date of settlement (reduced by any amount paid by the participant for such Stock Units), and, if settled with Shares in whole or in part, the capital gains/loss holding period for such Shares will also commence on such date.

Tax Consequences to SunPower

To the extent that a participant recognizes ordinary income in the circumstances described above, we will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an excess parachute payment under Section 280G of the Code and is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Code.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding beneficial ownership of SunPower's Common Stock as of January 1, 2007 (except as described below) by:

each of our directors;

our chief executive officer, our chief financial officer and each of the three other most highly compensated individuals who served as our executive officers at fiscal year-end (the "Named Executive Officers");

all individuals who served as directors or Named Executive Officers at fiscal year-end as a group; and

each person (including any group as that term is used in Section 13(d)(3) of the Exchange Act of 1934, as amended) who is known by us to own beneficially more than 5% of our Common Stock.

Applicable beneficial ownership is based on 17,587,072 shares of Class A Common Stock and 52,033,287 shares of Class B Common Stock outstanding as of January 1, 2007. An additional 4,106,884 shares of Class A Common Stock were issued to the shareholders of PowerLight on January 10, 2007, pursuant to the closing of the PowerLight acquisition. This issuance will cause the percentages in the table below to decrease.

Name of Beneficial Owner	Shares Beneficially Owned (1)				% Total Voting Power(2)
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock	
Directors					
W. Steve Albrecht(3)	7,902	0	*	*	*
Betsy S. Atkins(4)	4,201	0	*	*	*
T.J. Rodgers(5)	10,000	52,033,287	*	*	*
Thomas H. Werner(6)	652,340	0	3.6	*	*
Pat Wood III(7)	12,902	0	*	*	*
Named Executive Officers					
Peter Aschenbrenner(8)	140,521	0	*	*	*
Emmanuel T. Hernandez(9)	396,622	0	2.2	*	*
P.M. Pai(10)	131,335	0	*	*	*
Richard Swanson(11)	100,564	0	*	*	*
All Directors and Named Executive Officers as a group (9 persons)(12)	1,456,387	0	7.7	*	*
5% Common Stockholders					
Cypress Semiconductor Corp.	0	52,033,287	*	100	95.9
Merrill Lynch & Co.(13)	1,287,045	0	7.3	*	*
BCG, Inc.; BAMCO; BCM, BSC; and Ronald Baron(14)	1,951,008	0	11.1	*	*
BlackRock, Inc., BlackRock Advisors LLC, BlackRock Investment Management LLC, BlackRock (Channel Islands) Ltd, BlackRock Investment Management UK Ltd(15)	2,285,645	0	13.0	*	*
Janus Capital Management LLC, Janus Overseas Fund(16)	1,794,660	0	10.2	*	*

* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a

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- person and the percentage ownership of that person, shares underlying options held by that person that will be exercisable within 60 days of January 1, 2007, are deemed to be outstanding. Such shares, however, are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Percentage total voting power represents voting power with respect to all shares of SunPower's Common Stock, voting as a single class. Each holder of Class B Common Stock is entitled to eight votes per share of Class B Common Stock and each holder of Class A Common Stock is entitled to one vote per share of Class A Common Stock on all matters to be submitted to stockholders for vote. The Class A and Class B Common Stock vote together as a single class on all matters submitted to a vote of our stockholders, except as otherwise may be required by law. The Class B Common Stock is convertible at any time by the holder into shares of Class A Common Stock on a one for one basis.
 - (3) Includes 1,000 shares of Class A Common Stock held directly by Mr. Albrecht and options to purchase an aggregate of 5,902 shares of Class A Common Stock exercisable within 60 days of the Record Date. Also includes 1,000 shares of restricted stock.
 - (4) Includes 500 shares of Class A Common Stock held directly by Ms. Atkins and options to purchase an aggregate of 2,701 shares of Class A Common Stock exercisable within 60 days of the Record Date. Also includes 1,000 shares of restricted stock.
 - (5) Includes 5,000 shares of Class A Common Stock held directly by Mr. Rodgers and 5,000 shares of restricted stock. Also includes 52,033,287 shares of Class B Common Stock held by Cypress. Mr. Rogers is the chief executive officer of Cypress.
 - (6) Includes 10,000 shares of Class A Common Stock held directly by Mr. Werner and options to purchase an aggregate of 642,340 shares of Class A Common Stock exercisable within 60 days of the Record Date.
 - (7) Includes 1,000 shares of Class A Common Stock held directly by Mr. Wood and options to purchase an aggregate of 10,902 shares of Class A Common Stock exercisable within 60 days of the Record Date. Also includes 1,000 shares of restricted stock.
 - (8) Includes 42,000 shares of Class A Common Stock held directly by Mr. Aschenbrenner and options to purchase an aggregate of 98,521 shares of Class A Common Stock exercisable within 60 days of the Record Date.
 - (9) Represents options held by Mr. Hernandez to purchase an aggregate of 396,622 shares of Class A Common Stock exercisable within 60 days of the Record Date.
 - (10) Represents options held by Mr. Pai to purchase an aggregate of 131,335 shares of Class A Common Stock exercisable within 60 days of the Record Date.
 - (11) Includes 15,000 shares of Class A Common Stock held directly by Mr. Swanson and options to purchase an aggregate of 85,564 shares of Class A Common Stock exercisable within 60 days of the Record Date.
 - (12) Includes 74,500 shares of Class A Common Stock held directly by our Named Executive Officers and directors and options to purchase an aggregate of 1,373,887 shares of Class A Common Stock exercisable within 60 days of the Record Date. Also includes 8,000 shares of restricted stock.
 - (13) The ownership information set forth in the table is based on information contained in a statement on Schedule 13G, filed with the SEC on July 10, 2006 by Merrill Lynch & Co. which indicated that Merrill Lynch has beneficial ownership of 1,287,045 shares of Class A Common Stock, with shared dispositive and voting power with respect to said shares.
 - (14) The ownership information set forth in the table is based on information contained in a statement on Schedule 13G, filed with the SEC on or about February 14, 2006 by Baron Capital Group Inc. (BCG), BAMCO, Inc. (BAMCO), Baron Capital Management (BCM), Baron Small Cap Fund (BSC), and Ronald Baron which indicated the following: BCG and Ronald Baron have beneficial ownership of 1,951,800 shares of Class A Common Stock, with shared dispositive power with respect to said shares and shared voting power with respect to 1,803,400 shares; BAMCO has beneficial ownership of 1,891,208 shares of Class A Common Stock with shared dispositive power with respect to said shares and shared voting power with respect to 1,748,900 shares; BSC has beneficial ownership of 1,000,000 shares of Class A Common Stock with shared dispositive and voting power with respect to said shares; BCM has beneficial ownership of 59,800 shares of Class A Common Stock with shared dispositive voting power with respect to said shares and shared voting power with respect to 54,500 shares.

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- (15) The ownership information set forth in the table is based on information contained in a statement on Schedule 13G, filed with the SEC on or about February 13, 2006 by BlackRock Inc. which indicated that all parties have beneficial ownership of 2,285,645 shares of Class A Common Stock, with shared dispositive and voting powers with respect to said shares.
- (16) The ownership information set forth in the table is based on information contained in a statement on Schedule 13G, filed with the SEC on or about January 10, 2007 by Janus Management LLC (Janus Management) and Janus Overseas Fund (Janus Overseas) which indicated the following: Janus Management has beneficial ownership of 1,794,660 shares of Class A Common Stock, with sole dispositive and voting powers with respect to said shares; Janus Overseas has beneficial ownership of 940,690 shares of Class A Common Stock, with sole dispositive and voting powers with respect to said shares.

Table of Contents**COMPENSATION DISCUSSION AND ANALYSIS****General**

We compensate our executives through a mix of base salary, cash bonus awards and performance-based equity compensation. Our compensation program is designed to attract and retain the best possible executive talent, to tie annual and long-term cash and equity incentive compensation to the achievement of measurable corporate, business unit and individual performance objectives, and to align compensation incentives available to our executives with the goal of creating stockholder value. To achieve these objectives, we have designed and implemented incentive compensation to primarily reward our executives for positive financial performance. To this end, we tie a substantial portion of our executives overall compensation measurable quarterly corporate milestones and individual Key Initiatives, or KIs. The KIs are personal accomplishment goals for the executives that are specific to the areas of responsibility and relate to the corporate milestones. In addition, we provide our executives a variety of other benefits that we also make available generally to all salaried employees.

Establishing Compensation Opportunities

Overall, our aim is to offer our executives total compensation opportunities that represent a median compensatory level among a peer group of competitive companies. Accordingly, we seek to review the compensation that we offer against that offered by peer group companies on an annual basis. We have retained AON Corporation, a compensation consulting firm, to help us identify and maintain a peer group of competitive companies to which we may refer when establishing executive compensation.

Due to the relative youth of the solar industry, however, in 2006, AON provided us with information regarding compensation programs for only chief executive officers at certain energy companies. The companies identified are Active Power, Inc.; American Superconductor Corp.; Catalytica Energy Systems, Inc.; Emcore Corporation; Energy Conversion Devices, Inc.; Evergreen Solar, Inc.; FuelCell Energy, Inc.; Plug Power Inc.; Power Integrations, Inc.; Power-One, Inc.; Quantum Fuel Systems Technologies Worldwide, Inc.; and Valence Technology, Inc. These particular companies were chosen because we believe they are the companies that most closely match our core business.

In addition to the information supplied by AON regarding compensation for chief executive officers of peer group companies, we also looked to the salary structure used by our majority stockholder, Cypress Semiconductor Corporation, for guidance regarding setting compensation for our executives other than our chief executive officer. The salary structure used by Cypress was based on Radford salary survey data for technology companies in our geographic region. The comparable Cypress salary data for our President and Chief Technical Officer and Chief Operating Officer ranged from \$153,000 to \$307,000. The comparable Cypress salary data for our Chief Executive Officer and Chief Financial Officer ranged from \$183,000 to \$367,000. For 2007 and beyond, we anticipate that AON will provide us with compensation information for all executive officers from solar industry companies.

In 2006, AON also assisted us in identifying and establishing median total compensation opportunities and with general oversight of our compensation program. This general oversight included helping us evaluate our compensation practices and assisting us with developing and implementing our executive compensation program and philosophy.

Allocation Among Compensation Components

	Base Salary	Cash Bonus Awards	Equity Compensation
Thomas H. Werner, Chief Executive Officer	62%	38%	0%
Emmanuel T. Hernandez, Chief Financial Officer	64%	36%	0%
Dr. Richard Swanson, President and Chief Technical Officer	73%	27%	0%
Peter Aschenbrenner, Vice President, Marketing and Sales	62%	38%	0%
P.M. Pai, Chief Operating Officer	74%	26%	0%

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As discussed further below, due to our initial public offering in November 2005, we affirmatively decided in 2006 to not grant equity awards to our executives as part of their 2006 compensation, which has resulted in base salary representing a majority percentage of total compensation for each executive.

Compensation Components

We provide the following compensation components to our executives:

Base Salary. We establish base salaries for our executives based on the scope of their responsibilities, and take into account competitive market compensation paid by companies in our competitive peer group for similar positions. Generally, we believe that executive base salaries should be targeted near the median of the range of salaries for executives in similar positions and with similar responsibilities at comparable companies in line with our compensation philosophy in order to best attract, retain and equitably reward our executives.

We review base salaries annually, and adjust base salaries from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. Our Compensation Committee approves the employee salary for our Chief Executive Officer, and for each officer below the Chief Executive Officer level based on the Chief Executive Officer's input. In 2006, we implemented a merit increase program and increased our executives' base salaries by a range of 2.3% to 12%, and by 4.5% on average. We utilized the benchmark data provided by AON when determining to increase our Chief Executive Officer's 2006 salary by \$34,250. We referred to the Cypress data when establishing a 2006 salary range for our other executives at \$205,000 to \$310,000, compared to a range of \$200,000 to \$299,520 for 2005. For 2007, we anticipate our base salary increases for executives will be under 10%.

Based on information presented to us by AON regarding market ranges for salaries at peer group companies and the Cypress data, we believe we have generally established our executives' base salaries at approximately the median of market ranges. As a result, we believe that we compensate our executives equitably when compared to competitive or similar companies.

Cash Bonus Awards. We utilize cash bonus awards to align executive compensation with business objectives and performance. Our cash bonus is administered through our Key Employee Bonus Program, or KEBP, which has a quarterly component and an annual component. Our Compensation Committee approves the employee bonus program incentive level for our Chief Executive Officer, and for each officer below the Chief Executive Officer level based on the Chief Executive Officer's recommendations.

For 2006, the bonus incentive targets for the executive officers ranged from 50% to 80% of base salary. For 2007, the target bonus awards (as a percentage of annual base salary) will be as follows: Chief Executive Officer, 80%; Chief Financial Officer, 80%; Chief Operating Officer, 50%; President/Chief Technical Officer, 50%; and Vice President, Marketing & Sales, 80%. These target percentages included both short-and-long term incentive award opportunities, and are established so that our officers' annual bonus opportunities are set near the median competitive levels of comparable companies. We expect to retain these targets for 2007.

KEBP payments are based on attainment of revenue and profit goals, attainment of company milestones and the individual participant's accomplishment of KIs. 50% of each KEBP bonus is based on achieving annual sales and profit targets and 50% based on achieving quarterly goals. The impact of these factors is explained in more detail below.

Our quarterly bonus KEBP award is formula-driven, and triggered when we achieve our Profit Before Tax, or PBT, objective for the quarter. The amount of quarterly bonus earned is first factored by the level of achievement of company milestones, which are reviewed and approved by the Compensation Committee at the beginning of the quarter. Company milestone achievement of greater than 80% results in a bonus factor of 100%. Company milestone achievement of greater than 50% but less than 80% results in a bonus factor of 50%, but company milestone bonuses paid to KEBP participants, including our named executive officers, is finally

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determined by the individual's personal KI achievement. For example, if an executive is a 50% KEBP participant, and the PBT objective is achieved for the quarter, and 85% of the company milestones were achieved, and the individual achieved 75% of his individual KIs, then the executive's quarterly KEBP award is 4.7% of base salary, calculated as: 50% of base pay as KEBP level times 50% for the quarterly component of KEBP times a 100% bonus factor for company milestones of 85% times 75% individual KIs divided by 4 for the quarterly component of KEBP target is triggered, and pre-determined company milestones and Individual KIs are met. The actual bonus is determined by our company performance and each executive officer's level of achievement. At the beginning of each quarter, the company milestones for the succeeding quarter are determined and approved by the Compensation Committee.

The annual KEBP bonus award is also formula-driven and is assessed at the end of the fiscal year based on our attainment of sales and PBT targets for the year. Our sales and PBT targets are established at the beginning of our fiscal year and approved by our Board of Director