

SUNPOWER CORP
Form 10-Q/A
November 20, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A
Amendment No. 1**

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

For the quarterly period ended September 30, 2007

OR

o

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

Commission file number 000-51593

SunPower Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3008969
(I.R.S. Employer
Identification No.)

3939 North First Street, San Jose, California 95134

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(Address of principal executive offices and zip code)

(408) 240-5500

(Registrant's telephone number, including area code)

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

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

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

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A for the quarter ended September 30, 2007, is being filed for the purpose of amending and revising certain statements made in Part I. Financial Information, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations that was filed on November 8, 2007. The Quarterly Report indicated that, by the end of 2008, we plan to operate 12 solar cell manufacturing lines with an aggregate manufacturing capacity of 306 megawatts per year. This amendment clarifies that, by the end of 2008, we plan to operate 12 solar cell manufacturing lines with an aggregate manufacturing capacity of 414 megawatts per year. The Quarterly Report also indicated we currently operate six solar cell manufacturing lines with total production capacity of 214 megawatts per year. This amendment clarifies that we currently operate six solar cell manufacturing lines with total production capacity of 174 megawatts per year. This amendment to the Quarterly Report does not alter or affect any other part or any other information originally set forth in the Quarterly Report. There is no impact on the financial statements or notes to the condensed consolidated financial statements of the Quarterly Report. This amendment continues to speak as of the date of the Quarterly Report. We have not updated the disclosures contained in this amendment to reflect any events that occurred at a date subsequent to the filing of the Quarterly Report. The filing of this amendment is not a representation that any statements contained in the Quarterly Report or this amendment are true or complete as of any date subsequent to the date of the Quarterly Report.

Our stated plan to operate 12 solar cell manufacturing lines, by the end of 2008, with an aggregate manufacturing capacity of 414 megawatts per year, constitutes a forward-looking statement within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Please see Part I. Financial Information, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information on and a cautionary statement regarding forward-looking statements.

SunPower Corporation

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PART I. FINANCIAL INFORMATION

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

Cautionary Statement Regarding Forward-Looking Statements

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

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

Overview

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

Components segment: Our components segment sells solar power products, including solar cells, solar panels and inverters, which convert sunlight to electricity compatible with the utility network. We believe our solar cells provide the following benefits compared with conventional solar cells:

superior performance, including the ability to generate up to 50% more power per unit area;

superior aesthetics, with our uniformly black surface design that eliminates highly visible reflective grid lines and metal interconnect ribbons; and

efficient use of silicon, a key raw material used in the manufacture of solar cells.

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

We manufacture our solar cells at our manufacturing facilities in the Philippines. We currently operate four cell manufacturing lines in our first solar cell manufacturing facility, with a total rated manufacturing capacity of approximately 108 megawatts per year. In addition, we recently began operating the first two lines in a second solar cell manufacturing facility in the Philippines, which is designed to house up to twelve manufacturing lines. We expect three manufacturing lines in this new facility to be operational by the end of 2007, resulting in a total of seven manufacturing lines with an aggregate production capacity of 214 megawatts per year. By the end of 2008, we plan to operate 12 solar cell manufacturing lines with an aggregate manufacturing capacity of 414 megawatts per year. We have previously announced plans to begin production as soon as late 2009 on the first line of a third solar cell manufacturing facility designed to have an aggregate manufacturing capacity of 500 megawatts per year.

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

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

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in the process of completing over 350 projects, rated in aggregate at over 200 megawatts peak capacity.

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

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

PowerLight Acquisition

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

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

The total consideration related to the acquisition was as follows:

(In thousands)	Shares	Fair Value at January 10, 2007
Purchase consideration:		
Cash		\$ 120,694
Common stock	2,961	111,266
Stock options assumed that are fully vested	618	21,280
Direct transaction costs		2,958
Total purchase consideration	3,579	256,198
Future stock compensation:		
Restricted stock	1,146	\$ 43,046
Stock options assumed but that are unvested	984	35,126
Total future stock compensation	2,130	78,172
Total purchase consideration and future stock compensation	5,709	\$ 334,370

Purchase Price Allocation

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

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

(In thousands)	Amount	Estimated Useful Life
Net tangible assets	\$ 13,925	n.a.
Patents and purchased technology	29,448	4 years
Tradenames	15,535	5 years
Backlog	11,787	1 year
Customer relationships	22,730	6 years
In-process research and development	9,575	n.a.

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Unearned stock compensation	78,172	n.a.
Deferred tax liability	(21,964)	n.a.
Goodwill	175,162	n.a.
Total purchase consideration and future stock compensation	\$ 334,370	

Relationship with Cypress Semiconductor Corporation

Cypress made a significant investment in SunPower in 2002. On November 9, 2004, Cypress completed a reverse triangular merger with us in which all of the outstanding minority equity interest of SunPower was retired, effectively giving Cypress 100% ownership of all of our then outstanding shares of capital stock but leaving our unexercised warrants and options outstanding. After completion of our initial public offering in November 2005, Cypress held, in the aggregate, 52,033,287 shares of class B common stock.

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

Critical Accounting Policies

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

Revenue and Cost Recognition for Construction Contracts

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

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

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

As of September 30, 2007, the asset, Costs and estimated earnings in excess of billings, which represents revenues recognized in excess of amounts billed, was \$79.4 million. The liability, Billings in excess of costs and estimated earnings, which represents billings in excess of revenues recognized, was \$20.0 million. Ending balances in Costs and estimated earnings in excess of billings and Billings in excess of costs

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and estimated earnings are highly dependent on contractual billing schedules which are not necessarily related to the timing of revenue recognition.

Cash in Restricted Accounts

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

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

Deferred Project Costs

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

Foreign Currency Translation

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

Purchase Accounting

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

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

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

We identified in-process research and development projects in areas for which technological feasibility had not been established and no alternative future use existed. These in-process research and development projects consisted of two components: design automation tool and

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tracking systems and other. In assessing the projects, we considered key characteristics of the technology as well as its future prospects, the rate technology changes in the industry, product life cycles, and various projects' stage of development.

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

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

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

Status of In-Process Research and Development Projects:

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

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

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

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

Revenue

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

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

We generate revenue from two business segments, as follows:

1. **Systems segment** This segment represents sales of engineering, procurement, construction and other services relating to solar electric power systems that integrate our solar panels and balance of systems components, as well as materials sourced from other manufactures. Systems segment revenues for the three and nine months ended September 30, 2007 were \$157.7 million and \$340.3 million, respectively, which accounted for 67% and 62%,

respectively, of our total revenue. We had no systems segment revenue for the three and nine months ended October 1, 2006. Our systems segment revenue is largely dependent on the timing of revenue recognition on large construction projects and, accordingly, will fluctuate from period to period. Gross margin for the system segment was \$22.6 million and \$51.2 million for the three and nine months ended September 30, 2007, respectively, or 14% and 15% of systems segment revenue, respectively. Gross margin in our systems segment is affected by a number of factors, particularly the mix of projects sourced with our panels versus projects using solar panels purchased from other suppliers.

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

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

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

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

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

(percentage of total revenue)

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

* denotes less than 10% during the period

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

Cost of Revenue

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

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

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

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

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

	Systems (in thousands)		Year-over - Year Change	Components (in thousands)		Year-over - Year Change
	September 30, 2007	October 1, 2006		September 30, 2007	October 1, 2006	
Amortization of purchased intangible assets	\$ 15,297	\$	n.a.	\$ 3,370	\$ 3,526	(4)%
Stock-based compensation	6,235		n.a.	2,801	628	346%
Factory pre-operating costs	692		n.a.	3,185		n.a.
All other cost of revenue	266,871		n.a.	151,374	125,524	21%
Total cost of revenue	\$ 289,095	\$	n.a.	\$ 160,730	\$ 129,678	24%
Total cost of revenue as a percentage of revenue	85%			76%	80%	
Total gross margin percentage	15%			24%	20%	

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

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

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

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

On November 9, 2004, Cypress acquired us in a transaction that effectively gave Cypress 100% ownership of all of our then outstanding shares of capital stock but left our unexercised warrants and options outstanding. As a result of that transaction, we were required to record Cypress cost of acquiring us in our financial statements, including its equity investment and pro rata share of our losses by recording intangible assets, including purchased technology, patents, trademarks and a distribution agreement. The fair value for these intangibles is being amortized as an element of cost of component revenue over two to six years on a straight-line basis. During each of the first three quarters of 2007 and 2006, amortization of these intangible assets was \$1.1 million and \$1.2 million, respectively.

Our components segment gross profit each quarter is affected by a number of factors, including average selling prices for our products, our product mix, our actual manufacturing costs, the utilization rate of our wafer fabrication facility and changes in amortization of intangible assets. To date demand for our solar power products has been robust and our production output has increased allowing us to spread a significant amount of our fixed costs over relatively high production volume, thereby reducing our per unit fixed cost. We currently operate six solar cell manufacturing lines with total production capacity of 174 megawatts per year with the 5th and 6th lines located in our second building in the Philippines that is expected to eventually house 12 solar cell production lines with a total factory output capacity of approximately 466 megawatts per year. As we build additional manufacturing lines or facilities, our fixed costs will increase, and the overall utilization rate of our wafer fabrication facilities could decline, which could negatively impact our gross profit. This decline may continue until a line's manufacturing output reaches its rated practical capacity.

From time to time, we enter into agreements whereby the selling price for certain of our solar power products is fixed over a defined period. An increase in our manufacturing costs, including raw polysilicon, silicon ingots and wafers, over such a defined period could have a negative impact on our overall gross profit. Our gross profit may also be impacted by fluctuations in manufacturing yield rates and certain adjustments for inventory reserves. We expect our gross profit to increase over time as we improve our manufacturing processes and as we grow our business and leverage certain of our fixed costs. An expected increase in gross profit based on manufacturing efficiencies, however, could be partially or completely offset by increased raw material costs or decreased revenue.

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

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In connection with the acquisition of SP Systems, there were \$79.5 million of identifiable purchased intangible assets, of which \$56.8 million was being amortized to cost of systems revenues on a straight-line basis over periods ranging from one to five years. These acquired assets include patents, technology, tradenames and backlog. Due to our new branding strategy during the quarter ended July 1, 2007, the PowerLight tradename asset with a net book value of \$14.1 million and ascribed a useful life of 5 years was written off as an impairment of acquisition-related intangible assets. As such, the remaining balance of \$41.2 million relating to purchased patents, technology and backlog will be amortized to cost of systems revenue on a straight-line basis over periods ranging from one to four years.

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

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

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

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

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

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

Research and development expense for the nine months ended September 30, 2007 consists primarily of salaries and related personnel costs, depreciation and the cost of solar cells and solar panel materials and services used for the development of products, including experiment and testing. Payments received under governmental research and development cost sharing contracts are credited as an offset to our research and development expense. Such billings totaled approximately \$0.7 million and \$1.1 million for the three and nine months ended September 30, 2007, respectively, as compared to \$0.2 million and \$0.7 million for the three and nine months ended October 1, 2006, respectively. Subject to final negotiations and settlement with the government agencies involved, our existing governmental contracts are expected to offset approximately \$7.0 million to \$10.0 million of our research and development expenses in each of 2007, 2008 and 2009.

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

We expect our research and development expense to increase in absolute dollars as we continue to develop new processes to further improve the conversion efficiency of our solar cells and reduce their manufacturing cost, and as we develop new products to diversify our product offerings. In addition, in the third quarter of 2007, we signed a Solar America Initiative agreement with the U.S. Department of Energy in which we were awarded \$8.5 million in the first budgetary period. Total funding for the three-year effort is estimated to be \$24.7 million. Our cost share requirement under this program, including lower-tier subcontract awards, is anticipated to be \$27.9 million.

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Sales, General and Administrative

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

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

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

Impairment of Acquisition-Related Intangibles

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

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

During the nine-month period ended September 30, 2007, we recognized a charge for the impairment of acquisition-related intangibles of \$14.1 million. In June 2007, we changed our branding strategy and consolidated all of our product and service offerings under the SunPower tradename. To reinforce the new branding strategy, we formally changed the name of PowerLight to SunPower Corporation, Systems. The fair

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value of PowerLight tradenames was valued at \$15.5 million at the date of acquisition and ascribed a useful life of 5 years. The determination of the fair value and useful life of the tradename was based on our previous strategy of continuing to market our systems products and services under the PowerLight brand. As a result of the change in our branding strategy, during the quarter ended July 1, 2007, the net book value of the PowerLight tradename of \$14.1 million was written off as an impairment of acquisition-related intangible assets. As a percentage of revenues, impairment of acquisition related intangibles was 3% for the nine-month period ended September 30, 2007.

Interest and Other Income (Expense), Net

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

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

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

Income Taxes

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

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

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

For financial reporting purposes, income tax expense and deferred income tax balances were calculated as if we were a separate entity and had prepared our own separate tax return. Deferred tax assets and liabilities are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against net deferred tax assets when management cannot conclude that it is more likely than not that all or a portion of our net deferred tax assets will be realized. As of September 30, 2007, we established a valuation allowance of \$0.8 million, the extent to which deferred tax assets would have exceeded the deferred tax liability position. As of December 31, 2006, we had federal net operating loss carryforwards of \$28.0 million. These federal net operating loss carryforwards expire at various dates from 2011 through 2026, if not utilized. We had California state net operating loss carryforwards of approximately \$4.8 million as of December 31, 2006.

Liquidity and Capital Resources

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

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

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

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

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

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

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

Net cash provided by financing activities for the nine months ended September 30, 2007 reflects \$194.0 million in net proceeds from the issuance of \$200.0 million in principal amount of 1.25% senior convertible debentures in February 2007, \$220.1 million in net proceeds from the issuance of \$225.0 million in principal amount of 0.75% senior convertible debentures in July 2007 and \$167.4 million in net proceeds from our follow-on public offering of 2.7 million shares of our class A common stock in July 2007. Also during the nine months ended September 30, 2007, we paid \$3.6 million on an outstanding line of credit and received \$6.9 million in proceeds from stock option exercises.

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

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

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

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

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

We believe that our current cash and cash equivalents and funds available from the credit agreement with Wells Fargo will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months. However, there can be no assurance that our liquidity will be adequate over time. If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain other debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders.

We expect to experience growth in our operating expenses, including our research and development, sales and marketing and general and administrative expenses, for the foreseeable future to execute our business strategy. We may also be required to purchase polysilicon in advance to secure our wafer supplies or purchase third-party solar modules and materials in advance to support systems projects. We intend to fund these activities with existing cash and cash equivalents, cash generated from operations and, if necessary, borrowings under our credit agreement with Wells Fargo. These anticipated increases in operating expenses may not result in an increase in our revenue and our anticipated revenue may not be sufficient to support these increased expenditures. We anticipate that operating expenses, working capital and capital expenditures will constitute a significant use of our cash resources.

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

Payments Due by Period

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

Item 6. Exhibits.

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

SUNPOWER CORPORATION

Date November 19, 2007

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

Index to Exhibits

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