

SUNPOWER CORP  
Form DEF 14A  
March 25, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**SunPower Corporation**

(Name of Registrant as Specified In Its Charter)  
n/a

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) 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:

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- Fee paid previously with preliminary materials.

- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount previously paid with preliminary materials:

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

(3) Filing Party:

(4) Date Filed:

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**NOTICE OF THE 2008 ANNUAL MEETING OF STOCKHOLDERS**

TO ALL SUNPOWER STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2008 Annual Meeting of Stockholders (the Annual Meeting ) of SunPower Corporation, a Delaware corporation, will be held on:

Date: Thursday, May 8, 2008

Time: Noon Pacific Time

Place: 198 Champion Court, San Jose, California 95134

- Items of Business:
1. The election of five directors to serve on our board of directors (the Board ) for fiscal year 2008;
  2. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2008;
  3. The approval of the Second Amended and Restated SunPower Corporation 2005 Stock Incentive Plan that, if approved, would (a) increase the number of shares of class A common stock reserved for issuance under the stock plan by 1,700,000, (b) provide, beginning in 2009, for an automatic annual increase in the total number of shares of class A common stock reserved for issuance under the stock plan, (c) make certain changes to the permitted qualifying criteria for performance-based equity awards under the stock plan, (d) make certain changes to the compensation of directors under the stock plan, and (e) make certain other conforming technical amendments to the stock plan;
  4. The approval of the Amended and Restated SunPower Corporation Annual Key Employee Bonus Plan; and
  5. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this Notice. This Notice of Annual Meeting, the proxy statement and form of proxy are first being mailed to stockholders on or about March 25, 2008.

All stockholders are cordially invited to attend the Annual Meeting in person. Only stockholders of record at the close of business on March 12, 2008 (the Record Date ) are entitled to receive notice of, and to vote at, the Annual Meeting or any adjournment or postponement of the Annual Meeting. Any registered stockholder in attendance at the Annual Meeting and entitled to vote may do so in person even if such stockholder returned a proxy.

San Jose, California  
March 25, 2008

FOR THE BOARD OF DIRECTORS

Bruce R. Ledesma  
Corporate Secretary

**IMPORTANT: WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE, OR YOU MAY VOTE BY TELEPHONE OR VIA THE INTERNET BY FOLLOWING THE DIRECTIONS ON THE PROXY CARD. ANY ONE OF THESE METHODS WILL ENSURE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING. NO POSTAGE NEED BE AFFIXED TO THE PROXY CARD ENVELOPE IF MAILED IN THE UNITED STATES.**

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**SUNPOWER CORPORATION  
3939 North First Street  
San Jose, California 95134**

**PROXY STATEMENT FOR  
2008 ANNUAL MEETING OF STOCKHOLDERS**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

***General***

The Board of Directors (the Board) of SunPower Corporation, a Delaware corporation, is furnishing this proxy statement and proxy card to you in connection with its solicitation of proxies to be used at SunPower Corporation's Annual Meeting of Stockholders to be held on May 8, 2008 at noon Pacific Time at 198 Champion Court, San Jose, California, or at any adjournment(s), continuation(s) or postponement(s) of the meeting (the Annual Meeting).

We use a number of abbreviations in this proxy statement. We refer to SunPower Corporation as SunPower, the Company, or we, us or our. The term proxy solicitation materials includes this proxy statement, the Notice of Annual Meeting, and the proxy card. References to fiscal 2007 mean our 2007 fiscal year, which began on January 1, 2007 and ended on December 30, 2007.

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

***Important Notice Regarding the Availability of Proxy Materials***

We have elected this year to take advantage of a new Securities and Exchange Commission (the SEC) Notice and Access rule that allows us to make our proxy solicitation materials available to our stockholders over the Internet. Under this rule, on or about March 25, 2008, we started mailing to certain of our stockholders a Notice of Internet Availability of Proxy Materials (the Notice of Internet Availability). The Notice of Internet Availability contains instructions on how our stockholders can both access the proxy solicitation materials and our 2007 Annual Report online and vote online. By sending the Notice of Internet Availability instead of paper copies of the proxy materials, we expect to lower the costs and reduce the environmental impact of our Annual Meeting.

Our proxy solicitation materials and our 2007 Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

Stockholders receiving the Notice of Internet Availability may request a paper or electronic copy of our proxy solicitation materials by following the instructions set forth on the Notice of Internet Availability. Stockholders who did not receive the Notice of Internet Availability will continue to receive a paper or electronic copy of our proxy solicitation materials, which are first being mailed to stockholders and made public on or about March 25, 2008.

***Record Date and Shares Outstanding***

Stockholders who owned shares of our common stock, par value \$0.001 per share, at the close of business on March 12, 2008, which we refer to as the Record Date, are entitled to notice of, and to vote at, the Annual Meeting. On the Record Date, we had 85,068,624 shares of common stock outstanding. Our shares of common stock are divided into class A and class B shares as summarized in the table below.

<b>Classes of Common Stock</b>	<b>Number of Shares Outstanding</b>	<b>Ownership Percentage</b>
Class A Non-Affiliates	29,273,851	34.4%
Class A Affiliates	11,261,486	13.2%
Class B(1)	44,533,287	52.4%
Total	85,068,624	100.0%

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- (1) As of the Record Date, Cypress Semiconductor Corporation, or Cypress, was the beneficial owner of 44,533,287 shares of our class B common stock. The amount of shares owned by Cypress represents 52.4% beneficial ownership and 89.8% voting rights regarding SunPower because our class B common stock is entitled to eight votes per share, while our class A common stock, which is held by all stockholders other than Cypress, is entitled to one vote per share.

### ***Voting***

Each holder of shares of class A common stock is entitled to one vote for each share of class A common stock held as of the Record Date, and the holder of shares of class B common stock is entitled to eight votes for each share of class B common stock held as of the Record Date. The class A common stock and class B common stock are voting as a single class on all matters described in this proxy statement. Cumulating votes is not permitted under our Bylaws.

Many of our stockholders hold their shares through a stockbroker, bank or other nominee, rather than directly in their own name. As summarized below, there are distinctions between shares held of record and those beneficially owned.

#### ***Stockholder of Record***

If your shares are registered directly in your name with our transfer agent, Computershare Trust Company N.A., you are considered, with respect to those shares, the stockholder of record and these proxy solicitation materials are being furnished to you directly by us.

#### ***Beneficial Owner***

If your shares are held in a stock brokerage account, or by a bank or other nominee (also known as shares registered in street name ), you are considered the beneficial owner of such shares held in street name, and these proxy solicitation materials are being furnished to you by your broker, bank or other nominee, who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other nominee as to how to vote your shares. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not automatically vote your shares in person at the Annual Meeting.

#### ***How To Vote***

If you hold shares directly as a stockholder of record, you can vote in one of the following three ways:

- (1) Vote via the Internet at [www.proxyvote.com](http://www.proxyvote.com). Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time on May 7, 2008. Have your Notice of Internet Availability or proxy card in hand when you access the website and then follow the instructions.
- (2) Vote by telephone at 1-800-690-6903. Use a touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on May 7, 2008. Have your Notice of Internet Availability or proxy card in hand when you call and then follow the instructions. Toll free in the U.S. and Canada.
- (3) Vote by mail. Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided with any paper copy of the proxy statement, or return the proxy card to SunPower Corporation, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

If you hold shares beneficially in street name, you may submit your voting instructions in the manner prescribed by your broker, bank or other nominee by following the instructions provided by your broker, bank or other nominee. Shares registered in street name may be voted in person by you only if you obtain a signed proxy from the broker, bank or other nominee who holds your shares, giving you the right to vote the shares. You may contact your broker, bank or other nominee to obtain a proxy card, bring it with you and vote your shares at the Annual Meeting.

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Even if you plan to attend the Annual Meeting, we recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the Annual Meeting.

### *Quorum*

A quorum, which is the holders of at least a majority of our stock issued and outstanding and entitled to vote as of the Record Date, is required to be present in person or by proxy at the Annual Meeting in order to hold the Annual Meeting and to conduct business. Your shares will be counted as being present at the Annual Meeting if you appear in person at the Annual Meeting (and are the stockholder of record for your shares), if you vote your shares by telephone or over the Internet, or if you submit a properly executed proxy card. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Votes against a particular proposal will also be counted both to determine the presence or absence of a quorum and to determine whether the requisite number of voting shares has been obtained.

All shares owned by you of record as of the close of business on the Record Date may be voted. You may cast one vote per share of class A common stock and eight votes per share of class B common stock with respect to each proposal.

### *Votes Required*

Election of a director requires the affirmative vote of the holders of a plurality of votes represented by the shares present in person or represented by proxy at a meeting at which a quorum is present. The five persons receiving the greatest number of votes at the Annual Meeting shall be elected as directors. To approve each of Proposal Two the ratification of the appointment of our independent registered public accounting firm, Proposal Three the adoption of the Second Amended and Restated SunPower Corporation 2005 Stock Incentive Plan, and Proposal Four the adoption of the Amended and Restated SunPower Corporation Annual Key Employee Bonus Plan, the affirmative vote of the holders of a majority of our stock having voting power and present in person or represented by proxy at the Annual Meeting, is required.

### *Treatment of Broker Non-Votes; Abstentions*

Broker non-votes and shares as to which proxy authority has been withheld with respect to any matter are not deemed to be entitled to vote for purposes of determining whether stockholder approval of that matter has been obtained. As a result, broker non-votes are not included in the tabulation of the voting results on any issues requiring the approval of the holders of a majority of our stock having voting power and present in person or represented by proxy at the Annual Meeting. With respect to Proposals Two, Three, and Four, broker non-votes have no effect, while abstentions would be counted as votes against the proposals. With respect to Proposal One, election of a director requires the affirmative vote of the holders of a plurality of the shares present, so the five persons receiving the greatest number of votes at the Annual Meeting will be elected as directors. Since only affirmative votes count for this purpose, neither broker non-votes nor abstentions will affect the outcome of the voting on Proposal One.

### *How Your Proxy Will Be Voted*

If you complete and submit your proxy card or vote via the internet or by telephone, the shares represented by your proxy will be voted at the Annual Meeting in accordance with your instructions. If you submit your proxy card by mail, but do not fill out the voting instructions on the proxy card, the shares represented by your proxy will be voted in favor of Proposals One, Two, Three, and Four. In addition, if any other matters properly come before the Annual

Meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as directed by the Board. We have not received notice of any other matters that may properly be presented at the Annual Meeting.

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***Revoking Your Proxy***

You may revoke your proxy at any time prior to the date of the Annual Meeting by: (1) submitting a later-dated vote in person at the Annual Meeting, via the Internet, by telephone or by mail; or (2) delivering instructions to us at 3939 North First Street, San Jose, California 95134 to the attention of our Corporate Secretary. Any notice of revocation sent to us must include the stockholder's name and must be actually received by us prior to the Annual Meeting to be effective. Your attendance at the Annual Meeting after having executed and delivered a valid proxy card or vote via the internet or by telephone will not in and of itself constitute a revocation of your proxy. If you intend to revoke your proxy by voting in person at the Annual Meeting, you will be required to give oral notice of your intention to do so to the Inspector of Elections at the Annual Meeting. If your shares are held in street name, you should follow the directions provided by your broker, bank or other nominee regarding how to revoke your proxy.

***Solicitation of Proxies***

We will pay for the cost of this proxy solicitation. We may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding or furnishing proxy solicitation materials to such beneficial owners. Proxies may also be solicited personally or by telephone, telegram, or facsimile by certain of our directors, officers, and regular employees, without additional compensation.

***Submission of Stockholder Proposal for the 2009 Annual Meeting***

As a SunPower stockholder, you may submit a proposal, including director nominations, for consideration at future annual meetings of stockholders.

*Stockholders Proposals:* For stockholder proposals to be considered for inclusion in our 2009 proxy statement, the written proposal must be received by our Corporate Secretary, at our corporate offices at 3939 North First Street, San Jose, California 95134, no later than November 25, 2008. The corporation has discretionary power to consider stockholder proposals submitted after February 8, 2009. If the date of the 2009 annual meeting is moved more than 30 days before or after the anniversary date of the 2008 Annual Meeting, the deadline for inclusion of proposals in our proxy statement will instead be a reasonable time before we begin to print and mail or make available our proxy solicitation materials for the 2009 annual meeting. Such proposals will also need to comply with Securities and Exchange Commission regulations, such as Rule 14a-8 of the Exchange Act regarding the inclusion of stockholder proposals in any company-sponsored proxy material.

*Nomination of Director Candidates:* Our Nominating and Corporate Governance Committee will consider director candidates recommended by our stockholders. Such nominations should be directed to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, SunPower Corporation, 3939 North First Street, San Jose, California 95134. In addition, the stockholder must give notice of a nomination to our Corporate Secretary, and such notice must be received within the time period described above under *Stockholder Proposals*. Any such proposal must include the following:

- (1) The nominee's name, age, nationality, business and residential address;
- (2) The nominee's principal occupation and employment;
- (3) The class and number of shares of stock owned beneficially or of record by the nominee; and

(4) Any other information required to be disclosed in the proxy statement.

The stockholder's notice must also include the following information for the stockholder giving the notice and the beneficial holder, if any, on whose behalf the nomination or proposal is being made:

(1) Their names and addresses;

(2) The classes and numbers of shares of stock owned beneficially and of record by them;

(3) A description of any arrangements or understandings between them and each proposed nominee and any other persons (including their names) pursuant to which the nominations are being made;



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- (4) A representation that they intend to appear in person or by proxy at the Annual Meeting to nominate the person named in the notice;
- (5) A representation as to whether they are part of a group that intends to deliver a proxy statement or solicit proxies in support of the nomination; and
- (6) Any other information that would be required to be included in the proxy statement.

If a director nomination is made pursuant to the process set forth above, the Nominating and Corporate Governance Committee of the Board will apply the same criteria in evaluating the nominee as it would any other board nominee candidate, and will recommend to the Board whether or not the stockholder nominee should be included as a candidate for election in our proxy statement. The nominee and nominating stockholder should be willing to provide any information reasonably requested by the Nominating and Corporate Governance Committee in connection with its evaluation. The Board shall make the final determination whether or not a nominee will be included in the proxy statement and on the proxy card for election.

Once either a search firm selected by the Nominating and Corporate Governance Committee or a stockholder has provided our Nominating and Corporate Governance Committee with the identity of a prospective candidate, the Nominating and Corporate Governance Committee communicates the identity and known background and experience of the candidate to the Board. If warranted by a polling of the Board, members of our Nominating and Corporate Governance Committee and/or other members of our senior management may interview the candidate. If the Nominating and Governance Committee reacts favorably to a candidate, the candidate is next invited to interview with the members of the Board who are not on the Nominating and Governance Committee. The Nominating and Governance Committee then makes a final determination whether to recommend the candidate to the Board for directorship. The Nominating and Governance Committee currently has not set specific, minimum qualifications or criteria for nominees that it proposes for Board membership, but evaluates the entirety of each candidate's credentials. The Nominating and Governance Committee believes, however, that we will be best served if our directors bring to the Board a variety of experience and backgrounds and, among other things, demonstrated integrity, executive leadership and financial, marketing or business knowledge and experience.

### ***Directors Attendance at Our Annual Meetings***

Although we do not have a formal policy that mandates the attendance of our directors at our annual stockholder meetings, our directors are encouraged to attend. All directors are expected to attend the 2008 Annual Meeting, and four of the five directors attended the 2007 Annual Meeting.

### ***Voting Results***

We will announce preliminary voting results at the 2008 Annual Meeting and publish final results in SunPower's Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2008.

**A copy of our Annual Report on Form 10-K has been furnished with this proxy statement to each stockholder. A stockholder may also request a copy of our Annual Report on Form 10-K in a writing addressed to our Corporate Secretary at 3939 North First Street, San Jose, California 95134. Upon receipt of such request, we will provide a copy of our Annual Report on Form 10-K without charge, including the financial statements required to be filed with the Securities and Exchange Commission pursuant to Rule 13a-1 of the Securities Exchange Act of 1934 ( Exchange Act ) for our fiscal year 2007. Our Annual Report on Form 10-K is also available on our website at <http://investors.sunpowercorp.com/sec.cfm>.**



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**CORPORATE GOVERNANCE**

**GENERAL INFORMATION**

We believe that good corporate governance is important to ensure that we are managed for the long-term benefit of our stockholders. Our Board has established committees to ensure that we maintain strong corporate governance standards. The charters of our Board committees are available on our website at <http://investors.sunpowercorp.com/documents.cfm>. You may also request copies of our committee charters by writing to SunPower Corporation, 3939 North First Street, San Jose, California 95134, Attention: Corporate Secretary.

We have adopted a Code of Business Conduct and Ethics that is applicable to our directors, officers, and employees (including our principal executive officer, principal financial officer and principal accounting officer) and is designed to promote compliance with the laws applicable to our business, accounting standards, and proper and ethical business methods and practices. Our Code of Business Conduct and Ethics is available on our website at <http://investors.sunpowercorp.com/governance.cfm> under the link for Code of Conduct. You may also request a copy by writing to us at SunPower Corporation, 3939 North First Street, San Jose, California 95134, Attention: Corporate Secretary. If we amend or grant a waiver under it applicable to our principal executive officer, principal financial officer or principal accounting officer, we will post a copy of such amendment or waiver on our website.

**BOARD STRUCTURE**

***Determination of Independence***

It is our policy that a majority of our directors be independent. Our Board has determined that three of our five directors, namely Mr. W. Steve Albrecht, Ms. Betsy S. Atkins, and Mr. Pat Wood III, meet the standards for independence as defined by applicable listing standards of the Nasdaq Global Market and rules and regulations of the Securities Exchange Commission. Our Board has also determined that Mr. Thomas H. Werner, our Chief Executive Officer, and Mr. T.J. Rodgers, the Chairman of our Board, and President and Chief Executive Officer of our majority stockholder, Cypress Semiconductor Corporation, are not independent as defined by applicable listing standards of the Nasdaq Global Market.

***Board Meetings***

Our Board held ten meetings during fiscal year 2007. During fiscal year 2007, each director attended at least 75% of the aggregate number of meetings of the Board and its committees on which such director served. Our independent directors held three executive sessions without management present during fiscal year 2007.

**Stockholder Communications with Board of Directors**

We provide a process by which stockholders may send communications to our Board, any committee of the Board, our non-management directors or any particular director. Stockholders can contact our non-management directors by sending such communications to the chairman of the Nominating and Corporate Governance Committee, c/o Corporate Secretary, SunPower Corporation, 3939 North First Street, San Jose, California 95134. Stockholders wishing to communicate with a particular Board member, a particular Board committee or the Board as a whole, may send a written communication to our Corporate Secretary, SunPower Corporation, 3939 North First Street, San Jose, California 95134. The Corporate Secretary will forward such communication to the full Board, to the appropriate committee or to any individual director or directors to whom the communication is addressed, unless the

communication is unduly hostile, threatening, illegal, or harassing, in which case the Corporate Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

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Our Board has standing Audit, Compensation, and Nominating and Corporate Governance committees. Below is a summary of our committee structure and membership information.

<b>Director</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Nominating and Corporate Governance Committee</b>
W. Steve Albrecht	Chair	Member	Member
Betsy S. Atkins	Member	Chair	Member
Pat Wood III	Member	Member	Chair
T.J. Rodgers			
Thomas H. Werner			

***Audit Committee***

Our Audit Committee is a separately-designated standing committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The members of our Audit Committee are W. Steve Albrecht (Chair), Betsy S. Atkins, and Pat Wood III, each of whom is independent as that term is defined in Section 10A of the Exchange Act and as defined by applicable listing standards of the Nasdaq Global Market. Each member of the Audit Committee is financially literate and has the requisite financial sophistication as required by the applicable listing standards of the Nasdaq Global Market. In addition, the Board has determined that Mr. Albrecht meets the criteria of an audit committee financial expert within the meaning of applicable Securities and Exchange Commission regulations due to his professional experience described below under Proposal One Election of Directors. The Audit Committee held 11 meetings during 2007.

The purpose of the Audit Committee, pursuant to its charter, is to:

provide oversight of our accounting and financial reporting processes and the audit of our financial statements and internal controls by our independent registered public accounting firm;

assist the Board in the oversight of: (1) the integrity of our financial statements; (2) our compliance with legal and regulatory requirements; (3) the independent registered accounting firm's performance, qualifications and independence; and (4) the performance of our internal audit function;

prepare an audit committee report as required by the Securities and Exchange Commission to be included in our annual proxy statement; and

provide to the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board.

The Audit Committee also serves as the representative of the Board with respect to its oversight of the matters described in Report of the Audit Committee of the Board of Directors. The Audit Committee has also established procedures for (1) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and (2) the confidential, anonymous submission by our employees of

concerns regarding accounting or auditing matters.

***Compensation Committee***

The members of the Compensation Committee are Betsy S. Atkins (Chair), W. Steve Albrecht, and Pat Wood III, each of whom is independent as defined by applicable listing standards of the Nasdaq Global Market. The Compensation Committee held eight meetings during 2007.

The Compensation Committee, pursuant to its charter, assists the Board in discharging its duties with respect to:

the formulation, implementation, review, and modification of the compensation of our directors and executive officers;

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the preparation of an annual report of the Compensation Committee for inclusion in our annual proxy statement or Annual Report on Form 10-K, in accordance with applicable rules of the Securities and Exchange Commission and applicable listing standards of the Nasdaq Global Market;

reviewing and discussing the Compensation Discussion and Analysis with management; and

the administration of our stock plans, including the Amended and Restated SunPower Corporation 2005 Stock Incentive Plan.

In certain instances, the Compensation Committee has delegated limited authority to our Chief Executive Officer with respect to compensation and equity awards for employees other than our executive officers. For more information on our processes and procedures for the consideration and determination of executive and director compensation, see Compensation Discussion and Analysis below.

***Nominating and Corporate Governance Committee***

The members of the Nominating and Corporate Governance Committee are Pat Wood III (Chair), Betsy S. Atkins, and W. Steve Albrecht, each of whom is independent as defined by applicable listing standards of the Nasdaq Global Market. The Nominating and Corporate Governance Committee held four meetings during 2007.

The Nominating and Corporate Governance Committee, pursuant to its charter, assists the Board in discharging its responsibilities with respect to:

the identification of individuals qualified to become directors and the selection or recommendation of candidates for all directorships to be filled by the Board or by the stockholders; and

the development, maintenance and recommendation of a set of corporate governance principles applicable to us, and for periodically reviewing such principles.

**Table of Contents****PROPOSAL ONE****ELECTION OF DIRECTORS**

Our Board is currently comprised of five members, all of whom are nominated for re-election at the 2008 Annual Meeting. The Board has considered and approved the nomination of the persons named below for re-election as directors at the Annual Meeting. All five nominees are directors standing for re-election and have consented to being named in this proxy statement and to serve if re-elected. Unless otherwise directed, the proxy holders will vote the proxies received by them for the five nominees named below. If any of the five nominees is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the present Board to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a director. The directors elected will hold office until the next annual meeting of stockholders and until their successors are elected.

The names of the nominees and certain information about them are set forth below. There are no family relationships among any of our directors or executive officers.

<b>Name of Nominee</b>	<b>Age</b>	<b>Position(s) with SunPower</b>	<b>Director Since</b>
T.J. Rodgers	60	Chairman	2002
Thomas H. Werner	48	CEO and Director	2003
W. Steve Albrecht	61	Director	2005
Betsy S. Atkins	54	Director	2005
Pat Wood III	45	Director	2005

*T.J. Rodgers* is Chairman of our Board. Mr. Rodgers is a co-founder of Cypress Semiconductor Corporation, a semiconductor company and our majority stockholder, and has been the President and Chief Executive Officer of Cypress and a member of its board of directors since 1982. Mr. Rodgers also serves as a director of Bloom Energy (formerly Ion America) and Silicon Light Machines. Mr. Rodgers is also a member of the Board of Trustees at Dartmouth College.

*Thomas H. Werner* has served as our Chief Executive Officer and a member of our Board since 2003. Prior to joining SunPower, from 2001 to 2003, Mr. Werner served as Chief Executive Officer of Silicon Light Machines, Inc., an optical solutions subsidiary of Cypress Semiconductor Corporation. From 1998 to 2001, Mr. Werner was Vice President and General Manager of the Business Connectivity Group of 3Com Corp., a network solutions company. Mr. Werner currently serves as a board member of Silicon Light Machines and Cree, Inc.

*W. Steve Albrecht* is the Associate Dean and Andersen Alumni Professor of Accounting at the Marriott School of Management at Brigham Young University, or BYU. Mr. Albrecht, a certified public accountant, certified internal auditor, and certified fraud examiner, joined BYU in 1977 after teaching at Stanford University and the University of Illinois. Prior to becoming a professor, he worked as an accountant for Deloitte & Touche. Mr. Albrecht is the past president of the American Accounting Association and the Association of Certified Fraud Examiners. He currently serves on the boards of Red Hat, SkyWest Airlines, and Cypress Semiconductor Corporation. He is currently a trustee of the Financial Accounting Foundation that oversees the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB).



*Betsy S. Atkins* has served as Chief Executive Officer of Baja Ventures, an early stage technology and life sciences venture capital fund, since 1994. She previously served as Chairperson and Chief Executive Officer of NCI, Inc., a nutraceutical functional food company, from 1991 through 1993. Ms. Atkins was a co-founder of Ascend Communications, a manufacturer of communications equipment, in 1989, where she was also a member of the board of directors until its acquisition by Lucent Technologies, a telecommunications systems, software and products company, in 1999. Ms. Atkins currently serves on the board of directors of Polycom, Inc., Reynolds American, Inc. and Chico's FAS, Inc. She served as a presidential appointee to the Pension Benefit Guaranty Corp. board from 2001 to 2003. She is a faculty member of the National Association of Corporation Directors and a

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member of the British Telecom Advisory Board, the NASDAQ Exchange LLC board, and the Council on Foreign Relations.

*Pat Wood, III* has served as a Principal of Wood3 Resources, an energy infrastructure developer, since July 2005. From 2001 to 2005 Mr. Wood served as the chairman of the Federal Energy Regulatory Commission. From 1995 to 2001, Mr. Wood chaired the Public Utility Commission of Texas. Mr. Wood has also been an attorney with Baker & Botts, a global law firm, and an associate project engineer with Arco Indonesia, an oil and gas company, in Jakarta. He currently serves as a board member of Quanta Services, Inc.

*Required Vote.* The five nominees receiving the highest number of affirmative votes of the shares present or represented and entitled to vote shall be elected as directors. Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no further legal effect under Delaware law.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION TO THE BOARD OF EACH OF THE PROPOSED NOMINEES.**

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**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The Audit Committee of our Board of Directors serves as the representative of the Board of Directors with respect to its oversight of:

- our accounting and financial reporting processes and the audit of our financial statements;
- the integrity of our financial statements;
- our internal controls;
- our compliance with legal and regulatory requirements;
- the independent registered public accounting firm's appointment, qualifications and independence; and
- the performance of our internal audit function.

The Audit Committee also reviews the performance of our independent registered public accounting firm, PricewaterhouseCoopers LLP, in the annual audit of financial statements and in assignments unrelated to the audit, and reviews the independent registered public accounting firm's fees.

The Audit Committee provides the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board. The Audit Committee reviews our financial disclosures, and meets privately, outside the presence of our management, with our independent registered public accounting firm. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements in our Annual Report on Form 10-K for our fiscal year ended December 30, 2007 with management, including a discussion of the quality and substance of the accounting principles, the reasonableness of significant judgments made in connection with the audited financial statements, and the clarity of disclosures in the financial statements. The Audit Committee reports on these meetings to our Board of Directors.

Our management has primary responsibility for preparing our financial statements and for our financial reporting process. In addition, our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our independent registered public accounting firm, PricewaterhouseCoopers LLP, is responsible for expressing an opinion on the conformity of our financial statements to generally accepted accounting principles, and on the effectiveness of our internal controls over financial reporting.

The Audit Committee reports as follows:

- (1) The Audit Committee has reviewed and discussed the audited financial statements for fiscal year 2007 with our management.
- (2) The Audit Committee has discussed with PricewaterhouseCoopers LLP, our independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380, as adopted by the Public Company Accounting Oversight Board in Rule 3200T).

(3) The Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees (as adopted by the Public Company Accounting Oversight Board in Rule 3600T), and has discussed with PricewaterhouseCoopers LLP its independence, including whether PricewaterhouseCoopers LLP's provision of non-audit services to us is compatible with its independence.

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The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the independent registered public accounting firm. The policy provides for pre-approval by the Audit Committee (or its Chair pursuant to delegated authority) of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that fiscal year, the Audit Committee (or its Chair pursuant to delegated authority) must approve the specific service before the independent registered public accounting firm is engaged to perform such services for us.

Based on the review and discussion referred to in items (1) through (3) above, the Audit Committee recommended to our Board of Directors, and the Board approved, the inclusion of our audited financial statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2007, as filed with the Securities and Exchange Commission. The Audit Committee also recommended the reappointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2008.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

W. Steve Albrecht, *Chair*  
Betsy S. Atkins  
Pat Wood III

Table of Contents**PROPOSAL TWO****RATIFICATION OF THE APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

The Board of Directors, upon recommendation of the Audit Committee, has reappointed the firm of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 28, 2008, subject to ratification by our stockholders.

PricewaterhouseCoopers LLP has served as our auditor since 2003. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so, and is expected to be available to respond to appropriate questions.

Stockholder ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm is not required by our Bylaws or other applicable legal requirements. However, the Board is submitting the selection of PricewaterhouseCoopers LLP to the stockholders for ratification as a matter of good corporate governance.

If the stockholders fail to ratify the selection of our independent registered accounting firm, the Audit Committee and the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board, at its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our and our stockholders' best interests.

All fees billed to us by PricewaterhouseCoopers LLP were pre-approved by the Audit Committee. Fees billed to us by PricewaterhouseCoopers LLP during fiscal years 2006 and 2007 were as follows:

<b>Services</b>	<b>2006</b>	<b>2007</b>
Audit Fees	\$ 1,218,000	\$ 1,979,000
Audit-Related Fees	177,000	294,000
Tax Fees	101,000	183,000
All Other Fees		
<b>Total</b>	<b>\$ 1,496,000</b>	<b>\$ 2,456,000</b>

**Audit Fees:** Audit fees for 2006 were for professional services rendered in connection with audits of our consolidated financial statements, statutory audits of our subsidiary companies, quarterly reviews, assistance with documents that we filed with the Securities and Exchange Commission (including our Forms S-8, 10-Q, 10-K and 8-K), and issuance of comfort letters in connection with our May 2006 public offering and the issuance of the auditors consents. Audit fees for 2007 were for professional services rendered in connection with audits of our consolidated financial statements, statutory audits of our subsidiary companies, quarterly reviews, assistance with documents that we filed with the Securities and Exchange Commission (including our Forms S-1, S-3, S-8, 10-Q, 10-K and 8-K), the issuance of comfort letters in connection with our February 2007 and July 2007 public offerings and the issuance of the auditors consents.

**Audit-Related Fees:** Audit-related fees for 2006 and 2007 were for professional services rendered in connection with consultations with management on various accounting matters.

**Tax Fees:** Tax fees for 2006 and 2007 were for tax return preparation assistance and expatriate tax services, general tax planning and international tax consulting.

**All Other Fees:** SunPower was not billed any other fees by PricewaterhouseCoopers LLP in 2006 or 2007.

### **Required Vote**

The affirmative vote of the holders of a majority of the shares represented and entitled to vote at the meeting will be required to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 28, 2008.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2008.**

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**PROPOSAL THREE**

**APPROVAL OF THE SECOND AMENDED AND RESTATED  
SUNPOWER CORPORATION 2005 STOCK INCENTIVE PLAN**

The Board has approved and is submitting for stockholder approval an amendment and restatement of the Amended and Restated SunPower Corporation 2005 Stock Incentive Plan (the "Stock Plan") that, if approved, would:

increase the number of shares of our class A common stock reserved for issuance under the Stock Plan by 1,700,000 shares, for a total of 1,849,663 shares as of March 12, 2008;

provide, beginning in 2009, for an automatic annual increase in the total number of shares of class A common stock reserved for issuance under the Stock Plan;

make certain changes to the permitted qualifying criteria for performance-based equity awards under the Stock Plan

make certain changes to the compensation of directors under the Stock Plan; and

make certain other conforming technical amendments to the Stock Plan, all as further described below under Summary of the Amendment and Restatement.

The actual number of shares reserved under the Stock Plan at any given time is determined in accordance with the formula described under Summary Description of Stock Plan as Currently in Effect Stock Plan Limits/Class A Common Shares Available for Issuance.

The Stock Plan was originally adopted by our Board on August 12, 2005, was amended by our Board effective as of September 23, 2005, was amended by the Board and stockholders on October 5, 2005, reflected a two-for-one reverse stock split on November 10, 2005, was again amended by our Board and our stockholders effective as of May 4, 2006, was amended by our Board and our stockholders effective as of February 12, 2007, and was amended and restated by our Board and stockholders effective as of May 4, 2007. The Stock 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 amended Stock Plan is set forth below and is followed by a summary of the principal provisions of the Stock Plan as currently in effect. The summaries of both the amended Stock Plan and the current Stock Plan are not intended to be exhaustive and are qualified in their entirety by the terms of the amended Stock Plan and the current Stock Plan, respectively. A complete copy of the Stock Plan, as proposed to be amended and restated, is attached to this proxy statement as Appendix A.

**Summary of the Amendment and Restatement**

The amended Stock Plan will make two significant changes that will impact the number of shares of class A common stock reserved for issuance under the Stock Plan. First, the amended Stock Plan will increase the number of class A common shares reserved for issuance under the Stock Plan by 1,700,000 shares, for a total of 1,849,663 shares as of March 12, 2008. Second, the amended Stock Plan will include an automatic share reserve increase feature effective for 2009 through 2015. If the amended Stock Plan is approved, this share reserve increase feature will cause, beginning in



2009, an annual and automatic increase in the number of shares of our class A common stock reserved for issuance under the Stock Plan in an amount each year equal to the least of

3% of the outstanding shares of all classes of our common stock measured on the last day of the immediately preceding fiscal year;

6,000,000 shares; and

such other number of shares as determined by our Board.

We believe that this annual automatic share reserve increase is necessary to allow us to fund our ongoing employee recruiting and retention efforts without incurring the time and expense of submitting share increase proposals to our

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stockholders year after year. Our business is in a growth phase, and we are increasing our headcount accordingly. Because we provide equity awards under the Stock Plan to most employees, we will continue to require a large number of shares to be available for issuance under the Stock Plan.

Additionally, the amended Stock Plan will modify the permitted qualifying criteria for performance-based equity awards under the Stock Plan consistent with certain requirements of Section 162(m) of the Internal Revenue Code. These modifications will clarify that we may make certain adjustments when evaluating performance results relating to performance awards under the Stock Plan, and will enumerate additional events that may occur during a performance period that we may exclude when evaluating performance results, as further described in the amended Stock Plan.

The amended Stock Plan will also make the following changes to the automatic grants of equity awards to directors under the Stock Plan:

Eliminate the current initial grant of a Nonstatutory Option (as defined in the Stock Plan) to purchase 20,000 shares of class A common stock, for non-employee directors joining the Board after the 2008 Annual Meeting of Stockholders (the Effective Date );

Eliminate the current initial grant of 2,000 Restricted Shares (as defined in the Stock Plan) for non-employee directors joining the Board after the Effective Date;

Provide for non-employee directors joining the Board after the Effective Date to receive a grant of 6,600 Stock Units (as defined in the Stock Plan) subject to certain restrictions, which Stock Units will vest annually in equal installments over a five-year period beginning on the date of grant;

Eliminate the annual grant of 2,000 Restricted Shares for re-elected non-employee directors;

Eliminate the annual grant of an Option (as defined in the Stock Plan) to purchase 6,000 shares of class A common stock, for re-elected non-employee directors;

Provide for non-employee directors who have served for at least six months to receive, on the first business day following each annual meeting beginning with the 2008 Annual Meeting, an annual grant of 4,000 Stock Units that will vest quarterly in equal installments over a one-year period beginning on the date of grant;

Change, after the Effective Date, the form of the initial equity grant to the Chairman of the Board from 10,000 Restricted Shares to a grant of 10,000 Stock Units that will vest quarterly in equal installments over a one-year period beginning on the date of grant; and

Change, after the Effective Date, the form of the annual equity grant to the Chairman of the Board from 10,000 Restricted Shares to a grant of 10,000 Stock Units that will vest quarterly in equal installments over a one-year period beginning on the date of grant.

In determining the equity compensation for the Chairman of the Board, the directors took into account our Chairman's level of involvement in our activities in addition to participating in board meetings, including among other things participating in full day quarterly business reviews, ongoing technology review and oversight, and other management activities. Because no monetary consideration will be paid by the recipients of the Stock Units issued under the Stock Plan, the issuance of shares of class A common stock upon vesting of Stock Units pursuant to the Stock Plan will cause dilution to our existing stockholders.

The amended Stock Plan will also make certain other conforming amendments related to the changes described above, as well as certain technical amendments clarifying the compliance of the Stock Plan with Section 409A of the Internal Revenue Code and clarifying that Stock Appreciation Rights and all Stock Options may not have an exercise price less than the fair market value on the date of grant. Also, as a result of Internal Revenue Service requirements, in connection with the automatic share reserve increase, we are setting a maximum limit of 15 million on the number of incentive stock options that can be issued under the Stock Plan. We have forecasted this limit based on the automatic share reserve increase and the remaining term of the Stock Plan.

**Table of Contents****Summary Description of Stock Plan as Currently in Effect**

*Awards Available Under the Stock Plan.* Under the Stock Plan we may award shares of class A common stock or securities exercisable for or based on shares of class A common stock, but not shares of class B common stock. The Stock Plan provides for the discretionary award of: (1) 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 ); (2) class A common shares subject to certain restrictions ( Restricted Shares ); (3) stock appreciation rights ( SARs ); and (4) bookkeeping entries equivalent to one or more class A common shares ( Stock Units ). The Stock 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 Stock Plan. ISOs may be granted only to employees. Currently, approximately 3,600 employees, non-employee directors and consultants with the Company are eligible to participate in the Stock Plan.

*Stock Plan Limits/Class A Common Shares Available for Issuance.* The Stock Plan currently provides that the aggregate number of shares of class A common stock authorized for issuance as awards under the Stock Plan will not exceed 1,492,133 shares, plus (1) any shares subject to options granted under the prior stock plans which lapse or otherwise terminate prior to being exercised subsequent to August 12, 2005, and plus (2) 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. In addition, no participant in the Stock Plan can receive awards for any calendar year that relate to more than 500,000 shares.

*Class A Common 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 Stock 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 Stock Plan. If Stock Units are settled, then only the number of class A common shares (if any) actually issued in settlement of such Stock Units will reduce the number available under the Stock Plan and the balance will again become available for awards under the Stock Plan. If SARs are exercised, then only the number of class A common shares (if any) actually issued in settlement of such SARs shall reduce the number available under the Stock Plan and the balance will again be available for awards under the Stock Plan.

*Administration.* The Stock 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 (1) such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act, and (2) 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 Stock Plan with respect to employees who are not considered officers or directors under Section 16 of the Exchange Act, may grant awards under the Stock 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 equity awards or other rights under the Stock Plan to persons subject to Section 16 of the Exchange Act.

*Stock Options.* Both ISOs and Nonstatutory Options are available for grant under the Stock Plan. ISOs may be granted only to employees while Nonstatutory Options may be granted to employees, non-employee directors

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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 and the Company. Each Stock Option agreement will specify the number of class A common 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 Stock 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 class A common 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 class A common share on the date of grant. The closing price per share of our class A common stock on March 12, 2008 was \$62.40.

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 class A common shares subject to the Stock Option in the event that a Change in Control (as defined in the Stock Plan) occurs with respect to the Company.

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 stockholder until shares of stock are issued. The Compensation Committee may at any time (1) offer to buy out for a payment in cash or cash equivalents a Stock Option previously granted, or (2) 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.

If Proposal Three described above is not approved by our stockholders, 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 20,000 shares on the date of his or her election or appointment to the Board. The initial Stock Option will vest 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. Also, immediately after each of our regularly scheduled annual meetings of stockholders, 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, and will become fully vested if we are subject to a change of control. If Proposal Three described above is approved by our stockholders, the non-cash compensation program described in connection with Proposal Three above will apply in 2008.

*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 Stock 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.

If Proposal Three described above is not approved by our stockholders, a non-employee director who joins the Board on or after the Effective Date, and was not previously an employee, will be granted 2,000 Restricted Shares on the

date of his or her election or appointment to the Board. These Restricted Shares will vest and become exercisable quarterly over a one-year period. Also, each returning non-employee director automatically will be granted 2,000 Restricted Shares each year, provided the director has served on the Board for at least six months. These Restricted Shares will vest and become exercisable quarterly over a one-year period. If Proposal Three described above is not approved by our stockholders, the Chairman of the Board will be granted 10,000 Restricted Shares each year. These Restricted Shares will vest and become exercisable quarterly over a one-year period. If

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Proposal Three described above is approved by our stockholders, the non-cash compensation program described in connection with Proposal Three above will apply in 2008.

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, 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 Stock Plan) occurs with respect to the Company.

The holders of Restricted Shares awarded under the Stock 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 class A common shares subject to such SAR in the event that a Change in Control (as defined in the Stock 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, class A common shares, or a combination of the two. The amount of cash and/or the fair market value of class A common 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 class A common 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 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 Stock 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, class A common 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. If Proposal Three described above is approved by our stockholders, the non-cash compensation program described in connection with Proposal Three above will apply in 2008.

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 Units 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 Stock Plan) occurs with respect to the Company.



*Adjustments.* In the event of a recapitalization, stock split or similar capital transaction, appropriate adjustments will be made to: (1) the number of class A common shares reserved for issuance under the Stock Plan; (2) the limitation regarding the total number of class A common shares underlying awards given to an individual participant in any calendar year; (3) the number of Nonstatutory Options automatically granted to non-employee directors; and (4) other adjustments in order to preserve the benefits of outstanding awards under the Stock Plan (including adjustments to the number of class A common 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).

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*Effect of Certain Transactions.* A Change in Control (defined below) may impact rights to an award made under the Stock Plan. Specifically, the Stock 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: (1) Restricted Shares and Stock Units vest; and (2) 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, Restricted Shares or Stock Units 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: (1) cash flow; (2) earnings per share; (3) earnings before interest, taxes and amortization; (4) return on equity; (5) total stockholder return; (6) share price performance; (7) return on capital; (8) return on assets or net assets; (9) revenue; (10) income or net income; (11) operating income or net operating income; (12) operating profit or net operating profit; (13) operating margin or profit margin; (14) return on operating revenue; (15) return on invested capital; or (16) 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: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (d) accruals for reorganization and restructuring programs; and (e) any extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in our Annual Report to stockholders for the applicable year. If Proposal Three is approved, the Compensation Committee in an award may provide for the adjustment of any evaluation of performance under the foregoing qualifying performance criteria to exclude any objective and measurable events specified in the award, including but not limited to those listed above, as well as any of the following events that occurs during a performance period: (w) acceleration of amortization of debt issuance costs, (x) stock-based compensation charges, (y) purchase-accounting related charges, including amortization of intangible purchased assets, acquired in-process research and development charges, and similar charges associated with purchase accounting, and (z) the related tax effects associated with each of the permissible adjustments. However, if Proposal Three is approved, the express reference to extraordinary non-recurring items described in management's discussion and analysis of financial condition and results of operations appearing in our Annual Report to stockholders for the applicable year will be deleted.

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 Stock 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 Stock 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

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portion of any class A common shares that otherwise would be issued to him or her or by surrendering all or a portion of any class A common shares that he or she previously acquired. Such class A common 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 class A common 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 Stock Plan terminates automatically on August 12, 2015, unless terminated earlier by the Board. The Board may amend, modify or terminate the Stock 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 Stock Plan will not be materially impaired by such amendment, except with the consent of the participant.

**Benefits Under the Amended Stock Plan**

Directors, consultants and employees, including executive officers and employees who are members of the Board, are eligible to participate in the Stock Plan. Future awards under the Stock 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 Stock Plan by any of our executive officers, directors or employees. In 2007, our executive officers received, in the aggregate, 124,012 Restricted Shares, and 25,000 Stock Units, and our non-executive directors received, in the aggregate, 16,000 Restricted Shares, and Stock Options to purchase 18,000 shares of our class A common stock. In 2007, our non-executive employees received, in the aggregate, 548,492 Restricted Shares, and 430,699 Stock Units. The foregoing amounts excluded Stock Options held by our executive officers and non-executive employees as a result of our assumption of stock options that had been issued by PowerLight Corporation before our acquisition of PowerLight in January 2007.

Although the benefits or amounts to be received from future awards under the current Plan are not determinable, the Board has approved grants of Stock Units to certain individuals pursuant to the amended Stock Plan, as set forth in the table below, subject to approval of Proposal Three by the stockholders at our 2008 Annual Meeting and subject to the recipient maintaining his or her status as director or employee through the date of the Annual Meeting.

**Contingent Grants Under Second Amended and Restated  
SunPower Corporation 2005 Stock Incentive Plan**

<b>Name and Position</b>	<b>Dollar Value (\$)(1)</b>	<b>Number of Stock Units(2)</b>
Thomas H. Werner, Chief Executive Officer	3,121,560	50,025
Emmanuel T. Hernandez, Chief Financial Officer	1,872,000	30,000
Thomas L. Dinwoodie, Founder and Chief Technology Officer, SunPower Corporation, Systems	468,000	7,500
Howard J. Wenger, Senior Vice President, Global Business Units	748,000	12,000
Bruce R. Ledesma, General Counsel and Corporate Secretary	468,000	7,500
Executive Group	8,175,960	131,025
Non-Executive Director Group	1,372,800	22,000
Non-Executive Officer Employee Group	0	0

(1)

The dollar value indicated is based upon \$62.40, the closing price of our class A common stock on March 12, 2008.

- (2) The number of Stock Units to be issued to our named executive officers and our Executive Group would vest based on both continued employment and achievement of qualifying performance-based milestones. The number of shares of our class A common stock remaining reserved for issuance under the Stock Plan was insufficient to proceed with the issuance of such performance-based Stock Units when approved by the Board

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in January 2008 and are therefore subject to approval of Proposal Three by the stockholders at our 2008 Annual Meeting.

### **Federal Income Tax Consequences**

The following is a brief summary of some of the federal income tax consequences of certain transactions under the Stock Plan based on federal income tax laws in effect on December 31, 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 class A common shares and the fair market value of the class A common shares, if vested, on the date of exercise; and (3) at the time of sale of class A common shares acquired pursuant to the exercise of a Nonstatutory Option, appreciation (or depreciation) in value of the class A common 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 class A common 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 class A common shares are issued to the optionee pursuant to the exercise of an ISO, and if no disqualifying disposition of such class A common shares is made by such optionee within two years after the date of grant or within one year after the transfer of such class A common shares to the optionee, then upon sale of such class A common 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 class A common 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 class A common shares at the time of exercise (or, if less, the amount realized on the disposition of such class A common shares if a sale or exchange) over the option price paid for such class A common 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 class A common 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) at such time as the class A common 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 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 class A common shares on the date of settlement (reduced by any amount paid by the participant for such Stock Units), and, if settled with class A common shares in whole or in part, the capital gains/loss holding period for such class A common shares will also commence on such date.

**Table of Contents****Section 409A of the Code**

Awards under the Stock Plan may, in some cases, result in a deferral of compensation that is subject to the requirements of Section 409A of the Code ( Section 409A ). Generally, to the extent these awards are subject to Section 409A, such awards will be subject to immediate taxation in the year they vest and a 20% penalty tax unless the requirements of Section 409A are satisfied. It is the intent of the Company that awards under the Stock Plan will be structured and administered in a manner that complies with the requirements of Section 409A. Awardees should consult their own tax advisor with respect to the potential application of Section 409A.

**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.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE SECOND AMENDED AND RESTATED SUNPOWER CORPORATION 2005 STOCK INCENTIVE PLAN.**

**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides certain information as of December 30, 2007 with respect to our equity compensation plans under which our equity securities are authorized for issuance (in thousands, except dollar figures):

<b>Plan Category</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</b>
Equity compensation plans approved by security holders	2,889	\$ 4.73	28
Equity compensation shares not approved by security holders	17(1)	\$ 2.00	
Total	2,906(2)	\$ 4.71	28



- (1) Represents one option to purchase shares of class A common stock issued to one employee on June 17, 2004 with an exercise price of \$2.00, vesting over five years.
- (2) This table excludes options to purchase an aggregate of approximately 795,000 shares of class A common stock, at a weighted average exercise price of \$8.09 per share, that we assumed in connection with the acquisition of PowerLight Corporation in January 2007.

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**PROPOSAL FOUR**

**APPROVAL OF THE AMENDED AND RESTATED  
SUNPOWER CORPORATION ANNUAL KEY EMPLOYEE BONUS PLAN**

The Board is submitting for stockholder approval the Amended and Restated SunPower Corporation Annual Key Employee Bonus Plan (the *New KEBP*), which is an amendment and restatement of the SunPower Corporation 2006 Key Employee Bonus Plan (the *Old KEBP*). The Board approved the *New KEBP* on January 31, 2008. If approved by our stockholders, the *New KEBP* will replace the *Old KEBP* as our annual cash bonus plan available to certain of our employees, including our named executive officers.

The *Old KEBP* served in past years as our cash incentive program. The *Old KEBP* has both a quarterly component and an annual component. The *New KEBP* will only have an annual award component. However, the Board has also separately approved a quarterly bonus plan, our Key Initiative Plan, which is not being submitted for stockholder approval. The potential and actual payments under the *New KEBP* will be determined in accordance with the terms and conditions of the *New KEBP* and as approved by our Compensation Committee.

A summary of the *New KEBP* is set forth below. The summary of the *New KEBP* is not intended to be exhaustive and is qualified in its entirety by the terms of the *New KEBP*. A complete copy of the *New KEBP*, as proposed for adoption, is attached to this proxy statement as Appendix B.

**Summary Description of the New KEBP**

*Awards Available Under the New KEBP.* The *New KEBP* will allow us to provide annual cash incentive award opportunities and performance-based payouts for those award opportunities for certain of our employees, including our named executive officers. Annual cash incentive awards help us align executive compensation with business objectives and performance, as further described below in Compensation Discussion and Analysis. One of the primary objectives of the *New KEBP* is to ensure that annual cash incentive payouts qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code.

*Eligibility.* Any employee of the Company or its affiliates may be selected by our Compensation Committee to participate in the *New KEBP* for a particular performance period. The Compensation Committee may also select individuals who are expected to become employees to participate for a particular performance period. Participation in the *New KEBP* will be determined on a performance-period-by-performance-period basis. Currently, approximately 75 individuals, including our executive officers, are eligible to participate in the *New KEBP*.

*Operation of the New KEBP.* The *New KEBP* will generally operate as follows:

Each year, the Compensation Committee will establish a performance period, which will consist of a particular fiscal year for the Company, or a longer or shorter period determined by the Compensation Committee.

For each performance period, the Compensation Committee will approve one or more performance goals (which are listed below), as well as target amounts for each performance goal, for the performance period.

The Compensation Committee will also establish in writing an annual cash incentive award opportunity for each participant, which award opportunity will be expressed as either a percentage of the participant's base salary or a specific dollar amount. We refer to this annual cash incentive award opportunity as the participant's

target award. The Compensation Committee will select participants, the performance goals and the target awards not later than the 90th day of the performance period.

In order to determine the amount of the target award each participant will earn as a payout amount based on actual performance compared to the pre-established performance goals, the Compensation Committee will approve within the first 90 days of the performance period, a formula or payout matrix, which we refer to as the payout formula. The payout formula may differ from participant to participant. The Compensation Committee may determine that if actual performance falls below a specific percentage of the target amount for a performance goal, no payout amount will be earned for that particular performance goal. In no event

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will a participant's actual award payout for any performance period exceed, during any period of three consecutive fiscal years, \$9.0 million.

After the end of each performance period, the Compensation Committee will determine initial payout amounts for each participant by applying the payout formula. The Compensation Committee must also certify the extent to which the performance goals were actually achieved during the performance period. The Compensation Committee may adjust any evaluation of performance against the performance goals to exclude objective and measurable events, as further explained below. The Compensation Committee may also eliminate or reduce the payout amount for a participant below the initial payout amount based on the Compensation Committee's discretion.

Participants must be employed by us at the time payouts are made, except where the participant has either died or suffered a permanent disability in accordance with any disability policies of the Company. Payouts will be made as soon as possible, but no later than two and one-half months after the end of the performance period. Payouts will be made in a single lump sum in cash or a cash equivalent. If the participant dies after the payout amount has been earned, but before the payout is made, the payout will be made to the participant's designated beneficiary or to the participant's estate (as further explained below).

*Administration.* The New KEBP 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 such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under Section 162(m) of the Internal Revenue Code.

In administering the New KEBP, our Compensation Committee may, among other things (1) determine which employees will be granted awards, (2) establish the terms and conditions of awards, (3) interpret the New KEBP and awards made under the New KEBP, (4) adopt procedures and subplans that are necessary or appropriate to permit participation in the New KEBP by eligible foreign nationals or persons employed outside of the United States, (5) adopt rules for the administration, interpretation and application of the New KEBP and (6) interpret, amend or revoke any such rules. The Compensation Committee, in its sole discretion, may delegate all or part of its authority and powers under the New KEBP to one or more directors and/or officers of the Company, but the Compensation Committee may not delegate its authority or powers with respect to awards that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. All determinations and decisions made by our Compensation Committee, the Board, and any delegate of the Compensation Committee pursuant to the provisions of the New KEBP are final, conclusive, and binding on all persons.

*Performance Goals.* As determined by our Compensation Committee, awards will be made subject to the achievement of performance goals for a specified period of time relating to one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or a subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years results or to a designated comparison group or index, in each case as specified by our Compensation Committee:

cash flow;

earnings per share;

earnings before interest, taxes and amortization;

return on equity;

total stockholder return;

share price performance;

return on capital;

return on assets or net assets;

revenue;

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income or net income;  
operating income or net operating income;  
operating profit or net operating profit;  
operating margin or profit margin;  
return on operating revenue;  
return on invested capital; or  
market segment shares.

The Compensation Committee may adjust any evaluation of performance against the performance goals to exclude any objective and measurable events specified at the time the performance goals are established, including but not limited to any of the following events that occurs during a performance period:

asset write-downs;  
litigation or claim judgments or settlements;  
the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results;  
accruals for reorganization and restructuring programs;  
acceleration of amortization of debt issuance costs;  
stock-based compensation charges;  
purchase-accounting related charges, including amortization of intangible purchased assets, acquired in-process research and development charges, and similar charges associated with purchase accounting;  
any extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30; and  
the related tax effects associated with each of the adjustments listed in the preceding bullets.

The Compensation Committee will determine the performance goals not later than the 90th day of the performance period, and shall determine and certify, for each participant, the extent to which the performance goals have been met. The Compensation Committee may not in any event increase the amount of compensation payable under the New KEBP 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. However, the Compensation Committee may (1) eliminate or reduce the payout amount payable to any participant below the amount that otherwise would be payable under the payout formula described above, and (2) determine whether or not a participant will receive a payout in the event the participant's employment terminates prior to the date the payout is to be actually paid.

*Withholding of Taxes.* We or our affiliates, as determined by our Compensation Committee, will withhold all applicable taxes, including federal, state, local and other taxes, from any award payout.

*Effect on Employment.* Nothing in the New KEBP interferes with or limits in any way our right or the right of any of our affiliates to terminate any participant's employment or service at any time, with or without cause, or to deal with a participant without regard to the effect upon him or her as a participant in the New KEBP.

*Beneficiary Designations.* For as long as permitted by our Compensation Committee, New KEBP participants may designate one or more beneficiaries to receive any payout amount that is payable to the participant at the time of his or her death. If beneficiaries may be designated, a participant may designate different beneficiaries (or revoke a prior beneficiary designation) at any time by delivering a new designation (or a revocation of a prior designation) to our Compensation Committee. The designation or revocation will be effective as of the date the designation or revocation is executed (whether or not the participant still is living) if it is received by our Compensation Committee, but not impact any payout made before the change is recorded. The last effective designation received by our Compensation Committee will supersede all prior designations. If beneficiaries may no longer be designated, or if a participant dies without designating a beneficiary, the participant's payouts will be paid

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to the participant's general beneficiary shown on our records. If the beneficiary dies before the participant, the participant's payouts will be paid to his or her estate.

*Nontransferability of Awards.* No award granted under the New KEBP may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will, by the laws of descent and distribution, or as described regarding the designation of beneficiaries above.

*Deferrals.* Our Compensation Committee may allow a participant to defer receipt of cash that the participant would otherwise receive under the New KEBP. Deferral elections will be subject to rules and procedures as determined by our Compensation Committee.

*Termination and Amendment.* If approved, the New KEBP will remain in effect indefinitely unless terminated earlier by the Board or our Compensation Committee. Either the Board or our Compensation Committee may amend or terminate the New KEBP, or any part of the New KEBP, at any time for any reason. The amendment, suspension or termination of the New KEBP will not alter or impair any rights or obligations under any award granted to a New KEBP participant unless the participant consents to such action. No award may be granted during any period of suspension or after termination of the New KEBP.

**New Plan Benefits**

It is not possible to determine specific awards that may be made in the future under the New KEBP because awards are discretionary and payout amounts are based on actual future performance. For more information regarding target payouts for our named executive officers, please see Compensation Discussion and Analysis Significant Changes Expected in 2008.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDED AND RESTATED SUNPOWER CORPORATION ANNUAL KEY EMPLOYEE BONUS PLAN.**



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

The following table sets forth certain information regarding beneficial ownership of our class A and class B common stock as of the Record Date (except as described below) by:

each of our directors and director nominees;

our Chief Executive Officer, Chief Financial Officer, and each of the three other most highly compensated individuals who served as our executive officers at fiscal year-end, who we collectively refer to as our named executive officers;

our directors, director nominees and executive officers as a group; and

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

Applicable beneficial ownership percentages listed below are based on 40,535,337 shares of class A common stock and 44,533,287 shares of class B common stock outstanding as of the Record Date. The business address for each of our directors and executive officers is our corporate headquarters at 3939 North First Street, San Jose, California 95134.

	Shares Beneficially Owned(1)				% Total Voting Power(2)
	Class A Common Stock		Class B Common Stock		
	Shares	%	Shares	%	
<b>Directors, Director Nominees and Named Executive Officers</b>					
W. Steve Albrecht(3)	11,602	*		*	*
Betsy S. Atkins(4)	2,200	*		*	*
Thomas L. Dinwoodie(5)	1,617,999	4.0		*	*
Emmanuel T. Hernandez(6)	156,738	*		*	*
Bruce R. Ledesma(7)	37,547	*		*	*
T.J. Rodgers(8)	17,500	*	44,533,287	100	89.8
Howard J. Wenger(9)	67,862	*		*	*
Thomas H. Werner(10)	515,509	1.3		*	*
Pat Wood III(11)	26,102	*		*	*
<b>All Directors, Director Nominees and Executive Officers as a Group (11 persons)(12)</b>	932,242	2.3	44,533,287	100	90.0
<b>Other Persons</b>					
BlackRock, Inc., BlackRock Investment Management LLC, BlackRock (Channel Islands) Ltd, and BlackRock Investment Management UK Ltd(13)	2,084,506	5.1		*	*
Cypress Semiconductor Corp.		*	44,533,287	100	89.8
FMR, LLC(14)	5,272,912	13.0		*	*

Ivy Investment Management Company, Waddell & Reed Investment Management Company, Waddell & Reed, Inc., Waddell & Reed Financial Services, Inc., and Waddell & Reed Financial, Inc.(15)	2,070,769	5.1	*	*
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\* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares underlying options held by that person that will be exercisable within 60 days of March 12, 2008, are deemed to be outstanding.

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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 our class A common stock and class B 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 3,500 shares of class A common stock held directly by Mr. Albrecht, 7,602 shares of class A common stock issuable to him upon exercise of options exercisable within 60 days of March 12, 2008, and 500 shares of restricted class A common stock held by him.
- (4) Includes 1,700 shares of class A common stock issuable to Ms. Atkins upon exercise of options exercisable within 60 days of March 12, 2008, and 500 shares of restricted class A common stock held by her.
- (5) Includes 1,593,305 shares of class A common stock held directly by Mr. Dinwoodie, 12,347 shares of class A common stock held by the Jaelyn Wolf Irrevocable Trust UAD May 5, 2005, of which Mr. Dinwoodie is the Trustee, 12,347 shares of class A common stock held by the Ariel Wolf Irrevocable Trust UAD May 5, 2005, of which Mr. Dinwoodie is the Trustee. Mr. Dinwoodie disclaims beneficial ownership of the shares held in these trusts. 572,822 of the 1,593,305 shares held directly by Mr. Dinwoodie are subject to an equity restriction agreement with the Company, pursuant to which the shares are subject to certain transfer and repurchase restrictions. The restrictions lapse on one quarter of the shares semi-annually during the two-year restriction period, so long as Mr. Dinwoodie remains employed by SunPower. In connection with the sale of PowerLight Corporation to SunPower, Mr. Dinwoodie also contributed 437,791 of his individually held unrestricted shares and 4,718 of the shares he controls in his capacity as Trustee into an escrow account for the benefit of SunPower to secure certain representations, warranties, covenants and other matters made to SunPower as part of the terms of sale. On January 10, 2008, 218,896 shares were released from the escrow account to him and 2,360 shares were released to each of the trusts.
- (6) Includes 151,738 shares of class A common stock issuable to Mr. Hernandez upon exercise of options exercisable within 60 days of March 12, 2008, and 5,000 shares of restricted class A common stock held by him.
- (7) Includes 6,471 shares of class A common stock held directly by Mr. Ledesma, 2 shares of class A common stock issuable to him upon exercise of options exercisable within 60 days of March 12, 2008, and 31,074 shares of restricted class A common stock held by him.
- (8) Includes 15,000 shares of class A common stock held directly by Mr. Rodgers, and 2,500 shares of restricted class A common stock held by him. Also includes 44,533,287 shares of class B common stock held by Cypress Semiconductor Corporation. Mr. Rodgers is the chief executive officer of Cypress.
- (9) Includes 11,927 shares of class A common stock held directly by Mr. Wenger, 1 share of class A common stock issuable to him upon exercise of options exercisable within 60 days of March 12, 2008, and 55,934 shares of restricted class A common stock held by him.
- (10)

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Includes 34,925 shares of class A common stock held directly by Mr. Werner, and 480,584 shares of class A common stock issuable to him upon exercise of options exercisable within 60 days of March 12, 2008, .

- (11) Includes 3,500 shares of class A common stock held directly by Mr. Wood, 22,102 shares of class A common stock issuable to him upon exercise of options exercisable within 60 days of March 12, 2008, and 500 shares of restricted class A common stock held by him.
- (12) Includes 116,292 shares of class A common stock held directly by the directors and officers as a group, 716,942 shares of class A common stock issuable to them upon exercise of options exercisable within 60 days of March 12, 2008, and 99,008 shares of restricted class A common stock held by them. Also includes 44,533,287 shares of class B common stock held by Cypress Semiconductor Corporation, of which Mr. Rodgers is the Chairman and Chief Executive Officer.

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- (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 or about November 9, 2007 by BlackRock Inc. on behalf of the investment advisory subsidiaries BlackRock Investment Management LLC, BlackRock (Channel Islands) Ltd, and BlackRock Investment Management UK Ltd., which indicated that such parties have beneficial ownership of 2,084,506 shares of class A common stock, with shared voting and dispositive power with respect to said shares. The business address of BlackRock Inc. is 40 East 52nd Street, New York, NY 10022.
- (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, 2008 by FMR LLC, or FMR, which indicated that it has beneficial ownership of 5,272,912 shares of class A common stock, and sole voting power with respect to 81,300 shares. FMR's beneficial ownership includes holdings of Fidelity Management & Research Company, or Fidelity, which is a wholly-owned subsidiary of FMR. Fidelity has indicated it has beneficial ownership of 5,178,812 shares, including 193,833 shares resulting from the assumed conversion of \$11.0 million principal amount of our 1.25% convertible debentures due February 15, 2027. Edward D. Johnson 3d and FMR, through its control of Fidelity, and the funds each has sole power to dispose of 5,178,812 shares. FMR's beneficial ownership also includes holdings of Strategic Advisers, Inc., or Strategic Advisers, a wholly-owned subsidiary of FMR. Strategic Advisers has indicated it has beneficial ownership of 1,000 shares. FMR's beneficial ownership also includes holdings of Pyramis Global Advisors Trust Company, or Pyramis, which is an indirect wholly-owned subsidiary of FMR. Pyramis has indicated it has beneficial ownership of 76,300 shares. Edward D. Johnson 3d and FMR, through its control of Pyramis, each has sole dispositive power over 76,300 shares and sole power to vote or to direct the voting of 63,500 shares. FMR's beneficial ownership also includes holdings of Fidelity International Limited, or FIL. Partnerships controlled predominantly by members of the family of Edward C. Johnson 3d, or trusts for their benefit, own shares of FIL voting stock with the right to cast approximately 47% of the total votes which may be cast by all holders of FIL voting stock. FMR and FIL are of the view that they are not acting as a group for purposes of Section 13(d) under the Securities Exchange Act of 1934 and that they are not otherwise required to attribute to each other the beneficial ownership of securities beneficially owned by the other corporation. Therefore, they are of the view that the shares held by the other corporation need not be aggregated for purposes of Section 13(d). However, FMR voluntarily made its Schedule 13G filing as if all of the shares are beneficially owned by FMR and FIL on a joint basis, The business address of FMR is 82 Devonshire Street, Boston, MA 02109.
- (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 1, 2008 by Ivy Investment Management Company, or IICO, Waddell & Reed Investment Management Company, or WRIMCO, Waddell & Reed, Inc., or WRI, Waddell & Reed Financial Services, Inc., or WRFSI, Waddell & Reed Financial, Inc., or WDR, which indicated they collectively have beneficial ownership of 2,070,769 shares of class A common stock. They also indicated that IICO has beneficial ownership of and sole to power to vote or direct the vote, as well as sole power to dispose or direct the disposition, with respect to 1,343,941 shares, WRIMCO has beneficial ownership of and sole power to vote or direct the vote, as well as sole power to dispose or direct the disposition, with respect to 726,828 shares, WRI has beneficial ownership of and sole power to vote or direct the vote, as well as sole power to dispose or direct the disposition, with respect to 726,828 shares, WRFSI has beneficial ownership of and sole power to vote or direct the vote, as well as sole power to dispose or direct the disposition, with respect to 726,828 shares, WDR has beneficial ownership of and sole power to vote or direct the vote, as well as sole power to dispose or direct the disposition, with respect to 2,070,769 shares. IICO, WRIMCO, WRI, WRFSI and WDR are of the view that they are not acting as a group for purposes of Section 13(d) under the Securities Exchange Act of 1934. Indirect beneficial ownership is attributed to the respective parent companies solely because of the parent companies' control relationship to WRIMCO and IICO. The business address of each beneficial owners is 6300 Lamar Avenue, Overland park, KS 66202.



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Certain information as of March 12, 2008, regarding each of our executive officers is set forth below:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Thomas H. Werner	48	Chief Executive Officer
Emmanuel T. Hernandez	52	Chief Financial Officer
Richard M. Swanson	62	President and Chief Technical Officer, SunPower Corporation
Howard J. Wenger	48	Senior Vice President, Global Business Units
Bruce R. Ledesma	40	General Counsel and Corporate Secretary
Douglas J. Richards	49	Vice President, Human Resources & Corporate Services
Daniel S. Shugar	44	President, SunPower Corporation, Systems

*Thomas H. Werner* has served as our Chief Executive Officer and as a member of our Board since June 2003. From 2001 to 2003, Mr. Werner served as Chief Executive Officer of Silicon Light Machines, Inc., an optical solutions subsidiary of Cypress Semiconductor Corporation. From 1998 to 2001, Mr. Werner was Vice President and General Manager of the Business Connectivity Group of 3Com Corp., a network solutions company. Mr. Werner currently serves as a board member of Silicon Light Machines and Cree, Inc.

*Emmanuel T. Hernandez* has served as our Chief Financial Officer since April 2005. Prior to joining SunPower, Mr. Hernandez served more than eleven years as the Executive Vice President of Finance and Administration and Chief Financial Officer at our parent company, Cypress Semiconductor Corporation, a semiconductor design and manufacturing company. Mr. Hernandez currently serves as a member of the board of directors of ON Semiconductor, Integration Associates and Aruba Networks.

*Dr. Richard M. Swanson* co-founded SunPower Corporation in 1985. He has served as our President and Chief Technical Officer since 2003. Prior to his current position, Dr. Swanson served as our Chief Executive Officer and President from 1991 to 2003 and our Vice President and Director of Technology from 1990 to 1991. From 1976 to 1991, Dr. Swanson served as a professor of electrical engineering at Stanford University.

*Howard J. Wenger* has served as our Senior Vice President, Global Business Units since February 2008, prior to which he served as our Vice President, Global Business Units since January 2007. From 2003 to 2007, Mr. Wenger served as Executive Vice President and a member of the board of directors for PowerLight Corporation, a solar system integration company that we acquired in January 2007 and renamed SunPower Corporation, Systems in June 2007. From 2000 to 2003 he was Vice President, North American Business of AstroPower Inc., a solar power manufacturer and system provider. From 1998 to 2000 Mr. Wenger was the Director, Grid-Connected Business, for AstroPower. From 1993 to 1998 Mr. Wenger worked for the Pacific Gas & Electric Company, a utility company in northern California, in both research and strategic planning, and from 1989 to 1993 Mr. Wenger co-founded and managed Pacific Energy Group, a solar power consulting firm.

*Bruce R. Ledesma* has served as our General Counsel and Corporate Secretary since January 2007. From 2005 to 2007 Mr. Ledesma served as General Counsel of PowerLight Corporation. From 2002 to 2004 Mr. Ledesma served as the Executive Vice President and General Counsel of Barra, Inc., a financial risk management company. From 2000 to 2002 Mr. Ledesma served as Vice President, Barra Ventures and, from 1998 to 2000, he was Barra's Associate General Counsel. From 1993 to 1998, Mr. Ledesma practiced as a corporate attorney for Latham & Watkins LLP.

Mr. Ledesma currently serves as a board member of Tahoe-Baikal Institute, a nonprofit organization.

*Douglas J. Richards* has served as our Vice President, Human Resources & Corporate Services since September 2007 when he initially joined us. From 2006 to 2007, Mr. Richards was Vice President of Human Resources and Administration for SelectBuild, a wholly-owned subsidiary of BMHC, and from 2000 to 2006, Mr. Richards was Senior Vice President of Human Resources and Administration for BlueArc.

*Daniel S. Shugar* serves as President of our subsidiary SunPower Corporation, Systems, a position he held since January 2007, when we acquired PowerLight Corporation, renamed SunPower Corporation, Systems in June 2007. Mr. Shugar joined PowerLight in January 1996. Prior to the PV industry, he worked for the Pacific Gas & Electric Company, where he managed PG&E's Solar Projects research group after several years of transmission



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planning and substation operations. Mr. Shugar also serves as a member of the Board of Trustees of the American Solar Energy Society.

**COMPENSATION DISCUSSION AND ANALYSIS**

The following discussion relates to our compensation program during the fiscal year ended December 30, 2007. A summary of significant expected changes for 2008 appears at the end of the discussion.

**General Philosophy and Objectives**

In 2007, we compensated our named executive officers through a mix of base salary, cash bonus awards, time-based equity awards and certain other benefits. Our compensation program was designed to

align executive compensation with business objectives and performance,

enable us to attract, retain and reward executive officers who contribute to our long-term success,

attract and retain the best people in the industry, and

provide additional long-term incentives to officers and employees to work to maximize stockholder value.

To achieve these objectives, we designed and implemented incentive compensation to primarily reward our named executive officers for positive financial performance and achievement of corporate objectives. To this end, we tied a substantial portion of our named executive officers' overall compensation to measurable quarterly corporate milestones, which were derived from annual corporate objectives approved by the Board, and individual performance goals that we refer to as Key Initiatives, which often were derived from or supported corporate milestones and were specific to each officer's areas of responsibility. In addition, our named executive officers participated in an annual bonus plan based on annual company revenue and profitability. We also provided our named executive officers a variety of other benefits, such as health, vision, and life insurance, that we also made available generally to all salaried employees.

**Establishing Compensation Opportunities**

Overall, our aim during 2007 was to offer our named executive officers total compensation opportunities at the 50th percentile of a peer group of competitive companies. Accordingly, we reviewed the compensation that we offered against that offered by peer group companies on an annual basis. We retained Radford Surveys + Consulting, a business unit of Aon Corporation, or Radford, a compensation consulting firm, to help us identify and maintain a peer group of competitive companies to which we referred when establishing executive compensation.

Due to the relative youth of the solar industry, however, in 2007, Radford provided us with information regarding compensation programs at certain semiconductor and capital equipment companies with annual revenue less than \$500 million, as well as peer companies identified by us. These particular companies were chosen because we believed they were the companies that most closely matched our core business. Specifically, Radford provided compensation data with respect to base salaries, cash bonus awards as a percentage of base salaries, total cash compensation, and equity awards. The companies included in our peer group are listed below.

Active Power, Inc.

American Superconductor Corp.

Catalytica Energy Systems, Inc.

Emcore Corporation

Energy Conversion Devices, Inc.

Evergreen Solar, Inc.

FuelCell Energy, Inc.

Kemet

Plug Power Inc.

Power-One, Inc.

Quantum Fuel Systems Technologies  
Worldwide, Inc.

Valence Technology, Inc.

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In 2007, Radford also assisted us in identifying and establishing total compensation targets at the 50th percentile of the peer group 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.

### **Compensation Components**

During the fiscal year ended December 30, 2007, we provided to our named executive officers compensation consisting of base salary, cash bonus awards, time-based equity awards and certain other benefits.

*Base Salary.* In 2007, we established base salaries for our executives based on the scope of their responsibilities, and took into account competitive market compensation paid by companies in our competitive peer group for similar positions. Generally, we believed that executive base salaries should be targeted at or below the 50th percentile 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, based on the information provided by Radford, after taking into account an individual's prior performance experience, criticality of position and expected future performance. Our Compensation Committee approves the employee salary for our Chief Executive Officer, and for each named executive officer below the Chief Executive Officer level based on the Chief Executive Officer's recommendation. In 2007, our Chief Executive Officer and Chief Financial Officer did not receive a raise in salary. We determined the salaries of our other named executive officers while negotiating the acquisition of PowerLight Corporation.

Based on information presented to us by Radford regarding market ranges for salaries at peer group companies, we believe we set our named executive officers' base salaries at approximately the 50th percentile of our peer group of companies. As a result, we believe that we compensated our named executive officers equitably in 2007 when compared to competitive or similar companies.

*Cash Bonus Awards.* In 2007, we utilized cash bonus awards to align executive compensation with business objectives and performance. For 2007, our cash bonus was administered through our Key Employee Bonus Program, or 2007 KEBP, which had a quarterly component, based on achieving personal quarterly Key Initiatives, and an annual component, based on achieving corporate annual revenue and profit before tax targets. Our Compensation Committee approved the employee bonus program incentive level for our Chief Executive Officer, and for each named executive officer below the Chief Executive Officer level based on the Chief Executive Officer's recommendations.

We established the 2007 KEBP targets based on a review of cash bonus awards paid to officers in similar positions at comparable companies according to the data provide by Radford, so that our officers' annual bonus opportunities were set slightly above the 50th percentile of comparable companies so that the total cash compensation was set near the 50th percentile of comparable companies. We also considered, with respect to our Chief Executive Officer and Chief Financial Officer, prior performance, criticality of position, and expected future performance. The table below summarizes the targets for each named executive officer and the allocation between potential quarterly and annual payouts.

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<b>Name</b>	<b>Aggregate Target Payout Under 2007 KEBP as Percentage of Annual Salary (%)</b>	<b>Aggregate Quarterly 2007 KEBP Allocation as Percentage of Annual Salary (%)</b>	<b>Annual 2007 KEBP Allocation as Percentage of Annual Salary (%)</b>
Thomas H. Werner, Chief Executive Officer	80	40	40
Emmanuel T. Hernandez, Chief Financial Officer	80	40	40
Thomas L. Dinwoodie, Founder and Chief Technology Officer, SunPower Corporation, Systems	50	30	20
Howard J. Wenger, Senior Vice President, Global Business Units	50	30	20
Bruce R. Ledesma, General Counsel and Corporate Secretary	50	30	20

*Quarterly 2007 KEBP Component.* Quarterly awards under the 2007 KEBP were formula-driven and triggered when we achieved our profit before tax objective for the quarter. In determining whether any quarterly bonuses were to be paid, we would first have to achieve our profit before tax goal for the quarter. If such goal were achieved, the amount of funding of the quarterly bonus pool was then determined by the level of achievement of company milestones, which were reviewed and approved by the Board at the beginning of each quarter. If we achieved 80% or more of our company milestones, then individuals could have received up to such percentage of their target quarterly 2007 KEBP payment, subject to their own personal achievement of their Key Initiatives for that quarter. If we achieved more than 60% but less than 80% of our company milestones, then individuals could have received up to 50% of their target quarterly 2007 KEBP payment, subject to their own personal achievement of their Key Initiatives for that quarter. If we achieved 60% or less of our company milestones, then individuals would not receive a quarterly 2007 KEBP payment, regardless of their personal achievement of their Key Initiatives for that quarter. The table below summarizes potential quarterly 2007 KEBP payouts in four scenarios for executive officers with 80% and 50% aggregate target bonus payouts.

<b>Aggregate Target Payout Under 2007 KEBP as Percentage of Annual Salary (%)</b>	<b>Aggregate Quarterly 2007 KEBP Allocation as Percentage of Annual Salary (%)</b>	<b>Each Quarterly KEBP Target as Percentage of Annual Salary (%)</b>	<b>Quarterly Profit Before Tax Goal Achieved</b>	<b>Quarterly Corporate Milestones Achieved (%)</b>	<b>Personal Key Initiatives Achieved (%)</b>	<b>Resulting Quarterly 2007 KEBP Bonus as Percentage of Annual Salary (%)</b>
80	40	10.0	No	100	100	0.0
			Yes	90	100	9.0
			Yes	75	100	5.0

			Yes	75	75	3.8
50	30	7.5	No	100	100	0.0
			Yes	90	100	6.8
			Yes	75	100	3.8
			Yes	75	75	2.8

*Annual 2007 KEBP Component.* Annual awards under the 2007 KEBP were also formula-driven and were assessed at the end of the fiscal year based on our attainment of revenue and profit before tax targets for the year. Our revenue and profit before tax targets were established at the beginning of our fiscal year and approved by our Compensation Committee.

We met our revenue and profit before tax goals for 2007. Annual 2007 KEBP bonus awards are to be paid in two installments in July 2008 and January 2009. With respect to the annual 2007 KEBP payments, our named executive officers will have to be employed by us on the scheduled payment date in order to receive their annual 2007 KEBP bonus. Unless otherwise provided in a named executive officer's employment agreement, if a named executive officer's employment is terminated prior to the scheduled payment date (unless by reason of death or disability), his or her bonus will be forfeited. Bonus payments, subject to continued employment, are reflected in the 2007 KEBP Annual Bonus Tables below in Executive Compensation.

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*Time-Based Equity Awards.* Our Compensation Committee believes that long-term company performance was best achieved through an ownership culture that encourages long-term performance by our executive officers through the use of stock-based awards. Our Amended and Restated 2005 Stock Incentive Plan permits the grant of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, and other stock-based awards. Consistent with our goal to attract, retain and reward the best possible talent, and in light of our setting our total direct compensation at the 50th percentile of our peer group of companies, we targeted long-term equity grants between the 50th and 75th percentile of our peer group of companies. Actual individual grants were set above or below the target based on each executive officer's performance during the past year, value of unvested versus vested equity grants from prior years, criticality of position, and expected future performance, except with respect to Messrs. Dinwoodie, Wenger and Ledesma whose awards were negotiated prior to our acquisition of PowerLight Corporation in January 2007.

Due to our initial public offering in November 2005 and the increased value of then outstanding equity awards previously granted to our Chief Executive Officer and Chief Financial Officer, we affirmatively decided in 2006 not to grant equity awards to our Chief Executive Officer or Chief Financial Officer as part of their 2006 compensation, which resulted in base salary representing a majority percentage of total compensation for such individuals in 2006. After reviewing the data provided by Radford and comparing the time-based equity compensation awarded to comparable officers at peer companies, against the named executive officers' then current outstanding equity awards, we decided for 2007 that equity compensation should represent a larger portion of the total compensation for Mr. Hernandez, to align his incentives with returns for stockholders. We determined, based on data available from comparable companies, that our Chief Executive Officer's still outstanding time-based equity awards were comparable to similar compensation arrangements with chief executive officers at other companies and that no further awards were required in 2007.

As of March 12, 2008, our Amended and Restated 2005 Stock Incentive Plan had approximately 150,000 shares reserved for grants of equity based awards. In addition to granting equity-based awards to our executives as part of a long-term incentive plan, we also intend to utilize these shares for awards to non-officer employees, including new hires, and in recognition of individual achievements and contributions to corporate or business unit performance or in circumstances where we face a critical retention need. We do not maintain any equity or other security ownership guidelines or requirements for our executives. Additionally, we do not have a formal or informal policy regarding adjustment or recovery of awards or payments if the relevant performance goals or measures upon which they are based are restated or otherwise adjusted so that awards or payments are reduced.

*Perquisite.* Perquisites were not a material portion of the overall compensation program for our executives in 2007. We do provide certain other benefits, such as health, vision, and life insurance, which are generally available to all employees. We also provided matching contributions to the 401(k) accounts of Messrs. Dinwoodie and Wenger. Such matching contributions are a continuation of the benefits program of PowerLight Corporation that existed before our acquisition of PowerLight in January 2007, and remained generally available to all employees of that subsidiary during 2007. In addition, we permitted Messrs. Dinwoodie and Wenger to have personal use of a vehicle leased by the company for business purposes.

## **Termination of Employment Payments**

Regarding time-based equity awards, unless otherwise provided in the award agreement, an employment agreement or equity restriction agreement, upon termination of a participant's employment or service, the participant will forfeit any outstanding awards except that a participant will have 90 days following termination of employment or service to exercise any then vested options or stock appreciation rights (one year if termination of employment or service is a result of the participant's disability or death). Additionally, our named executive officers are entitled to receive certain payments from us or our affiliates in the event of certain change of control or termination events. For more

information, see Executive Compensation Employment Agreements and Potential Payments Upon Termination or Change of Control below.

Businesses in our industry face a number of risks, including the risk of being acquired in the future. We believe that entering into change of control and severance arrangements with certain of our executives has helped us attract and retain excellent executive talent. The terms of the change of control and severance arrangements were

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negotiated as part of the hiring process for Messrs. Werner and Hernandez and as part of the PowerLight acquisition for Messrs. Dinwoodie, Wenger and Ledesma. Without these provisions, these executives may not have chosen to accept employment with us or remain employed by us. For a further description of the payments that our named executive officers are entitled to receive in the event of certain change of control or termination events, please see Executive Compensation Employment Agreements and Potential Payments Upon Termination or Change of Control below.

## **Section 162(m) Treatment Regarding Performance-Based Equity Awards**

Under Section 162(m) of the Internal Revenue Code of 1986, as amended, a public company is generally denied deductions for compensation paid to the chief executive officer and the next four most highly compensated executive officers to the extent the compensation for any such individual exceeds one million dollars for the taxable year. Our Compensation Committee intends to preserve the deductibility of compensation payable to our executives, although deductibility will be only one among a number of factors considered in determining appropriate levels or modes of compensation.

## **Indemnification of Officers and Directors**

Under Article VIII of our Amended and Restated Certificate of Incorporation and Article 6 of our Restated Bylaws, we will indemnify our directors, officers, employees and other agents to the maximum extent allowed under Delaware corporate law. Delaware corporate law generally provides for officers, directors and other corporate agents to be indemnified in situations including under certain circumstances for liabilities (including reimbursement for expenses) arising under the Securities Act of 1933, as amended. We have entered into agreements with our directors and officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent allowed. We have been informed, however, that it is the Securities and Exchange Commission's position that if we indemnify our directors, officers or persons controlling us for liabilities arising under the Securities Act, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## **PowerLight Acquisition**

On January 10, 2007, we completed the acquisition of PowerLight Corporation through a merger transaction. Upon the completion of the acquisition, all of the outstanding shares of PowerLight, and a portion of each vested option to purchase shares of PowerLight, were cancelled, and all of the outstanding options to purchase shares of PowerLight (other than the portion of each vested option that was cancelled) were assumed by us in exchange for aggregate consideration of (1) approximately \$120.7 million in cash plus (2) a total of 5,708,723 shares of class A common stock, which includes (a) 1,601,839 shares of class A common stock that may be issued upon the exercise of assumed vested and unvested PowerLight stock options and (b) 1,675,881 shares of class A common stock issued to certain employees of the PowerLight business in connection with the acquisition, which shares are subject to certain transfer restrictions and a repurchase option held by us, both of which lapse over a two-year period under the terms of equity restriction agreements with such employees. The restrictions had lapsed with respect to one-half of such shares as of March 12, 2008.

In connection with the acquisition, three executives of PowerLight were appointed executive officers of SunPower, including Thomas Dinwoodie, Howard Wenger and Bruce Ledesma. As part of the merger, these executive officers entered into certain compensation arrangements and equity restriction agreements. In addition to these compensation elements, under the terms of the merger, Messrs. Ledesma and Wenger were also granted 41,433 Restricted Shares of class A common stock and 74,579 Restricted Shares of class A common stock, respectively, subject to certain transfer, repurchase and other restrictions. For each of these officers, the restrictions lapse on 25% of the shares annually



during the four-year restriction period, so long as the executive officer remains employed by us. For more information on such arrangements and restrictions, please see [Executive Compensation](#) [Employment Agreements and Potential Payments Upon Termination or Change of Control](#).

**Table of Contents****Significant Changes Expected in 2008**

For 2008, we intend to modify our cash bonus compensation program and operate under two separate cash bonus plans. If Proposal Four is approved by our stockholders, one such cash bonus plan applicable in 2008 will be the Amended and Restated SunPower Corporation Annual Key Employee Bonus Plan, which is summarized in Proposal Four. The second cash bonus plan will be our Key Initiative Plan. The objective of the Key Initiative Plan is to provide incentives to our key employees, including the named executive officers, based on quarterly company milestones and an individual's performance against set individual Key Initiatives. Target bonuses under the Key Initiative Plan are set by the Compensation Committee (which may delegate this authority to our executive officers provided that target bonuses for executive officers must be approved by the Compensation Committee). The Compensation Committee may, in its discretion, set maximum caps on the payout amount for bonuses awarded under the Key Initiative Plan. Quarterly bonuses under the Key Initiative Plan are based on a combination of (a) the participant's score in achieving certain Key Initiatives established at the start of such quarter by the participant and his or her supervisor, (b) our score in achieving certain company milestones established for such quarter by the Board, and (c) our profit before tax at the end of each quarter as compared to the profit before tax financial target as determined by the executive officers at the beginning of such quarter.

Under the new cash bonus compensation program in 2008, the target payouts are expected to increase for our named executive officers. The following table summarizes the target payouts, as a percentage of base salary, expected for each named executive officer as well as the allocation between the Amended and Restated SunPower Corporation Annual Key Employee Bonus Plan, discussed in Proposal Four, and the Key Initiative Plan.

Name	Aggregate Target Payout as	Amended and Restated SunPower Corporation Annual Key Employee Bonus Plan Allocation as	Key Initiative Plan Allocation as
	Percentage of Annual Salary (%)	Percentage of Annual Salary (%)	Percentage of Annual Salary (%)
Thomas H. Werner, Chief Executive Officer	200	133	67
Emmanuel T. Hernandez, Chief Financial Officer	80	53	27
Thomas L. Dinwoodie, Founder and Chief Technology Officer, SunPower Corporation, Systems	50	33	17
Howard J. Wenger, Senior Vice President, Global Business Units	70	47	23
Bruce R. Ledesma, General Counsel and Corporate Secretary	50	33	17



Table of Contents**EXECUTIVE COMPENSATION****2007 Summary Compensation Table**

The following table sets forth information regarding compensation earned during 2006 and 2007 by our Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers as of December 30, 2007, who we refer to collectively as our named executive officers. Messrs. Dinwoodie, Wenger and Ledesma joined us on January 10, 2007; therefore, information regarding their compensation addresses compensation earned by them only thereafter.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)(1)</b>	<b>Bonus (\$)(2)</b>	<b>Stock Awards (\$)(3)</b>	<b>Option Awards (\$)(4)</b>	<b>Non-Equity Incentive Plan Compensation (\$)(5)</b>	<b>Total (\$)</b>
Thomas H. Werner, Chief Executive Officer	2007	323,000			212,543	206,092	741,635
	2006	315,096			385,549	198,838	899,483
Emmanuel T. Hernandez, Chief Financial Officer	2007	321,923		47,820	241,379	192,197	803,319
	2006	307,582			622,859	176,109	1,106,550
Thomas L. Dinwoodie, Founder and Chief Technology Officer, SunPower Corporation, Systems	2007	242,997		20,638,377		90,445	20,971,819
Howard J. Wenger, Senior Vice President, Global Business Units	2007	232,344		802,529	1,758,511	85,437	2,878,821
Bruce R. Ledesma, General Counsel and Corporate Secretary	2007	221,430		445,852	597,396	84,297	1,348,975

- (1) Salary represents actual salary earned during each applicable year, and includes base salary and actual payments for accrued vacation and holidays.
- (2) Excludes the following bonuses paid to Messrs. Dinwoodie, Wenger and Ledesma, respectively, after our acquisition of PowerLight Corporation in January 2007, based on their performance as officers of PowerLight Corporation during 2006: \$32,197, \$36,383, and \$30,391.
- (3) No stock awards were awarded to Messrs. Werner and Hernandez in fiscal 2006. In 2007, Mr. Hernandez was awarded 5,000 Restricted Shares on May 4, 2007. As part of the negotiated terms of our acquisition of PowerLight Corporation, Mr. Wenger was awarded 74,579 Restricted Shares, and Mr. Ledesma was awarded 41,433 Restricted Shares. These amounts are the amounts of compensation cost recognized in the applicable year for financial reporting purposes related to awards in prior fiscal years and fiscal 2007, excluding the effect

of certain forfeiture assumptions. See Note 17 to our condensed consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2007 for details as to the assumptions used to determine the fair value of the option awards. See also our discussion of stock-based compensation under Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended December 30, 2007.

- (4) No stock options were awarded to Messrs. Werner and Hernandez in fiscal 2006, nor were there any option awards to our named executive officers in fiscal 2007. These amounts are the amounts of compensation cost recognized in the applicable year for financial reporting purposes related to awards in prior fiscal years, excluding the effect of certain forfeiture assumptions. See Note 17 to our condensed consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2007 for details as to the assumptions used to determine the fair value of the option awards. See also our discussion of stock-based compensation under Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended December 30, 2007. Options held by Messrs. Wenger and Ledesma were granted by PowerLight Corporation

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prior to our acquisition of PowerLight in January 2007, and we assumed such options in connection with the acquisition.

- (5) Figures above represent non-equity compensation earned in the applicable year. Includes 2006 KEBP quarterly bonus payments earned in 2006, as follows: Mr. Werner, \$61,886; and Mr. Hernandez, \$44,669. Also includes 2006 KEBP annual bonus payments earned in 2006 and paid in July 2007 and January 2008, as follows: Mr. Werner, \$136,952; Mr. Hernandez \$131,440. Also includes 2007 KEBP quarterly and annual bonus payments earned in 2007, which are summarized in the 2007 KEBP Bonus Awards Tables below.

The material terms of our KEBP bonus awards are described above in our Compensation Discussion and Analysis under the subheading Cash Bonus Awards. Our Compensation Committee, which is comprised solely of outside directors as defined for purposes of Section 162(m) of the Internal Revenue Code, may elect in the future to adopt plans or programs providing for additional benefits if the Compensation Committee determines that doing so is in our best interests.

*2007 KEBP Bonus Awards Tables.* The following tables set forth additional information about the bonus information disclosed above in the 2007 Summary Compensation Table:

Name	2007 KEBP Aggregate Quarterly Bonus Awards	
	Target (\$)(1)	Actual (\$)
Thomas H. Werner	129,200	63,972
Emmanuel T. Hernandez	124,000	55,797
Thomas L. Dinwoodie	73,001	36,911
Howard J. Wenger	69,757	34,281
Bruce R. Ledesma	67,500	34,797

- (1) For Messrs. Werner and Hernandez, the quarterly bonus awards under the 2007 KEBP represent 50% of their total target cash bonus awards. For Messrs. Dinwoodie, Wenger and Ledesma, the quarterly bonus awards under the 2007 KEBP represent 60% of their total target cash bonus awards.

Name	Target Total Payment (\$)	2007 KEBP Annual Bonus Awards(1)		Actual Total Payment (\$)
		Actual July 2008 Payment (\$)(2)	Actual Jan. 2009 Payment (\$)(2)	
Thomas H. Werner	129,200	71,060	71,060	142,120
Emmanuel T. Hernandez	124,000	68,200	68,200	136,400
Thomas L. Dinwoodie	48,668	26,767	26,767	53,534
Howard J. Wenger	46,505	25,578	25,578	51,156
Bruce R. Ledesma	45,000	24,750	24,750	49,500

- (1) For Messrs. Werner and Hernandez, the annual bonus awards under the 2007 KEBP represent 50% of their total target cash bonus awards. For Messrs. Dinwoodie, Wenger and Ledesma, the annual bonus awards under the

2007 KEBP represent 40% of their total target cash bonus awards.

- (2) Under the 2007 KEBP, payouts exceeded the annual target amounts for each named executive officer. Each individual must be employed by us at the scheduled payment date to receive the annual bonus (unless employment is terminated by reason of death or disability). If the individual is terminated prior to the payment date for the annual bonus, the annual bonus will be forfeited unless otherwise provided under a person's employment agreement.

*Employment Agreements.* For a description of the employment agreements that we have with certain of our executives, please see Employment Agreements and Potential Payments Upon Termination or Change of Control below.

**Table of Contents****2007 Grants of Plan-Based Awards Table**

During 2007, our named executive officers earned plan-based stock awards under our Amended and Restated SunPower Corporation 2005 Incentive Stock Plan and cash bonus awards under our Key Employee Bonus Plan. The following table sets forth information regarding the stock awards and cash bonus awards granted to each named executive officer during 2007.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			All other Stock Awards: Number of Shares of Stock or Units (#)(3)(4)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold \$(1)	Target \$(2)	Maximum \$(1)		
Thomas H. Werner			258,400	284,240		
Emmanuel T. Hernandez			248,000	272,800		
	05/04/2007				5,000	291,700
Thomas L. Dinwoodie			121,669	133,836		
Howard J. Wenger			116,262	127,888		
	02/08/2007				74,579	3,318,766
Bruce R. Ledesma			112,500	123,750		
	02/08/2007				41,433	1,843,769

- (1) Bonus awards under the 2007 KEBP, which were based on the achievement of various company milestones and individual Key Initiatives, were determined as the result of formulae contained in the 2007 KEBP. Achievement of certain company milestones could increase the KEBP bonus payment up to 110% of the target payment in 2007, or could reduce the KEBP bonus payment to zero when applied to the formula. As a result, threshold payouts were inapplicable for each named executive officer.
- (2) Target Estimated Possible Payouts under KEBP were based on the assumption that we achieve 100% of our targets, and represent the following percentage of annual base salary: Mr. Werner, 80%; Mr. Hernandez, 80%; Thomas Dinwoodie, 50%; Mr. Wenger, 50%; and Mr. Ledesma 50%.
- (3) Excludes shares held by Mr. Dinwoodie and subject to an equity restriction agreement entered into in connection with our acquisition of PowerLight Corporation in January 2007.
- (4) Excludes options that we assumed in connection with our acquisition of PowerLight Corporation in January 2007.



**Table of Contents****Outstanding Equity Awards At 2007 Fiscal Year-End Table**

The following table sets forth information regarding the outstanding equity awards held by our named executive officers as of December 30, 2007:

Name	Grant Date	Option Awards (1) Equity Incentive Plan Awards: Number of Securities				Stock Awards		
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Thomas H. Werner	06/09/03(1)	50,502	59,991		0.50	06/09/2013		
	06/17/04(1)	222,347	180,996		3.30	06/17/2014		
	06/17/04(1)	10,878	11,086		3.30	06/17/2014		
	03/17/05(1)	137,502	112,498		3.30	03/17/2015		
Emmanuel T. Hernandez	04/25/05(2)	85,996	115,742		3.30	04/25/2015		
	05/04/07(3)						5,000	291,700
Thomas L. Dinwoodie(4)								
Howard J. Wenger	12/07/04(5)		27,783		1.77	12/07/2014		
	02/25/04(6)		24,375		1.77	02/25/2014		
	12/07/04(7)		14,985		1.77	12/07/2014		
	12/07/04(8)	1			1.77	12/07/2014		
	02/08/07(9)						74,579	3,318,766
Bruce R. Ledesma	09/12/05(10)	1	23,152		2.60	09/12/2015		
	02/08/07(9)						41,433	1,843,769

(1) Each of these options has a ten-year term, vests over a five-year period of employment from the date of grant, with a one-year initial cliff vesting period and monthly vesting thereafter, and has an exercise price equal to the market value on grant date.

- (2) This option has a ten-year term, vests monthly over a three-year period of employment from the date of grant, and has an exercise price equal to the market value on grant date.
- (3) This stock award vests ratably over a four year period of employment from the date of grant, with a one-year initial cliff vesting period and annual vesting thereafter.
- (4) Excludes shares held by Mr. Dinwoodie and subject to an equity restriction agreement entered into in connection with our acquisition of PowerLight Corporation in January 2007.
- (4) Each of these options has a ten-year term, vests over a five-year period of employment from the date of grant, with a one-year initial cliff vesting period and annual vesting thereafter, and has an exercise price equal to the market value on grant date.
- (5) This option has a ten-year term, was fully vested, and has an exercise price equal to the market value on grant date. However, the shares underlying these remaining options are subject to an equity restriction agreement with SunPower pursuant to which such shares are subject to certain transfer and repurchase restrictions. The restrictions lapse on one quarter of the shares semi-annually during the restriction period, so long as Mr. Wenger remains employed by SunPower. The restrictions lapse with respect to 9,261 options each on 7/3/08 and 12/30/08.
- (6) This option has a ten-year term, was fully vested, and has an exercise price equal to the market value on grant date. However, the shares underlying these remaining options are subject to an equity restriction agreement with SunPower pursuant to which such shares are subject to certain transfer and repurchase restrictions. The restrictions lapse on one quarter of the shares semi-annually during the restriction period, so long as Mr. Wenger remains employed by SunPower. The restrictions lapse with respect to 8,125 options each on 7/3/08 and 12/30/08.

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- (7) This option has a ten-year term, was fully vested, and has an exercise price equal to the market value on grant date. However, the shares underlying these remaining options are subject to an equity restriction agreement with SunPower pursuant to which such shares are subject to certain transfer and repurchase restrictions. The restrictions lapse on one quarter of the shares semi-annually during the restriction period, so long as Mr. Wenger remains employed by SunPower. The restrictions lapse with respect to 4,995 options each on 7/3/08 and 12/30/08.
- (8) This option has a ten-year term and was fully vested, and has an exercise price equal to the market value on grant date.
- (9) Each of these stock awards vests ratably over a four year period of employment on 1/10/08 and annual vesting thereafter.
- (10) This option has a ten-year term, was fully vested, and has an exercise price equal to the market value on grant date. However, the shares underlying these remaining options are subject to an equity restriction agreement with SunPower pursuant to which such shares are subject to certain transfer and repurchase restrictions. The restrictions lapse on one quarter of the shares semi-annually during the restriction period, so long as Mr. Ledesma remains employed by SunPower. The restrictions lapse with respect to 7,717 options each on 7/3/08 and 12/30/08.

**2007 Option Exercises Table**

The following table sets forth the number of shares acquired pursuant to the exercise of options by our named executive officers during 2007 and the aggregate dollar amount realized by our named executive officers upon such event.

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise \$(1)
Thomas H. Werner	469,500	27,511,179
Emmanuel T. Hernandez	600,000	35,288,470
Thomas L. Dinwoodie(2)		
Howard J. Wenger	111,898	6,082,537
Bruce R. Ledesma	38,586	1,887,167

- (1) The aggregate dollar value realized upon the exercise of an option represents the difference between the market price of the underlying shares on the date of exercise and the exercise price of the option, multiplied by the number of shares exercised.
- (2) Excludes shares held by Mr. Dinwoodie and subject to an equity restriction agreement entered into in connection with our acquisition of PowerLight Corporation in January 2007.

**Pension Benefits**

None of our named executive officers participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us. We do not offer such qualified or non-qualified defined benefit plans to our executives because we believe that such defined benefit plans are atypical for similar companies in both our industry and geographic region. Our Compensation Committee, which is comprised solely of outside directors as defined under Section 162(m) of the Internal Revenue Code, may elect to adopt qualified or non-qualified defined benefit plans if the Compensation Committee determines that doing so is in our best interests.

**Nonqualified Deferred Compensation**

None of our named executive officers participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us. To date, we have not had a significant reason to offer such non-qualified defined contribution plans or other deferred compensation plans. The Compensation Committee, which is comprised solely of outside directors as defined under Section 162(m) of the

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Internal Revenue Code, may elect to provide our officers and other employees with non-qualified defined contribution or deferred compensation benefits if the Compensation Committee determines that doing so is in our best interests.

**Employment Agreements and Potential Payments Upon Termination or Change of Control**

We have entered into award agreements under our equity plans, employment agreements, and equity restriction agreements with certain of our executive officers, each as summarized below. Unless otherwise provided by our plan administrator in the award agreement, employment agreement or equity restriction agreement, upon termination of a participant's employment or service, the participant will forfeit any outstanding equity awards except that a participant will have 90 days following termination of employment or service to exercise any then vested options or stock appreciation rights (one year if termination of employment or service is a result of the participant's disability or death). Additionally, certain of our executive officers are entitled to receive certain payments from us or our affiliates in the event of certain change of control or termination events.

*Thomas H. Werner.* On May 22, 2003, Mr. Werner entered into an offer letter by which he agreed to serve as our Chief Executive Officer. Under the terms of the offer letter, Mr. Werner was entitled to receive an annual salary of \$275,000 and bonus in an amount up to 80% of his base salary. Mr. Werner's annual salary for 2007 was \$323,000. In connection with the offer letter, Mr. Werner was granted an option to purchase 600,000 shares of our class A common stock at an exercise price of \$0.50 per share and options to purchase 890,300 shares of our class A common stock at an exercise price of \$3.30 per share, subject to anti-dilution provisions. Mr. Werner is employed by us at-will, which means that either he or we may terminate his employment at any time, with or without cause, and with or without notice. The offer letter also contains an agreement to enter into a confidentiality agreement with us.

Under the terms of the offer letter, upon a change of control, we agreed to negotiate in good faith with Mr. Werner on an accelerated vesting clause for his stock options, which clause could be invoked by Mr. Werner if he was not retained in an equivalent position after the change of control. Additionally, we agreed to pay Mr. Werner an amount equivalent to one year of his base salary and provide him with one year of medical benefits if Mr. Werner is terminated by us without cause. These benefits include medical, dental, vision and life insurance benefits. Please see disclosure under the 2007 Summary Compensation Table and Outstanding Equity Awards at 2007 Fiscal Year-End Table above for more information on Mr. Werner's current base salary and currently outstanding equity awards.

*Emmanuel T. Hernandez.* On April 1, 2005, Mr. Hernandez entered into an offer letter by which he agreed to serve as our Chief Financial Officer. Under the terms of the offer letter, Mr. Hernandez was entitled to receive an annual salary of \$299,520 and bonus in an amount up to 80% of his base salary. Mr. Hernandez's annual salary for 2007 was \$310,000. In connection with the offer letter, Mr. Hernandez was granted an option to purchase 1,041,738 shares of our class A common stock at an exercise price of \$3.30 per share, subject to anti-dilution provisions. The offer letter also contains an agreement to enter into a confidentiality agreement with us, and limits our ability to make certain changes that result in Mr. Hernandez's constructive termination.

Under the terms of the offer letter, upon Cypress Semiconductor Corporation's repurchase of our minority interests held by other stockholders, Mr. Hernandez's options will fully vest. However, upon a change of control in which our management team conducts a leveraged buy-out and seeks financing from Cypress, Mr. Hernandez's options will not accelerate. Please see disclosure under the Outstanding Equity Awards at 2007 Fiscal Year-End Table above for more information on Mr. Hernandez's currently outstanding equity awards.

*Thomas L. Dinwoodie.* Mr. Dinwoodie is a party to an amended and restated employment agreement, effective as of January 11, 2007. Pursuant to this agreement, Mr. Dinwoodie was entitled to receive in 2007 a base salary of \$243,338 per year and was eligible to receive an aggregate target bonus of 50% of his base salary, in each case subject to annual review.

The initial term of Mr. Dinwoodie's employment agreement expires on November 1, 2008, but the agreement renews automatically, unless timely terminated, for three-year periods thereafter. In the event we terminate Mr. Dinwoodie's employment without cause (as defined in his employment agreement), or Mr. Dinwoodie resigns

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for good reason (as defined in his employment agreement), Mr. Dinwoodie will be entitled to receive benefits for up to 24 months, 24 months base salary, any earned but unpaid bonus from the year prior to his termination or resignation and his pro rata target bonus for the current year.

In the event we terminate Mr. Dinwoodie's employment without cause, or Mr. Dinwoodie resigns for good reason, in both cases within three months before or 18 months after a change of control, then vesting of his outstanding equity awards is accelerated and provisions regarding forfeiture, restrictions on transfer and repurchase rights pursuant to the equity restriction agreement effective as of January 11, 2007 between Mr. Dinwoodie and us will lapse. The equity restriction agreement is discussed further below.

In the event we terminate Mr. Dinwoodie's employment for cause, or Mr. Dinwoodie resigns without good reason, all further vesting of Mr. Dinwoodie's outstanding equity awards will terminate, Mr. Dinwoodie's compensation payments (except as to amounts already earned) will cease and Mr. Dinwoodie will be entitled to receive benefits only through the date of his termination or resignation.

In the event Mr. Dinwoodie's employment is terminated by reason of death or disability (as defined in his employment agreement), Mr. Dinwoodie or his estate will be entitled to receive any earned but unpaid bonus from the year prior to his death or disability, his pro rata target bonus for the current year and benefits in accordance with the then-applicable company plans, and all of Mr. Dinwoodie's outstanding equity awards will terminate to the extent provided under his award agreements. In addition, all provisions regarding forfeiture, restrictions on transfer and repurchase rights pursuant to the equity restriction agreement effective as of January 11, 2007 between Mr. Dinwoodie and us will lapse.

*Howard J. Wenger.* Mr. Wenger is a party to an amended and restated employment agreement, effective as of January 11, 2007. Pursuant to this agreement, Mr. Wenger was entitled to receive in 2007 a base salary of \$232,523 per year and was eligible to receive an aggregate target bonus of 50% of his base salary, in each case subject to annual review.

The initial term of Mr. Wenger's employment agreement terminates on November 1, 2008, but the agreement renews automatically, unless timely terminated, for three-year periods thereafter. In the event we terminate Mr. Wenger's employment without cause (as defined in his employment agreement), or Mr. Wenger resigns for good reason (as defined in his employment agreement), Mr. Wenger will be entitled to receive, depending on his number of full years of continuous employment by us at the time of the termination of his employment or his resignation, benefits for between six and 12 months, six to 12 months base salary, any earned but unpaid bonus from the year prior to his termination or resignation and his pro rata target bonus for the current year.

In the event we terminate Mr. Wenger's employment without cause, or Mr. Wenger resigns for good reason, in both cases within three months before or 18 months after a change of control, then vesting of his outstanding equity awards is accelerated and provisions regarding forfeiture, restrictions on transfer and repurchase rights pursuant to the equity restriction agreement effective as of January 11, 2007 between Mr. Wenger and us will lapse. The equity restriction agreement is discussed further below.

In the event we terminate Mr. Wenger's employment for cause or Mr. Wenger resigns without good reason, all further vesting of Mr. Wenger's outstanding equity awards will terminate, Mr. Wenger's compensation payments (except as to amounts already earned) will cease and Mr. Wenger will be entitled to receive benefits only through the date of his termination or resignation.

In the event Mr. Wenger's employment is terminated by reason of death or disability (as defined in his employment agreement), Mr. Wenger or his estate will be entitled to receive any earned but unpaid bonus from the year prior to his

death or disability, his pro rata target bonus for the current year and benefits in accordance with the then-applicable company plans, and all of Mr. Wenger's outstanding equity awards will terminate to the extent provided under his award agreements. In addition, all provisions regarding forfeiture, restrictions on transfer and repurchase rights pursuant to the equity restriction agreement effective as of January 11, 2007 between Mr. Wenger and us will lapse.

*Daniel S. Shugar.* Mr. Shugar is a party to an amended and restated employment agreement, effective as of January 11, 2007. Pursuant to this agreement, Mr. Shugar was entitled to receive in 2007 a base salary of \$243,338



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per year and was eligible to receive an aggregate target bonus of 50% of his base salary, in each case subject to annual review.

The initial term of Mr. Shugar's employment agreement terminates on November 1, 2008, but the agreement renews automatically, unless timely terminated, for three-year periods thereafter. In the event we terminate Mr. Shugar's employment without cause (as defined in his employment agreement), or Mr. Shugar resigns for good reason (as defined in his employment agreement), Mr. Shugar will be entitled to receive, depending on his number of full years of continuous employment by us at the time of termination of his employment or his resignation, benefits for up to 24 months, 24 months' base salary, any earned but unpaid bonus from the previous year and his pro rata target bonus for the current year.

In the event we terminate Mr. Shugar's employment without cause, or Mr. Shugar resigns for good reason, in both cases within three months before or 18 months after a change of control, then vesting of his outstanding equity awards is accelerated and provisions regarding forfeiture, restrictions on transfer and repurchase rights pursuant to the equity restriction agreement effective as of January 11, 2007 between Mr. Shugar and us will lapse. The equity restriction agreement is discussed further below.

In the event we terminate Mr. Shugar's employment for cause or Mr. Shugar resigns without good reason, all further vesting of Mr. Shugar's outstanding equity awards will terminate, Mr. Shugar's compensation payments (except as to amounts already earned) will cease and Mr. Shugar will be entitled to receive benefits only through the date of his termination or resignation.

In the event Mr. Shugar's employment is terminated by reason of death or disability (as defined in his employment agreement), Mr. Shugar or his estate will be entitled to receive any earned but unpaid bonus from the year prior to his death or disability, his pro rata target bonus for the current year and benefits in accordance with the then-applicable company plans, and all of Mr. Shugar's outstanding equity awards will terminate to the extent provided under his award agreements. In addition, all provisions regarding forfeiture, restrictions on transfer and repurchase rights pursuant to the equity restriction agreement effective as of January 11, 2007 between Mr. Shugar and us will lapse.

*Bruce R. Ledesma.* Mr. Ledesma is a party to an amended and restated employment agreement, effective as of January 11, 2007. Pursuant to this agreement, Mr. Ledesma was entitled to receive in 2007 a base salary of \$225,000 per year and was eligible to receive an aggregate target bonus of 50% of his base salary, in each case subject to annual review.

The initial term of Mr. Ledesma's employment agreement terminates on November 1, 2008, but the agreement renews automatically, unless timely terminated, for three-year periods thereafter. In the event we terminate Mr. Ledesma's employment without cause (as defined in his employment agreement), or Mr. Ledesma resigns for good reason (as defined in his employment agreement), Mr. Ledesma will be entitled to receive, depending on his number of full years of continuous employment by us at the time of termination of his employment or his resignation, benefits for between six and 12 months, six to 12 months' base salary, any earned but unpaid bonus from the previous year and his pro rata target bonus for the current year.

In the event we terminate Mr. Ledesma's employment without cause, or Mr. Ledesma resigns for good reason, in both cases within three months before or 18 months after a change of control, then vesting of his outstanding equity awards is accelerated and provisions regarding forfeiture, restrictions on transfer and repurchase rights pursuant to the equity restriction agreement effective as of January 11, 2007 between Mr. Ledesma and us will lapse. The equity restriction is discussed further below.

In the event we terminate Mr. Ledesma's employment for cause or Mr. Ledesma resigns without good reason, all further vesting of Mr. Ledesma's outstanding equity awards will terminate, Mr. Ledesma's compensation payments (except as to amounts already earned) will cease and Mr. Ledesma will be entitled to receive benefits only through the date of his termination or resignation.

In the event Mr. Ledesma's employment is terminated by reason of death or disability (as defined in his employment agreement), Mr. Ledesma or his estate will be entitled to receive any earned but unpaid bonus from the year prior to his death or disability, his pro rata target bonus for the current year and benefits in accordance with the

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then-applicable company plans, and all of Mr. Ledesma's outstanding equity awards will terminate to the extent provided under his award agreements. In addition, all provisions regarding forfeiture, restrictions on transfer and repurchase rights pursuant to the equity restriction agreement effective as of January 11, 2007 between Mr. Ledesma and us will lapse.

Pursuant to his employment agreement, each of Messrs. Dinwoodie, Wenger, Shugar and Ledesma also agreed to certain non-solicitation provisions with respect to our customers and employees, which apply for up to one year following the termination of his employment, and Messrs. Dinwoodie, Wenger and Shugar agreed to non-competition restrictions, which apply for two years following our acquisition of PowerLight Corporation in January 2007.

*Equity Restriction Agreements.* In addition to their respective employment agreements, each of Messrs. Dinwoodie, Wenger, Shugar and Ledesma, as well as certain other members of PowerLight's management, entered into equity restriction agreements with us pursuant to which they each agreed that half of the aggregate amount of our class A common stock received by them at the closing of the merger and our class A common stock to be received by them upon the exercise of vested stock options held by them at the closing of the merger would be subject to certain transfer and repurchase restrictions. Specifically, these individuals agreed to give us the right to repurchase the shares of our class A common stock subject to the restrictions for two years following the date of the closing of the acquisition. In exchange for their equity interests in PowerLight in connection with our acquisition of PowerLight, Mr. Dinwoodie received 2,291,285 shares of class A common stock, Mr. Wenger received options to purchase 179,042 shares of class A common stock at an exercise price of \$1.77 per share, Mr. Shugar received options to purchase 534,995 shares of class A common stock at an exercise price of \$0.04 per share and options to purchase 56,800 shares of class A common stock at an exercise price of \$0.25 per share, and Mr. Ledesma received options to purchase 61,739 shares of class A common stock at an exercise price of \$2.60 per share. If any of Messrs. Dinwoodie, Wenger, Shugar or Ledesma is terminated for cause or resigns other than for good reason (each as defined in their respective equity restriction agreement) during the restriction period, we have the right to repurchase any or all of such person's respective shares still subject to the restrictions for \$0.01 per share. Provided that Messrs. Dinwoodie, Wenger, Shugar and Mr. Ledesma remain employed by us, the restrictions and repurchase right lapse on one quarter of the shares semi-annually. The restrictions and repurchase right lapse immediately upon termination by reason of death or disability or upon resignation for good reason or termination other than for cause. The restrictions had lapsed with respect to one-half of such shares as of March 12, 2008.

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*Tabular Disclosure of Termination Payments.* The following tables summarize the estimated payments that would be made on December 28, 2007 to our named executive officers upon (1) a change of control, (2) termination without cause or voluntarily resignation for good reason, or (3) discontinued service due to death or disability, as described in their respective offer letters and employment agreements, assuming such had occurred on December 28, 2007. The dollar value identified with respect to each type of equity award is based on each officer's holdings as of December 30, 2007 and the \$131.05 per share closing price for our class A common stock on December 28, 2007, the last trading day of our fiscal year ended December 30, 2007. For more information on each officer's outstanding equity awards as of December 30, 2007, please see Outstanding Equity Awards At 2007 Fiscal-Year End Table. Such figures do not include unpaid regular salary and accrued vacation, nor do such figures reflect the impact of certain provisions of the employment agreements of Messrs. Dinwoodie, Wenger, Shugar and Ledesma that provide that, in the event any payments under the employment agreements would constitute parachute payments under Section 280G of the Internal Revenue Code or be subject to the excise tax of Section 4999 of the Internal Revenue Code, then such payments should be either delivered in full or reduced to result in no portion being subject to such tax provisions and still yield the greatest payment to the individual on an after tax basis.

<b>Type of Benefits Payable to Thomas H. Werner</b>	<b>Upon Change of Control (\$)(1)</b>	<b>Upon Involuntary Termination without Cause (\$)</b>	<b>Upon Death or Disability (\$)</b>
Salary		323,000	
Bonus			161,500
Options	46,741,920		
Restricted Stock			
Restricted Stock Units			
Medical Benefits(2)		491	
<b>Total</b>	<b>46,741,920</b>	<b>323,491</b>	<b>161,500</b>

(1) If Mr. Werner does not have an equivalent position with us after a change of control, we have agreed to negotiate in good faith to accelerate the vesting of his outstanding options.

(2) Reflects continuation of current eligible benefits.

<b>Type of Benefits Payable to Emmanuel T. Hernandez</b>	<b>Upon Change of Control (\$)(1)</b>	<b>Upon Involuntary Termination without Cause or Voluntary Resignation for Good Reason (\$)</b>	<b>Upon Death or Disability (\$)</b>

Salary		
Bonus		155,000
Options	14,786,041	
Restricted Stock		
Restricted Stock Units		
Medical Benefits		
Total	14,786,041	155,000

(1) A change of control is defined in Mr. Hernandez's offer letter to occur when Cypress Semiconductor purchases the remaining outstanding minority equity interests held by other SunPower stockholders, upon which the vesting of his outstanding options would accelerate.

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<b>Type of Benefits Payable to Thomas L. Dinwoodie</b>	<b>Upon Change of Control (\$)(1)</b>	<b>Upon Involuntary Termination without Cause or Voluntary Resignation for Good Reason (\$)</b>	<b>Upon Death or Disability (\$)</b>
Salary	486,676	486,676	
Bonus	61,342	61,342	66,918
Options			
Restricted Stock	103,756,479	103,756,479	103,756,479
Restricted Stock Units			
Medical Benefits(2)	34,252	34,252	
<b>Total</b>	<b>104,338,749</b>	<b>104,338,749</b>	<b>103,823,397</b>

(1) Assumes we terminate employment without cause or Mr. Dinwoodie resigns for good reason, within three months before or 18 months after a change of control, upon which the vesting of his outstanding equity awards would accelerate and restrictions under his equity restriction agreement would lapse.

(2) Reflects continuation of current eligible benefits.

<b>Type of Benefits Payable to Howard J. Wenger</b>	<b>Upon Change of Control (\$)(1)</b>	<b>Upon Involuntary Termination without Cause or Voluntary Resignation for Good Reason (\$)</b>	<b>Upon Death or Disability (\$)</b>
Salary	193,769	193,769	
Bonus	58,616	58,616	63,944
Options	8,680,247	8,680,247	8,680,247
Restricted Stock	9,773,578		
Restricted Stock Units			
Medical Benefits(2)			
<b>Total</b>	<b>18,706,210</b>	<b>8,932,632</b>	<b>8,744,191</b>

(1) Assumes we terminate employment without cause or Mr. Wenger resigns for good reason, within three months before or 18 months after a change of control, upon which the vesting of his outstanding equity awards would

accelerate and restrictions under his equity restriction agreement would lapse.

(2) Reflects continuation of current eligible benefits.

<b>Type of Benefits Payable to Daniel S. Shugar</b>	<b>Upon Change of Control \$(1)</b>	<b>Upon Involuntary Termination without Cause or Voluntary Resignation for Good Reason (\$)</b>	<b>Upon Death or Disability (\$)</b>
Salary	486,676	486,676	
Bonus	61,342	61,342	66,918
Options	35,383,312	35,383,312	35,383,312
Restricted Stock			
Restricted Stock Units			
Medical Benefits(2)	33,280	33,280	
<b>Total</b>	<b>35,964,610</b>	<b>35,964,610</b>	<b>35,450,230</b>

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- (1) Assumes we terminate employment without cause or Mr. Shugar resigns for good reason, within three months before or 18 months after a change of control, upon which the vesting of his outstanding equity awards would accelerate and restrictions under his equity restriction agreement would lapse.
- (2) Reflects continuation of current eligible benefits.

<b>Type of Benefits Payable to Bruce R. Ledesma</b>	<b>Upon Change of Control (\$)(1)</b>	<b>Upon Involuntary Termination without Cause or Voluntary Resignation for Good Reason (\$)</b>	<b>Upon Death or Disability (\$)</b>
Salary	150,000	150,000	
Bonus	56,719	56,719	61,875
Options	2,973,874	2,973,874	2,973,874
Restricted Stock	5,429,795		
Restricted Stock Units			
Medical Benefits(2)	11,011	11,011	
<b>Total</b>	<b>8,621,399</b>	<b>3,191,604</b>	<b>3,035,749</b>

- (1) Assumes we terminate employment without cause or Mr. Ledesma resigns for good reason, within three months before or 18 months after a change of control, upon which the vesting of his outstanding equity awards would accelerate and restrictions under his equity restriction agreement would lapse.
- (2) Reflects continuation of current eligible benefits.

**DIRECTOR COMPENSATION****2007 Director Compensation Table**

The following table sets forth a summary of the compensation we paid to our non-employee directors in 2007:

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)(1)</b>	<b>Stock Awards (\$)(2)</b>	<b>Option Awards (\$)(3)</b>	<b>Total (\$)</b>
W. Steve Albrecht	50,000	98,981	138,003	286,984
Pat Wood III	85,417	98,981	138,411	322,809
Betsy S. Atkins	81,771	98,981	150,754	331,506
Thurman J. Rodgers		494,907		494,907



- (1) The amounts listed under "Fees Earned or Paid in Cash" include, in addition to a director's normal retainer of \$25,000, the normal committee fee of \$5,000 for each committee on which a director serves but does not chair, the normal committee chair fee of \$15,000 for each committee that a director chairs, and payments for service by Mr. Wood and Ms. Atkins on special committees of the board of \$35,417 and \$31,771, respectively.
- (2) These amounts are the amounts of compensation cost recognized in 2007 for financial reporting purposes related to stock awards in 2007 and prior years, excluding the effect of certain forfeiture assumptions. See Note 17 to our condensed consolidated financial statements in our Annual Report for the fiscal year ended December 30, 2007 for details as to the assumptions used to determine the fair value of the stock awards. See also our discussion of stock-based compensation under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in our Annual Report for the fiscal year ended December 30, 2007. The non-employee directors had stock awards outstanding as of December 30, 2007 for the following number of shares: Mr. Albrecht, 4,000; Mr. Wood, 4,000; Ms. Atkins, 1,000; and Mr. Rodgers (who engages in certain management activities in addition to participating in board meetings, including among other things participating in full day quarterly business reviews, ongoing technology review and oversight, and

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other management activities), 17,500. Each non-employee director other than Mr. Rodgers received a grant of 2,000 shares of restricted stock on May 7, 2007, with quarterly vesting over one year from the date of grant. Mr. Rodgers received a grant of 10,000 shares of restricted stock on May 7, 2007, with quarterly vesting over one year from the date of grant. The entire grant date fair value (including amounts reported for 2007) of the stock award issued to the non-employee directors in 2007 was as follows: Mr. Albrecht, \$112,400; Mr. Wood, \$112,400; Ms. Atkins, \$112,400; and Mr. Rodgers, \$562,000.

- (3) These amounts are the amounts of compensation cost recognized in 2007 for financial reporting purposes related to option awards in 2007 and prior years, excluding the effect of certain forfeiture assumptions. See Note 17 to our condensed consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2007 for details as to the assumptions used to determine the fair value of the option awards. See also our discussion of stock-based compensation under Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our Annual Report for the fiscal year ended December 30, 2007. The non-employee directors had option awards outstanding as of December 30, 2007 for the following number of shares: Mr. Albrecht, 33,000; Mr. Wood, 48,000; Ms. Atkins, 29,998; and Mr. Rodgers, 0. Each non-employee director other than Mr. Rodgers received a option grant for 6,000 shares of stock, with an exercise price of \$56.20, on May 7, 2007. The option vests monthly over a period of five years. The entire grant date fair value (including amounts reported for 2007) of the option award issued to the non-employee directors in 2007 was as follows: Mr. Albrecht, \$162,026; Mr. Wood, \$162,026; Ms. Atkins, \$162,026; and Mr. Rodgers, \$0.

Mr. Rodgers, who is the Chief Executive Officer of Cypress, does not receive any cash compensation for his service on our board of directors. Otherwise, our independent directors receive an annual retainer of \$25,000. In addition, non-employee directors receive annual compensation of \$15,000 as committee chairperson. Each committee member other than a committee chairperson will receive additional annual compensation of \$10,000. We also reimburse non-employee directors for expenses incurred in attending meetings.

Our cash compensation program for non-employee directors described above will continue for 2008. If Proposal Three described above is not approved by our stockholders, in addition to the cash compensation, our non-employee directors will receive certain equity awards under our Amended and Restated SunPower Corporation 2005 Stock Incentive Plan. Immediately after each of our regularly scheduled annual meetings of stockholders, each continuing non-employee director who has served for at least six months will automatically receive:

an option grant for 6,000 shares of our class A common stock, which option vests and becomes exercisable monthly over a five-year period beginning one month after the grant date; and

a grant for 2,000 shares of restricted stock, which restricted stock vests quarterly over a one-year period beginning three months after the grant date.

An outside director who first joins our board of directors will be granted an initial option to purchase 20,000 shares of our class A common stock on the date of his or her election to our board. The initial option vests and becomes exercisable over five years, with the first 20% of the shares vesting on the first anniversary of the date of grant and the remainder vesting monthly in equal installments thereafter. Immediately after each of our regularly scheduled annual meetings of stockholders, the Chairman of the Board will also receive 10,000 restricted shares that will vest quarterly over a one-year period. If Proposal Three described above is approved by our stockholders, the non-cash compensation program described in connection with Proposal Three above will apply in 2008 and beyond.

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**COMPENSATION COMMITTEE REPORT**

The following report has been submitted by the Compensation Committee of the Board of Directors:

The Compensation Committee of the Board of Directors has reviewed and discussed our Compensation Discussion and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our definitive proxy statement on Schedule 14A for our 2008 Annual Meeting, which is incorporated by reference in our Annual Report on Form 10-K for the fiscal year ended December 30, 2007, each as filed with the Securities and Exchange Commission.

The foregoing report was submitted by the Compensation Committee of the Board and shall not be deemed to be soliciting material or to be filed with the Commission or subject to Regulation 14A promulgated by the Commission or Section 18 of the Securities Exchange Act of 1934.

**COMPENSATION COMMITTEE OF  
THE BOARD OF DIRECTORS**

Betsy S. Atkins, *Chair*  
W. Steve Albrecht  
Pat Wood III

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**OTHER DISCLOSURES**

**Certain Relationships and Related Person Transactions**

Other than the compensation agreements and other arrangements described above, and the transactions described below, since January 2007, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

in which the amount involved exceeded or will exceed \$120,000; and

in which any current director, director nominee, executive officer, beneficial owner of more than 5% of any class of our common stock, or any immediate family member of such persons had or will have a direct or indirect material interest.

As of the Record Date, Cypress had beneficial ownership of 44,533,287 shares of our class B common stock. The amount of shares owned by Cypress represents 52.4% beneficial ownership and 89.8% of our voting rights because our class B common stock is entitled to eight votes per share, while our class A common stock, which is held by all stockholders other than Cypress, is entitled to one vote per share.

**Arrangements between SunPower Corporation and Cypress Semiconductor Corporation**

***Master Separation Agreement***

In 2005, we entered into a master separation agreement containing the framework with respect to our separation from Cypress. Various ancillary agreements are exhibits to the master separation agreement and detail the separation of and the various interim and ongoing relationships between Cypress and SunPower, including an employee matters agreement, a tax sharing agreement, a master transitions service agreement, a lease agreement, a wafer supply agreement, an indemnification and insurance matters agreement, and an investor rights agreement. These agreements are described more fully below.

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

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

The parties first make a good faith effort to first resolve the dispute through negotiation.

If negotiations fail, the parties attempt to resolve the dispute through non-binding mediation.

If mediation fails, the parties may seek relief in any court of competent jurisdiction.

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

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

***Employee Matters Agreement***

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

We intend to have our own benefit plans established by the time our employees no longer are eligible to participate in Cypress benefit plans. Once we have established our own benefit plans, we will have the ability to modify or terminate each plan in accordance with the terms of those plans and our policies. It is our intent that

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employees not receive duplicate benefits as a result of participation in our benefit plans and the corresponding Cypress benefit plans.

***Indemnification and Insurance Matters Agreement***

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

our business, any of our liabilities, any of our contracts or any action or inaction by us with respect to any shared contracts;

any breach by us of the master separation agreement or any ancillary agreement; and

any liability arising from any untrue statement of a material fact or any omission of a material fact.

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

Cypress business, other than our business; and

any breach by Cypress of the master separation agreement or any ancillary agreement.

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

*Indemnification for Environmental Matters.* We will indemnify Cypress and its affiliates, agents, successors and assigns from all liabilities arising from environmental conditions:

existing on, under, about or in the vicinity of any of our facilities, or arising out of operations occurring at any of our facilities, whether prior to or after the separation;

existing on, under, about or in the vicinity of the Philippines facility which we occupy, or arising out of operations occurring at such facility, whether prior to or after the separation, to the extent that those liabilities were caused by us;

arising out of hazardous materials found on, under or about any landfill, waste, storage, transfer or recycling site and resulting from hazardous materials stored, treated, recycled, disposed or otherwise handled at such sites prior to the separation; and

arising out of the construction activity conducted by or on behalf of us at Cypress Texas facility.

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

***Tax Sharing Agreement***

Cypress and SunPower have entered into a tax sharing agreement providing for each of the party's obligations concerning various tax liabilities. The tax sharing

Former Executive Vice

2014 \$925,769 \$0 \$4,142,265 \$2,356,125 \$776,676 \$42,355 \$8,243,190

President

***Footnotes to 2015 Summary Compensation Table***

(1) Amounts for 2015 reflect an additional pay period for all U.S. salaried employees due to our bi-weekly payroll calendar.

(2) *2015 Amounts.* The amounts represent the grant date fair value of PSUs granted for the 2015–2017 performance period under the 2015 AIG Long-Term Incentive (2015 LTI) award based on target performance determined in accordance with FASB ASC Topic 718. At the maximum level of performance, the grant date fair value would be: Hancock \$12,993,187; Herzog \$6,338,110; Dooley \$6,338,110; Fasano \$2,535,176; Hogan \$5,704,344; and Doyle \$6,734,291. All amounts are subject to clawback under the AIG Clawback Policy.

*2014 Amounts.* The amounts represent the grant date fair value of PSUs granted for the 2014–2016 performance period under the 2014 AIG Long-Term Incentive (2014 LTI) award based on target performance determined in accordance with FASB ASC Topic 718. At the maximum level of performance, the grant date fair value would be: Hancock \$10,351,704; Herzog \$5,882,089; Dooley \$5,882,089; Hogan \$5,288,877; and Doyle \$6,241,865. All amounts are subject to clawback under the AIG Clawback Policy.

*2013 Amounts.* The amounts represent the grant date fair value of PSUs granted for the 2013–2015 performance period under the 2013 AIG Long-Term Incentive (2013 LTI) award based on target performance determined in accordance with FASB ASC Topic 718. At the maximum level of performance, the grant date fair value would be: Hancock \$7,341,478; Herzog \$5,932,483; and Dooley \$5,932,483. All amounts are subject to clawback under the AIG Clawback Policy. In the first quarter of 2016, the Committee certified the results for the 2013–2015 performance period and determined the actual earned 2013 LTI awards for each named executive. See Compensation Discussion and Analysis Adjudication of 2013 Long-Term Incentive Awards for further information.

*Calculation.* The amount shown for the awards granted by AIG was calculated using the assumptions described in Note 19 to the Consolidated Financial Statements included in AIG's 2015 Annual Report on Form 10-K (for awards granted in 2015), Note 21 to the Consolidated Financial Statements included in AIG's 2014 Annual Report on Form 10-K (for awards granted in 2014) and Note 20 to the Consolidated Financial Statements included in AIG's 2013 Annual Report on Form 10-K (for awards granted in 2013).

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(3) *2015 Amounts.* The amounts represent the full amount of the awards earned under the AIG Annual Short-Term Incentive Plan for 2015 performance. 50 percent of the award was paid in March 2016 and payment of the remaining 50 percent of the award is deferred until March 2017. 100 percent of the award was fully vested at the time of the first payment, and all amounts are subject to clawback under the AIG Clawback Policy.

*2014 Amounts.* The amounts represent the full amount of the awards earned under the AIG Annual Short-Term Incentive Plan for 2014 performance. 50 percent of the award was paid in March 2015 and the remaining 50 percent of the award was paid in March 2016. 100 percent of the award was fully vested at the time of the first payment, and all amounts are subject to clawback under the AIG Clawback Policy.

*2013 Amounts.* The amounts represent the full amount of the awards earned under the AIG 2013 Short-Term Incentive Plan for 2013 performance. 50 percent of the award was paid in March 2014 and the remaining 50 percent of the award was paid in March 2015. 100 percent of the award was fully vested at the time of the first payment. All amounts are subject to clawback under the AIG Clawback Policy.

(4) The amounts in this column do not represent amounts that were paid to the named executives. Rather, the amounts represent the total change of the actuarial present value of the accumulated benefit under AIG's defined benefit (pension) plans, including the Qualified Retirement Plan, the Non-Qualified Retirement Plan and the SERP and/or the American General Corporation Supplemental Executive Retirement Plan, as applicable. These plans are described in Post-Employment Compensation Pension Benefits.

For 2013, Mr. Herzog had a negative change in pension value of \$24,779 and Mr. Dooley had a negative change in pension value of \$11,782 because, although each of them actually accrued additional pension benefits for 2013, there was an increase in the discount rate in 2013 that resulted in a decrease in the present values, which more than offset the additional benefit accrued in 2013.

While AIG was subject to the Troubled Asset Relief Program (TARP) restrictions on executive compensation, there was a freeze on future benefit accruals with regard to the benefits provided under the Non-Qualified Retirement Plan and the SERP. Benefit accruals in these plans ceased on October 22, 2009 for Mr. Herzog and on December 11, 2009 for Messrs. Dooley and Doyle. Because the TARP restrictions ceased to apply to AIG as of December 14, 2012, the freeze on benefit accruals in the Non-Qualified Retirement Plan and the SERP ended and benefit accruals commenced again under these plans after this date. In addition, benefit accruals commenced after December 14, 2012 for Mr. Hancock under the Non-Qualified Retirement Plan, as he had not accrued any benefits under this plan prior to the TARP restrictions. We are not permitted to restore service for benefit accruals for the length of time during which these executives were subject to the freeze. Mr. Fasano began to participate in the Qualified and Non-Qualified Retirement Plans on November 1, 2015, after he completed one year of service with AIG. Mr. Hogan had accrued pension benefits under the Qualified and Non-Qualified Retirement Plans from his previous tenure at AIG and in accordance with the terms of these plans, benefit accruals commenced under the Qualified and Non-Qualified Retirement Plans when he rejoined AIG on October 14, 2013.

(5) *Perquisites.* This column includes the incremental costs of perquisites and benefits. The following table details the incremental cost to AIG of perquisites received by each named executive in 2015.

**Perquisites**

Name	Personal Use of Company Pool Cars(a)	Financial,	Relocation Expenses(c)	Other(d)	Total
		Tax and Legal Planning(b)			
Peter D. Hancock	\$ 17,966	\$ 0		\$ 14,782	\$ 32,748
David L. Herzog	\$ 24,935	\$ 0		\$ 0	\$ 24,935
William N. Dooley	\$ 30,117	\$ 17,737		\$ 6,500	\$ 54,354
Philip Fasano	\$ 4,489	\$ 0	\$ 112,911	\$ 145	\$ 117,545
Kevin T. Hogan	\$ 18,969	\$ 7,400		\$ 1,040	\$ 27,409
<b>Former Executive Officer</b>					
John Q. Doyle	\$ 23,346	\$ 0		\$ 6,500	\$ 29,846



- (a) Includes the incremental costs of driver overtime compensation, fuel and maintenance attributable to personal use of company pool cars.

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(b) Incremental costs related to financial, tax and legal planning represent AIG's direct expenditures. For Mr. Hogan, represents reimbursement of tax preparation services related to his prior international assignment that ended in 2014.

(c) For Mr. Fasano, represents temporary living expenses related to his relocation, including utilities and rent.

(d) Includes personal travel, meals and entertainment for certain named executives and spouses and, for certain named executives, the cost of an annual medical examination paid for by the company.

*Other Benefits.* This column also includes life insurance premiums paid for the benefit of the named executives. All named executives are covered under the AIG Basic Group Life Insurance Plan. For group life insurance, the 2015 company-paid costs were: Hancock \$570; Herzog \$570; Dooley \$570; Fasano \$570; Hogan \$570; and Doyle \$570.

This column also includes matching contributions by AIG under its 401(k) plan. These matching contributions include the following amounts in 2015: Hancock \$15,900; Herzog \$15,900; Dooley \$15,900; Fasano \$15,900; Hogan \$15,900; and Doyle \$15,900. See Post-Employment Compensation Nonqualified Deferred Compensation for additional details.

For Mr. Fasano, this column also includes \$116,456 representing the reimbursement of taxes owed on his temporary living expenses described above. For Mr. Hogan, for 2015 this column also includes \$577,009 representing tax equalization payments related to his prior international assignment described above.

AIG maintains a policy of directors and officers liability insurance for the directors and officers of AIG and its subsidiaries. The premium for this policy for the year ended September 22, 2015 was approximately \$20 million and for the year ending September 22, 2016 was approximately \$16 million.

(6) Represents a one-time payment of \$3,400,000 paid in March 2015 in consideration of compensation foregone by Mr. Fasano from his former employer and the first installment of Mr. Fasano's transition award in the amount of \$1,000,000 received in January 2015. Each payment was made pursuant to Mr. Fasano's offer letter. See Compensation Discussion and Analysis Transition Arrangements for Named Executives for further information.

(7) Represents the first and second installments of Mr. Hogan's transition award paid in April 2014 and April 2015, respectively. Each payment was made pursuant to Mr. Hogan's offer letter. See Compensation Discussion and Analysis Transition Arrangements for Named Executives for further information.

**Table of Contents****2015 Grants of Plan-Based Awards**

**Total 2015 Grants.** The following table details all equity and non-equity plan-based awards granted to each of the named executives in 2015.

**2015 Grants of Plan-Based Awards**

Name	Grant Date	Board Action Date	Estimated Possible Payouts Under Non-Equity Plan Awards(1)			Estimated Possible Payouts Under Equity Incentive Plan Awards (Performance Share Units)(2)			All Other Stock Awards (# of AIG Shares)	Grant Date Fair Value of Equity Awards (\$)(3)
			Threshold	Target	Maximum	Threshold	Target	Maximum		
Peter D. Hancock										
2015 STI	03/11/15		\$ 0	\$ 3,200,000	\$ 4,800,000					
2015 LTI	03/18/15	03/11/15				76,765	153,529	230,294	\$ 8,231,460	
David L. Herzog										
2015 STI	02/19/15		\$ 0	\$ 2,000,000	\$ 3,000,000					
2015 LTI	03/18/15					37,446	74,892	112,338	\$ 4,015,335	
William N. Dooley										
2015 STI	02/19/15		\$ 0	\$ 2,000,000	\$ 3,000,000					
2015 LTI	03/18/15					37,446	74,892	112,338	\$ 4,015,335	
Philip Fasano										
2015 STI	02/19/15		\$ 0	\$ 1,400,000	\$ 2,100,000					
2015 LTI	03/18/15					14,978	29,956	44,934	\$ 1,606,091	
Kevin T. Hogan										
2015 STI	02/19/15		\$ 0	\$ 1,900,000	\$ 2,850,000					
2015 LTI	03/18/15					33,702	67,403	101,105	\$ 3,613,812	
<b>Former Executive Officer</b>										
John Q. Doyle										
2015 STI	02/19/15		\$ 0	\$ 2,250,000	\$ 3,375,000					
2015 LTI	03/18/15					39,787	79,573	119,360	\$ 4,266,309	

- (1) Amounts shown reflect the range of possible cash payouts under the AIG Annual Short-Term Incentive Plan for 2015 performance. Actual amounts earned, as determined by the Committee in the first quarter of 2016, are reflected in the 2015 Summary Compensation Table under Non-Equity Incentive Plan Compensation. For more information on the 2015 short-term incentive awards, including the applicable performance metrics, please see Compensation Discussion and Analysis Compensation Structure Direct Compensation Components Short-Term Incentive.
- (2) Amounts shown reflect the potential range of PSUs that may be earned under the 2015 LTI awards. Actual amounts earned are based on achieving relative TSR and relative final credit default swap spread over the 2015-2017 performance period. Results will be certified by the Committee in the first quarter of 2018. For more information on the 2015 LTI awards, including the applicable performance metrics, please see Compensation Discussion and Analysis Compensation Structure Direct Compensation Components Long-Term Incentive. Holders of PSUs earned under the 2015 LTI awards are also entitled to dividend equivalent rights in the form of additional PSUs beginning with the first dividend record date following the PSU grant date, which are subject to the same vesting and performance conditions as the related PSUs and are paid when such related earned shares (if any) are delivered.
- (3) Amounts shown represent the grant date fair value of the PSU awards for the 2015-2017 performance period determined in accordance with FASB ASC Topic 718 using the assumptions presented in Note 19 to the Consolidated Financial Statements in AIG's 2015 Annual Report on Form 10-K.

**HOLDINGS OF AND VESTING OF PREVIOUSLY AWARDED EQUITY**

**Outstanding Equity Awards at December 31, 2015**

Equity-based awards held at the end of 2015 by each named executive were issued under the incentive plans and arrangements described below. Shares of AIG Common Stock deliverable under AIG's time-vested equity and option awards will be delivered under the 2013 Omnibus Incentive Plan, 2010 Stock Incentive Plan, 2007 Stock Incentive Plan, AIG's Amended and Restated 2002 Stock Incentive Plan or AIG's Amended and Restated 1999 Stock Option Plan, as applicable. Also included in outstanding equity-based awards are grants historically made by Starr International Company, Inc. (SICO) under a series of two-year Deferred Compensation Profit Participation Plans (the SICO Plans).

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The following table sets forth outstanding equity-based awards held by each named executive as of December 31, 2015.

**Outstanding Equity Awards at December 31, 2015**

Name	Option Awards(1)				Stock Awards				
	Year Granted	Number Exercisable	Exercise Price	Expiration Date	Plan(2)(3)	Unvested (No Longer Subject to Performance Conditions) Number	Market Value(2)(3) Value(2)(3)	Equity Incentive Plan Awards (Unearned and Unvested) Number	Market Value(2) Value(2)
Peter D. Hancock					2015 LTI			232,905	\$ 14,433,123
					2014 LTI			208,812	\$ 12,940,080
					2013 LTI	190,334	\$ 11,794,998		
					<i>Total</i>			441,717	\$ 27,373,203
David L. Herzog	2007	1,749	\$ 1,140.99	12/13/2017	2015 LTI			113,612	\$ 7,040,536
	2006	1,499	\$ 1,420.00	12/11/2016	2014 LTI			122,824	\$ 7,611,403
					2013 LTI	153,804	\$ 9,531,234		
					SICO Plans	729	\$ 45,176		
					<i>Total</i>	154,533	\$ 9,576,410	236,436	\$ 14,651,939
William N. Dooley	2007	2,499	\$ 1,140.99	12/13/2017	2015 LTI			113,612	\$ 7,040,536
	2006	2,499	\$ 1,420.00	12/11/2016	2014 LTI			122,824	\$ 7,611,403
					2013 LTI	153,804	\$ 9,531,234		
					SICO Plans	6,957	\$ 431,125		
					<i>Total</i>	160,761	\$ 9,962,359	236,436	\$ 14,651,939
Philip Fasano					2015 LTI			45,443	\$ 2,816,103
					2014 LTI			116,278	\$ 7,205,748
					<i>Total</i>			161,721	\$ 10,021,851
Kevin T. Hogan					2015 LTI			102,250	\$ 6,336,433
					2014 LTI			108,747	\$ 6,739,052
					2013 LTI	98,966	\$ 6,132,923		
					<i>Total</i>			210,997	\$ 13,075,485
<b>Former Executive Officer</b>									
John Q. Doyle	2007	999	\$ 1,140.99	12/13/2017	2015 LTI			120,712	\$ 7,480,523
	2006	749	\$ 1,420.00	12/11/2016	2014 LTI			127,658	\$ 7,910,966
					2013 LTI	128,332	\$ 7,952,734		
					SICO Plans	1,245	\$ 77,153		
					<i>Total</i>	129,577	\$ 8,029,887	248,370	\$ 15,391,489

(1) None of the named executives has received options since 2008. All previously granted options had four-year pro-rata vesting schedules. All outstanding options were exercisable and have an exercise price equal to the closing sale price of AIG Common Stock on the NYSE on the date of grant.

- (2) All 2015 LTI awards and 2014 LTI awards are shown at maximum payout and all 2013 LTI awards are shown at actual amounts earned, in each case using the closing sale price of AIG Common Stock on the NYSE on December 31, 2015 of \$61.97 per share. Actual amounts earned for the 2013 LTI awards were determined by the Committee in the first quarter of 2016. See Compensation Discussion and Analysis Adjudication of 2013 Long-Term Incentive Awards for further information. 2015 LTI award amounts also include additional PSUs accrued in respect of dividend equivalent rights, which are subject to the same vesting and performance conditions as the related PSUs and are paid when such related earned shares (if any) are delivered. Whether the 2015 or 2014 LTI awards (and, for the 2015 LTI awards, related dividend equivalents) will be earned at the level shown, or a different level, or at all depends on AIG performance against plan metrics over a three-year performance period. Once earned, all 2015 LTI awards (including related dividend equivalents) to named executives will vest one-third on the first day of January in each of 2018, 2019 and 2020, and all 2014 LTI awards to named executives will vest one-third on the first day of January in each of 2017, 2018 and 2019. One-third of the earned 2013 LTI awards vested on January 1, 2016 and the remaining two-thirds will vest one-third on the first day of January in each of 2017 and 2018.
- (3) Prior to 2005, key employees participated in the SICO Plans. The original SICO plan came into being in 1975. Participation in the SICO Plans by any person, and the extent of such participation, was at the sole discretion of SICO's Board of Directors. SICO is responsible for issuing cash or AIG Common Stock under the SICO

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Plans when required; AIG has made no payments under these plans, although AIG records the expense attributable to these plans in its financial statements. In 2005, AIG took steps to protect the interests of AIG's current employees with respect to these benefits. AIG agreed, subject to certain conditions, to make any payment or delivery of AIG Common Stock that is not promptly made with respect to the benefits accrued by current employees of AIG and its subsidiaries under the SICO Plans.

Shares that have been contingently allocated to named executives under the SICO Plans will not be paid until age 65 and generally are subject to forfeiture on earlier termination of employment. SICO's Board of Directors has the authority to reinstate a payout right and may permit early payout of shares. Before earning the right to payout, a participant is not entitled to any equity interest with respect to the contingently allocated shares.

Under certain of the SICO Plans, if a participating named executive continues to be employed by AIG at the end of the eighth year after units were granted and had not yet reached age 65, he was contingently allocated additional shares equal to 20 percent of the shares initially allocated. The contingent allocations are included in this table.

Market value is based on the closing sale price of AIG Common Stock on the NYSE on December 31, 2015 of \$61.97 per share.

**Vesting of Stock-Based Awards During 2015**

The following table sets forth the amounts realized in accordance with SEC rules by each named executive as a result of the vesting of stock-based awards in 2015. There were no options exercised in 2015 by any of the named executives.

**2015 Vesting of Stock-Based Awards**

Name	Stock-Based Awards Vested in 2015	
	Number of Shares Acquired on Vesting	Value Realized on Vesting
Peter D. Hancock(1)	14,306	\$ 860,220
David L. Herzog(2)	15,322	\$ 921,312
William N. Dooley		
Philip Fasano		
Kevin T. Hogan		
<b>Former Executive Officer</b>		
John Q. Doyle(3)	17,883	\$ 1,075,305

(1) Represents 14,306 shares underlying vested TARP RSUs granted on December 17, 2012 that were settled in cash (based on the value of the underlying shares of AIG Common Stock on the vesting date, December 17, 2015).

(2) Represents 15,322 shares underlying vested TARP RSUs granted on December 17, 2012 that were settled in cash (based on the value of the underlying shares of AIG Common Stock on the vesting date, December 17, 2015).

(3) Represents 17,883 shares underlying vested TARP RSUs granted on December 17, 2012 that were settled in cash (based on the value of the underlying shares of AIG Common Stock on the vesting date, December 17, 2015).

**POST-EMPLOYMENT COMPENSATION****Pension Benefits**

AIG maintains tax-qualified and nonqualified defined benefit (pension) plans providing retirement benefits for employees. Participants in the tax-qualified pension plan vest in and receive their benefits based on length of service. Participants in the non-qualified pension plans vest in and

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receive these benefits based on their age and length of service. Employees of AIG and its subsidiaries who are paid on a U.S. dollar payroll and are citizens of the United States, or non-citizens working in the United States, are covered under the Qualified Retirement Plan. Participants whose formula benefit is restricted from being fully paid from the Qualified Retirement Plan due to



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IRS limits on compensation and benefits, including the named executives, are eligible to participate in the Non-Qualified Retirement Plan. Of the named executives, only Mr. Dooley participates and has a benefit under the SERP, and Mr. Herzog has a benefit under the American General Corporation Supplemental Executive Retirement Plan (AGC Retirement Plan).

Effective January 1, 2016, benefit accruals under the Qualified Retirement Plan, the Non-Qualified Retirement Plan and the SERP were frozen. As a result, the Qualified Retirement Plan, the Non-Qualified Retirement Plan and the SERP were closed to new participants, and current participants can no longer accrue additional benefits after December 31, 2015. However, interest credits continue to accrue on existing cash balance accounts, and participants also continue to earn service credits for purposes of vesting and early retirement eligibility subsidies as they continue to work for AIG. In addition, Mr. Herzog's benefit under the AGC Retirement Plan vested, and his age 65 accrued benefit was frozen, following the acquisition of the American General Corporation on August 29, 2001. His benefit under the AGC Retirement Plan is for service accrued to December 31, 2002.

While AIG was subject to the TARP restrictions on executive compensation, benefit accruals in the Non-Qualified Retirement Plan ceased on October 22, 2009 for Mr. Herzog and on December 11, 2009 for Messrs. Dooley and Doyle. Benefit accruals in the SERP ceased on December 11, 2009 for Mr. Dooley. Because the TARP restrictions ceased to apply as of December 14, 2012, the freeze on benefit accruals in the Non-Qualified Retirement Plan and SERP ended and benefit accruals commenced again under these plans after this date. In addition, benefit accruals commenced for Mr. Hancock under the Non-Qualified Retirement Plan, as he had not accrued any benefits under this plan prior to the TARP restrictions. We are not permitted to restore service for benefit accruals for the length of time during which these executives were subject to the freeze. Mr. Hogan was employed by AIG from September 4, 1984 to November 5, 2008 and accrued pension benefits under the Qualified Retirement Plan and the Non-Qualified Retirement Plan during this employment. Mr. Hogan did not receive a distribution from the Qualified Retirement Plan or the Non-Qualified Retirement Plan at the time of his resignation in 2008. Pursuant to the terms of these plans, prior service is recognized for vesting and eligibility to participate. Therefore, upon rejoining AIG in 2013, benefit accruals commenced immediately under the Qualified Retirement Plan and the Non-Qualified Retirement Plan for Mr. Hogan. Mr. Fasano was hired on October 20, 2014 and benefit accruals under the Qualified Retirement Plan and the Non-Qualified Retirement Plan commenced on November 1, 2015, after he completed one year of service with AIG.

The benefit formula under the Qualified Retirement Plan and the Non-Qualified Retirement Plan was converted effective April 1, 2012 from a final average pay formula to a cash balance formula comprised of pay credits, calculated based on 6 percent of a plan participant's annual pensionable compensation (subject to IRS limitations, on qualified plans (\$265,000 in 2015) and annual interest credits (3.04 percent in 2015)).

The definition of pensionable compensation under the cash balance formula is different from the definition used in the final average pay formula. Effective April 1, 2012, pensionable compensation under the cash balance formula includes base salary, commissions, overtime and annual short-term incentive awards. The Qualified Retirement Plan was subject to IRS compensation limits and the Non-Qualified Retirement Plan was subject to an annual compensation limit of \$1,050,000 in 2015.

The final average pay formula and definition of pensionable compensation did not change under the Qualified Retirement Plan or the Non-Qualified Retirement Plan for employees whose age plus credited service as of March 31, 2012 equaled 65 or greater and who had at least five years of credited service in the Qualified Retirement Plan as of that date. Messrs. Dooley and Doyle meet these requirements. For purposes of the Qualified Retirement Plan, Non-Qualified Retirement Plan and the SERP, each final average pay formula has been based on the average pensionable compensation of a participant during those three consecutive years in the last ten years of credited service that afford the highest such average, not including amounts attributable to overtime pay, quarterly bonuses, annual cash bonuses or long-term incentive awards. However, as a result of the freeze to benefit accruals effective January 1, 2016 to the Qualified Retirement Plan, the Non-Qualified Retirement Plan and the SERP, each final average pay formula is based on the average pensionable compensation of a participant during those three consecutive years in the last ten years of credited service through December 31, 2015. These participants will receive a benefit under the Qualified Retirement Plan and the Non-Qualified Retirement Plan calculated using either the final average pay formula or the cash balance formula, whichever produces the greater benefit. The Non-Qualified Retirement Plan provides a benefit equal to the portion of the benefit that is not permitted to be paid from the Qualified Retirement Plan due to IRS limits on compensation and benefits. The Qualified Retirement Plan and Non-Qualified Retirement Plan final average pay formula ranges from 0.925 percent to 1.425 percent times average final salary for each year of credited service.

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accrued since April 1, 1985 up to 44 years and 1.25 percent to 1.75 percent times average final pay for each year of credited service accrued prior to April 1, 1985 up to 40 years. For participants who retire after the normal retirement age of 65, the retirement benefit is actuarially increased to reflect the later benefit commencement date.

Participants in the Qualified Retirement Plan are vested after three years of service and participants in the Non-Qualified Retirement Plan are vested once they attain age 60 with five or more years of service or age 55 with 10 or more years of service.

Participants in the Qualified Retirement Plan can elect to receive their benefit in the form of an annuity or as a lump sum distribution. For Non-Qualified Retirement Plan participants, the benefit they accrued through March 31, 2012 can be paid only in the form of an annuity, and the benefit accrued on and after April 1, 2012 through December 31, 2015 can be paid only in a lump sum.

The SERP continues to provide participants annuity options under its final average pay formula. The SERP's final average pay formula provides a benefit equal to 2.4 percent times average final pay for each year of credited service up to 25 years through December 31, 2015, reduced by the monthly benefits payable from the Non-Qualified Retirement Plan, the Qualified Retirement Plan, Social Security and any predecessor plan or foreign deferred compensation plan sponsored by AIG.

**Early retirement benefits.** Each of the domestic pension plans provides for reduced early retirement benefits. These benefits are available to all vested participants in the Qualified Retirement Plan. The Non-Qualified Retirement Plan provides reduced early retirement benefits to participants who have reached age 55 with ten or more years of service or to participants who have reached age 60 with five or more years of service. The early retirement reduction factors in the Non-Qualified Retirement Plan are based upon age as of the retirement date and years of credited service excluding the TARP-related freeze period. The SERP provides reduced early retirement benefits to participants beginning at age 60 with five or more years of service, or to participants who have reached age 55 with ten or more years of credited service, except that the Committee must approve payment for eligible participants retiring before age 60.

In the case of early retirement, participants in the SERP will receive the SERP formula benefit reduced by 3, 4 or 5 percent (depending on age and years of credited service at retirement excluding the TARP-related freeze period) for each year that retirement precedes age 65. Participants in the Qualified Retirement Plan and the Non-Qualified Retirement Plan under the final average pay formula will receive the plan formula benefit projected to normal retirement at age 65 (using average final salary as of the date of early retirement), but prorated based on years of actual service, then reduced by a further amount in the same manner described with respect to the SERP except that there is no exclusion of service for the TARP-related freeze period under the Qualified Retirement Plan. Participants in the Qualified Retirement Plan, Non-Qualified Retirement Plan and the SERP will continue to receive service credit on and after the January 1, 2016 freeze date in determining age and length of service for early retirement subsidies and vesting purposes. Participants in the Qualified Retirement Plan with at least three years of service to AIG have a vested reduced retirement benefit pursuant to which, in the case of termination of employment prior to reaching age 65, such participants may elect to receive a reduced early retirement benefit commencing at any date between their date of termination and age 65. Participants in the Qualified Retirement Plan may choose to receive a lump sum payment or an annuity option upon normal or early retirement. Participants in the Non-Qualified Retirement Plan must receive the benefit accrued through March 31, 2012 in the form of an annuity and the benefit accrued on and after April 1, 2012 through December 31, 2015 in a lump sum. The SERP participants can elect an annuity option only and may not choose to receive the benefit in a lump sum.

**Death and disability benefits.** Each of the domestic pension plans also provides for death and disability benefits. The death benefit payable to a participant's designated beneficiary under the Qualified Retirement Plan and the Non-Qualified Retirement Plan will generally equal the participant's lump sum benefit or cash balance account. In the case of death, the SERP provides a participant who has at least five years of service to AIG with a survivor annuity equal to 40 percent of the participant's accumulated benefit, which may be reduced based on the age of the surviving spouse.

Under the Qualified Retirement Plan and the Non-Qualified Retirement Plan, prior to the January 1, 2016 freeze date, participants who became disabled and received payments under AIG's long-term disability plan, and whose benefit was determined under the final average pay formula, continued to accrue credited service, and participants whose benefit was determined under the cash balance formula continued to receive interest and pay credits to their cash balance account, for a maximum of three additional years. On and after the January 1, 2016

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freeze date, participants who receive payments under AIG's long-term disability plan continue to receive service credit in determining age and length of service for early retirement subsidies and vesting purposes, and participants whose benefit is determined under the cash balance formula continue to receive interest credits to their cash balance account, for a maximum of three additional years. Under the SERP, participants do not accrue credited service during that time.

As with other retirement benefits, in the case of death and disability benefits, the formula benefit under the Non-Qualified Retirement Plan and the SERP is reduced by amounts payable under the Qualified Retirement Plan, and participants in both the Non-Qualified Retirement Plan and the SERP may receive the formula benefit from the SERP only to the extent that it exceeds the benefit payable from the Non-Qualified Retirement Plan and the Qualified Retirement Plan.

**2015 pension benefits.** The following table details the accumulated benefits under the pension plans in which each named executive participates. In accordance with SEC rules, these accumulated benefits are presented as if they were payable upon the named executive's normal retirement at age 65. However, it is important to note that the benefits shown for the named executives are at least partially unvested and could be received at lower levels due to reduced benefits or forfeited entirely if the named executive does not continue to work at AIG for the next several years. As of year-end 2015, Messrs. Dooley and Herzog were eligible for early retirement benefits under the Non-Qualified Retirement Plan, but Messrs. Hancock, Doyle, Fasano and Hogan were not yet eligible for early retirement benefits under that plan. Mr. Dooley was eligible for early retirement benefits under the SERP. Mr. Dooley elected to commence his early retirement benefits under the Qualified Retirement Plan effective January 1, 2016. In addition, he elected to commence his Non-Qualified Retirement Plan and SERP benefits with commencement of these benefits delayed six months as required under Section 409A of the Code.

AIG has not granted extra years of credited service under the defined benefit plans described above to any named executive, other than credit for prior service by Mr. Herzog to American General Corporation (as required by Code regulations applicable to plans assumed in acquisitions).

**2015 Pension Benefits**

Name	Plan Name	Years of Credited Service(1)	Present Value of Accumulated Benefit(2)	Payments During 2015
Peter D. Hancock	Qualified Retirement Plan	5.333	\$ 104,864	\$ 0
	Non-Qualified Retirement Plan	3.000	\$ 134,737	\$ 0
	Total		\$ 239,601	\$ 0
David L. Herzog	Qualified Retirement Plan	15.917	\$ 389,467	\$ 0
	Non-Qualified Retirement Plan	12.750	\$ 656,908	\$ 0
	AGC Retirement Plan	2.917	\$ 171,544	\$ 0
	Total		\$ 1,217,919	\$ 0
William N. Dooley	Qualified Retirement Plan	30.750	\$ 1,172,360	\$ 0
	Non-Qualified Retirement Plan	27.750	\$ 3,646,771	\$ 0
	SERP	25.000	\$ 1,901,461	\$ 0
	Total		\$ 6,720,592	\$ 0
Philip Fasano	Qualified Retirement Plan	0.167	\$ 4,386	\$ 0
	Non-Qualified Retirement Plan	0.167	\$ 6,279	\$ 0
	Total		\$ 10,665	\$ 0
Kevin T. Hogan	Qualified Retirement Plan	25.917	\$ 566,845	\$ 0
	Non-Qualified Retirement Plan	25.917	\$ 711,303	\$ 0
	Total		\$ 1,278,148	\$ 0

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**Former Executive Officer**  
John Q. Doyle

Qualified Retirement Plan	29.083	\$ 733,508	\$ 0
Non-Qualified Retirement Plan	26.083	\$ 2,061,463	\$ 0
Total		\$ 2,794,971	\$ 0

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(1) The named executives had the following years of service with AIG as of December 31, 2015: Mr. Hancock 5.916; Mr. Herzog 14.417; Mr. Dooley 37.5; Mr. Fasano 1.25; Mr. Hogan 26.5; and Mr. Doyle 29.666.

*Mr. Hancock.* Mr. Hancock had fewer years of credited service than actual service under the Qualified Retirement Plan because at the time he was hired, employees were required to wait a year after commencing employment with AIG before becoming participants in this plan and received credit for service retroactive to six months of employment. Mr. Hancock became a participant in the Qualified Retirement Plan effective March 1, 2011 after he completed one year of service with AIG with service credited retroactive to September 1, 2010. Mr. Hancock began accruing credited service under the Non-Qualified Retirement Plan on January 1, 2013, the first of the month following December 14, 2012, the end of AIG's TARP restrictions period. He participates in the Qualified Retirement and Non-Qualified Retirement Plans under the cash balance formula. He began to accrue pay credits under the Non-Qualified Retirement Plan cash balance formula following December 14, 2012, the end of AIG's TARP restrictions period.

*Mr. Herzog.* Mr. Herzog participates in the Qualified Retirement and Non-Qualified Retirement Plans under the cash balance formula. Under both of these plans, Mr. Herzog received credit for his service retroactive to his date of hire at American General Corporation, which was acquired by AIG in August 2001. Under the Qualified Retirement Plan, Mr. Herzog had more years of credited service than actual service because that plan provided credit for years of employment with American General Corporation before its acquisition by AIG.

Under the Non-Qualified Retirement Plan, Mr. Herzog's credited service is less than his credited service under the Qualified Retirement Plan due to the freeze on service accrual in the Non-Qualified Retirement Plan. Mr. Herzog began to accrue pay credits under the Non-Qualified Retirement Plan cash balance formula following December 14, 2012, the end of AIG's TARP restrictions period, and resumed accruing credited service under the Non-Qualified Retirement Plan on January 1, 2013.

Mr. Herzog's benefit under the AGC Retirement Plan was frozen at December 31, 2002.

*Mr. Dooley.* Mr. Dooley had fewer years of credited service than actual service under the Qualified Retirement Plan and Non-Qualified Retirement Plan, because he did not enter the plans immediately upon eligibility. Mr. Dooley had fewer years of credited service than actual service under the SERP because credited service is capped at 25 years under this plan. Mr. Dooley's credited service under the Non-Qualified Retirement Plan is less than his credited service under the Qualified Retirement Plan due to the freeze on service accrual in the Non-Qualified Retirement Plan. He participates in the Qualified Retirement Plan and the Non-Qualified Retirement Plan calculated using either the final average pay formula or the cash balance formula, whichever produces the greater benefit. He resumed accruing credited service under the final average pay formula for both the Non-Qualified Retirement Plan and SERP on January 1, 2013, the first month following the December 14, 2012 end of AIG's TARP restrictions period.

*Mr. Fasano.* Mr. Fasano had fewer years of credited service than actual service under the Qualified Retirement Plan and the Non-Qualified Retirement Plan because at the time he was hired, employees were required to wait a year after commencing employment with AIG before becoming participants in these plans. Mr. Fasano became a participant in the Qualified Retirement Plan and the Non-Qualified Retirement Plan effective November 1, 2015 after he completed one year of service with AIG. He participates in the Qualified Retirement and Non-Qualified Retirement Plans under the cash balance formula.

*Mr. Hogan.* Mr. Hogan had fewer years of credited service than actual service under the Qualified Retirement Plan and the Non-Qualified Retirement Plan because at the time he was hired, employees were required to wait a year after commencing employment with AIG before becoming participants in these plans and received credit for service retroactive to six months of employment. Mr. Hogan was employed by AIG from September 4, 1984 to November 5, 2008 and accrued pension benefits under the Qualified Retirement Plan and the Non-Qualified Retirement Plan during this employment. Mr. Hogan did not receive a distribution from the Qualified Retirement Plan or the Non-Qualified Retirement Plan at the time of his initial resignation. Upon his rehire on October 14, 2013, benefit accruals commenced immediately under the Qualified and Non-Qualified Retirement Plans calculated under the cash balance formula, and prior service, pursuant to the terms of these Plans, was recognized for vesting and eligibility purposes. Mr. Hogan's credited service under the Non-Qualified Retirement Plan is equal to his credited service under the Qualified Retirement Plan because he was not an employee during the time period in which the freeze on service accrual in the Non-Qualified Retirement Plan was applicable.

*Mr. Doyle.* Mr. Doyle had fewer years of credited service than actual service under the Qualified Retirement Plan because at the time he was hired, employees were required to wait a year after commencing



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employment with AIG before becoming participants in this plan and received credit for service retroactive to six months of employment. Mr. Doyle's credited service under the Non-Qualified Retirement Plan is less than his credited service under the Qualified Retirement Plan due to the freeze on service accrual in the Non-Qualified Retirement Plan. He participates in the Qualified Retirement Plan and the Non-Qualified Retirement Plan calculated using either the final average pay formula or the cash balance formula, whichever produces the greater benefit. He resumed accruing credited service under the final average pay formula for the Non-Qualified Retirement Plan on January 1, 2013, the first month following the December 14, 2012 end of AIG's TARP restrictions period.

- (2) The actuarial present values of the accumulated benefits are based on service and earnings as of December 31, 2015 (the pension plan measurement date for purposes of AIG's financial statement reporting). The actuarial present values of the accumulated benefits under the Qualified Retirement Plan, the Non-Qualified Retirement Plan and the SERP are calculated based on payment of a life annuity beginning at age 65, or current age if older, consistent with the assumptions described in Note 20 to the Consolidated Financial Statements included in AIG's 2015 Annual Report on Form 10-K. As described in that Note, the discount rate assumption is 4.32 percent for the Qualified Retirement Plan. The discount rate assumption is 4.27 percent for the Non-Qualified Retirement Plan, 4.34 percent for the SERP and 4.09 percent for the AGC Retirement Plan. The mortality assumptions are based on the RP-2014 annuitant white collar mortality table projected using the AIG improvement scale.

As a result of the TARP restrictions on executive compensation, benefit accruals in the Non-Qualified Retirement Plan ceased on October 22, 2009 for Mr. Herzog and on December 11, 2009 for Messrs. Dooley and Doyle; and benefit accruals in the SERP ceased on December 11, 2009 for Mr. Dooley. Messrs. Hancock, Herzog, Fasano, Hogan and Doyle do not participate in the SERP. The TARP-related freeze on benefit accruals in the Non-Qualified Retirement Plan and SERP ended on December 14, 2012. Messrs. Fasano and Hogan were not employed by AIG during the TARP-related freeze period, and Mr. Hancock did not begin accruing pay credits under the Non-Qualified Retirement Plan until December 14, 2012. We are not permitted to restore service for benefit accruals for the length of time during which these executives were subject to the TARP-related freeze.

The Non-Qualified Retirement Plan and SERP benefits for these participants, if eligible, are equal to the lesser of the frozen Non-Qualified Retirement Plan and SERP benefit (excluding service and earnings during the period in which benefit accruals were frozen due to the TARP restrictions) or the Non-Qualified Retirement Plan and SERP benefit without taking into account the TARP-related freeze on service accrual. Vesting is determined in the Non-Qualified Retirement Plan and the SERP based on age and years of service as of the executive's actual retirement date. Early retirement reduction factors are based on age at the executive's actual retirement date and years of credited service excluding credited service during the period in which benefit accruals were frozen due to the TARP restrictions. Participants will continue to receive service credit on and after the January 1, 2016 freeze date in determining age and length of service for both vesting and early retirement subsidies.

*Mr. Herzog.* Mr. Herzog's AGC Retirement Plan benefit was frozen as of December 31, 2002 following AIG's acquisition of American General Corporation.

**Nonqualified Deferred Compensation**

In 2008, AIG paid out the entire account balances of most participants and terminated future participation in a number of its nonqualified deferred compensation plans, including the Supplemental Incentive Savings Plan (SISP), which allowed employees to contribute to deferred compensation accounts above the 401(k) annual limit, and the Executive Deferred Compensation Plan (EDCP), in which designated key employees were eligible to participate. However, for certain current and former employees on December 31, 2008, including participating named executives, payments of account balances were not accelerated. Mr. Dooley participated in the SISP and Mr. Herzog participated in the EDCP. In addition, Mr. Herzog participated in the American General Supplemental Thrift Plan (AG Supplemental Thrift Plan) as a result of his employment by American General Corporation prior to its acquisition by AIG.

**Supplemental Incentive Savings Plan.** Participants in the SISP were able to defer cash compensation up to a maximum of \$11,500 per year. Amounts deferred under the SISP were credited with earnings based on the returns of a number of mutual funds. In 2015, based on the performance of these funds, Mr. Dooley experienced a return of approximately 0.1 percent. Mr. Dooley elected to commence his early retirement benefits effective January 1, 2016, and since he had previously elected a lump sum payment of his SISP account balance upon

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termination of employment, he will receive this lump sum payment credited with earnings or losses based upon performance of the funds, after a six month delay required under Section 409A of the Code. All funds available for selection under the SISP were also available for selection under AIG's 401(k) plan. Amounts deferred during each year, and earnings thereon, will be distributed in accordance with each participant's prior decision to receive installments over a period of five or ten years or in a lump sum payment following termination of employment after reaching age 60. Participants whose employment terminates before reaching age 60 must receive their account balances in a lump sum payment.

**Executive Deferred Compensation Plan.** Participants in the EDCP were able to defer cash compensation up to a maximum of \$300,000 per year. Amounts deferred under the EDCP were credited with earnings based on the returns of a small number of mutual funds. In 2015, based on the performance of these funds, Mr. Herzog experienced a return of approximately 0.1 percent. Amounts deferred during each year, and earnings thereon, will be distributed in accordance with participants' prior decision to receive installments over a period of five or ten years or in a lump sum payment following termination of employment after reaching age 60. Participants whose employment terminates before reaching age 60 must receive their account balances in a lump sum payment.

**Stock Salary.** Stock Salary took the form of regular, bi-weekly or semi-monthly grants of immediately vested stock or units. The amount of stock or units awarded on each grant date was based on the dollar value of the Stock Salary earned over the period since the preceding grant date. Each grant of Stock Salary was subject to transfer or payment restrictions for a multi-year period.

Stock Salary awards, as well as balances under the other plans in which the named executives participated, are detailed in the following table.

**2015 Nonqualified Deferred Compensation**

Name	Executive Contributions	AIG Contributions	Aggregate Earnings(1)(2)	Distributions	Aggregate Balance at Year-End 2015
Peter D. Hancock					
2012 Stock Salary(1)	\$ 0	\$ 0	\$ 201,832	\$ 0	\$ 0
David L. Herzog					
EDCP	\$ 0	\$ 0	\$ 546	\$ 0	\$ 593,823
AG Supplemental Thrift Plan	\$ 0	\$ 0	\$ 928	\$ 0	\$ 22,428(3)
2012 Stock Salary(1)	\$ 0	\$ 0	\$ 183,787	\$ 0	\$ 0
Total					\$ 616,251
William N. Dooley					
SISP	\$ 0	\$ 0	\$ 41	\$ 0	\$ 31,827
2012 Stock Salary(1)	\$ 0	\$ 0	\$ 215,270	\$ 0	\$ 0
Total					\$ 31,827
Philip Fasano	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Kevin T. Hogan	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Former Executive Officer</b>					
John Q. Doyle					
2012 Stock Salary(1)	\$ 0	\$ 0	\$ 118,301	\$ 0	\$ 0

(1) From 2009 to 2012, AIG maintained a program of regular bi-weekly or semi-monthly grants of vested stock or units generally referred to as Stock Salary that remained subject to transfer or payment restrictions over a multi-year period. Stock Salary for Messrs. Hancock, Herzog, Dooley and Doyle was subject to transfer restrictions from one to three years from the date of grant. 2012 Stock Salary represents the remaining third tranche that was subject to restrictions until the applicable delivery date in 2015. As reflected in the Balance column above, there was no Stock Salary outstanding as of December 31, 2015.

2012 Stock Salary was granted in restricted shares of AIG Common Stock or units based on AIG Common Stock. Holders of unit-based Stock Salary, including all of the recipient named executives, were entitled to certain dividend equivalents under the terms of their awards. For 2012



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Stock Salary, RSUs outstanding on a dividend record date entitled the holder to a cash dividend equivalent equal to the dividend per share, multiplied by the number of RSUs outstanding on the dividend record date. Dividend equivalent amounts resulting from 2015 dividend payments are included in the Aggregate Earnings (Loss) column for 2012 Stock Salary amounts.

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All of the 2012 Stock Salary for Messrs. Hancock, Herzog and Dooley was previously reported in the 2012 Summary Compensation Table. Amounts in previous Summary Compensation Tables represent the fair market value at the grant date. All such previously reported awards were delivered as of December 31, 2015.

- (2) For the third tranche of 2012 Stock Salary, represents the earnings or loss accrued from December 31, 2014 through the applicable delivery date. For 2012 Stock Salary, amounts in this column also include dividend equivalents with respect to 2015 dividend payments.
- (3) Represents Mr. Herzog's balances under the AG Supplemental Thrift Plan and contributions made to this plan prior to AIG's acquisition of American General Corporation. Mr. Herzog may receive a lump sum distribution from this plan when he terminates employment with AIG and elects a distribution from AIG's 401(k) plan. This plan provides a return based on Prime plus 1 percent, which resulted in a rate of return of approximately 4.3 percent in 2015.

**POTENTIAL PAYMENTS ON TERMINATION**

**Executive Severance Plan.** As previously discussed, AIG maintains the 2012 ESP for AIG executives in grade level 27 or above, including the named executives, and executives who participated in AIG's prior executive severance plan (Prior Participants).

**Severance benefits.** The 2012 ESP provides for severance payments and benefits upon a termination by AIG without Cause or by a qualifying executive (including Messrs. Hancock, Herzog, Fasano, Hogan and Doyle) for Good Reason, including, for qualifying executives, after a Change in Control. In the event of a qualifying termination, subject to the participant's execution of a release of claims and agreement to abide by certain restrictive covenants, a participant is generally eligible to receive:

For terminations on and after April 1 of the termination year, a pro-rata annual short-term incentive for the year of termination based on the participant's target amount and actual company (and/or, if applicable, business unit or function) performance, paid at the same time as such short-term incentives are regularly paid to similarly situated active employees; and

Severance in an amount equal to the product of a multiplier times the sum of salary and average short-term incentive paid for the preceding three completed calendar years. The multiplier is either 1 or 1.5 depending on the executive's grade level and increases to 1.5 or 2 for qualifying terminations within two years following a Change in Control. Each of Messrs. Hancock, Herzog, Fasano, Hogan and Doyle is eligible for the higher multipliers.

However, in any event, Prior Participants in grade level 27 or above, which includes Messrs. Hancock, Herzog and Doyle, may not receive less than the severance they would have received under the prior plan. Severance generally will be paid in a lump sum. Participants are entitled to continued health coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), a \$40,000 payment that may be applied towards such coverage and one year of additional age and service under AIG's non-qualified pension plans and AIG Medical Plan solely for purposes of determining vesting and eligibility, not benefit accruals. The one year of additional age and service is also used for the purpose of determining eligibility to enroll in retiree medical coverage.

**Restrictive covenants.** Pursuant to the release of claims that each participant must execute to receive benefits under the 2012 ESP, each participant is generally prohibited from:

Engaging in, being employed by, rendering services to or acquiring financial interests in businesses that are competitive with AIG for a period of six months after termination;

Interfering with AIG's business relationships with customers, suppliers or consultants for a period of six months after termination;

Soliciting or hiring AIG employees for a period of one year after termination; and

Disclosing AIG's confidential information at any time following termination.

*Definitions.* Under the 2012 ESP:

Cause generally means

the participant's conviction, whether following trial or by plea of guilty or *nolo contendere* (or similar plea), in a criminal proceeding (A) on a misdemeanor charge involving fraud, false statements or

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misleading omissions, wrongful taking, embezzlement, bribery, forgery, counterfeiting or extortion, (B) on a felony charge or (C) on an equivalent charge to those in clauses (A) and (B) in jurisdictions which do not use those designations;

the participant's engagement in any conduct which constitutes an employment disqualification under applicable law (including statutory disqualification as defined under the Exchange Act);

the participant's violation of any securities or commodities laws, any rules or regulations issued pursuant to such laws, or the rules and regulations of any securities or commodities exchange or association of which AIG or any of its subsidiaries or affiliates is a member; or

the participant's material violation of AIG's codes of conduct or any other AIG policy as in effect from time to time.

Change in Control generally means

individuals who, on the effective date of the 2012 ESP, constitute the Board of Directors of AIG (or subsequent directors whose election or nomination was approved by a vote of at least two-thirds of such directors, including by approval of the proxy statement in which such person is named as a nominee for director) cease for any reason to constitute at least a majority of the Board;

any person is or becomes a beneficial owner of 50 percent or more of AIG's voting securities (for this purpose, person is as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act);

consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving AIG that results in any person becoming the beneficial owner of 50 percent or more of the total voting power of the outstanding voting securities eligible to elect directors of the entity resulting from such transaction;

a sale of all or substantially all of AIG's assets; or

AIG's stockholders approve a plan of complete liquidation or dissolution of AIG.

Good Reason generally means a reduction of more than 20 percent in the participant's annual target direct compensation.

***Treatment of 2013 LTI, 2014 LTI and 2015 LTI Awards.*** 2013 LTI awards, 2014 LTI awards and 2015 LTI awards were issued under the 2013 Long Term Incentive Plan, which provides for accelerated vesting of outstanding PSUs in certain termination scenarios. In the case of a participant's involuntary termination without Cause (defined in the same manner as in the 2012 ESP as set forth above), retirement or disability, or if the participant experiences a qualifying resignation after the first year of a performance period (e.g., on or after January 1, 2016 for the 2015-2017 performance period), the participant's earned PSUs will vest based on actual performance for the whole performance period and be delivered on the normal settlement schedule. Retirement requires attainment of age 60 with five years of service or attainment of age 55 with ten years of service, and a qualifying resignation requires attainment of both (1) age 50 with at least five years of service and (2) age plus years of service equal to at least 60. In the case of a participant's death during or prior to adjudication for a performance period or involuntary termination without Cause within 24 months following a Change in Control (defined in the same manner as in the 2012 ESP as set forth above) during a performance period, an amount equal to the participant's target amount of PSUs (unless the Committee determines to use actual performance through the date of the Change in Control) will vest and be delivered to the participant by the later of the end of the calendar year or two and a half months following death or termination.

***Quantification of Termination Payments and Benefits.*** The following table sets forth the compensation and benefits that would have been provided to each of the named executives if he had been terminated on December 31, 2015 under the circumstances indicated (including following a change in control).

**Table of Contents****Termination Payments and Benefits for the Named Executive Officers as of December 31, 2015**

Name	Annual Short-Term Incentive(1)	Severance(2)	Medical and Life Insurance(3)	Pension Plan Credit(4)	Unvested Options(5)	Unvested Stock Awards(6)	Total
<b>Peter D. Hancock</b>							
By AIG for Cause	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
By AIG w/o Cause	\$ 2,496,000	\$ 8,531,556	\$ 40,000	\$ 0	\$ 0	\$ 30,043,800	\$ 41,111,356
By Executive w/o Good Reason	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 20,421,718	\$ 20,421,718
By Executive with Good Reason	\$ 2,496,000	\$ 8,531,556	\$ 40,000	\$ 0	\$ 0	\$ 20,421,718	\$ 31,489,274
Qualifying Termination following a change in control(7)	\$ 2,496,000	\$ 9,998,222	\$ 40,000	\$ 0	\$ 0	\$ 30,043,800	\$ 42,578,022
Death	\$ 3,200,000	\$ 0	\$ 0	\$ 5,817	\$ 0	\$ 26,272,615	\$ 29,478,432
Disability(8)	\$ 2,496,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 30,043,800	\$ 32,539,800
Retirement	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>David L. Herzog</b>							
By AIG for Cause	\$ 0	\$ 0	\$ 0	\$ 39,181	\$ 0	\$ 0	\$ 39,181
By AIG w/o Cause	\$ 1,560,000	\$ 5,847,333	\$ 40,000	\$ 39,181	\$ 0	\$ 19,344,369	\$ 26,830,883
By Executive w/o Good Reason	\$ 0	\$ 0	\$ 0	\$ 39,181	\$ 0	\$ 14,650,700	\$ 14,689,881
By Executive with Good Reason	\$ 1,560,000	\$ 5,847,333	\$ 40,000	\$ 39,181	\$ 0	\$ 14,650,700	\$ 22,137,214
Qualifying Termination following a change in control(7)	\$ 1,560,000	\$ 6,466,667	\$ 40,000	\$ 39,181	\$ 0	\$ 19,344,369	\$ 27,450,217
Death	\$ 2,000,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,296,995	\$ 18,296,995
Disability(8)	\$ 1,560,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,344,369	\$ 20,904,369
Retirement	\$ 1,560,000	\$ 0	\$ 0	\$ 39,181	\$ 0	\$ 19,344,369	\$ 20,943,550
<b>William N. Dooley</b>							
Retirement(9)	\$ 1,560,000	\$ 0	\$ 0	\$ 404,538	\$ 0	\$ 19,730,318	\$ 21,694,856
<b>Philip Fasano</b>							
By AIG for Cause	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
By AIG w/o Cause	\$ 1,092,000	\$ 10,600,000	\$ 40,000	\$ 0	\$ 0	\$ 6,681,234	\$ 18,413,234
By Executive w/o Good Reason	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
By Executive with Good Reason	\$ 1,092,000	\$ 10,600,000	\$ 40,000	\$ 0	\$ 0	\$ 0	\$ 11,732,000
Qualifying Termination following a change in control(7)	\$ 1,092,000	\$ 11,800,000	\$ 40,000	\$ 0	\$ 0	\$ 6,681,234	\$ 19,613,234
Death	\$ 1,400,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,681,234	\$ 8,081,234
Disability(8)	\$ 1,092,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,681,234	\$ 7,773,234
Retirement	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Kevin T. Hogan</b>							
By AIG for Cause	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
By AIG w/o Cause	\$ 1,482,000	\$ 5,044,063	\$ 40,000	\$ 0	\$ 0	\$ 14,849,933	\$ 21,415,996
By Executive w/o Good Reason	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10,625,624	\$ 10,625,624
By Executive with Good Reason	\$ 1,482,000	\$ 5,044,063	\$ 40,000	\$ 0	\$ 0	\$ 10,625,624	\$ 17,191,687
Qualifying Termination following a change in control(7)	\$ 1,482,000	\$ 6,458,750	\$ 40,000	\$ 0	\$ 0	\$ 14,849,933	\$ 22,830,683
Death	\$ 1,900,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,889,078	\$ 14,789,078
Disability(8)	\$ 1,482,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,849,933	\$ 16,331,933
Retirement	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Former Executive Officer</b>							
<b>John Q. Doyle</b>							
By AIG for Cause	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
By AIG w/o Cause	\$ 1,755,000	\$ 6,054,083	\$ 40,000	\$ 0	\$ 0	\$ 18,290,941	\$ 26,140,024
By Executive w/o Good Reason	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 13,303,906	\$ 13,303,906
By Executive with Good Reason	\$ 1,755,000	\$ 6,054,083	\$ 40,000	\$ 0	\$ 0	\$ 13,303,906	\$ 21,152,989
Qualifying Termination following a change in control(7)	\$ 1,755,000	\$ 6,720,750	\$ 40,000	\$ 0	\$ 0	\$ 18,290,941	\$ 26,806,691
Death	\$ 2,250,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 15,748,250	\$ 17,998,250
Disability(8)	\$ 1,755,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 18,290,941	\$ 20,045,941
Retirement	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1)

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These amounts represent annual short-term incentive payments for which the named executives would have been eligible pursuant to the 2012 ESP had they been terminated on December 31, 2015. Under the 2012 ESP, earned short-term incentives are prorated based on the number of full months the executive was employed in the termination year. Except in the case of death, these short-term incentive payments are based on the named executive's target amount and actual company performance and paid at the same time such short-term incentives are regularly paid to similarly situated active employees. In the case of death, a named executive's short-term incentive payment is based on his or her target amount and paid as soon as administratively possible after the date of death (but in no event later than March 15th of the following year). These amounts would have been solely in lieu of, and not in addition to, the annual short-term incentives for 2015 actually paid to the named executives as reported in the 2015 Summary Compensation Table.

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(2) Severance would have been paid as a lump sum cash payment as soon as practicable and in no event later than 60 days following the termination date.

For Mr. Fasano, includes the remaining four installments of his award, pursuant to his August 2014 offer letter. See Compensation Discussion and Analysis Transition Arrangements for Named Executives for further information.

For Mr. Hogan, includes the remaining installment of his award, pursuant to his August 2013 offer letter. See Compensation Discussion and Analysis Transition Arrangements for Named Executives for further information.

(3) The amounts in this column reflect a lump sum payment of \$40,000 that can be used to pay for COBRA healthcare premiums and life insurance coverage following a qualifying termination. Mr. Dooley was also eligible for retiree medical coverage and there is no increase to the incremental present value of the retiree medical plan subsidy for Mr. Dooley. Messrs. Hancock, Herzog, Fasano, Hogan and Doyle are not eligible for company-subsidized retiree medical benefits. The amounts do not include medical and life insurance benefits upon permanent disability or death to the extent that they are generally available to all salaried employees. All of the named executives are eligible participants under the AIG medical and life insurance plans.

(4) The amount shown for all of the termination events is the increase, if any, above the accumulated value of pension benefits shown in the 2015 Pension Benefits table, calculated using the same assumptions. Where there is no increase in value, the amount shown in this column is zero.

In the event of termination as a result of death, the beneficiary of the named executives or their estates would have received benefits under AIG's pension plans. The death benefit payable to a vested participant's designated beneficiary under the Qualified Retirement Plan and the Non-Qualified Retirement Plan generally equals the participant's lump sum benefit or cash balance account pursuant to the plan provisions applicable to all salaried employees. The SERP provides a participant with at least five years of service to AIG with a survivor annuity equal to 40 percent of the participant's accumulated benefit, which may be reduced based on the age of the surviving spouse. The death benefits for the named executives are calculated using the actual dates of birth for these individuals' spouses, and are generally less than the amounts shown in the 2015 Pension Benefits table on a present value basis. In the event of termination as a result of disability, the named executives would have received benefits under AIG's pension plans. The amounts in this column for termination due to permanent disability represent the increase in the present value, if any, of the named executive's accumulated pension benefits attributed to interest credits, which continue to accrue on existing cash balance accounts, and service credits, for purposes of vesting and early retirement eligibility subsidies, that would accrue during a period of disability pursuant to the plan provisions applicable to all salaried employees.

All termination benefits, except disability benefits, are assumed to commence at the earliest permissible retirement date. Disability benefits are assumed to commence at age 65.

For information on pension benefits generally, see Post-Employment Compensation Pension Benefits.

(5) No options that become exercisable on retirement, death or permanent disability are in the money.

(6) The amounts in this column represent the total market value (based on the closing sale price on the NYSE of \$61.97 on December 31, 2015) of shares of AIG Common Stock underlying unvested equity-based awards as of December 31, 2015.

For the 2013 LTI awards, the amounts in this column include the actual earned PSUs (as determined by the Committee in the first quarter of 2016 and described under Compensation Discussion and Analysis Adjudication of 2013 Long-Term Incentive Awards) in the case of a named executive's involuntary termination without Cause, involuntary termination without Cause within 24 months following a Change in Control, retirement or disability, or if the named executive experienced a qualifying resignation. In the case of death, the amounts reflect the target amount of PSUs under each named executive's 2013 LTI award.

In addition, the amounts in this column include, for all of the named executives, the outstanding PSUs granted under the 2014 LTI and 2015 LTI awards assuming target performance, except that the amounts shown for a termination by executive with or without Good Reason for Messrs. Hancock, Herzog, Hogan and Doyle include only 2014 LTI awards that are eligible for qualifying resignation treatment under the 2013 Long Term Incentive Plan. Qualifying resignation treatment is only available upon a voluntary termination after the first year of a performance



period for participants who meet the age and years of service requirements. For the

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2014 and 2015 LTI awards, the actual number of PSUs (if any) vesting upon a qualifying termination by AIG without Cause, by executive with or without Good Reason, disability, retirement and, in certain circumstances, following a change in control, would be based on actual performance. 2015 LTI award amounts also include additional PSUs accrued in respect of dividend equivalent rights, which are subject to the same vesting and performance conditions as the related PSUs and are paid when such related earned shares (if any) are delivered.

For Messrs. Herzog, Dooley and Doyle, also includes previously earned awards under the SICO Plans payable upon termination due to death, disability and retirement.

(7) Under the 2012 ESP, includes a termination by AIG without Cause or by the executive for Good Reason within 24 months following a Change in Control. Under the 2013 LTI, 2014 LTI and 2015 LTI awards, includes only termination by AIG without Cause within 24 months following a Change in Control, with the amount of PSUs vesting shown at actual amounts earned for the 2013 LTI awards (as determined by the Committee in the first quarter of 2016 and described under Compensation Discussion and Analysis Adjudication of 2013 Long-Term Incentive Awards ) and at target for the 2014 LTI and 2015 LTI awards. However, with respect to the 2014 LTI and 2015 LTI awards, for a Change in Control that occurs following a performance period, the actual PSUs vesting, if any, would be based on actual performance, and for a Change in Control that occurs during a performance period, the Committee may determine to use actual performance through the date of the Change in Control rather than target performance to determine the actual PSUs vesting, if any.

For Mr. Fasano, includes the remaining four installments of his award, pursuant to his August 2014 offer letter. See Compensation Discussion and Analysis Transition Arrangements for Named Executives for further information.

For Mr. Hogan, includes the remaining installment of his award, pursuant to his August 2013 offer letter. See Compensation Discussion and Analysis Transition Arrangements for Named Executives for further information.

(8) Amounts shown in this row represent the amounts the executive would be entitled to receive upon qualifying for benefits under AIG's long-term disability plan.

(9) Mr. Dooley retired on December 31, 2015 and received the benefits set forth in this row.

***Subsequent Departures of Named Executives***

As previously disclosed on AIG's Current Report on Form 8-K dated January 4, 2016, Mr. Dooley retired from the Company on December 31, 2015. On December 10, 2015, AIG announced that Mr. Herzog and Mr. Doyle would leave the Company after a period of transition. Mr. Herzog and Mr. Doyle will separate on April 8, 2016 with termination without cause benefits.

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### **PROPOSAL 2 NON-BINDING ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION**

Pursuant to the rules of the SEC, AIG must submit to shareholders at least once every three years a non-binding shareholder advisory vote to approve the compensation of AIG's executives, as disclosed in the annual Proxy Statement. In 2012, our Board unanimously recommended, and our shareholders agreed, that the say-on-pay advisory vote occur annually as a corporate governance best practice.

Accordingly, this Proposal 2 gives holders of AIG Common Stock the opportunity to vote for or against the following resolution:

**RESOLVED:** that the holders of the Common Stock of American International Group, Inc. (the Company) approve the compensation of the Company's named executives, as disclosed in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders, including the Compensation Discussion and Analysis, the 2015 Summary Compensation Table and the other related tables and disclosure contained in the Proxy Statement.

Because this resolution relates to the information about executive compensation contained in this Proxy Statement, beginning with Executive Compensation Compensation Discussion and Analysis, shareholders should review that information in considering their vote on the resolution.

Holders of AIG Common Stock are entitled to vote on this resolution. Adoption of the resolution requires a vote for the resolution by a majority of votes cast by the shareholders of AIG Common Stock, which votes cast are either for or against the resolution.

The results of the vote on this resolution will not be binding on AIG's Board of Directors, will not overrule any decisions the Board has made and will not create any duty for the Board to take any action in response to the outcome of the vote. However, AIG's Compensation and Management Resources Committee may, in its sole discretion, take into account the outcome of the vote in analyzing and evaluating future compensation opportunities. We will include an advisory vote on executive compensation on an annual basis at least until the next shareholder advisory vote on the frequency of such votes (no later than our 2019 Annual Meeting of Shareholders).

### **AIG STATEMENT IN SUPPORT**

The Board and Compensation and Management Resources Committee support this resolution because they believe that our compensation program provides an appropriate balance of fixed and variable pay, drives achievement of AIG's short- and long-term business strategies and aligns the economic interests of our executives with the long-term interests of AIG and our shareholders. At our 2015 Annual Meeting, more than 98 percent of the votes cast by shareholders were in favor of the 2014 compensation of our named executives. Our 2015 program continues our 2014 program, with an emphasis on performance-based pay, long-term incentives and alignment with sound risk management. At least 75 percent of each named executive's target total compensation is at risk and based on performance, and the majority of incentive pay opportunity is based on performance over a three-year period and paid over a total period of five years.

2015 pay decisions reflect AIG's achievements across multiple quantitative goals measuring business profitability, AIG profitability, expense management and risk-adjusted growth that together drove our Company-wide annual short-term incentive determination. These achievements, and our 2015 compensation program and pay decisions, are described in more detail under the heading Executive Compensation Compensation Discussion and Analysis.

### **Recommendation**

Your Board of Directors unanimously recommends a vote **FOR** this resolution.

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**REPORT OF AUDIT COMMITTEE AND RATIFICATION OF SELECTION OF ACCOUNTANTS**

**REPORT OF THE AUDIT COMMITTEE**

Management is responsible for the preparation, presentation and integrity of AIG's financial statements, for its accounting and financial reporting principles and for the establishment and effectiveness of internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for performing an independent audit of the financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), expressing an opinion as to the conformity of such financial statements with generally accepted accounting principles in the United States of America and expressing an opinion on the effectiveness of internal control over financial reporting. The independent auditors have free access to the Audit Committee to discuss any matters they deem appropriate.

**Committee Organization and Operation**

The Audit Committee's function is to assist the Board of Directors in its oversight of:

The integrity of AIG's financial statements;

AIG's internal control over financial reporting;

AIG's compliance with legal and regulatory requirements;

The independent accountants' qualifications, independence and performance; and

The performance of AIG's internal audit function.

The Audit Committee is also directly responsible for the appointment, compensation, retention and oversight of the work of AIG's independent registered public accounting firm. The Audit Committee's charter is available in the Corporate Governance section of AIG's corporate website at [www.aig.com](http://www.aig.com).

The Audit Committee held ten meetings during 2015. The Audit Committee Chair and members of the Audit Committee also held numerous additional meetings throughout 2015 with domestic and global members of AIG corporate, business segment and internal audit management and with AIG's independent registered public accounting firm (PricewaterhouseCoopers LLP) and AIG's U.S. and international regulators. The Committee believes that these meetings were helpful in discharging its oversight responsibilities, including with respect to financial reporting and disclosure, risk management and internal controls.

**Independence.** The Board of Directors, on the recommendation of the Nominating and Corporate Governance Committee, has determined that all members of the Audit Committee are independent, as required by NYSE listing standards and SEC rules.

**Expertise.** The Board of Directors has also determined, on the recommendation of the Nominating and Corporate Governance Committee, that all members of the Audit Committee are financially literate and have accounting or related financial management expertise, each as defined by NYSE listing standards, and are audit committee financial experts, as defined under SEC rules. Although designated as audit committee financial experts, no member of the Committee is an accountant for AIG or, under SEC rules, an expert for purposes of the liability provisions of the Securities Act or for any other purpose. The Audit Committee's assistance in the Board of Directors' oversight of AIG's compliance with legal and regulatory requirements primarily focuses on the effect of such matters on AIG's financial statements, financial reporting and internal control over financial reporting. In considering AIG's compliance with legal and regulatory requirements, the Audit Committee also takes into account the oversight of legal and regulatory matters by the Regulatory, Compliance and Public Policy Committee.

**Audited Financial Statements**

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In the performance of its oversight function, the Audit Committee has considered and discussed the 2015 audited financial statements with management and PricewaterhouseCoopers LLP, including a discussion of the quality, and not just the acceptability, of the accounting principles, the reasonableness of significant judgments, clarity of the disclosures and the condition of internal control over financial reporting. The Audit Committee has reviewed with the Chief Auditor (Head of Internal Audit) and the PricewaterhouseCoopers LLP engagement team the scope and plans for their respective audits and has met with each of the Chief Auditor and senior engagement partners of PricewaterhouseCoopers LLP, with and without management present, to discuss audit results, their

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evaluations of AIG's internal controls and the overall quality of AIG's financial reporting. The Audit Committee has also discussed with PricewaterhouseCoopers LLP the matters required to be discussed by PCAOB Auditing Standard No. 16, Communications with Audit Committees. Finally, the Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP as required by the PCAOB's rules regarding Communication with Audit Committees Concerning Independence and has discussed with PricewaterhouseCoopers LLP its independence.

**Conclusion**

Based upon the reports and discussion described in this report, the Audit Committee, in accordance with its responsibilities, recommended to the Board of Directors, and the Board approved, inclusion of the audited financial statements for the year ended December 31, 2015 in AIG's 2015 Annual Report on Form 10-K.

AIG has also undertaken various technology initiatives intended to enhance internal controls, facilitate the preparation of financial and regulatory information and help ensure the accuracy of data. AIG management and the Audit Committee recognize the continued importance of implementing these technology initiatives and currently expect the remaining projects to be implemented over the next two to four years.

Audit Committee  
American International Group, Inc.

William G. Jurgensen, Chair

John H. Fitzpatrick

Christopher S. Lynch  
Ronald A. Rittenmeyer

Theresa M. Stone

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**PROPOSAL 3 RATIFICATION OF SELECTION OF PRICEWATERHOUSECOOPERS LLP**

The Audit Committee and the Board of Directors have approved the engagement of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm for 2016. Representatives of that firm are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they desire to do so and to be available to respond to appropriate questions.

Ratification of the selection of accountants requires approval by a majority of the votes cast by the shareholders of AIG Common Stock, which votes are cast for or against the ratification. Neither AIG's Restated Certificate of Incorporation nor AIG's By-laws require that the shareholders ratify the selection of PricewaterhouseCoopers LLP as its independent registered public accounting firm. AIG's Board is requesting shareholder ratification as a matter of good corporate practice. If the shareholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain PricewaterhouseCoopers LLP. Even if the selection is ratified, the Audit Committee in its discretion may change the appointment at any time during the year if it determines that such change would be in the best interests of AIG and its shareholders.

The Audit Committee evaluates the qualifications, performance, and independence of the independent auditor, including the lead partner, on an annual basis (in each case, in light of SEC and NYSE independence and other applicable standards then in effect). The Audit Committee ensures the regular rotation of the lead audit partner as required by law and is involved in the selection of the lead audit partner. In addition, the Audit Committee receives periodic reports on the hiring of PricewaterhouseCoopers LLP partners and other professionals to help ensure PricewaterhouseCoopers LLP satisfies applicable independence rules.

PricewaterhouseCoopers LLP has served as AIG's independent registered accounting firm since 1980 and reports directly to the Audit Committee. In selecting PricewaterhouseCoopers LLP as AIG's independent registered accounting firm for 2016, the Audit Committee considered a number of factors, including:

the quality of its ongoing discussions with PricewaterhouseCoopers LLP including the resolution of accounting and financial reporting matters with the national office,

the professional qualifications of PricewaterhouseCoopers LLP, the lead audit partner and other key engagement partners,

PricewaterhouseCoopers LLP's depth of understanding of AIG's global businesses, accounting policies and practices and internal control over financial reporting,

PricewaterhouseCoopers LLP's expertise and capabilities in handling the breadth and complexity of AIG's businesses and global footprint including approximately 420 audit, statutory, and other audit-related reports,

PricewaterhouseCoopers LLP's independence program and its processes for maintaining its independence,

the appropriateness of PricewaterhouseCoopers LLP's fees for audit and non-audit services (on both an absolute basis and as compared to fees charged to AIG peer companies of comparable size and complexity by PricewaterhouseCoopers LLP and its peer firms),

consideration of PricewaterhouseCoopers LLP's known legal risks and significant proceedings that may impair their ability to perform AIG's annual audit, if any,

the most recent PCAOB inspection report on PricewaterhouseCoopers LLP and the results of the most recent American Institute of Certified Public Accountants peer review and self-review examinations, and

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the results of management's and the Audit Committee's annual evaluations of the qualifications, performance and independence of PricewaterhouseCoopers LLP.

In addition, the Audit Committee periodically considers the appropriateness of a rotation of the independent registered accounting firm. At this time, the Audit Committee and the Board of Directors believe that the continued retention of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm is in the best interests of AIG and its shareholders.

Under AIG's policy for pre-approval of audit and permitted non-audit services by PricewaterhouseCoopers LLP, the Audit Committee approves categories of services and fee caps for each category. The pre-approved services include: audit services, such as financial statement audits and regulatory filings; audit-related services, such as audit and pre- and post-implementation reviews of systems, processes and controls, regulatory and



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compliance attestations, employee benefit plan audits, due diligence related to acquisitions and divestitures and financial reporting accounting consultations; tax services, such as tax return preparation, transaction-based tax reviews, review of tax accounting matters and other tax planning; and other permitted non-audit services, such as regulatory compliance reviews, information technology reviews, information resources, risk management services, business function reviews and other compliance reviews. The Committee evaluates all services, including those engagements related to tax and internal control over financial reporting, considering the nature of such services in light of auditor independence, in accordance with the rules of the PCAOB. No expenditure may exceed the dollar caps without the separate specific approval of the Audit Committee.

**Recommendation**

Your Board of Directors unanimously recommends a vote **FOR** the proposal to ratify the selection of PricewaterhouseCoopers LLP.

**FEES PAID TO PRICEWATERHOUSECOOPERS LLP**

The table below shows the fees paid by AIG to PricewaterhouseCoopers LLP in 2015 and 2014.

	2015 (in millions)	2014 (in millions)
Fees paid by AIG:		
Audit fees(a)	\$ 67.5	\$ 66.3
Audit-related fees(b)	\$ 18.9	\$ 19.6
Tax fees(c)	\$ 6.1	\$ 8.4
All other fees(d)	\$ 2.0	\$ 5.9

(a) Audit fees include fees for the audit of AIG's consolidated financial statements, as well as subsidiary and statutory audits directly related to the performance of the AIG consolidated audit. Audit fees include out-of-pocket expenses of \$3.5 million in 2015 and \$3.3 million in 2014.

(b) Audit-related fees include fees for assurance and related services that are traditionally performed by independent accountants, including: audit and pre- and post-implementation reviews of systems, processes and controls; regulatory and compliance attestations; employee benefit plan audits; due diligence related to acquisitions and divestitures; statutory audits not directly related to the performance of the AIG consolidated audit and financial accounting and reporting consultations.

(c) Tax fees are fees for tax return preparation, transaction-based tax reviews, review of tax accounting matters, and other tax planning and consultations.

(d) All other fees include fees related to regulatory compliance reviews, information technology reviews, information resources, risk management services, business function reviews and other compliance reviews.

The services provided by PricewaterhouseCoopers LLP and the fees paid by AIG were authorized and approved by the Audit Committee in compliance with the pre-approval policy and procedures described above. The Audit Committee considers the non-audit services rendered by PricewaterhouseCoopers LLP during the most recently completed fiscal year in its annual independence evaluation.

PricewaterhouseCoopers LLP also provides audit services to certain unconsolidated private equity and real estate funds managed and advised by AIG subsidiaries. Fees related to these audits were \$4.4 million in both 2015 and 2014 and are not reflected in the fees in the table above.

PricewaterhouseCoopers LLP also performed audit and related services in connection with the financial statements of ILFC subsequent to its divestiture. AIG paid fees of \$2.6 million in 2014 for such services in accordance with contractual terms agreed between the parties. All fees

paid by AIG related to ILFC prior to the sale date in May 2014 are included in the AIG table above.

**Table of Contents****EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information about shares of AIG Common Stock that may be issued under compensation plans as of December 31, 2015.

**Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Plan</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)(2)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(1)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Third Column)</b>
Equity compensation plans approved by security holders	Amended and Restated 1999 Stock Option Plan	17,053	\$ 1,396.84(3)	0(4)
	Amended and Restated 2002 Stock Incentive Plan	12(5)	\$	0(4)
	Director Stock Plan	90(6)	\$	0(4)
	2007 Stock Incentive Plan	80,253(7)	\$ 639.71(3)	0(4)
	2010 Stock Incentive Plan	11,607,727(8)	\$	0(4)
	2013 Omnibus Incentive Plan	12,928,441(9)	\$	45,898,365(10)
<b>Total</b>		<b>24,633,576</b>	<b>\$ 777.78(3)</b>	<b>45,898,365</b>

- (1) Shares underlying RSUs and PSUs are deliverable without the payment of any consideration, and therefore these awards have not been taken into account in calculating the weighted-average exercise price.
- (2) At December 31, 2015, AIG was also obligated to issue 42,130 shares in connection with previous exercises of options with delivery deferred.
- (3) Represents the weighted average exercise price of outstanding options.
- (4) No future awards will be made under these plans.
- (5) Represents shares reserved for issuance in connection with time-vested RSUs.
- (6) Represents shares granted to non-management directors with delivery deferred.

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- (7) Represents shares reserved for issuance in connection with DSUs and options.
- (8) Represents shares reserved for issuance in connection with PSUs (at actual amounts earned) for 2013 LTI awards, time-vested DSUs and RSUs, all of which are payable in cash or shares.
- (9) Represents shares reserved for issuance in connection with time-vested DSUs and in connection with PSUs (at target level of performance) for 2014 LTI awards and 2015 LTI awards (including related dividend equivalents).
- (10) Represents shares reserved for future issuance under the 2013 Omnibus Incentive Plan (which replaced the 2010 Stock Incentive Plan for awards granted on or after May 15, 2013). The number of shares available for issuance under the 2013 Omnibus Incentive Plan will increase if and to the extent that outstanding awards under the 2010 Stock Incentive Plan are forfeited, expire, terminate or otherwise lapse or are settled in cash in whole or in part, as provided by the 2013 Omnibus Incentive Plan and may increase or decrease depending on actual performance and the number of PSUs earned under the outstanding 2014 LTI and 2015 LTI awards.

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**OTHER MATTERS**

**OTHER MATTERS TO BE PRESENTED AT THE 2016 ANNUAL MEETING OF SHAREHOLDERS**

Your Board of Directors knows of no other matters to be presented at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote the proxy in accordance with their judgment on such matters.

**SHAREHOLDER PROPOSALS FOR THE 2017 ANNUAL MEETING**

All suggestions from shareholders are given careful attention. Proposals intended for inclusion in next year's Proxy Statement pursuant to Exchange Act Rule 14a-8 should be sent to the Secretary of AIG at 175 Water Street, New York, New York 10038 and must be received by November 29, 2016.

In November 2015, we amended AIG's By-laws to permit a shareholder, or a group of up to 20 shareholders, owning three percent or more of our outstanding shares of AIG Common Stock continuously for at least three years to nominate and include in AIG's annual meeting proxy materials director nominees constituting up to the greater of two individuals or 20 percent of the Board of Directors, provided that the shareholder(s) and the nominee(s) satisfy the requirements specified in AIG's By-laws. Notice of director nominees submitted pursuant to these proxy access By-law provisions must be delivered or, if sent by mail, received by the Secretary of AIG at 175 Water Street, New York, New York 10038 and must be received no earlier than October 30, 2016 and no later than November 29, 2016. The notice of director nominees must include all of the information required by AIG's By-laws.

Under AIG's By-laws, notice of any other shareholder proposal or the nomination of a candidate for election as a director to be made at the 2017 Annual Meeting of Shareholders and not submitted for inclusion in next year's Proxy Statement (either pursuant to Exchange Act Rule 14a-8 or the proxy access provisions of AIG's By-laws) must be delivered to the Secretary of AIG at 175 Water Street, New York, New York 10038 not less than 90 nor more than 120 days prior to May 11, 2017, unless the 2017 Annual Meeting of Shareholders is not scheduled to be held on a date between April 11, 2017 and June 10, 2017, in which case notice must be received by the later of 90 days prior to the date on which such meeting is scheduled or 10 days after the date on which such meeting date is first publicly announced. The notice must include all of the information required by AIG's By-laws. A copy of AIG's current By-laws is available in the Corporate Governance section of AIG's website at [www.aig.com](http://www.aig.com).

**COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Shareholders may communicate directly with one or more directors by:

writing to them c/o Vice President Corporate Governance, American International Group, Inc., 175 Water Street, New York, New York 10038; or

emailing [boardofdirectors@aig.com](mailto:boardofdirectors@aig.com)

**ELECTRONIC DELIVERY OF PROXY MATERIALS**

In an effort to reduce paper mailed to your home and help lower printing and postage costs, we are offering shareholders the convenience of viewing online proxy statements, annual reports and related materials. With your consent, we can stop sending future paper copies of these documents. To elect this convenience, shareholders may follow the instructions when voting online at [www.proxyvote.com](http://www.proxyvote.com). Following the 2016 Annual Meeting of Shareholders, you may continue to register for electronic delivery of future documents by visiting <http://enroll.icsdelivery.com/aig>. If you own shares indirectly through a broker, bank, or other nominee, please contact your financial institution for additional information regarding enrolling for electronic delivery.

We are pleased to be using the SEC's rule that allows companies to furnish proxy materials to their shareholders over the internet. In accordance with this rule, on or about March 29, 2016, we sent shareholders of record at the close of business on March 21, 2016, a Notice Regarding the Availability of Proxy Materials or a full set of proxy materials. The Notice contains instructions on how to access our Proxy Statement and 2015 Annual Report via the internet and how to vote.

**Important Notice Regarding the Availability of Proxy Materials for the 2016 Annual Meeting of Shareholders to be held on May 11, 2016. Our 2016 Proxy Statement and 2015 Annual Report are available free of charge on our website at [www.aig.com](http://www.aig.com).**

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**IMPORTANT NOTICE REGARDING DELIVERY OF SHAREHOLDER DOCUMENTS**

The SEC's rules permit us to deliver a single notice or set of Annual Meeting materials to a single address shared by two or more of our shareholders. We have delivered only one notice or set of Annual Meeting materials to multiple shareholders who share that address unless AIG received contrary instructions from any shareholder at that address. This practice, known as householding, is designed to reduce printing and postage costs. However, if any shareholder residing at such address wishes to receive a separate copy of this Notice of Annual Meeting of Shareholders, Proxy Statement or 2015 Annual Report, he or she may contact the AIG Director of Investor Relations at 175 Water Street, New York, New York 10038, 212-770-6293, and AIG will deliver those documents to such shareholder promptly upon receiving the request. Any such shareholder may also contact the AIG Director of Investor Relations if he or she would like to receive separate proxy materials and annual reports in the future. If a shareholder receives multiple copies of AIG's proxy materials and annual reports, he or she may request householding in the future by contacting the AIG Director of Investor Relations.

**INCORPORATION BY REFERENCE**

To the extent that this Proxy Statement has been or will be specifically incorporated by reference into any other filing by AIG under the Securities Act or the Exchange Act, the Letter to Shareholders by Messrs. Steenland and Hancock and the sections of this Proxy Statement entitled Report of the Compensation and Management Resources Committee, Report of the Audit Committee (to the extent permitted by the SEC rules), Report of the Nominating and Corporate Governance Committee and Appendix A to the Proxy Statement, shall not be deemed to be so incorporated, unless specifically otherwise provided in such filing.

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**APPENDIX A**

**AMERICAN INTERNATIONAL GROUP, INC. CORPORATE GOVERNANCE GUIDELINES (Effective March 9, 2016)**

**I. INTRODUCTION**

The Board of Directors (the Board) of American International Group, Inc. (AIG), acting on the recommendation of its Nominating and Corporate Governance Committee, has developed this set of Corporate Governance Guidelines to promote the effective functioning of the Board and its committees, to promote the interests of shareholders and to set forth a common set of expectations as to how the Board, its various committees, individual directors, and management should perform their functions.

**II. ROLES OF BOARD AND MANAGEMENT**

The business of AIG is conducted by management under the oversight of the Board. The roles of the Board and management are related, but distinct. AIG's business strategy is developed and implemented under the leadership and direction of the Chief Executive Officer by its officers and other employees. The members of the Board serve as the elected representatives of the current and future shareholders, act as advisers and counselors to the Chief Executive Officer and senior management and oversee management's performance on behalf of the shareholders. In performing its general oversight function, the Board reviews and assesses AIG's strategic and business planning as well as management's approach to addressing significant risks and challenges facing AIG. As part of this function, the Board reviews and discusses reports regularly submitted to the Board by management with respect to AIG's performance, as well as significant events, issues and risks that may affect AIG's business or financial performance. In performing its oversight function, the Board and its members will maintain frequent, active and open communication and discussions with the Chief Executive Officer and the management of AIG.

**III. BOARD COMPOSITION**

The size and composition of the Board is to be determined from time to time by the Board itself in an effort to balance the following goals:

The size of the Board should facilitate substantive discussions by the whole Board in which each director can participate meaningfully. Given the size and complexity of the businesses in which AIG is engaged, as well as the value of diversity of experience and views among Board members, the Board currently believes that it will be desirable over time to have a Board of between 8 and 14 members (allowing that a larger or smaller number may be necessary or advisable in periods of transition or other particular circumstances).

In order to provide oversight to management, given AIG's complex businesses, the composition of the Board should encompass a broad range of skills, expertise, insurance, financial services and other industry knowledge and diversity of opinion.

At least two-thirds of the Board will consist of directors who are, under the New York Stock Exchange, Inc. (NYSE) listing standards, independent in the business judgment of the Board (Independent Directors).

**IV. THE CHAIRMAN OF THE BOARD**

- A. *Selection of the Chairman.* The Board will select its Chairman in the manner it considers to be in the best interests of AIG at any given point in time. At the current time, the policy of the Board, reflected in the by-laws, is that (1) the role of Chairman should be separate from that of the Chief Executive Officer and (2) the Chairman should be selected from the Independent Directors.

The selection of the Chairman will be reviewed annually. In connection with this review, the Nominating and Corporate Governance Committee will conduct an independent evaluation of the Chairman. Under normal circumstances, the same individual should not serve as non-executive Chairman for more than five years.



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- B. *Duties of the Chairman.* The Chairman will have the duties assigned by the Board. It is the Board's current policy that the Chairman's duties include:

Preparing agendas for meetings of the Independent Directors;

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Chairing meetings of the Board as well as executive sessions of the Independent Directors;

Overseeing the preparation of agendas for meetings of the Board in consultation with the Chief Executive Officer;

Leading the Board in the process of periodic reviews of the performance of the Chief Executive Officer, as well as in discussions regarding the Chief Executive Officer's reports on senior management performance and management succession issues and plans;

Discussing with the Chief Executive Officer the implementation of AIG's strategic initiatives and plans;

Overseeing the process of informing the Board through timely distribution of information and reports;

Overseeing the processes of annual Board and Committee self-evaluations; and

Serving as an *ex-officio*, non-voting member of each standing committee of the Board of which he is not a member. The Chairman's participation as an *ex-officio* member at any meeting will not affect the presence or absence of a committee's quorum. In acknowledgment of the numerous committee meetings, the Chairman will decide, in his sole discretion, which committee meetings he will attend in an *ex-officio* capacity.

Liaising with investors as described in Section XI(F) below.

**V. SELECTION OF DIRECTORS**

The Nominating and Corporate Governance Committee is responsible for recommending a slate of directors to the Board for election at the annual meeting of shareholders, for recommending candidates to fill vacancies occurring between annual meetings, for reviewing and making recommendations to the Board on the election of any director nominees nominated pursuant to AIG's proxy access by-law and for periodically recommending candidates for election to the Board.

- A. *Nominations.* The Board, based on the recommendations of the Nominating and Corporate Governance Committee, will select nominees for the position of director considering the following criteria:

High personal and professional ethics, values and integrity;

Ability to work together as part of an effective, collegial group;

Commitment to representing the long-term interests of AIG;

Skill, expertise, diversity, background, and experience with businesses and other organizations that the Board deems relevant;

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The interplay of the individual's experience with the experience of other Board members; the contribution represented by the individual's skills and experience to ensuring that the Board has the necessary tools to perform its oversight function effectively; and the extent to which the individual would otherwise be a desirable addition to the Board and any committees of the Board; and

Ability and willingness to commit adequate time to AIG over an extended period of time.

- B. *Evaluation of Nominees.* The Nominating and Corporate Governance Committee will discuss and evaluate possible candidates in detail prior to recommending them to the Board. The Nominating and Corporate Governance Committee will also be responsible for initially assessing whether a candidate would be an Independent Director. The Board, taking into consideration the assessment of the Nominating and Corporate Governance Committee, will determine whether a nominee or appointee would be an Independent Director. The Board has adopted Director Independence Guidelines to assist in this process. A copy of those Guidelines is attached as Annex A to these Corporate Governance Guidelines.
  
- C. *Shareholder Nominations.* The Nominating and Corporate Governance Committee will give appropriate consideration to candidates for Board membership proposed by shareholders, including pursuant to AIG's proxy access by-law, and will evaluate such candidates in the same manner as other candidates identified by or submitted to the Nominating and Corporate Governance Committee.

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Shareholders may propose nominees for consideration by the Nominating and Corporate Governance Committee by complying with the procedures and requirements in AIG's proxy access by-law or by submitting names and supporting information to: Chairman, Nominating and Corporate Governance Committee, c/o Vice President Corporate Governance, American International Group, Inc., 175 Water Street, New York, NY 10038. All shareholder recommendations as to possible Board members must comply with the information and timing requirements set forth in AIG's by-laws.

- D. *Orientation and Continuing Education.* Management, working with the Board, will provide an orientation process for new directors, including background material on AIG, its business plan and its risk profile, and meetings with senior management. Management will also provide a continuing education program for directors regarding matters relevant to AIG, its business plan and risk profile, as well as other appropriate subjects.

**VI. ELECTION, TERM AND RETIREMENT OF THE DIRECTORS**

- A. *Election and Term.* A director holds office until the annual meeting of shareholders next succeeding his or her election and until a successor is elected and qualified or until his or her earlier resignation or removal. In light of the complexities of AIG's businesses and the time it takes for a director to become familiar with them, the Board does not believe that term limits are appropriate.
- B. *Voting for Directors.* The Board shall nominate for election as directors only incumbent candidates who have tendered, prior to the mailing of the proxy statement for the annual meeting at which they are to be re-elected as directors, irrevocable resignations authorized by Section 141(b) of the Delaware General Corporation Law that will be effective upon (i) the failure to receive the required vote at any annual meeting at which they are nominated for re-election<sup>1</sup> and (ii) Board acceptance of such resignation. In addition, the Board shall fill director vacancies and new directorships only with candidates who agree to tender, at or prior to the time of their appointment to the Board, the same form of resignation tendered by other directors in accordance herewith. The Nominating and Corporate Governance Committee shall consider such irrevocable resignation and shall recommend to the Board the action to be taken. Any director whose resignation is under consideration shall not participate in the Nominating and Corporate Governance Committee recommendation regarding whether to accept the resignation. The Board shall accept such resignation unless it determines that the best interests of the Corporation and its shareholders would not be served by doing so. The Board shall take action within 90 days following certification of the vote, unless such action would cause AIG to fail to comply with any requirement of the New York Stock Exchange or any rule or regulation promulgated under the Securities Exchange Act of 1934, in which event AIG shall take action as promptly as is practicable while continuing to meet such requirements. The Board will promptly disclose its decision and the reasons therefor in a periodic or current report filed with the Securities and Exchange Commission.
- C. *Director Retirement.* No individual shall stand for election as a director after reaching the age of 75. The Board, however, upon the recommendation of the Nominating and Corporate Governance Committee, may waive this limitation for any director for a period of one year, if it is deemed to be in the best interests of AIG.
- D. *Former CEOs.* No individual who has served but is not currently serving as Chief Executive Officer of AIG shall serve as a director.
- E. *Change in Status.* If (other than as a result of retirement) a director's principal occupation changes from that at the time such director was last nominated for election, then such director shall inform the Chairman of the Nominating and Corporate Governance Committee of the change and shall tender his or her resignation for consideration by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will recommend to the Board the action to be taken with respect to such resignation.

<sup>1</sup> The AIG by-laws provide that each director shall be elected by the vote of the majority of the votes cast (meaning the number of shares voted for a nominee must exceed the number of shares voted against such nominee) at any meeting for the election of directors at which a quorum

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is present, provided that the directors shall be elected by a plurality of the votes cast (instead of by votes for or against a nominee) at any meeting involving a contested election for one or more directors (meaning more directors have been nominated for election than directorship positions available).

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- F. *Board Vacancies.* In the event that a vacancy on the Board is created for any reason, and it is determined by the Nominating and Corporate Governance Committee that the vacancy is to be filled, the Nominating and Corporate Governance Committee will consider the views of interested shareholders, as it is deemed appropriate.

**VII. BOARD MEETINGS**

The Board currently plans to hold at least six regular meetings each year, with further meetings to occur when called by the Chairman or the Chief Executive Officer or if requested by two directors as provided in the by-laws.

The Chairman will oversee the preparation of the agendas for meetings of the Board in consultation with the Chief Executive Officer. Any director may suggest the inclusion of additional subjects on the agenda. The agenda for each committee meeting will be established by the respective committee chairman. Management will endeavor to provide all directors an agenda and appropriate materials in advance of meetings, although the Board recognizes that this will not always be consistent with the timing of transactions, the operations of the business and, in certain cases, it may not be desirable to circulate materials in advance of the meeting. Materials presented to the Board or its committees should be as concise as practicable but consistent with the need to provide the information needed for the directors to make an informed judgment and engage in informed discussion. As provided in the by-laws, the Board or any committee thereof may also take action by unanimous written consent.

**VIII. EXECUTIVE SESSIONS**

To ensure free and open discussion and communication among the Independent Directors of the Board, the Independent Directors will meet in executive sessions, with no members of management present, in conjunction with each regular (non-telephonic) meeting of the Board. The Chairman will preside at the executive sessions unless the Chairman is unable to attend, in which case the Independent Directors will designate one of the other Independent Directors to preside. In addition, unless the Chairman decides it to be unnecessary, the Chief Executive Officer will join a portion of each executive session to give the Independent Directors an opportunity to consult with the Chief Executive Officer.

**IX. THE COMMITTEES OF THE BOARD**

- A. *Committees.* The Board will have at least the following standing committees: Audit Committee; Compensation and Management Resources Committee; Regulatory, Compliance and Public Policy Committee; Risk and Capital Committee; Nominating and Corporate Governance Committee; and Technology Committee. The Audit Committee, the Compensation and Management Resources Committee, and the Nominating and Corporate Governance Committee must each have a written charter satisfying the rules of the NYSE. The Audit Committee and the Compensation and Management Resources Committee must also satisfy the requirements of Securities and Exchange Commission ( SEC ) Rule 10A-3 and SEC Rule 10C-1, respectively. Each committee chairman will give a report to the Board periodically on his or her committee s activities.
- B. *Composition of the Committees.* The Audit Committee, the Compensation and Management Resources Committee, and the Nominating and Corporate Governance Committee will each be composed of at least three directors all of whom are Independent Directors. Each other standing committee will have a majority of members who are Independent Directors. In the case of the Audit Committee, the Committee Chairman and a majority of the members also will be Audit Committee Financial Experts as defined in the rules and regulations of the SEC, and all members will be financially literate as determined by the Board (based upon a determination and recommendation by the Nominating and Corporate Governance Committee) in accordance with NYSE listing standards. Any additional qualifications required for the members of each committee will be set out in the respective committee s charter. A director may serve on more than one committee for which he or she qualifies.

Membership of committees will be reviewed by the Nominating and Corporate Governance Committee, which will make recommendations to the Board regarding composition of each of the committees of the Board at least annually. In that regard, the Board believes that rotation of members and chairmen of its committees is desirable. The Board does not believe, however, that fixed time periods for rotation are desirable. As a general rule, the Board believes that a director should serve as chairman of the same committee for not less than three consecutive years and for not more than five years.

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**X. BOARD RESPONSIBILITIES**

- A. *Overall Business Strategy.* The Board will periodically review and approve AIG's overall strategic and business plans.
- B. *Chief Executive Officer.* The Board will be responsible for the selection and evaluation of the Chief Executive Officer.
- C. *Management Succession.* The Chief Executive Officer shall present, at least annually, to the Compensation and Management Resources Committee a management succession plan, to ensure that future selections are appropriately considered. The principal components of this plan are:

A proposed plan for Chief Executive Officer succession, both in an emergency situation and in the ordinary course of business; and

The Chief Executive Officer's plan for management succession for the other policy-making officers of AIG.

The Compensation and Management Resources Committee shall provide a report to the Board on the management succession plan. The Board shall review and consider the plan and any recommendations of the Compensation and Management Resources Committee.

- D. *Evaluating and Approving Compensation for the Chief Executive Officer.* The Board, acting through the Compensation and Management Resources Committee, evaluates the performance of the Chief Executive Officer against AIG's goals and objectives and determines the compensation of the Chief Executive Officer. The determination of the Compensation and Management Resources Committee with respect to the Chief Executive Officer's compensation shall be subject to the approval or ratification of the Board as provided in the by-laws.
- E. *Executive Compensation.* The Compensation and Management Resources Committee makes recommendations to the Board with respect to (1) AIG's general compensation philosophy, (2) the compensation programs applicable to senior executives of AIG and (3) the development and implementation of other AIG compensation programs.

The Board and the Compensation and Management Resources Committee are committed to the full, fair and transparent disclosure of executive compensation. This commitment will be considered in connection with AIG's public disclosures regarding executive compensation.

- F. *Board Compensation.* The Nominating and Corporate Governance Committee periodically reviews and makes recommendations to the Board regarding the form and amount of the compensation of members of the Board. The Board will set the form and amount of director compensation, taking into account the recommendations of the Nominating and Corporate Governance Committee. Only non-management directors will receive compensation for services as a director.
- G. *Reviewing and Approving Significant Transactions.* Board approval of a particular transaction may be appropriate because of several factors, including:

legal or regulatory requirements;

the materiality of the transaction to AIG's financial performance, risk profile or business;

the terms of the transaction; or

other factors, such as entry into a new business or a significant variation from AIG's strategic plan.

The Board, in conjunction with management of AIG, has developed and will review and update from time to time standards to be utilized by management in determining the types of transactions that should be submitted to the Board for review and approval or notification.

- H. *Risk Management.* The Board, the Risk and Capital Committee and the Audit Committee receive reports on AIG's significant risk exposures and how these exposures are managed. AIG's Chief Risk Officer provides reports to the Compensation and Management Resources Committee with respect to the risks posed to AIG by its employee compensation plans.



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**Table of Contents****XI. EXPECTATIONS OF DIRECTORS**

The business and affairs of AIG are to be managed by or under the direction of the Board in accordance with the laws of the State of Delaware. In performing their duties, the primary responsibility of the directors is to exercise their business judgment in the best interests of AIG. The Board has developed a number of specific expectations of directors to promote the discharge of this responsibility and the efficient conduct of the Board's business.

- A. *Commitment and Attendance.* All directors should make every effort to attend every meeting of the Board and every meeting of committees of which they are members. In-person attendance by directors is expected at every regularly scheduled meeting of the Board and every regularly scheduled meeting of committees of which they are a member, unless such meeting has been specifically designated as a telephonic meeting. In all cases, attendance (including telephonic attendance) is limited to the director and others invited by, or attending with the written consent of, the Board or applicable Committee. Directors are expected to attend the annual meeting of shareholders. A director may attend meetings (without having a vote or affecting the presence or absence of a quorum) of any committee of which the director is not a member, with the consent of the committee chairman. The Chairman may attend any meetings of committees of which he is an *ex-officio* member in his sole discretion.

Any director who, for two consecutive calendar years, attended fewer than 75% of the regular meetings of the Board and the meetings of all committees of which such director is a voting member will not be nominated for reelection at the annual meeting in the next succeeding calendar year, absent special circumstances that may be taken into account by the Nominating and Corporate Governance Committee in making its recommendations to the Board.

- B. *Participation in Meetings.* Each director should be sufficiently familiar with the business of AIG, including its financial statements and capital structure, and the risks and the competition it faces, to facilitate active and effective participation in the deliberations of the Board and of each committee on which he or she serves. Upon request, management will make appropriate personnel available to answer any questions a director may have about any aspect of AIG's business.
- C. *Loyalty and Ethics.* In their roles as directors, all directors owe a duty of loyalty to AIG. This duty of loyalty mandates that directors act in the best interests of AIG and not act for personal benefit at the expense of AIG.

AIG has adopted a Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics. Directors should be familiar with the Code's provisions and should consult with AIG's Vice President - Corporate Governance in the event of any issues that arise with respect to the matters set forth in the Code.

- D. *Other Directorships.* AIG values the experience directors bring from other boards on which they serve, but recognizes that those boards also present significant demands on a director's time and availability and may present conflicts and legal issues. Directors will advise the Chairman of the Nominating and Corporate Governance Committee and the Chief Executive Officer before accepting membership on any other board of directors or other significant commitments involving affiliation with other businesses or governmental units.

It is AIG's policy that the Chief Executive Officer should not serve on the board of directors of more than one public company (other than AIG or a company in which AIG has a significant equity interest). In addition, the Board generally considers it desirable for other directors not to serve on the boards of directors of more than four public companies (other than AIG or a company in which AIG has a significant equity interest) that require substantial time commitments, absent special circumstances.

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It is the responsibility of the Nominating and Corporate Governance Committee to review each director's, and each potential director's, overall commitments to help ensure that all directors have sufficient time to fulfill their responsibilities as directors. In considering its nominations of candidates for election to the Board, the Nominating and Corporate Governance Committee may determine that a lesser number of boards of directors than four is appropriate.

- E. *Contact with Management.* All directors are invited to contact the Chief Executive Officer at any time to discuss any aspect of AIG's business. It is expected that the Chief Executive Officer will keep the Chairman informed of all significant management, operational and other business developments as they arise. Directors also will have complete access to other members of management. The Board expects

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that there will be frequent opportunities for directors to meet with the Chief Executive Officer and other members of management in Board and committee meetings, or in other formal and informal settings.

Further, the Board encourages management, from time to time, to bring managers into Board meetings who (a) can provide additional insight into the items being discussed because of personal involvement or substantial knowledge in those areas and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

- F. *Board Interaction with Institutional Investors and the Press.* It is important that AIG speak to employees, investors and outside constituencies with a single voice and that management serves as the spokesperson. With respect to the press, if a situation does arise in which it seems appropriate for a non-management director to act as a spokesperson with the press on behalf of AIG, the director will first consult with the Chief Executive Officer. With respect to investors, if a situation does arise in which it seems appropriate for a non-management director to communicate about AIG with one or more investors, the director will first consult with the entire Board on the proposed communication and will also report to the entire Board after any such communication has occurred. The foregoing is not intended to preclude the Chairman from speaking on behalf of the Independent Directors nor limit the Board's active involvement in AIG's shareholder engagement process described below.

AIG maintains an active dialogue with shareholders and other stakeholders on matters of significance to AIG and its shareholders including corporate governance, corporate social responsibility, strategy, performance and related matters. As part of this process, the Chairman and Chief Executive Officer periodically participate in meetings with shareholders to discuss and obtain feedback on issues important to AIG's shareholders. Management also shares feedback from other investor meetings, conferences and shareholder dialogue with the Board.

- G. *Confidentiality.* The proceedings and deliberations of the Board and its committees are confidential. Each director will maintain the confidentiality of all information received in connection with his or her service as a director. Directors participating in Board or committee meetings by telephone or remotely must ensure that the discussions are not exposed to parties who are not directors. This is particularly important because confidential supervisory information, attorney-client privileged information or other confidential information may be discussed at these meetings.

## **XII. COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Shareholders and other interested parties may communicate directly with one or more directors by (1) writing to them c/o Vice President Corporate Governance, American International Group, Inc., 175 Water Street, New York, NY 10038 or (2) email at an address that will be included in the annual proxy statement.

## **XIII. EVALUATING BOARD AND COMMITTEE PERFORMANCE**

AIG believes that self-evaluations of the Board, the standing committees of the Board and individual directors are important elements of corporate governance. Under the general oversight of the Chairman:

the Board, acting through the Nominating and Corporate Governance Committee, will conduct an annual self-evaluation and evaluation of each member of the Board; and

each standing committee will conduct an annual self-evaluation, in the manner and to the extent specified in the committee's charter.

## **XIV. CHARITABLE GIVING**

AIG, and its subsidiaries, may make charitable gifts, grants, contributions, commitments and pledges and awards of various types (collectively, gifts) in the ordinary course of their business to charities, including foundations, endowments, trusts, charitable organizations and groups, cultural and educational institutions and others (collectively, institutions). The Board has adopted the following guidelines with respect to the making of such gifts:

Gifts are to be made prudently and to further AIG's business interests, including the enhancement of AIG's reputation and standing in the communities where it operates. It is the responsibility of management to determine whether a gift satisfies this purpose before it is made, pledged or committed.

Management will provide the Regulatory, Compliance and Public Policy Committee with quarterly reports on all charitable gifts that have been made, pledged or committed for since the last such report that result in gifts aggregating \$50,000 or more within the current calendar year to or on behalf of a given institution.

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## **Table of Contents**

Management will also provide an annual report, that will be available upon request, with respect to all charitable gifts that have been made, pledged or committed for during the past calendar year that result in gifts aggregating \$50,000 or more to or on behalf of a given institution. Gifts made to institutions under the AIG Matching Grants Program will not be taken into account in calculating the \$50,000 or more amount.

Management will inform the Nominating and Corporate Governance Committee and the Regulatory, Compliance and Public Policy Committee before the making of any proposed gift that would result in gifts aggregating \$50,000 or more within any calendar year to or on behalf of an institution (1) of which a Director serves as a director, advisory director (or in a similar capacity) or executive officer or (2) which is at one or more events honoring any Director, even if that Director is not a director, advisory director (or in a similar capacity), executive officer or otherwise affiliated with the institution. Gifts made to institutions under the AIG Matching Grants Program will not be taken into account in calculating the \$50,000 or more amount.

Directors will not directly solicit gifts from AIG (including any of its subsidiaries) to or on behalf of any institution of which a Director serves as a director, advisory director (or in a similar capacity) or executive officer or which is honoring that Director.

## **XV. POLITICAL CONTRIBUTIONS**

AIG, and its subsidiaries, may make political contributions in the ordinary course of their business to further AIG's business interests. It is the responsibility of management to determine whether a contribution satisfies this purpose before it is made, pledged or committed for. All political contributions will be made in accordance with all applicable laws, rules and regulations.

Management will provide the Regulatory, Compliance and Public Policy Committee with a report, at least annually, with respect to all political contributions that have been made since the last such report. The Regulatory, Compliance and Public Policy Committee will report to the Board, at least annually, with respect to its review of the report provided by management on political contributions.

## **XVI. RELIANCE ON MANAGEMENT AND OUTSIDE ADVICE**

The Board will have direct access to, and complete and open communication with, senior management and may obtain advice and assistance from internal legal, accounting and other advisors to assist it. In performing its functions, the Board is entitled to rely on the advice, reports and opinions of management as well as legal, accounting and other advisors retained by AIG. The Board may retain, if appropriate, independent legal, accounting and other advisors to assist the Board (or, when appropriate, the Independent Directors), and may determine the compensation of such advisors, and AIG will be responsible for any costs or expenses so incurred. Any retention of advisors by the Compensation and Management Resources Committee must satisfy the requirements of SEC Rule 10C-1 and the related NYSE listing standards.

## **XVII. AMENDMENT AND WAIVER**

In the exercise of its business judgment, these Guidelines may be amended, modified or waived by the Board at any time and from time to time and, when permitted by these Guidelines, waivers may also be granted by the Nominating and Corporate Governance Committee.

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**Annex A**

**AMERICAN INTERNATIONAL GROUP, INC. DIRECTOR INDEPENDENCE STANDARDS**

A director having any of the following relationships will be deemed to have a material relationship<sup>1</sup> with AIG<sup>2</sup> and will not be considered independent :

The director is, or has been within the last three years, an employee of AIG, or an immediate family member<sup>3</sup> is, or has been within the last three years, an executive officer<sup>4</sup> of AIG.<sup>5</sup>

During any twelve-month period within the last three years, (1) the director has received any direct compensation from AIG or (2) the director has an immediate family member who has received more than \$100,000 in direct compensation from AIG for service as an executive officer, in any such case other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not in any way contingent on continued service).<sup>5</sup>

(1) The director or an immediate family member is a current partner of a firm that is AIG's internal or external auditor; (2) the director is a current employee of such a firm; (3) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (4) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on AIG's audit within that time.

The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of AIG's present executive officers at the same time serves or served on that company's compensation committee.

The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments<sup>6</sup> to, or received payments from, AIG for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

The following relationships and transactions shall not be deemed material for purposes of the New York Stock Exchange listing standards. The fact that a particular relationship or transaction is not addressed by the below standards or exceeds the thresholds in one or more of these standards shall not create a presumption that the director is or is not independent .

A relationship arising solely from a director's status as an executive officer, employee or a greater than 10% equity owner of a for-profit corporation or organization that has made payments to, or received payments from, AIG so long as the payments made or received during any of the past three fiscal years are not in excess of the greater of \$1 million or 2% of the other company's consolidated gross revenues for the fiscal year in which the payments were made (based on the other company's most recently available financial statements).

<sup>1</sup> Such relationship may be either direct or as a partner, shareholder or officer of an organization that has a relationship with AIG.

<sup>2</sup> AIG refers to American International Group, Inc. and its consolidated subsidiaries.

<sup>3</sup> Immediate family member includes a director's spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares the director's home. When applying the relevant look-back provisions of the standards, individuals who are no longer immediate family members as a result of legal separation or divorce or those who have died or become incapacitated shall not be considered.

<sup>4</sup> Executive officer refers to such entity's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice president of the entity in charge of a principal business unit, division or function, any other officer who

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- performs a policy-making function, or any other person who performs similar policy-making functions for the entity.
- <sup>5</sup> Employment or compensation received by a director for former service as an interim chairman or Chief Executive Officer does not need to be considered as a factor by the board in determining independence under this test.
  - <sup>6</sup> Contributions to tax exempt organizations are not considered payments for purposes of this test.

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A relationship arising solely from a director's ownership of 10% or less of the equity interests in an entity that has a relationship or engages in a transaction with AIG.

A relationship arising solely from a director's position as a director or advisory director (or similar position) of another for-profit organization that engages in a transaction with AIG.

A relationship arising solely from (1) a director's affiliation with a charitable organization as a director, advisory director (or in a similar capacity) or executive officer that receives contributions from AIG or (2) the director being honored by the charitable organization, so long as such contributions (other than employee matching contributions) for a calendar year are not in excess of the greater of \$1 million or 2% of the charity's consolidated gross revenues for such year.

The ownership by a director of equity securities of AIG or of any fund managed by AIG.

The purchase of insurance, investment or other products or services from AIG, or the maintenance of a brokerage or similar account with AIG, in each case, so long as the relationship or transaction is entered into in the ordinary course of business and is on substantially the same terms as those prevailing at the time for similarly situated persons who are not directors of AIG.

Any other relationship or transaction that is not required to be disclosed pursuant to Item 404(a) of Regulation S-K.

A relationship or transaction arising from a combination of relationships or transactions which are not deemed material.

Any relationship or transaction with an immediate family member of a director that would fall within one of the preceding standards.

<sup>7</sup> Contributions made by AIG to charitable organizations under the AIG Matching Grants Program will not be taken into account for purposes of this test.



**Table of Contents****APPENDIX B****Non-GAAP Financial Measures**

Certain of the operating performance measurements used by AIG management are non-GAAP financial measures under SEC rules and regulations. GAAP is the acronym for accounting principles generally accepted in the United States. The non-GAAP financial measures presented may not be comparable to similarly named measures reported by other companies.

**Short-Term Incentive Performance**

**Normalized insurance company pre-tax operating income** is Insurance company pre-tax operating income as adjusted by the Insurance Company Normalizations (defined below).

**Insurance company pre-tax operating income** is the sum of the Pre-tax operating income (defined below) for the Commercial Insurance and Consumer Insurance reportable segments. Pre-tax operating income is derived by excluding the following items from Pre-tax income: changes in fair values of securities used to hedge guaranteed living benefits; net realized capital gains and losses; changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA) and sales inducement assets (SIA) related to net realized capital gains and losses; other income and expense net; and non-operating litigation reserves and settlements.

**Insurance Company Normalizations** are (i) normalizations for variance from expectations with respect to severance costs, acceleration of incentive vesting for terminations, fluctuations in compensation expense associated with changes in the share price of AIG Common Stock, direct marketing expenses, acquisition costs, alternative investment returns, fair value option asset returns, natural catastrophe losses different from the budgeted modeled average annual losses, severe losses and the impact of foreign exchange rates; and (ii) the exclusion of the impact of prior year loss development, net of additional premium and change in discount.

**Normalized return on equity (excluding deferred tax assets)** is (i) After-tax operating income attributable to AIG (defined below), adjusted by the tax adjusted ROE Normalizations (defined below), divided by (ii) average Shareholders' equity, adjusted to exclude the average deferred tax assets (DTA), the average Accumulated Other Comprehensive Income (AOCI) and the impact on Shareholders' equity of the aggregate of the ROE Normalizations. DTA represents U.S. tax attributes related to net operating loss carryforwards and foreign tax credits.

**After-tax operating income attributable to AIG** is derived by excluding the following items from Net income attributable to AIG: deferred income tax valuation allowance releases and charges; changes in fair value of securities used to hedge guaranteed living benefits; changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains and losses; reserve development related to non-operating run-off insurance business; restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify the AIG organization; other income and expense net, related to Corporate and Other run-off insurance lines; loss on extinguishment of debt; net realized capital gains and losses; non-qualifying derivative hedging activities, excluding net realized capital gains and losses; income or loss from discontinued operations; income and loss from divested businesses (including gain on the sale of ILFC and certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and related tax effects); legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments; and non-operating litigation reserves and settlements.

**ROE Normalizations** are (i) normalizations for variance from expectations with respect to catastrophe losses, alternative investment returns, and Direct Investment book and Global Capital Markets income; and (ii) the exclusion of the following items: the impact of

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prior year loss development net of additional premium, net reserve discount changes, fair value changes on investments in PICC Property & Casualty Company Limited and People's Insurance Company (Group) of China Limited, update of actuarial assumptions, and life insurance incurred but not reported death claim charges.

**Normalized gross general operating expenses** represents general operating expenses adjusted to normalize for variance from expectations with respect to severance costs, acceleration of incentive vesting

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for terminations, certain expenses associated with long-term and short-term incentive plans, non-deferrable acquisition costs associated with sales, fluctuations in compensation expense associated with changes in the share price of AIG Common Stock and the impact of foreign exchange rates.

**Normalized production risk-adjusted profitability for Property Casualty and Personal Insurance operating segments** is the underwriting profit or loss for Property Casualty and Personal Insurance operating segments plus net investment income, net of the cost of capital. Underwriting profit or loss is based on net premium written during the performance year, estimated ultimate loss ratio adjusted for catastrophic annual average losses, and variable expenses. The net investment income is imputed based upon the prevailing interest rate environment of the performance year. The cost of capital is the product of the capital deployed and the cost of capital rate. The capital deployed is based on an internal capital allocation model and reflects the capital needed for the business underwritten during the performance period. The cost of capital rate is derived from an internal capital asset pricing model. This result is adjusted to normalize for the impact of fluctuations in foreign exchange rates.

**Normalized value of new business for Retirement, Life, Institutional Markets and Mortgage Guaranty operating segments** is the sum of (i) with respect to the Retirement, Life and Institutional Markets operating segments, the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period, as adjusted to normalize fixed annuity sales and margins based on indexing fixed annuity sales to the prevailing interest rate environment and (ii) with respect to the Mortgage Guaranty operating segment, the present value, measured at point of sale, of projected after-tax cash flow profits emerging in the future from new business sold in the period.

**2013 Long-Term Incentive Performance**

**Tangible book value per share excluding accumulated other comprehensive income** is calculated by dividing Total AIG shareholders' equity, less goodwill and AOCI, by Total common shares outstanding.

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**American International Group, Inc.**

PRINTED ON RECYCLED PAPER

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***AMERICAN INTERNATIONAL GROUP, INC.***

***175 WATER STREET***

***NEW YORK, NY 10038***

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Daylight Time on May 10, 2016. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by AIG in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the internet. To sign up for electronic delivery, please follow the instructions above to vote using the internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Daylight Time on May 10, 2016. Have your proxy card in hand when you call and follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the prepaid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. To be valid, your proxy by mail must be received by 10:00 a.m. Eastern Daylight Time on May 11, 2016.

**Shareholder Meeting Registration**

To vote and/or attend the meeting, go to  
 Shareholder Meeting Registration link at  
[www.proxyvote.com](http://www.proxyvote.com).

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E00361-P75963      KEEP THIS PORTION FOR YOUR RECORDS  
 DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED  
 AND DATED.**

**AMERICAN INTERNATIONAL GROUP, INC.**

**The Board of Directors Recommends a Vote FOR each of the Nominees for Election, and FOR Proposals 2 and 3.**

1. Election of Directors	<b>For</b>	<b>Against</b>	<b>Abstain</b>
<b>Nominees:</b>			
1a. W. DON CORNWELL	..	..	..
1b. PETER R. FISHER	..	..	..
1c. JOHN H. FITZPATRICK	..	..	..
1d. PETER D. HANCOCK	..	..	..
1e. WILLIAM G. JURGENSEN	..	..	..
1f. CHRISTOPHER S. LYNCH	..	..	..
1g. SAMUEL J. MERKSAMER	..	..	..
1h. GEORGE L. MILES, JR.	..	..	..
1i. HENRY S. MILLER	..	..	..
1j. ROBERT S. MILLER	..	..	..
1k. LINDA A. MILLS	..	..	..
1l. SUZANNE NORA JOHNSON	..	..	..

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
1m. JOHN A. PAULSON	..	..	..
1n. RONALD A. RITTENMEYER	..	..	..
1o. DOUGLAS M. STEENLAND	..	..	..
1p. THERESA M. STONE	..	..	..
2. To vote, on a non-binding advisory basis, to approve executive compensation.	..	..	..
3. To act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm for 2016.	..	..	..

	<b>Yes</b>	<b>No</b>
Please indicate if you plan to attend this meeting.	..	..

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

E00362-P75963

**AMERICAN INTERNATIONAL GROUP, INC.  
Annual Meeting of Shareholders  
Wednesday, May 11, 2016**

**American International Group, Inc.  
175 Water Street  
New York, NY 10038**

**Proxy**

**Proxy solicited by Board of Directors for Annual Meeting - May 11, 2016.**

Peter D. Hancock, Siddhartha Sankaran and Thomas A. Russo, or any of them, each with the power of substitution, are hereby authorized to represent and vote the shares of the undersigned, with all the powers which the undersigned would possess if personally present, at the Annual Meeting of Shareholders of American International Group, Inc. to be held at 11:00 a.m. (Eastern Daylight Time) on May 11, 2016 or at any postponement or adjournment thereof.

**Shares represented by this proxy will be voted in accordance with the instructions provided by the shareholder. If no such instructions are provided, the Proxies will have authority to vote FOR each of the Nominees for election, and FOR Proposals 2 and 3 and otherwise as determined in their discretion. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting. The Annual Meeting of Shareholders will be held at 175 Water Street, New York, New York 10038.**

**Continued and to be signed on the reverse side.**



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**\*\*\* Exercise Your *Right to Vote* \*\*\***

**Important Notice Regarding the Availability of Proxy Materials for the  
Shareholder Meeting to Be Held on May 11, 2016.**

**AMERICAN INTERNATIONAL GROUP, INC.**

*AMERICAN INTERNATIONAL GROUP, INC.*

*175 WATER STREET*

*NEW YORK, NY 10038*

**Meeting Information**

<b>Meeting Type:</b>	Annual Meeting
<b>For holders as of:</b>	March 21, 2016
<b>Date:</b> May 11, 2016	<b>Time:</b> 11:00 a.m.
<b>Location:</b> 175 Water Street New York, NY 10038	

You are receiving this communication because you hold shares in the company named above.

This is not a ballot. You cannot use this notice to vote these shares. This communication presents only an overview of the more complete proxy materials that are available to you on the internet. You may view the proxy materials online at [www.proxyvote.com](http://www.proxyvote.com) or easily request a paper copy (see reverse side).

We encourage you to access and review all of the important information contained in the proxy materials before voting.

**See the reverse side of this notice to obtain proxy materials and voting instructions.**

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**Before You Vote**

How to Access the Proxy Materials

**Proxy Materials Available to VIEW or RECEIVE:**

NOTICE AND PROXY STATEMENT      ANNUAL REPORT

**How to View Online:**

Have the information that is printed in the box marked by the arrow (located on the following page) and visit: [www.proxyvote.com](http://www.proxyvote.com).

**How to Request and Receive a PAPER or E-MAIL Copy:**

If you want to receive a paper or e-mail copy of these documents, you must request one. There is NO charge for requesting a copy. Please choose one of the following methods to make your request:

- 1) *BY INTERNET*:      [www.proxyvote.com](http://www.proxyvote.com)
- 2) *BY TELEPHONE*:    1-800-579-1639
- 3) *BY E-MAIL*\*:      [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com)

\* If requesting materials by e-mail, please send a blank e-mail with the information that is printed in the box marked by the arrow (located on the following page) in the subject line.

Requests, instructions and other inquiries sent to this e-mail address will NOT be forwarded to your investment advisor. Please make the request as instructed above on or before April 27, 2016 to facilitate timely delivery.

**How To Vote**

Please Choose One of the Following Voting Methods

**Vote In Person:** If you attend the Annual Meeting, please bring with you photo identification and evidence of ownership of AIG Common Stock as of the close of business on March 21, 2016. The proxy statement contains specific instructions on how to vote these shares at the meeting.

**Vote By Internet:** To vote by internet, go to *www.proxyvote.com*. Have the information that is printed in the box marked by the arrow (located on the following page) available and follow the instructions.

**Vote By Mail:** You can vote by mail by requesting a paper copy of the materials, which will include a proxy card.

**Vote By Telephone:** To vote by telephone, go to *www.proxyvote.com*. Use the telephone number provided on the website to vote up until 11:59 p.m. Eastern Daylight Time on May 10, 2016.

**Shareholder Meeting Registration:** To vote and/or attend the meeting, go to Shareholder Meeting Registration link at *www.proxyvote.com*.

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**Voting Items**

**The Board of Directors Recommends a Vote FOR each of the Nominees for Election, and FOR Proposals 2 and 3.**

1. Election of Directors

**Nominees:**

1a. W. DON CORNWELL

1b. PETER R. FISHER

1c. JOHN H. FITZPATRICK

1d. PETER D. HANCOCK

1e. WILLIAM G. JURGENSEN

1f. CHRISTOPHER S. LYNCH

1g. SAMUEL J. MERKSAMER

1h. GEORGE L. MILES, JR.

1i. HENRY S. MILLER

1j. ROBERT S. MILLER

1k. LINDA A. MILLS

1l. SUZANNE NORA JOHNSON

1m. JOHN A. PAULSON

1n. RONALD A. RITTENMEYER

1o. DOUGLAS M. STEENLAND

1p. THERESA M. STONE

2. To vote, on a non-binding advisory basis, to approve executive compensation.
3. To act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as AIG's independent registered public accounting firm for 2016.

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