

# SUN MICROSYSTEMS

## Growth Plan to Accelerate Profitability

**May 31, 2006**

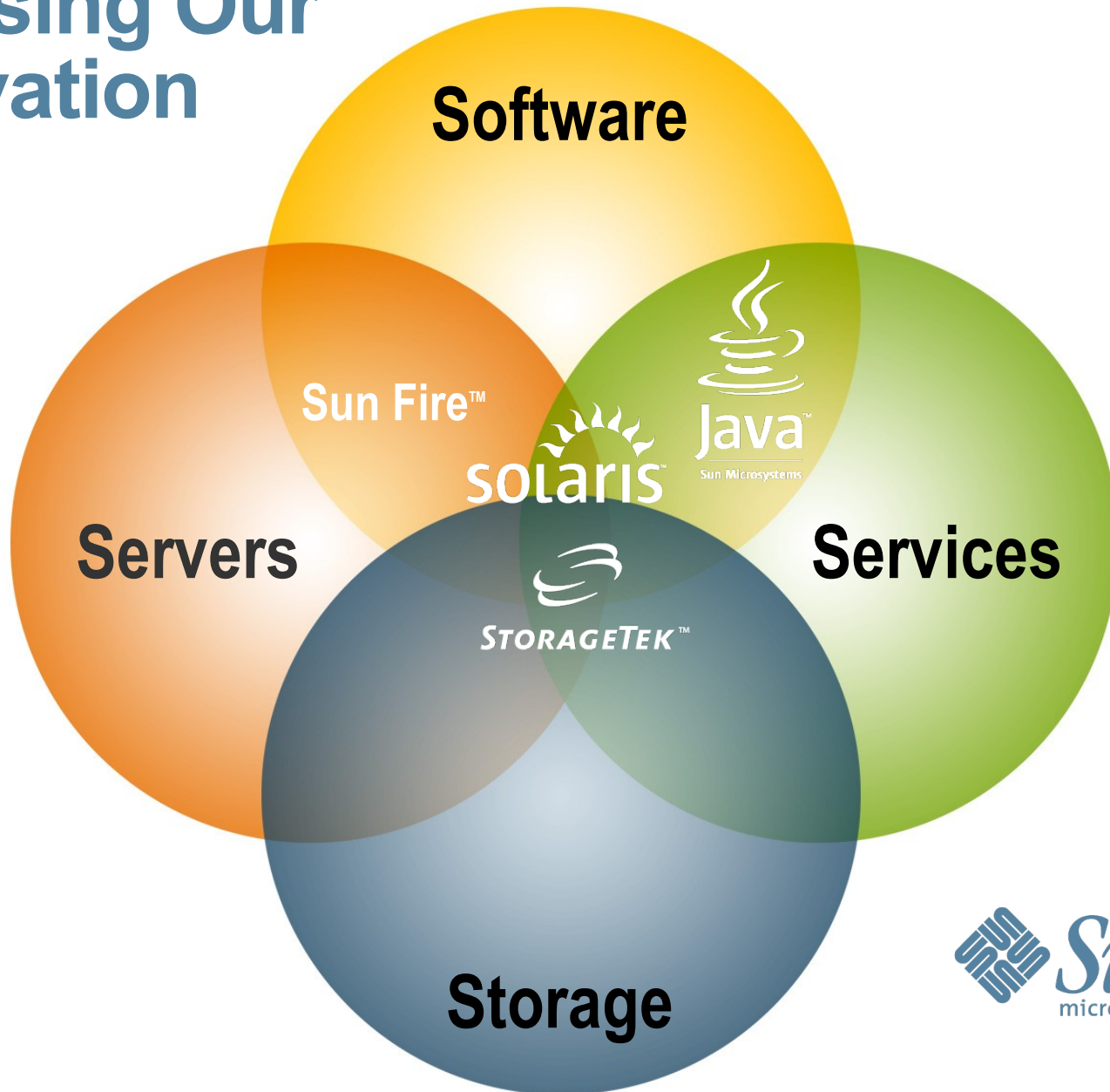
These slides contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding the future results and performance of Sun Microsystems, Inc., including statements regarding Sun's FY2007 Operating Income Plan, including the Q4 Fiscal 2007 operating income goal, the longer-term operating income goal, expected revenue increase, expected gross margin, expected levels of R&D and SG&A expenses, expected restructuring charges in Q4FY06 and 1HFY07 and expected cost savings, and Sun's plans to increase the number of people and technical competence calling on customers during the next 12 months. These forward-looking statements involve risks and uncertainties and actual results could differ materially from those predicted in any such forward-looking statements. Factors that could cause actual results to differ materially from those contained in our projections and forward-looking statements include: failure to achieve expected cost savings within the expected time frames; our ability to implement the property portfolio reductions to the extent currently anticipated, including due to our ability to identify suitable buyers or tenants for the properties, the results of negotiations with landlords and potential buyers and real estate market conditions; our ability to implement the workforce reductions in various geographies; possible changes in the size and components of the expected costs; increased competition; failure to rapidly and successfully develop and introduce new products; our reliance on single-source suppliers; risks associated with our ability to purchase a sufficient amount of components to meet demand; inventory risks; risks associated with our international customers and operations; delays in product development or customer acceptance and implementation of new products and technologies; our dependence on significant customers and specific industries; our dependence on channel partners; risks associated with our tape products; and failure to successfully integrate acquisition candidates. Please also refer to Sun's periodic reports that are filed from time to time with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2005 and our Quarterly Reports on Form 10-Q for the fiscal quarters ended September 25, 2005, December 25, 2005 and March 26, 2006. Sun assumes no obligation to, and does not currently intend to, update these forward-looking statements.



# Jonathan Schwartz

**President and CEO**

# Focusing Our Innovation



# Key Messages

- FY2007 Plan Includes Operating Income Goal of at Least 4% of Revenue in Q4 Fiscal 2007.
- Plan Enhances Our Customers' Investments in Solaris™, Java™, Sun Fire™ and StorageTek™ through Innovation and Choice.
- During the Next 12 Months, Sun will be Increasing Field Presence and Technical Expertise.
- Longer-term Operating Income Goal of at Least 10% of Revenue.

# FY2007 Business Model

|                          |  |
|--------------------------|--|
| Revenue                  | Low to mid single digit increase (versus FY06) |
| Gross Margin             | Approximately 43%                              |
| R&D and SG&A             | \$5.6 – 6.0 billion <sup>(1)</sup>             |
| Q4 FY07 Operating Margin | At Least 4% <sup>(1)(2)</sup>                  |

<sup>(1)</sup> Excluding any one time items related to restructuring, but including amounts related to stock based compensation (FAS123R) and amortization of purchased intangibles.

<sup>(2)</sup> Longer-Term operating margin goal of at least 10%

# Cost Savings Projection



**\$480M - \$590M  
Annual Impact \***

\* Expected annualized impact of cost savings, including R&D, SG&A and gross margins. The full impact of these annualized savings will begin in Q4FY07. Leading up to Q4FY07, we expect to realize an increasing portion of this total annual impact.

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