



ANALYST SUMMIT 2007

Journey to 10%

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EVP of Corporate Resources





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These slides contain forward-looking statements regarding the future results and performance of Sun Microsystems, Inc., including statements regarding our journey to 10%, future revenue growth, systems fueling near term growth, storage as an untapped opportunity, expectations for the software business, the impact of the Intel agreement, shipments under the Intel agreement, gross margin levers, R&D/SG&A levers, expected operating margin in Q4FY07, the addition of a KKR representative to Sun's Board, potential future borrowings or stock buybacks and expected operating margin in FY09. These forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contained in these forward-looking statements. Factors that could cause actual results to differ materially from those contained in these forward-looking statements include: risks associated with developing, designing, manufacturing and distributing new products; lack of success in technological advancements; pricing pressures; lack of customer acceptance of new products; the possibility of errors or defects in new products; competition; adverse business conditions; failure to retain key employees; the cancellation or delay of projects; the cancellation or delay of the alliance with Intel; 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; and the satisfaction of the formal requirements for the appointment of an additional director to Sun's board. Please also refer to Sun's periodic reports that are filed with the Securities and Exchange Commission, including Sun's annual report on Form 10-K for the fiscal year ended June 30, 2006 and its quarterly report on Form 10-Q for the fiscal quarter ended October 1, 2006. Sun assumes no obligation to, and currently does not intend to, update these forward-looking statements.



Philosophy



- Thoughts on direction
 - > More specifics for FY08 on Q3 Earnings call
- High level P&L Levers and Actions

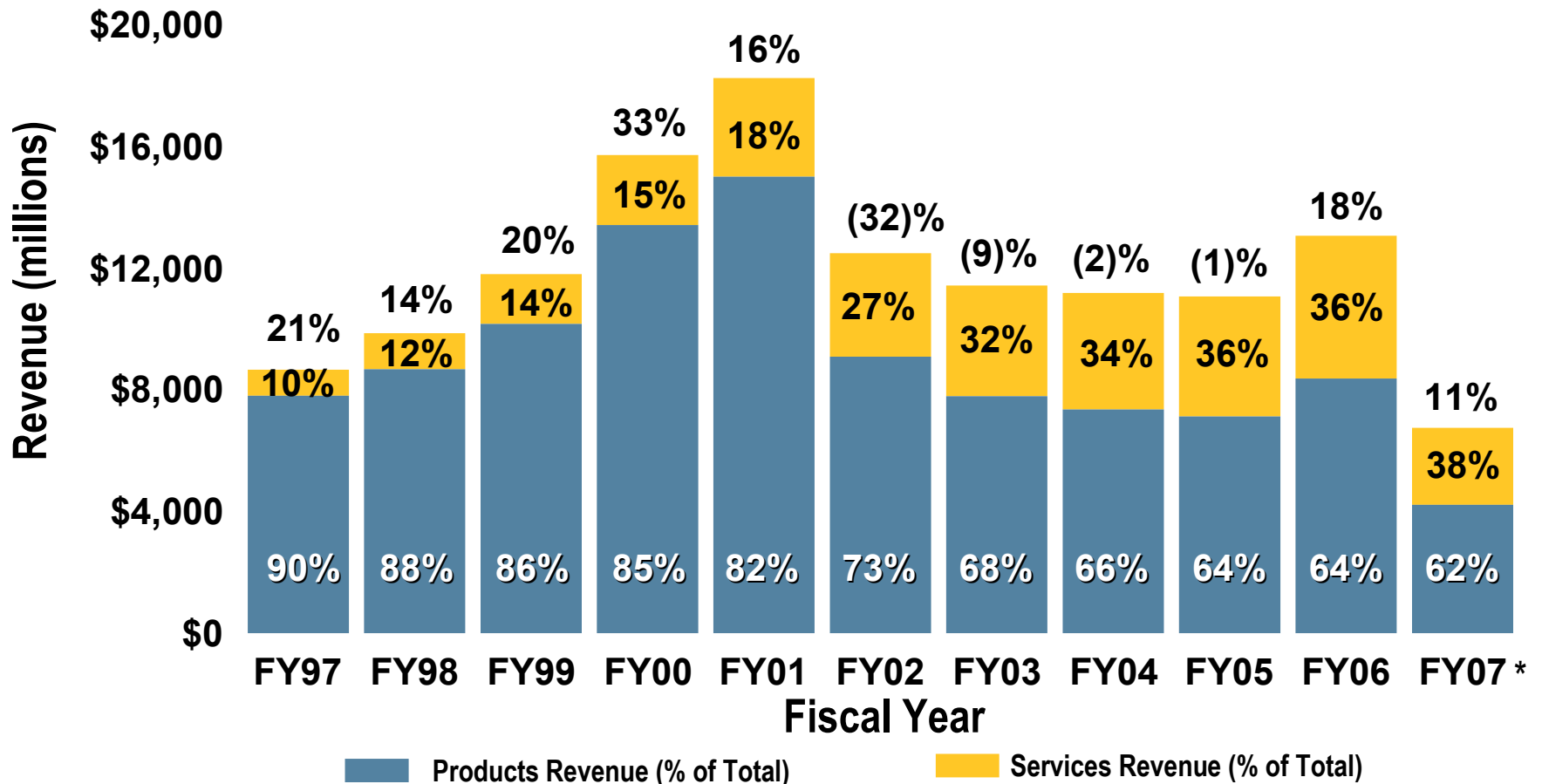


Revenue Growth

Revenue

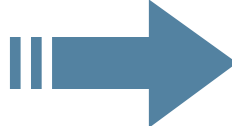
PRODUCTS/SERVICES

Year/Year Growth % of Total Revenue



* FY07 is based on a YTD/YTD comparison (YTD through Q2)

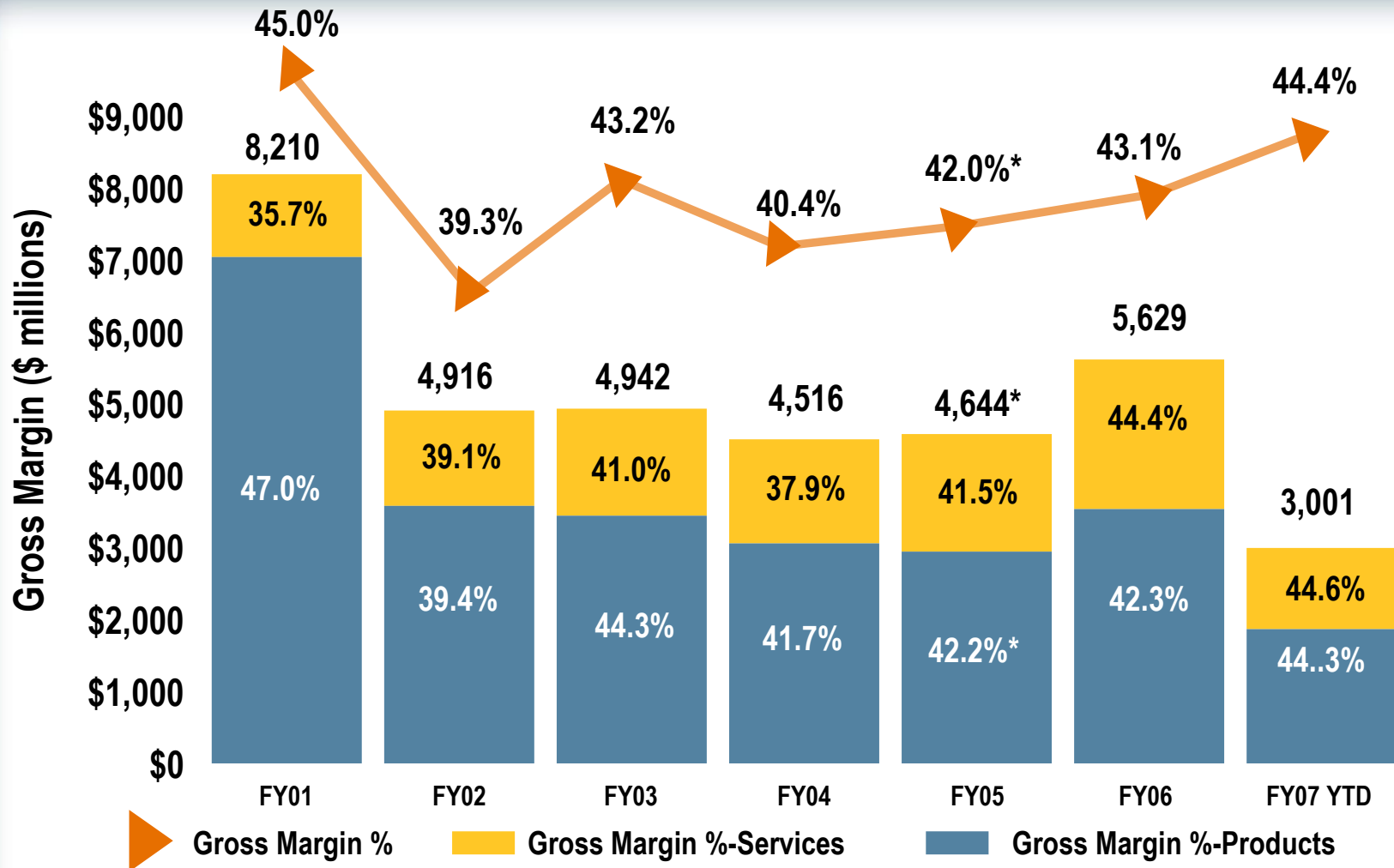
Thoughts on Revenue

- Systems will fuel near term growth
- Storage is untapped opportunity
 - > STK installed base / Refreshed Product
 - > “Thumper”  Not just JBOD
- Expect Software business to continue to grow as model transitions
- Software as Services

Intel Agreement

- No significant impact to FY07 business model
- Engineering activities in Software and Systems during remainder of FY07
- FY08 – Systems shipping in volume
- Addition to x64 family not replacement
- Volume opportunity

Gross Margin – Products/Services



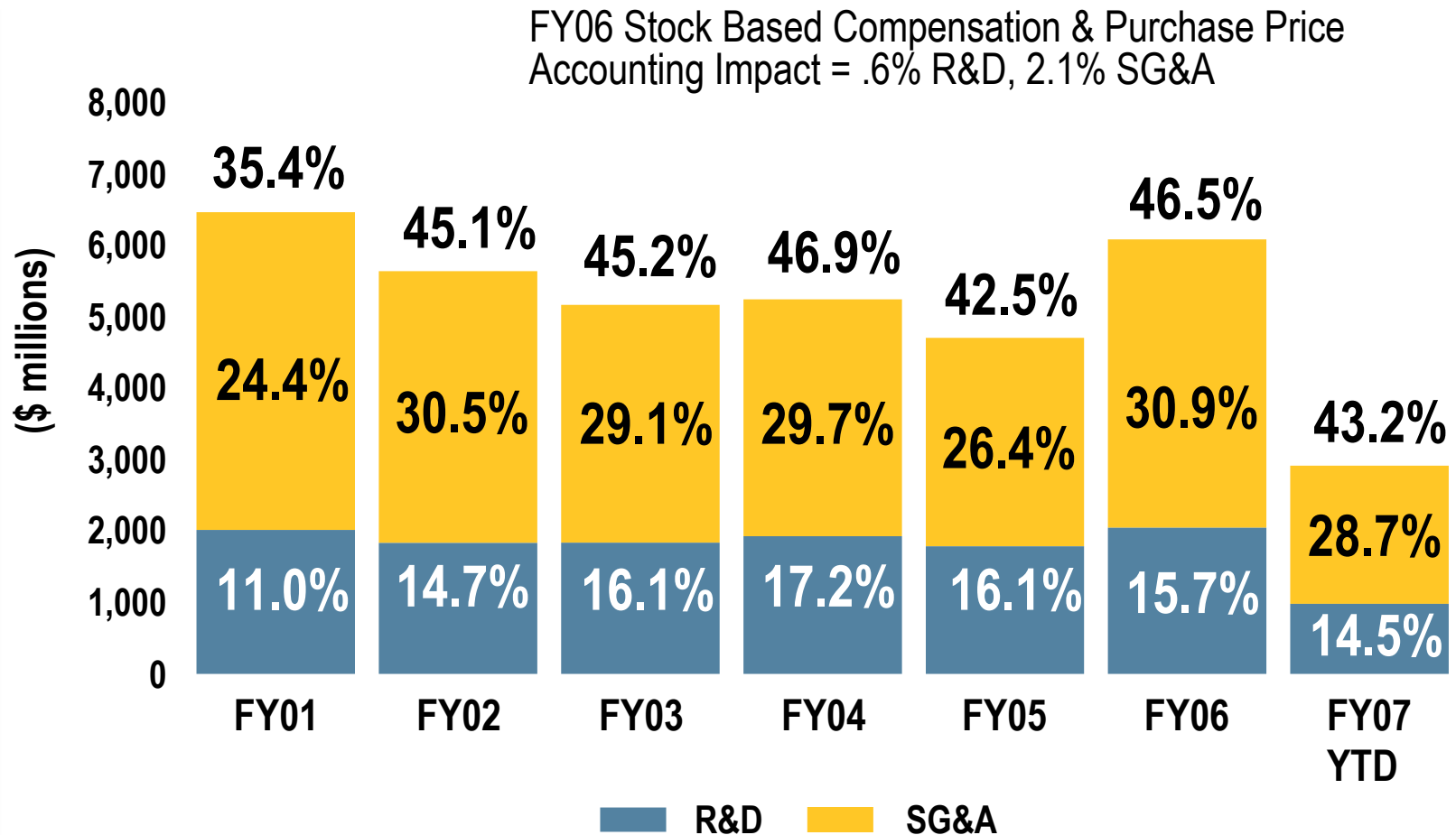
* Excluding impact of Q105 Kodak settlement. See Slide 24 for a bridge to GAAP Gross Margin.

Gross Margin Levers

- 
- Material Cost Savings
 - Channel Model
 - Discount Management
 - Product Mix
 - Service Efficiencies
 - Overhead Savings

Longer Term (FY09 & Beyond)  IBIS

R&D / SG&A Expense % Revenue*



* Total Operating Expenses differ from SG&A and R&D Expenses because Total Operating Expenses includes IPRD, Restructuring, & Intangible Impairment charges.

R&D / SG&A Levers

- R&D Portfolio
- Facilities
- IBIS
 - > Deployment 1 Q108
 - > Deployment 2 Q208
 - > Deployment 3 Q109

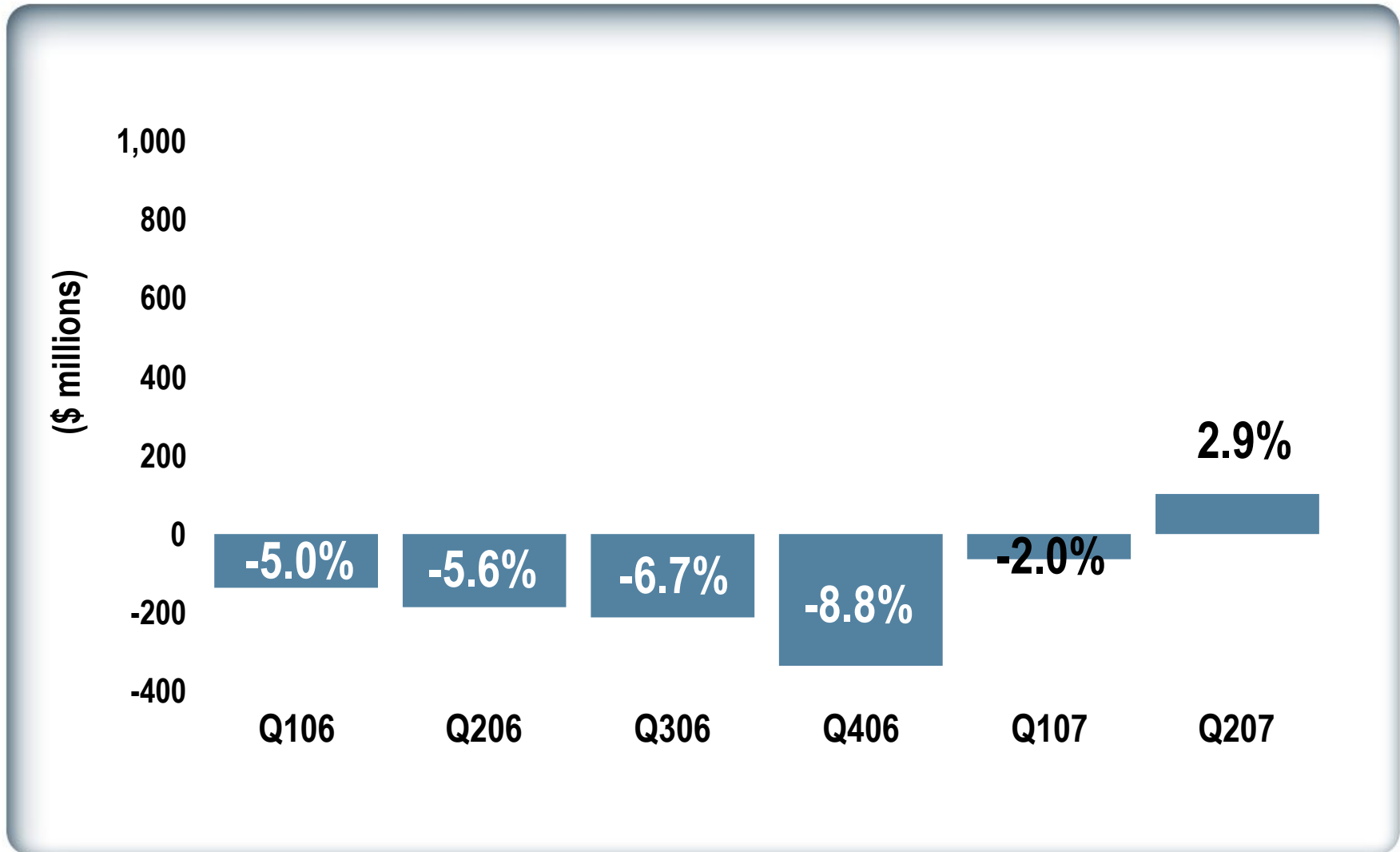
Cost savings minimal in FY08.
Major savings FY09 and beyond



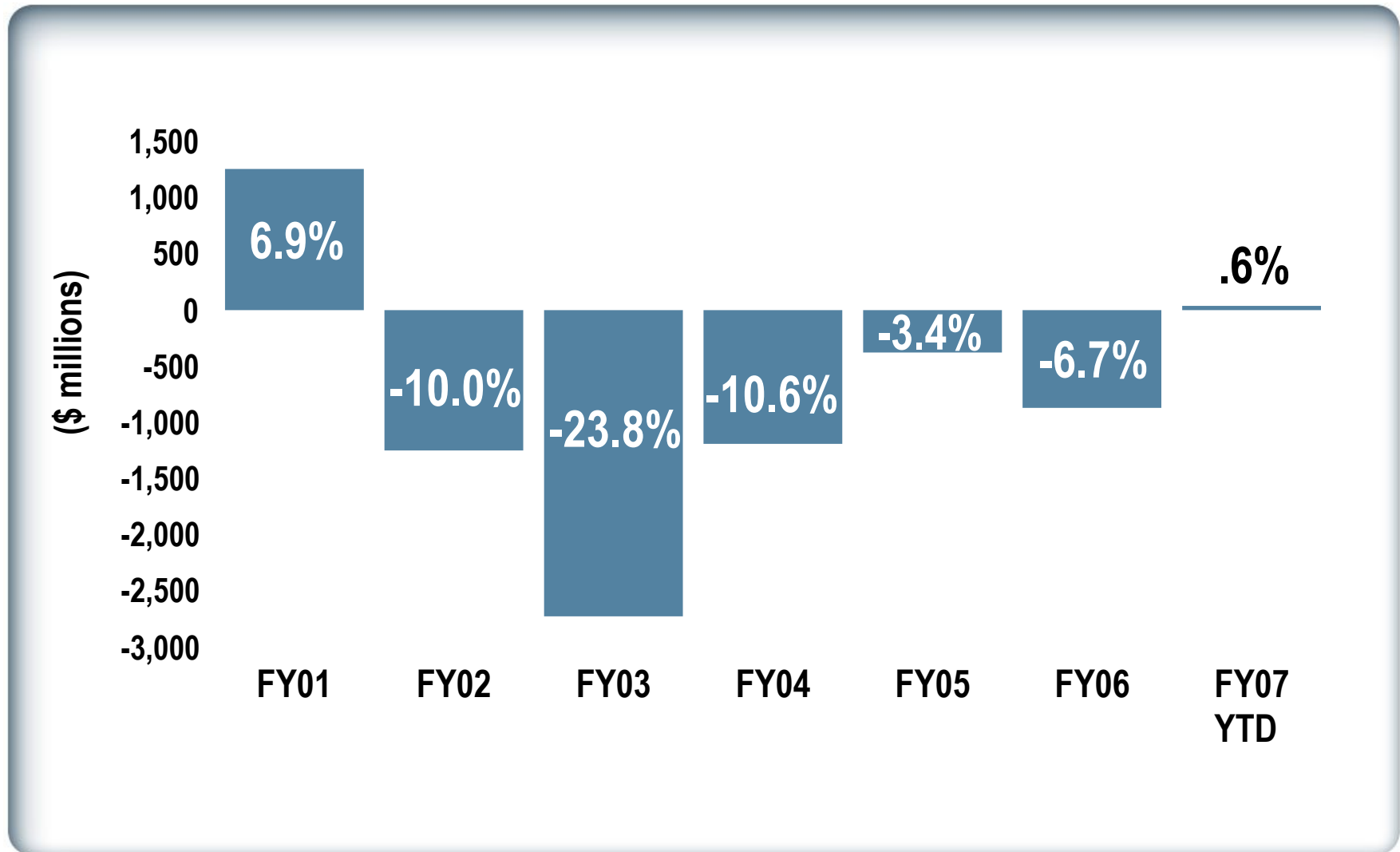
Q4 FY07


At least 4%
Operating Margin

GAAP Operating Income % Revenue



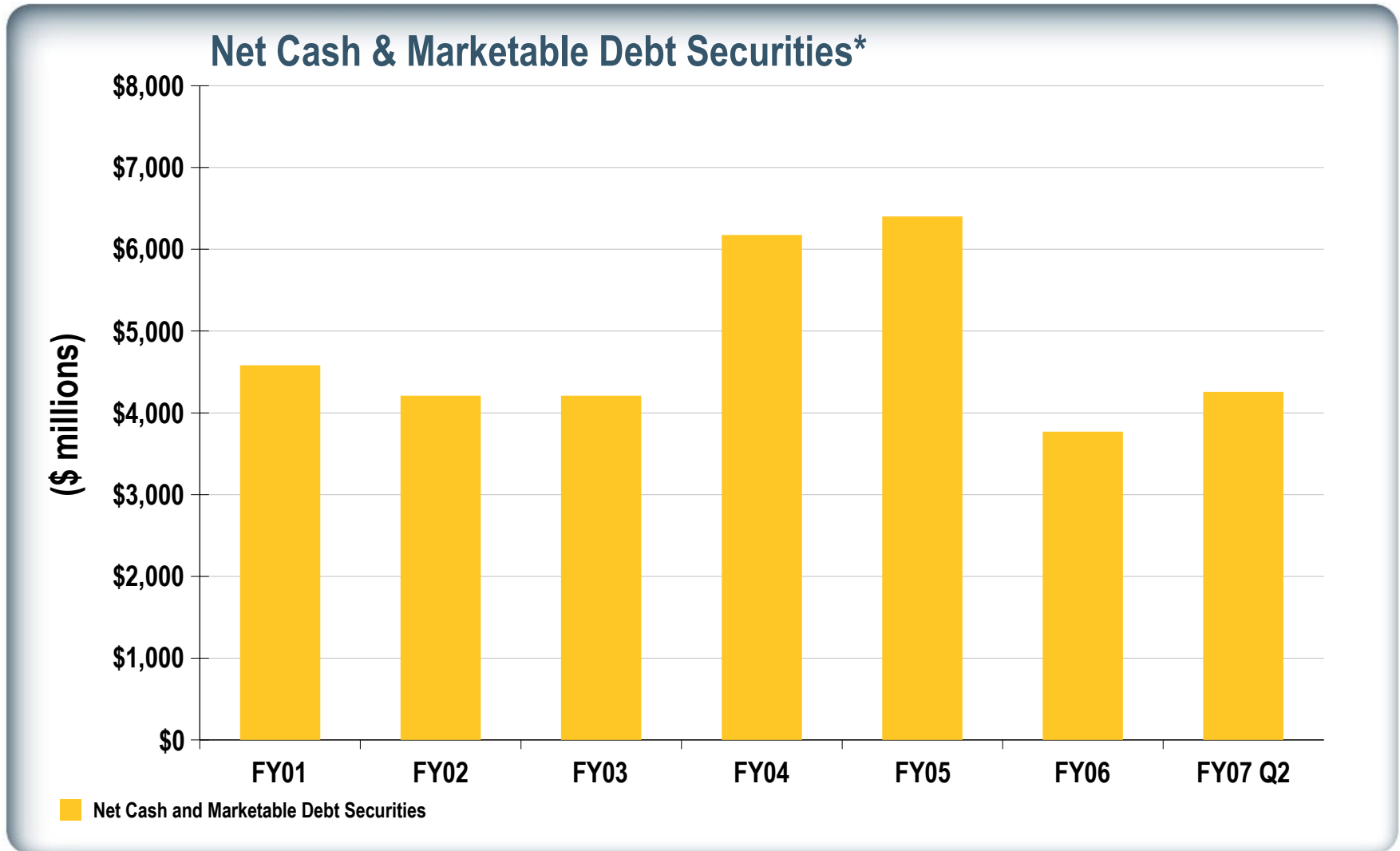
GAAP Operating Income % Revenue





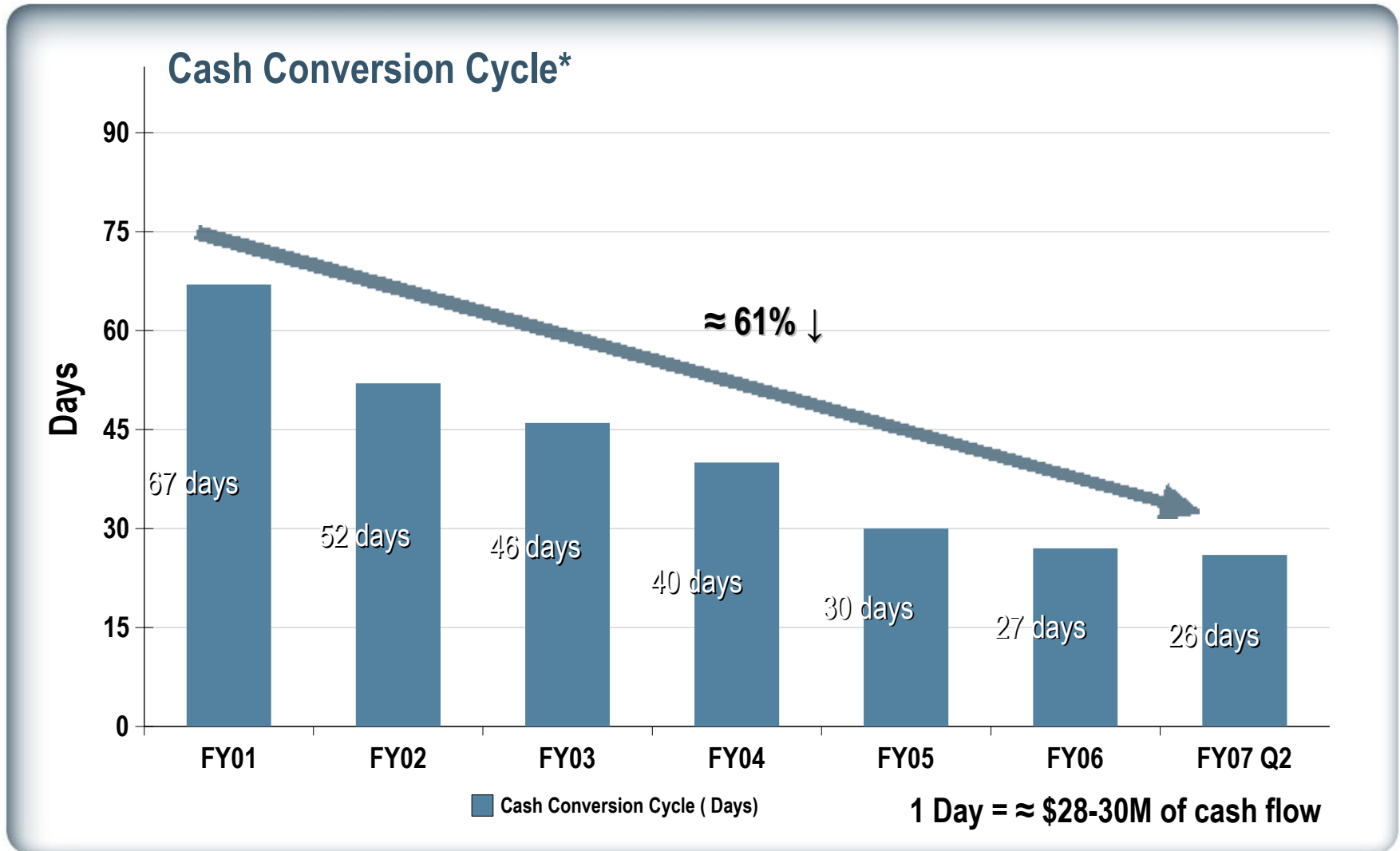
Maintain Strong Balance Sheet

Balance Sheet Strength




* Cash & cash equivalents, Short-term marketable debt securities & Long-term marketable debt securities, less Current portion of long term-debt and short term borrowings & Long-term debt

Balance Sheet Strength



*Cash conversion cycle is the duration between the purchase of inventories and services and the collection of the cash for the sale of our products & services.

K.K.R. Investment

- 
- \$700M of Senior Unsecured Convertible Bonds
 - Concurrent call spread transaction
 - Positive effect on GAAP net income
 - KKR representative will join Sun's Board
 - Endorsement of Sun's strategy

Capital Structure

- Q2 Net Cash as a % of trailing 4 quarters Revenue = 30%
- Current rating agency view
 - > Cross-over Credit Rating
- Flexibility
 - > Borrowing
 - > Stock buyback

Main Focus  “Grow”



FY09

10%

Operating Margin



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Thank You.

The Network is the Computer.™

Michael Lehman

Chief Financial Officer

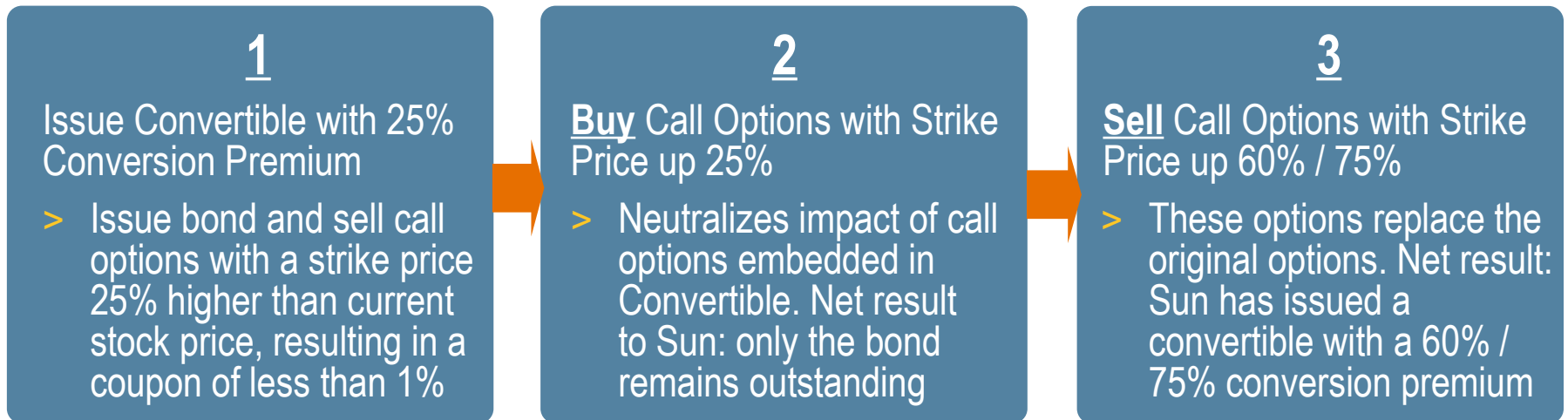
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Appendix

Call Spreads

- Convertible market is most liquid for conversion premiums in the 25% to 35% range
- Many companies have done convertibles and issued “call spreads” to raise the effective conversion premium
- There are three steps involved in the transaction:



- Net cost of call spread (steps 2 and 3) reduced Sun’s cash proceeds by \$83M and was recorded as a reduction in equity

FY05 Gross Margin Bridge

(Bridge with GAAP)

	Products GM (\$M)	Products GM %	Total GM (\$M)	Total GM %
GAAP Gross Margin	\$2,952	41.4%	\$4,589	41.5%
Kodak settlement impact	\$55	0.8%	\$55	0.5%
Gross Margin w/o Kodak settlement impact	\$3,007	42.2%	\$4,644	42.0%