

SUN MICROSYSTEMS, INC.  
Form 10-Q  
May 08, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 30, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-15086

**SUN MICROSYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-2805249**  
(I.R.S. Employer  
Identification No.)

**4150 Network Circle, Santa Clara, CA 95054**  
(Address of principal executive offices with zip code)

**(650) 960-1300**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 2008
Common Stock - \$0.001 par value	781,783,680

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SUN MICROSYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)****(in millions, except per share amounts)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 30, 2008</b>	<b>April 1, 2007</b>	<b>March 30, 2008</b>	<b>April 1, 2007</b>
Net revenues:				
Products	\$ 2,003	2,060	\$ 6,232	6,279
Services	1,263	1,223	3,868	3,759
Total net revenues	3,266	3,283	10,100	10,038
Cost of sales:				
Cost of sales-products <sup>(1)</sup>	1,106	1,148	3,296	3,499
Cost of sales-services <sup>(1)</sup>	692	674	2,022	2,086
Total cost of sales	1,798	1,822	5,318	5,585
Gross margin	1,468	1,461	4,782	4,453
Operating expenses:				
Research and development <sup>(1)</sup>	457	514	1,366	1,494
Selling, general and administrative <sup>(1)</sup>	989	957	2,923	2,893
Restructuring charges and related impairment of long-lived assets	14	35	159	82
Purchased in-process research and development	24		25	
Total operating expenses	1,484	1,506	4,473	4,469
Operating income (loss)	(16)	(45)	309	(16)
Gain on equity investments, net		5	22	5
Interest and other income, net	34	104	145	209
Income before income taxes	18	64	476	198
Provision (benefit) for income taxes	52	(3)	161	54
Net income (loss)	\$ (34)	\$ 67	\$ 315	\$ 144
Net income (loss) per common share-basic	\$ (0.04)	\$ 0.08 <sup>(2)</sup>	\$ 0.38	\$ 0.16 <sup>(2)</sup>
Net income (loss) per common share-diluted	\$ (0.04)	\$ 0.07 <sup>(2)</sup>	\$ 0.38	\$ 0.16 <sup>(2)</sup>
Shares used in the calculation of net income per common share-basic	785	887 <sup>(2)</sup>	821	881 <sup>(2)</sup>
Shares used in the calculation of net income per common share-diluted	785	915 <sup>(2)</sup>	837	900 <sup>(2)</sup>

(1) Includes stock based compensation as follows:

Cost of sales - products	\$ 3	\$ 3	\$ 8	\$ 10
Cost of sales - services	\$ 10	\$ 8	\$ 28	\$ 24
Research and development	\$ 17	\$ 15	\$ 47	\$ 49
Selling, general and administrative	\$ 27	\$ 24	\$ 74	\$ 83

(2) Amounts have been restated to reflect the one-for-four reverse stock split effective November 12, 2007.  
See accompanying notes.

**Table of Contents****SUN MICROSYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except for par value)

	March 30, 2008 (unaudited)	June 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,363	\$ 3,620
Short-term marketable debt securities	664	962
Accounts receivable (net of bad debt reserves of \$63 and \$81) <sup>(1)</sup>	2,405	2,964
Inventories	735	524
Deferred and prepaid tax assets	223	200
Prepaid expenses and other current assets, net	1,106	1,058
<b>Total current assets</b>	<b>7,496</b>	<b>9,328</b>
Property, plant and equipment (net of accumulated depreciation of \$3,364 and 3,573) <sup>(1)</sup>	1,584	1,533
Long-term marketable debt securities	774	1,360
Goodwill	3,288	2,514
Acquisition-related intangible assets, net	611	633
Other non-current assets, net	509	470
	<b>\$ 14,262</b>	<b>\$ 15,838</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,306	\$ 1,381
Accrued payroll-related liabilities	724	842
Accrued liabilities and other	1,128	961
Deferred revenues	1,979	2,047
Warranty reserve	204	220
<b>Total current liabilities</b>	<b>5,341</b>	<b>5,451</b>
Long-term debt	1,275	1,264
Long-term deferred revenues	627	659
Other non-current obligations	1,229	1,285
Stockholders equity		
Preferred stock (\$0.001 par value, 10 shares authorized; no shares issued and outstanding)		
Common stock and additional paid-in-capital (\$0.001 par value <sup>(2)</sup> , 1,800 <sup>(2)</sup> shares authorized; issued and outstanding: 901 shares and 901 <sup>(2)</sup> shares) <sup>(1)</sup>	7,275	6,987
Treasury stock, at cost: (119 shares and 17 <sup>(2)</sup> shares) <sup>(1)</sup>	(2,381)	(311)
Retained earnings	404	189
Accumulated other comprehensive income	492	314
<b>Stockholders equity</b>	<b>5,790</b>	<b>7,179</b>
	<b>\$ 14,262</b>	<b>\$ 15,838</b>

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- (1) As of March 30, 2008 and June 30, 2007, respectively.
- (2) Amounts have been restated to reflect the one-for-four reverse stock split effective November 12, 2007.  
See accompanying notes.

**Table of Contents****SUN MICROSYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited, in millions)**

	<b>Nine Months Ended</b>	
	<b>March 30, 2008</b>	<b>April 1, 2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 315	\$ 144
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Amortization of acquisition-related intangible assets	224	239
Depreciation and amortization	354	388
Stock-based compensation expense	157	166
Purchased in-process research and development	25	
Gain on investments and other, net	(54)	
Impairment of long-lived assets		16
Deferred taxes	8	(20)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	603	265
Inventories	(205)	(51)
Prepaid and other assets	(105)	(104)
Accounts payable	(114)	(222)
Other liabilities	31	(427)
<b>Net cash provided by operating activities</b>	<b>1,239</b>	<b>394</b>
<b>Cash flows from investing activities:</b>		
Decrease (increase) in restricted cash	22	(4)
Purchases of marketable debt securities	(1,292)	(2,465)
Proceeds from sales of marketable debt securities	1,404	1,041
Proceeds from maturities of marketable debt securities	764	523
Proceeds from sales of equity investments, net	25	8
Purchases of property, plant and equipment, net	(297)	(73)
Payments for acquisitions, net of cash acquired	(923)	(10)
<b>Net cash used in investing activities</b>	<b>(297)</b>	<b>(980)</b>
<b>Cash flows from financing activities:</b>		
Purchase of common stock call options		(228)
Sale of common stock warrant		145
Proceeds from exercise of options and ESPP purchases	121	176
Proceeds from issuance of convertible notes, net		692
Principal payments on borrowings and other obligations	(20)	(476)
Purchases of common stock under 2007 Stock Repurchase Plan	(2,300)	
<b>Net cash provided by (used in) financing activities</b>	<b>(2,199)</b>	<b>309</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,257)</b>	<b>(277)</b>
Cash and cash equivalents, beginning of period	3,620	3,569
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,363</b>	<b>\$ 3,292</b>



Supplemental schedule of non-cash investing activities:

Stock options issued in connection with the acquisition of MySQL	\$ 102
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See accompanying notes.

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**SUN MICROSYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. DESCRIPTION OF BUSINESS**

We provide network computing infrastructure product and service solutions. A consistent vision, "The Network is the Computer", has been the driving force behind our technology innovation for over 25 years. Our core brands include the Java technology platform, the Solaris operating system, Sun StorageTek storage solutions, the UltraSPARC processor and the MySQL database. By investing in research and development, we create products and services that address the complex information technology issues that customers face today, including increasing demands for network access, bandwidth and storage. We help drive demand by sharing our technologies with the user community, which in turn presents a greater opportunity for us to provide the infrastructure that runs the network.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fiscal Year**

Our first three quarters in fiscal year 2008 end on September 30, 2007, December 30, 2007 and March 30, 2008. In fiscal year 2007, the quarters ended on October 1, 2006, December 31, 2006 and April 1, 2007. The fourth quarter in all fiscal years ends on June 30.

**Basis of Presentation**

The accompanying condensed consolidated financial statements (Interim Financial Statements) include our accounts and the accounts of our subsidiaries. Intercompany accounts and transactions have been eliminated. Certain amounts from prior periods have been reclassified to conform to current year presentation. Cash flows associated with spare parts are now included in net cash provided by operating activities. We completed our acquisition of MySQL AB (MySQL) on February 25, 2008 and have included these results in our condensed consolidated financial statements from the acquisition date.

Our interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements and accounting policies, consistent, in all material respects, with those applied in preparing our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, filed with the SEC on August 29, 2007 (2007 Form 10-K). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. These estimates are based on management's knowledge about current events and expectations about actions we may undertake in the future. Actual results could differ materially from those estimates. Our interim financial statements are unaudited but reflect all adjustments, including normal recurring adjustments management considers necessary for a fair presentation of our financial position, operating results and cash flows for the interim periods presented. The results for the interim periods are not necessarily indicative of the results for the entire year. The condensed consolidated balance sheet as of June 30, 2007, has been derived from the audited consolidated balance sheet as of that date. The information included in this report should be read in conjunction with our 2007 Form 10-K.

**Computation of Net Income (Loss) per Common Share**

Basic net income per common share is computed using the weighted-average number of common shares outstanding (adjusted for treasury stock and common stock subject to repurchase activity) during the period. Diluted net income per common share is computed using the weighted-average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares are anti-dilutive when their conversion would increase earnings per share. Dilutive common equivalent shares consist primarily of stock options and restricted stock awards (restricted stock and restricted stock units that are settled in stock).

On November 8, 2007, our stockholders approved a one-for-four reverse stock split, which became effective on November 12, 2007. All references to share and per-share data for all periods presented have been adjusted to give effect to this reverse split.

For the three and nine months ended March 30, 2008, we added zero and 16 million common equivalent shares, respectively, to our basic weighted-average shares outstanding to compute the diluted weighted-average shares outstanding for the period. For the three and nine months ended April 1, 2007, we added 28 million and 18 million common equivalent shares, respectively, to our basic-weighted-average shares

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outstanding to compute the diluted weighted-average shares outstanding for these periods. We are required to include these dilutive shares in our calculations of net income per share for this period because we earned a profit during these periods.

Shares used in the diluted net income per share calculations exclude anti-dilutive common equivalent shares, consisting of stock

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options, restricted stock awards, written call options and shares associated with convertible notes. These anti-dilutive common equivalent shares totaled 118 and 105 million shares for the three- and nine-month periods ending March 30, 2008, respectively, and 121 million shares and 107 million shares for the three- and nine-month periods ending April 1, 2007, respectively.

As a result of our net loss for the three month period ended March 30, 2008, all potentially dilutive shares were anti-dilutive and therefore excluded from the computation of diluted net loss per share.

**Recent Pronouncements**

*Income Taxes:* In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 (FIN 48)*, which became effective for us on July 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return that results in a tax benefit. Additionally, FIN 48 provides guidance on de-recognition, income statement classification of interest and penalties, accounting in interim periods and disclosure. Additionally, in May 2007, the FASB published FASB Staff Position (FSP) No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1)*. FSP FIN 48-1 is an amendment to FIN 48. It clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 was effective upon the initial adoption of FIN 48. Our policy is to recognize interest and penalty expense associated with uncertain tax positions as a component of income tax expense in the consolidated statements of operations. Refer to Footnote 9 of our condensed consolidated financial statements for further information regarding the impact of this pronouncement.

*Fair Value Measurements:* In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements (SFAS 157)*. SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used in measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years and we are required to adopt the pronouncement in the first quarter of our fiscal 2009. On February 12, 2008, the FASB issued FASB Staff Position (FSP) No. SFAS 157-2, *Effective Date of FASB Statement No. 157 (FSP SFAS 157-2)*. FSP SFAS 157-2 amends SFAS No. 157, to delay the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for the items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, FSP SFAS 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years and we are required to adopt the pronouncement in our first quarter of our fiscal 2010. We are currently evaluating the impact of adopting SFAS 157 and FSP SFAS 157-2 on our consolidated financial statements.

*Fair Value Option For Financial Assets and Financial Liabilities:* In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115 (SFAS 159)*. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement of certain financial assets and liabilities on an instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in earnings. SFAS 159 also establishes additional disclosure requirements. This standard is effective for fiscal years beginning after November 15, 2007 and we are required to adopt the pronouncement in our first quarter of fiscal 2009. We are currently evaluating the impact of adopting SFAS 159 on our consolidated financial statements.

*Accounting For Advanced Payments For Future Research and Development:* In June 2007, the FASB ratified Emerging Issues Task Force (EITF) 07-03, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-03)*. EITF 07-03 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and we are required to adopt the pronouncement in our first quarter of fiscal 2009. We are currently evaluating the impact that the adoption of EITF 07-03 will have on our consolidated financial statements.

*Accounting For Convertible Debt:* During August of 2007, the FASB issued proposed FSP Accounting Principles Board (APB) 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (the FSP)*. At the March 26, 2008 FASB meeting, the FASB Board directed the FASB staff to proceed to a draft of the FSP. The guidance will significantly impact the accounting for instruments commonly referred to as Instruments B and C from EITF Issue No. 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion* and any other convertible debt instruments that allow settlement in any combination of cash and shares at the issuer's option, such as instruments sometimes referred to as *Instrument X*. The FSP will require us to separately account for the liability and equity components of the instrument in a manner that reflects our nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The FSP will require bifurcation of a component of the debt, classification of that component in equity and then accretion of the resulting discount on the debt

as part of interest expense being reflected in the

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income statement. In addition, the FSP will require certain additional disclosures that were not included in the original proposal. The FSP will be effective for fiscal years beginning after December 15, 2008 and we are required to adopt the FSP in our first quarter of fiscal 2010. The FSP will not permit early application and will require retrospective application to all periods presented. We are currently evaluating the impact that the adoption of the FSP will have on our financial condition, results of operations and disclosures.

*Collaborative Arrangements:* In November 2007, the FASB ratified EITF 07-01, *Accounting for Collaborative Arrangements* (EITF 07-01). EITF 07-01 requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational and consistently applied accounting policy election. In addition, a participant in a collaborative arrangement should provide the following disclosures separately for each collaborative arrangement: (a) the nature and purpose of the arrangement, (b) its rights and obligations under the collaborative arrangement, (c) the accounting policy for the arrangement in accordance with APB Opinion 22, *Disclosure of Accounting Policies*, and (d) the income statement classification and amounts arising from the collaborative arrangement between participants for each period an income statement is presented. EITF 07-01 will be effective for annual periods beginning after December 15, 2008 and we are required to adopt the pronouncement in our first quarter of fiscal 2010. We are currently evaluating the impact of adopting EITF 07-01 on our consolidated financial statements.

*Business Combinations:* In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)) and SFAS No. 160, *Non-Controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* (SFAS 160). These new standards will significantly change the accounting for and reporting for business combination transactions and non-controlling interests in consolidated financial statements. SFAS 141(R) and SFAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008 and we are required to adopt the pronouncement in the first quarter of our fiscal 2010. We are currently evaluating the impact of adopting SFAS 141(R) and SFAS 160 on our consolidated financial statements.

*Derivative Instruments and Hedging Activities Disclosures:* In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* An Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. This Statement specifically requires entities to provide enhanced disclosures addressing the following: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and we are required to adopt the pronouncement in our first quarter of fiscal 2010. We are currently evaluating the impact that the adoption of SFAS 161 will have on our consolidated financial statements.

*Intangibles:* In April 2008, FASB issued FSP 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset. The FSP also requires that we disclose the weighted-average period prior to the next renewal or extension for each major intangible asset class, our accounting policy for the treatment of costs incurred to renew or extend the term of a recognized intangible assets and for intangible assets renewed or extended during the period, if we capitalize renewal or extension costs, the costs incurred to renew or extend the asset and the weighted-average period prior to the next renewal or extension for each major intangible asset class. The FSP is effective for financial statements for fiscal years beginning after December 15, 2008 and we are required to adopt the pronouncement in our first quarter of fiscal 2010. We are currently evaluating the impact of adopting the FSP on our consolidated financial statements.

**3. BUSINESS COMBINATIONS**

On February 25, 2008, we acquired all of the outstanding shares of MySQL, a company based in Uppsala, Sweden, for approximately \$904 million including \$797 million in cash, assumed employee stock options valued at approximately \$102 million and transaction costs of \$5 million. The options assumed in the acquisition were converted into options to purchase 11.9 million shares of our common stock. MySQL provides open source and proprietary database technology and software as well as services, to a wide range of customers in different industry segments and stages of growth. The results of operations of MySQL are included in the condensed consolidated statement of operations from the date of acquisition.

*Preliminary Purchase Price Allocation*

The total purchase price of approximately \$904 million was allocated on a preliminary basis as follows (in millions):

Goodwill	\$ 723
Other intangible assets:	
Customer base	70
Developed technology	73
Trademarks	28
Tangible assets acquired and net liabilities assumed	(12)
In-process research and development (IPRD)	22
 Total	 \$ 904

The preliminary purchase price allocation for the acquisition was based upon a preliminary valuation and estimates of fair value. Our estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to identifiable intangible assets, restructuring, income and non-income taxes and goodwill. Adjustments to these estimates will be included in the allocation of the purchase price if the adjustment is determined within the purchase price allocation period of up to the next twelve months.

#### *Other Acquisitions*

During the first nine months of fiscal 2008, we acquired three other companies and purchased certain technology and development assets for a total purchase price of approximately \$137 million. We recorded approximately \$103 million of goodwill, \$32 million of identifiable intangible assets, and \$3 million of in-process research and development in connection with these acquisitions. We have included the effects of these transactions in our results of operations prospectively from the respective dates of the acquisitions. Projects that qualify for treatment as IPRD have not yet reached technological feasibility and have no alternative future use.

Pro forma results of operations have not been presented for MySQL or our other acquisitions because the effects of these acquisitions were not material on either an individual or on an aggregate basis.

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Inventories consisted of the following (in millions):

	<b>March 30, 2008</b>	<b>June 30, 2007</b>
Raw materials	\$ 159	\$ 125
Work in process	99	95
Finished goods	477	304
	<b>\$ 735</b>	<b>\$ 524</b>

**Warranty Reserve**

We accrue for our product warranty costs at the time of shipment. These product warranty costs are estimated based upon our historical experience and specific identification of product requirements and may fluctuate based on product mix.

The following table sets forth an analysis of warranty reserve activity (in millions):

Balance at June 30, 2007	\$ 220
Charged to costs and expenses	214
Utilized	(230)
Balance at March 30, 2008	\$ 204



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On January 25, 2008, we sold our Louisville, Colorado facility which included buildings, leasehold improvements and land, in a sale-leaseback transaction for \$58.5 million in cash, net of \$1.5 million of closing costs. We recognized the entire gain of \$28 million in our quarter ended March 30, 2008, as an offset to our selling, general and administrative expenses in our condensed consolidated statements of operations. Cash received from the transaction has been netted against purchases of property, plant and equipment in our condensed consolidated statements of cash flow. In conjunction with the transaction, we entered into a lease for the same facility. Under the terms of the agreement, we will lease certain properties until December 31, 2008. We have not retained more than a minor portion of the use of the property as the present value of the rental for this leaseback represents less than 10 percent of the fair value of the asset sold. Accordingly, we recognized the entire gain in the current quarter.

**5. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS, NET**

Information regarding our goodwill by operating segment is as follows (in millions):

	Product Group	Services Group	Total
Balance as of June 30, 2007	\$ 1,278	\$ 1,236	\$ 2,514
Goodwill acquired during the period	826		826
Adjustment to acquired companies tax and restructuring reserves	(23)	(29)	(52)
Balance as of March 30, 2008	\$ 2,081	\$ 1,207	\$ 3,288

We are currently assessing the allocation of goodwill acquired from our acquisition of MySQL to our operating segments and expect to complete our assessment by the end of the fiscal year and therefore the allocation may change.

Information regarding our other acquisition-related intangible assets is as follows (in millions):

	Gross Carrying Amount			Accumulated Amortization			Net
	June 30, 2007	Additions	March 30, 2008	June 30, 2007	Additions	March 30, 2008	March 30, 2008
Developed technology	\$ 904	\$ 94	\$ 998	\$ (612)	\$ (102)	\$ (714)	\$ 284
Customer base	651	79	730	(361)	(119)	(480)	250
Trademark	63	29	92	(14)	(2)	(16)	76
Acquired workforce and other	95		95	(93)	(1)	(94)	1
	\$ 1,713	\$ 202	\$ 1,915	\$ (1,080)	\$ (224)	\$ (1,304)	\$ 611

Amortization expense of other acquisition-related intangible assets was \$76 million and \$224 million for the three and nine months ended March 30, 2008, respectively, and \$78 million and \$239 million for the three and nine months ended April 1, 2007, respectively. Our acquisition-related intangible assets are amortized primarily over periods ranging between one and five years on a straight-line basis.

Estimated amortization expense for other acquisition-related intangible assets on our March 30, 2008 balance sheet for the fiscal years ending June 30, is as follows (in millions):

Remainder of 2008	\$ 83
2009	285
2010	94

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2011	46
2012	39
Thereafter	64
	\$ 611

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**6. RESTRUCTURING CHARGES AND RELATED IMPAIRMENT OF LONG-LIVED ASSETS**

In accordance with SFAS 112, Employers Accounting for Post Employment Benefits (SFAS 112) and SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146), we recognized a total of \$14 million and \$159 million in restructuring and related impairment of long-lived assets for the three- and nine-months ended March 30, 2008, respectively, and a total of \$35 million and \$82 million for the three and nine months ended April 1, 2007, respectively. The determination of when we accrue for severance costs and which standard applies depends on whether the termination benefits are provided under a one-time benefit arrangement as defined by SFAS 146 or under an on-going benefit arrangement as described in SFAS 112.

We estimated the cost of exiting and terminating our facility leases or acquired leases by referring to the contractual terms of the agreements and by evaluating the current real estate market conditions. In addition, we have estimated sublease income by evaluating the current real estate market conditions or, where applicable, by referring to amounts being negotiated. Our ability to generate this amount of sublease income, as well as our ability to terminate lease obligations at the amounts we have estimated, is highly dependent upon the commercial real estate market conditions in certain geographies at the time we perform our evaluations or negotiate the lease termination and sublease arrangements with third parties. The amounts we have accrued represent our best estimate of the obligations we expect to incur and could be subject to adjustment as market conditions change.

**Restructuring Plan VII**

In August 2007, we initiated a restructuring plan to further align our resources with our strategic business objectives (Restructuring Plan VII). Through the third quarter of fiscal 2008, we notified approximately 1,300 employees of their termination and recognized total related severance and benefit costs of \$141 million. Additionally, we incurred \$6 million in expenses related to facilities other and restructuring related charges.

**Restructuring Plan VI**

In May 2006, we implemented a plan to better align our resources with our strategic business objectives (Restructuring Plan VI). This plan included reducing our workforce across certain business functions, operating units and geographic regions as well as implementing other expense reduction measures. Through the third quarter of fiscal 2008, excluding natural attrition and acquisition-related restructuring activity, we reduced our workforce by approximately 2,150 employees and recognized cumulative expenses relating to severance and benefit costs of \$192 million, primarily in workforce reduction charges associated with Restructuring Plan VI.

**Restructuring Plans Prior to Phase VI**

Prior to the initiation of Restructuring Plans VI and VII, we implemented certain workforce reduction and facilities exit actions. All employees to be terminated under these plans have been notified and all facilities relating to the amounts accrued under these restructuring plans have been exited.

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The following table sets forth an analysis of our restructuring accrual activity for the nine months ended March 30, 2008 (in millions):

	VII		Restructuring Plans VI	Prior to VI	Total
	Severance and Benefits	Facilities Related and Other	Severance, Benefits, Facilities Related, and Other	Facilities Related and Other	
Balance as of June 30, 2007	\$	\$	\$ 29	\$ 246	\$ 275
Severance and benefits	141				141
Property and equipment impairment and other		6			6
Provision adjustments				12	12
<b>Total restructuring charges</b>	<b>\$ 141</b>	<b>\$ 6</b>	<b>\$</b>	<b>\$ 12</b>	<b>\$ 159</b>
Cash paid	(93)	(1)	(22)	(43)	(159)
Non-Cash			(3)		(3)
Balance as of March 30, 2008	\$ 48	\$ 5	\$ 4	\$ 215	\$ 272

The restructuring charges are based on estimates that are subject to change. Changes to the previous estimates have been reflected as Provision adjustments on the above table in the period the changes in estimates were determined. As of March 30, 2008, our estimated sublease income to be generated from sublease contracts not yet negotiated approximated \$15 million. Accrued lease costs include accretion expense associated with the passage of time.

The remaining cash expenditures relating to workforce reductions are expected to be paid over the next several quarters. Our accrual as of March 30, 2008, for facility-related leases (net of anticipated sublease proceeds), will be paid over their respective lease terms through fiscal 2016. As of March 30, 2008, of the total \$272 million accrual for workforce reductions and facility-related leases, \$100 million was classified as current accrued liabilities and other and the remaining \$172 million was classified as other non-current obligations.

We anticipate recording additional charges related to our workforce and facilities reductions over the next several quarters, the timing of which will depend upon the timing of notification of the employees leaving Sun as determined by local employment laws and as we exit facilities. In addition, we anticipate incurring additional charges associated with productivity improvement initiatives and expense reduction measures. The total amount and timing of these charges will depend upon the nature, timing and extent of these future actions.

*Acquisition-related Restructuring Costs*

As a result of our acquisition of StorageTek in fiscal 2006, we recorded acquisition-related restructuring costs associated with the costs of integrating the operating locations and activities of StorageTek with those of Sun and eliminating duplicative activities. Emerging Issues Task Force (EITF) 95-3, Recognition of Liabilities in Connection with Purchase Business Combinations requires that these acquisition-related restructuring costs, which are not associated with the generation of future revenues and have no future economic benefit, be recorded as assumed liabilities in the allocation of the purchase price. As a result, during the year ended June 30, 2006, we recorded approximately \$172 million of restructuring costs in connection with the StorageTek acquisition, which were based upon plans committed to by management. To estimate restructuring liabilities, management utilized assumptions of the number of employees that would be involuntarily terminated and of costs associated with the disposition of duplicate or excess acquired facilities. Decreases to the estimate of costs associated with executing the currently approved acquisition-related restructuring plans are recorded as adjustments to goodwill indefinitely, whereas increases to the estimates are recorded as adjustments to goodwill during the purchase price allocation period and as operating expenses thereafter. Accordingly, during the nine months ended March 30, 2008, decreases to the provision totaling \$3 million were recorded as an adjustment to goodwill for severance and benefits and increases to the provision totaling \$2 million for facilities-related restructuring were recorded as operating expenses. The following table sets forth an analysis of the acquisition-related restructuring liabilities for StorageTek for the nine months ended March 30, 2008 (in millions):

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	Severance and Benefits	Facilities Related and Other	Total
Balance as of June 30, 2007	\$ 17	\$ 34	\$ 51
Cash paid	(9)	(11)	(20)
Provision adjustments	(3)	2	(1)
Balance as of March 30, 2008	\$ 5	\$ 25	\$ 30

As of March 30, 2008, our estimated sublease income to be generated from sublease contracts not yet negotiated approximated \$5 million. The balance of the StorageTek severance accrual at March 30, 2008, is expected to be primarily utilized during the remainder of fiscal 2008 due to legal restrictions imposed in certain European countries and is expected to be funded through cash flows from the combined operations.

**7. BORROWING ARRANGEMENTS**

As of March 30, 2008 and June 30, 2007, the balance of long-term debt is as follows (in millions):

	Maturities	March 30, 2008	June 30, 2007
7.65% Senior Notes	2009	\$ 550	\$ 550
0.625% Convertible Notes	2012	350	350
0.75% Convertible Notes	2014	350	350
Interest rate swap agreements		32	17
Other		(7)	(2)
Total borrowing arrangements		\$ 1,275	\$ 1,265
Less: current maturities			(1)
Total carrying value long-term borrowing arrangements		\$ 1,275	\$ 1,264
Total fair value of long-term borrowings arrangements		\$ 1,222	\$ 1,233

In August 1999, we issued \$1.5 billion of unsecured senior debt securities in four tranches (the Senior Notes) of which \$550 million (due on August 15, 2009 and bearing interest at 7.65%) remain. Interest on the Senior Notes is payable semi-annually. We may redeem all or any part of the Senior Notes at any time at a price equal to 100% of the principal plus accrued and unpaid interest in addition to an amount determined by a quotation agent, representing the present value of the remaining scheduled payments. The Senior Notes are subject to compliance with certain covenants that do not contain financial ratios. We are currently in compliance with these covenants. In addition, we also entered into various interest-rate swap agreements to modify the interest characteristics of the Senior Notes so that the interest associated with the Senior Notes effectively becomes variable. For our publicly traded Senior Notes, estimates of fair value are based on market prices. For our other debt, fair value is calculated based on rates currently estimated to be available to us for debt with similar terms and remaining maturities.

In January 2007, we issued \$350 million principal amount of 0.625% Convertible Senior Notes due February 1, 2012 and \$350 million principal amount of 0.75% Convertible Senior Notes due February 1, 2014 (the Convertible Notes), to KKR PEI Solar Holdings, I, Ltd., KKR PEI Solar Holdings, II, Ltd. and Citibank, N.A. in a private placement. Each \$1,000 of principal of the Convertible Notes was initially convertible into 138.6482 shares of our common stock (or a total of approximately 97 million shares), which is the equivalent of \$7.21 per share, subject to adjustment upon the occurrence of specified events set forth under terms of the Convertible Notes. Concurrent with the issuance of the Convertible Notes, we entered into note hedge-transactions with a financial institution whereby we have the option to purchase up to 97 million shares of our common stock at a price of \$7.21 per share and we sold warrants to the same financial institution whereby they have the option to purchase up to 97 million shares of our common stock. The separate note hedge and warrant transactions were structured to reduce the potential future share dilution associated with the conversion of the Convertible Notes.

On November 8, 2007, our stockholders approved a one-for-four reverse stock split at our 2007 Annual Meeting of Stockholders, which became effective on November 12, 2007 (the Effective Date). On the Effective Date, the conversion rate on the Convertible Notes was adjusted as a

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result of the reverse stock split. The conversion rate with respect to the Convertible Notes was changed such that each Holder of the Convertible Notes will be entitled to receive 34.6619 shares of our common stock per \$1,000 principal amount of the Convertible Notes (or a total of approximately 24 million shares), which is the equivalent of \$28.85 per share. Our note hedge and warrant transactions were also adjusted as of the Effective Date whereby we have the option to purchase up to approximately 24 million shares of our common stock at a price of \$28.85 per share and our warrant holders have the option to purchase up to 24 million shares.

**Table of Contents***Uncommitted lines of credit*

At March 30, 2008 and June 30, 2007, we and our subsidiaries had uncommitted lines of credit aggregating approximately \$437 million and \$386 million, respectively. No amounts were drawn from these lines of credit as of March 30, 2008 and June 30, 2007. Interest rates and other terms of borrowing under these lines of credit vary from country to country depending on local market conditions at the time of borrowing. There is no guarantee that the banks would approve our request for funds under these uncommitted lines of credit.

**8. STOCKHOLDERS EQUITY****Stock Repurchase Program**

In May 2007, our Board of Directors authorized management to repurchase up to \$3 billion of our outstanding common stock. Under this authorization, the timing and actual number of shares subject to repurchase are at the discretion of our management and are contingent on a number of factors, such as levels of cash generation from operations, cash requirements for acquisitions, repayment of debt and our share price. All repurchases were made in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. From inception through March 30, 2008, we repurchased 125.0 million shares, for an aggregate purchase price of approximately \$2.5 billion, all of which are initially recorded as treasury stock and accounted for using the cost method.

When treasury shares are reissued, any excess of the acquisition costs of the shares, determined on a first-in-first-out basis, over the proceeds from reissuance is charged to additional paid-in-capital to the extent of previous credits on similar transactions, with any remaining amounts charged to retained earnings.

The stock repurchase activity under the stock repurchase program during the first nine months of fiscal 2008 is summarized as follows (in millions, except per share amounts):

<b>Nine Months Ended March 30, 2008</b>	<b>Shares Repurchased</b>	<b>Weighted- Average</b>
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