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Sun Microsystems

Oracle will be the only company that can engineer an integrated system-application to disk—where all the pieces fit together so the customers do not have to do it themselves…Our customers benefit as their systems integration costs go down while system performance, reliability and security go up.

—Larry Ellison, CEO, Oracle Corporation[1]

It was the first time in the last two weeks that Margaret Madison, a member of Oracle's corporate development team, had not stayed in the office until two in the morning. At the close of business earlier that day, Friday, April 17, 2009, Oracle had put in an offer of $7.38 billion, or $9.50 per share, to acquire Sun Microsystems. Only nine months into her position, Madison, a recent MBA graduate, had found herself to be a member of Oracle's valuation team, assessing a potential merger with Sun. The journey, however, was not over yet. Sun had a number of potential suitors, IBM standing prominently among them, and Madison and her colleagues expected IBM to counter Oracle's offer.

Oracle, a California-based business software company, was one of the world's largest and most reputable sellers of database management systems and other related software. With $23.6 billion in annual revenue, the company was a leviathan, led forward with lightning speed by the only CEO Oracle had ever had, Larry Ellison. Sun was nothing to scoff at either. Once the darling of Silicon Valley, it had fallen on tough times but was still competitive. Sun had started as a hardware and servers producer, but over the years, it had established a solid position in the software industry with its Java programming language, Solaris operating system, and MySQL database management software. Combining these two companies had the potential to create the Wal-Mart of the enterprise software industry. Ellison "had a vision for creating an end-to-end vendor [that] clients go to for all their technology" needs.[2]

Oracle's bid of $9.50 per share was more than a 40% premium over Sun's $6.69 closing price that day. But only a few weeks prior, IBM—Oracle's chief rival in the $15 billion database software business—had offered $9.40 per share for Sun. The talks had stalled due to antitrust concerns, employment contracts, and the final price, which opened a window of opportunity for Oracle to step in and ensure that Sun did not fall into a competitor's hands.

[1] "Oracle Buys Sun," Oracle Corporation press release, April 20, 2009.
[2] Jerry Hirsch and Alex Pham, "With IBM Out, Oracle Jumps in to Buy Sun for $7.4 Billion," *Los Angeles Times,* April 21, 2009.

This case was prepared by Eric Varney (MBA '10) and Assistant Professor of Business Administration Elena Loutskina.

Oracle had been on a successful shopping spree over the past several years. The ability to acquire 10% margin companies and turn them into 40% margin companies had distinguished Ellison and his team as ruthless cost-cutters who planned ahead well before making purchases. As a member of the corporate development team, Madison knew that better than anyone else. She had spent the last few weeks carefully poring over every part of Sun's financials, business lines, R&D figures, and personnel expenditures. Today was a break from the 20-hour work days, the sight of empty Chinese food cartons, documents strewn across the table, and weary-eyed bankers. Today had been a better day, but only delivered brief respite to the team. All the questions they had worked on so diligently still remained. Had they considered everything? Was the final offer appropriate? If competitors upped their bids, how much more could Oracle offer?

Competitive Landscape

The technology industry had historically comprised three sectors: hardware, software and services, and storage and peripherals. In 2008, revenue generated by these three segments was $411 billion,[3] $2,239 billion,[4] and $160 billion,[5] respectively. In total, the value of the industry was roughly $2.8 trillion, or about one-fifth of U.S. GDP.

The computer hardware market consisted of personal computers (PCs) (roughly half of sales), servers, mainframes, and workstations (**Exhibit 1**). Although customer loyalty was relatively low, brand awareness was high, which somewhat restricted new entry into the market. Business customers were typically tied to specific hardware manufacturers through long-term contracts, which led to significant switching costs. Individuals were less fettered and had minimal switching costs, but only represented a small percentage of the market. Computer hardware was a necessity for individuals and businesses alike, making demand strong and consistent.[6] With weak rivalry among players, the market had enjoyed a healthy 4.8% growth over the previous few years and was expected to grow at the same pace until 2013.

The software and services segment was the largest part of the IT industry. The industry was peppered with thousands of competitors large and small, young and mature, fun and serious. It offered a wide array of products ranging from heavyweight software, such as Microsoft Windows, to small applications; services also ran the gamut, ranging from large-scale consulting products to small projects, such as website development and design for local businesses. Some competitors had a large Internet presence (e.g., Google or YouTube), whereas other niche players operated small tools, such as online surveys (**Exhibit 2**). Only the heavyweights enjoyed some customer loyalty. Major software and services providers—Microsoft, IBM, HP, and Oracle—had stable and rather predictable revenues and notable market share (**Exhibit 3**). This software and services segment outpaced the hardware and storage and peripherals segments, growing at 12.2% annually between 2004 and 2008, and it was expected to maintain a healthy annual growth rate of 10.4% until 2013.[7]

The smallest segment—computer storage and peripherals—included data storage components, computer processors, and other peripherals (e.g., printers). The market was dominated by storage devices, such as hard

[3] Datamonitor, "Global Computer Hardware: Industry Profile," December 2008.
[4] Datamonitor, "Global Software & Services: Industry Profile," March 2009.
[5] Datamonitor, "Global Computer Storage & Peripherals: Industry Profile," March 2009.
[6] Major producers of computer hardware included Dell, Hewlett-Packard (HP), Sun, IBM, and Apple. Some (e.g., Dell and HP) were fairly diversified and offered a swath of hardware products. Others (e.g., Sun and IBM) marketed their products almost exclusively to business customers. Apple was unique because it dealt mainly with retail customers.
[7] "Global Software & Services: Industry Profile," March 2009.

drives. Combined, HP, Toshiba, and IBM commanded about half of the market. Historic sales growth rates of storage and peripherals mirrored that of the computer hardware segment.

In the 1990s, the IT industry resembled a tiered cake, with one or two heavyweights controlling each tier. These tiers were essentially technology swim lanes with little competition from other firms. For example, Cisco controlled the networking hardware market; Sun and HP were known for manufacturing servers. The business software segment belonged to SAP, while Oracle led in databases. IBM, a longtime hardware company, had moved into consulting and services. Everyone knew that HP laptops ran Windows operating systems but used Toshiba hard drives. Commercial clients bought Sun servers and ran Oracle database management software. There was relatively little overlap between these rival giants.[8]

At the dawn of the new millennium, the industry started to change. Lines between segments were becoming blurred; former allies encroached on each other's turf, and customers were forced to deal with fewer suppliers. The success of Apple's concept of a one-stop shop for consumers to acquire hardware, software, and even peripherals with a tightly controlled distribution channel forced large technology companies to reconsider their strategic approaches to business development. "The maturing tech industry has set giant companies on a collision course, as once-disparate technologies take on new capabilities in a 'convergence' of computers, software and networking."[9] Companies such as Apple and Dell moved away from PC manufacturing to other consumer devices, such as mobile phones, printers, and cameras. By the end of 2008, Apple, a long-standing competitor in the PC segment, derived only one-third of its total revenue from computers and laptops.[10] But simple deviation from historical products was a drop in the bucket. Battles were breaking out all across the industry. In 2009, Cisco, a manufacturer of networking hardware, announced it would start building its own servers, thus stepping into the territory of its longtime ally HP, which dominated the server market. HP itself took aggressive steps to compete with IBM in the technological outsourcing segment by acquiring Electronic Data Systems in 2008. Microsoft attempted to take over Yahoo, thereby eyeing Google's domain. Dell was rumored to be in the final stages of developing a "data-center management software that [would] compete with existing offerings by HP, IBM and others."[11] Oracle was on a long-term shopping spree expanding from database management software to an array of products. (See **Exhibit 4** for company descriptions and **Exhibit 5** for sales growth.)

"In the past, when big tech companies crossed over into others' businesses, they often dismissed it as 'co-opetition,' meaning they planned to compete in some areas and cooperate in others."[12] With healthy growth of the technology industry and consumer hunger for new gadgets, there was plenty of revenue to go around. But the financial crisis, beginning in 2007, changed the landscape. The looming recession shrunk sales all across the industry and forced technology companies to explore every opportunity for extra revenue.

[8] "Mr. Ellison Helps Himself," *Economist,* April 23, 2009.
[9] Ben Worthen and Justin Scheck, "As Growth Slows, Ex-Allies Square Off in a Tech Turf War," *Wall Street Journal,* March 16, 2009, A1
[10] Apple, Inc., annual report, 2008.
[11] Worthen and Scheck.
[12] Worthen and Scheck.

Oracle

In 1977, Larry Ellison, Bob Miner, and Ed Oates, three twentysomething software engineers, left Ampex Inc. to start a new venture, Software Development Laboratories.[13] Ellison became the head of the fledgling firm. Within a year, the team had designed the first relational database management system (RDBMS) under the code name "Oracle." Early adopters of the technology included government, military, and intelligence entities (including the U.S. Central Intelligence Agency) and innovative businesses, such as Bell Telephone Laboratories. The original product and all the following versions of Oracle capitalized heavily on the revolution of electronic record keeping that hit U.S. corporations in the 1970s. By 2009, all large U.S. corporations without exception were using database management products in every aspect of their business: back office, front office, client relationships, Internet, and so on. Every set of records that companies kept required a database server and an application that would search through data quickly and efficiently providing managers with information on demand. Both the software for keeping the data in an easily accessible format and the tools to speedily search through that data were Oracle's bread and butter. Every heartbeat of a corporation, every step it took involved a database management system: payroll, sales, supply chain decisions, and travel reimbursements, to name a few.

Oracle's relationships with clients did not stop at merely developing and distributing the RDBMS software. The company provided continued support to its clients through constant improvements in its software, customized customer support and training, and on-site installation and tune-up of the applications to a particular client's needs. Oracle targeted high-end customers because it had a lot to offer them. Apart from being the best among competitors in data access speed, Oracle also provided best-in-class data security protection. Its early versions could be installed and used on any type of computer, running any operating system. This was a revolutionary move that catapulted Oracle's sales early on.

Oracle went public in 1986 on the NASDAQ. Although its journey had not been smooth at all times, Ellison had always managed to turn the company around. He had a vision to create a company that would dominate the "desktop of business users" market. As early as the 1980s, Oracle had aimed to create customized applications for business users built upon the core product: Oracle RMDBS. Over time, the company had gained significant presence in developing applications for supply chain management, manufacturing, financials, project systems, market management, and human resources, which were highly popular among Oracle's customers.[14]

By 2000, Oracle sales had topped $10 billion. Despite a dip in sales during the dot-com bubble, Oracle had remained highly profitable. For a brief period, Ellison was the wealthiest man in the world. Oracle's success continued into the new millennium. Between 2000 and 2005, the top line grew annually at 2.9%, operating profit increased at 5.5%, and the margin improved by nearly 400 basis points. These healthy profits led to a significant accumulation of cash, which in turn allowed Oracle, under Ellison's leadership, to become a serial acquirer.

Since 2005, Oracle had spent more than $30 billion on over 50 bolt-on acquisitions (see **Exhibit 6** for select transactions), only a few of which were intended to refine and innovate Oracle's core database product line. Other acquisitions had allowed Oracle to aggressively move into new areas that would complement its

[13] Justin Rohrlich, "Rags to Riches CEOs: Larry Ellison," *Minyanville.com,* November 18, 2009, http://www.minyanville.com/businessmarkets/articles/oracle-ibm-ellison-ampex-sdl-billionaire/11/18/2009/id/25369 (accessed November 2, 2010).
[14] Michael Abbey, *Oracle 9i: A Beginner's Guide,* (Berkeley, CA: McGraw-Hill, 2002).

current offerings and allow it to compete in the middleware, applications, and industry-specific software arenas. The most transformational move was in the applications space, where Oracle had snapped up PeopleSoft, Siebel, and Hyperion, all of which provided enterprise management solutions.[15] Oracle's 2008 acquisition of BEA Systems, a middleware company that utilized service-oriented architecture infrastructure to better link databases and software applications, was notable because it provided Oracle with additional flexibility to link all the products in its portfolio.[16] By early 2009, Oracle had become the biggest supplier of commercial software.

Sun Microsystems

Sun Microsystems, Inc., established in 1982 by three Stanford graduate students, built desktop computers and workstations. Sun entered the market at a time when pairing proprietary hardware, operating systems, and software was the norm. Sun broke new ground with its UNIX-based Solaris, which made its computers compatible with many other software and hardware products available on the market.[17] Sun's success, similar to Oracle, was attributed to rapid computerization of the companies' records where new workstations rapidly replaced the behemoth "minicomputers." From 1985 to 1989, Sun grew at average annual rate of 145%, reaching the status of fastest-growing company in America. The next step in Sun's stardom was due to its development, in 1989, of a new chipset based on scalable performance architecture (SPARC). Sun's SPARCs enhanced existing products by allowing it to create the smallest and fastest workstations on the market at the time. Combining the high-quality hardware with excellent on- and off-site customer service was a recipe for success.

Alongside the best-in-its-class workstations, Sun had been the proud owner of the Solaris operating system, which successfully competed with Microsoft Windows in the corporate world and was treasured by many in the industry. In 1995, the company had also developed the Java programming language, which customers universally loved and had become an industry standard for developing software for web applications. Virtually all PCs and eventually mobile phones required Java, which Sun licensed for a small fee. In 1997, Oracle converted to Sun's Java programming language, thus allowing its applications to be easily used by web developers. Oracle had also adopted the Linux operating system.

Sun went public in 1986 with a solid product offering dominated by its hardware sales. It had thrived until the turn of the century, when competition and market trends had turned against the company. After an altercation with Microsoft in the late 1990s, Sun was forced to make Java and Solaris available to users gratis. The burst of the dot-com bubble had hit Sun hard by almost annihilating its high-end hardware sales to the financial sector. The economic downturn following the dot-com bust had forced financial conglomerates to cut costs and move to lower-end hardware offered by Sun's competitors.[18] Companies had also started to shy away from the SPARC proprietary chip line favoring more widely used chips from Intel and Advanced Micro

[15] Oracle Corporation, "Oracle Corporate Timeline," http://www.oracle.com/timeline/index.html (accessed November 2, 2010).
[16] "Oracle to Acquire BEA Systems," Oracle Corporation press release, January 16, 2008.
[17] "Sun Microsystems, Inc., Company History," http://www.fundinguniverse.com/company-histories/Sun-Microsystems-Inc-Company-History.html (accessed November 2, 2010).
[18] Matthew Karnitschnig, "IBM in Talks to Buy Sun in Bid to Add to Web Heft," *Wall Street Journal,* March 18, 2009.

Devices. Sun's product mix had begun to move from predominantly hardware to a mix of hardware, software, and services, but waning hardware sales were not offset by gains in other offerings.[19]

Sun tried to leverage its acclaimed software systems to boost hardware sales by making Java (and later Solaris) an open-source platform in 2007. Open-source software allowed developers to adjust the platform to their specifications and thus provided a greater ability to adapt systems to a variety of tasks. The rationale for changing was to compete with Symbian and Microsoft in the mobile phone market and to increase the number of users. Sun had also expected this move would lead to greater adoption of the Solaris platform in the corporate world and drive hardware sales in uncaptured markets.[20] In reality, these moves failed to garner the sales Sun had anticipated. Sun was losing consumers on the high end to IBM and on the low end to Dell and HP, and nothing seemed to be able to change the trend.[21] In January 2008, Sun decided to move in yet another direction by announcing it would acquire MySQL AB for $1 billion. The company's core product was open-source database management software, touted as the world's most popular. MySQL was widely used by companies, such as Facebook, that ran websites on thousands of servers. By adding MySQL, Sun had hoped to find new outlets for its existing product lines and also to distribute MySQL through current channels.[22]

All the efforts to revive the once-glorious company were undermined by the financial crisis in 2007. In 2008, facing a banking industry on the brink of collapse and finding themselves unable to borrow to finance their immediate needs, companies reined in capital expenditures; naturally, computer and software updates were put on the back burner. In November 2008, well into the swing of the crisis, Sun announced plans to reduce its work force by approximately 15%.[23] Sales in 2009 were expected to drop by 17.5% from $13.9 billion to about $11.4 billion. Sun was expected to record a charge of $1.5 billion for goodwill impairment. The company that once had a reputation for turning laboratory successes into profits was headed into a tailspin. At that point, company management started to look for a potential suitor.

Oracle Eyes Sun

Ellison was one of those suitors who believed in the future of Sun as a part of Oracle. In his opinion, many smaller companies were doomed due to slowing revenue growth and the desire by clients to work with fewer suppliers. Armed with a respected management team and a war chest of more than $8 billion in cash,[24] Oracle aggressively pursued acquisition. Oracle had followed Sun for some time, hoping to capitalize on Sun's misfortunes by getting specific assets or the entire company at a deflated price (**Exhibit 7**). On March 12, 2009, Oracle contacted Sun about acquiring some assets. Within a week, while Sun was mulling Oracle's offer, a rumor surfaced that IBM was considering taking over Sun. On April 6, 2009, news broke that IBM and Sun had been in serious merger talks for more than a month. But the negotiations did not end in a deal, and Oracle did not wait long to step in. After all, the combination of Oracle's databases and Sun's servers had driven both companies' sales for much of 1990s. Both companies formed a united front against Microsoft, exploiting Solaris and Java as foundations for business software.

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[19] Sun Microsystems, Inc., Form 10-K, September 27, 1999. In 1999, Sun generated $9.6 billion in revenue from its hardware segment, while software and services added $1.6 billion. Ten years later, in 2009, Sun's business mix had changed dramatically; the Systems and Services segments were expected to generate $6.7 and $4.7 billion in revenue, respectively.

[20] Connie Guglielmo, "Sun Makes Java Free, Expands Mobile-Phone Software," *Bloomberg Online*, Bloomberg, May 8, 2007.

[21] Morningstar, "Sun Microsystems, Inc.," *Morningstar*, October 31, 2008.

[22] "Sun to Acquire MySQL." Sun Microsystems, Inc., press release, January 16, 2008.

[23] "What's Next after IBM-Sun Merger Talks Fizzle?," *EE Times Asia*, April 8, 2009.

[24] Oracle Corporation, Form 10-Q, February 28, 2009.

Ellison's stated vision was to transform Oracle into the Apple for the business customer by delivering high-quality, seamlessly integrated consumer products where software and hardware components were developed in conjunction, thus minimizing the customer setup process.

Strategically, the merger would combine Oracle's dominant position in the software space with Sun's expertise in hardware and networking (**Exhibit 8**). The move also added the prized Java, MySQL, and Solaris platforms to Oracle's portfolio. The cannibalization of software products, though possible, was expected to be minimal. Although core Oracle products and MySQL were both database management systems, they appealed to different customers and were not in competition: Oracle could sell its software to the high-end clients while effectively serving smaller clients well. The corporate development team was sure that Oracle could capitalize on Sun's customer base and service contracts. The move made perfect sense strategically; the only matter to be determined was the price. That's where Madison and her valuation team stepped in.

Fortunately, Madison had already collected plenty of information needed to put a price on Sun; she had gathered it when Oracle had first showed interest. She had market data for comparable companies (**Exhibit 9**), the appropriate yields (**Exhibit 10**), balance sheets for both Sun and Oracle (**Exhibits 11** and **12**, respectively), and historic financials for Oracle (**Exhibit 13**). With Oracle entering into a confidentiality agreement with Sun, she had also received access to proprietary information. Madison and her team had spent a great deal of time looking at Sun's historical record and carefully developed projections for its future performance as a standalone company (**Exhibit 14**), which she knew would be the cornerstone of crafting a firm valuation.

The next step was to determine how much extra value Oracle could generate by making Sun's operations more efficient, cutting outdated and inefficient products and departments, streamlining remaining product lines, and introducing new synergistic systems. Knowing that a significant percentage of anticipated merger synergies were never realized historically, Madison and her team were fairly conservative with their estimates.

Cost cutting was the easy part. Having restructured and implemented lean operations in a line of past acquisitions, Madison and her colleagues were pros at trimming the fat. They knew Oracle could reduce Sun's staff by 20% to 25%, slash SG&A expenses by 22% to 32%, and allocate a significant amount for other restructuring costs. Estimating sales forecasts, potential new product lines, and software licensing was a completely different story, which necessitated bringing the marketing, sales, and R&D people on board.

First of all, Oracle team members expected Sun to initially lose some customers as a result of the merger. They knew that uncertainty of product offerings would push some customers to delay purchases and some to switch to competitors. After all, nobody wanted to buy an expensive piece of computer equipment only to find later that it would not be supported by the new owners of the company. Another issue was the lower-end customers that Oracle had never dealt with before. The marketing team expected these customers to hesitate to buy from Oracle for fear of being pushed into buying more expensive products. Marketing specialists knew that rivals would use similar arguments in aggressively pursuing Sun's clients. The only thing Oracle could do on this front was to minimize the extent of customer attrition. Oracle's marketing department was already working on a plan to reassure low- and high-end customers alike of continued service.

The second order of business was Sun's precious software. Although the open-source software could be downloaded free of charge, customers could elect to pay for product support and updates. The software had been particularly attractive during the recession. Market surveys, which Oracle had quietly conducted, suggested that customers might be open to paying a small fee for software downloads. The quality of Sun's software was so well known and appreciated by the market that the Oracle team was certain to increase its

revenue stream from software licensing. The bigger source of revenue, however, was in the potential new products at the intersection of Sun and Oracle technologies. After all, most of Oracle's systems were built using Java and ran on the Solaris operating system.

The R&D team brainstormed on combining Oracle's products and Sun's hardware and software. Oracle had a long-standing plan to build Exadata machines that could handle both online transactions and data warehousing. Initially, the company had planned to use HP's hardware, but the opportunities Sun offered were too good to miss. Oracle engineers were positive that combining Oracle software with FlashWire technology, which Sun possessed, and then putting it on Sun hardware, could create a transaction-processing database machine. This machine would be twice as fast as its predecessor and, with high probability, much faster than machines produced by its closest rival, IBM.

When Madison put a bottom line to the dollar value of all the potential synergies the merger could generate, the numbers were rather impressive. But the merger would also be costly. The team's calculations suggested that integration charges would be close to $1.1 billion in aggregate, with most (about $750 million) incurred in 2010. It also anticipated an initial loss in operating income of about $45 million, due to loss of customers and/or delayed purchases. Cost cutting, licensing income, new products, and the addition of the "integrated application-to-disk" service had the potential to boost operating profit by as much as $900 million per year. Preferring to remain conservative, Madison assumed that such synergies would kick in gradually over a three-year time horizon starting in 2011.

The Decision

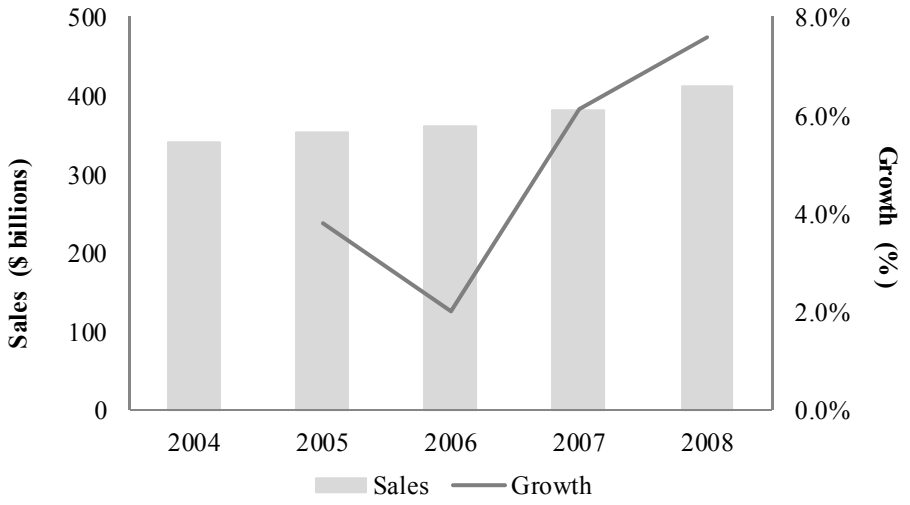
As Madison drove from San Francisco to her Redwood City, California, office the following morning, she wondered if her teammates had accounted for everything. She knew they were conservative in most of the financial projections, but they remained merely estimates. If rivals such as IBM placed a competitive bid for Sun over the weekend, Madison's team and manager would go over the estimates yet again, evaluating every aspect of the due diligence Oracle conducted in its effort to acquire Sun.

Exhibit 1

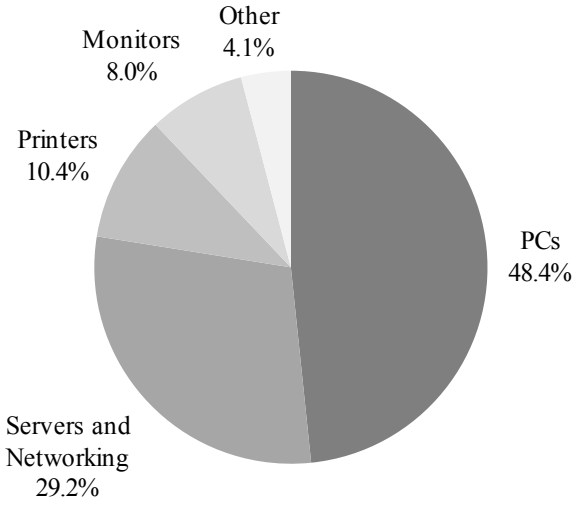
Sun Microsystems

Global Computer Hardware Sales

Global Computer Hardware Sales: 2004–08



Global Computer Hardware Sales by Product: 2008



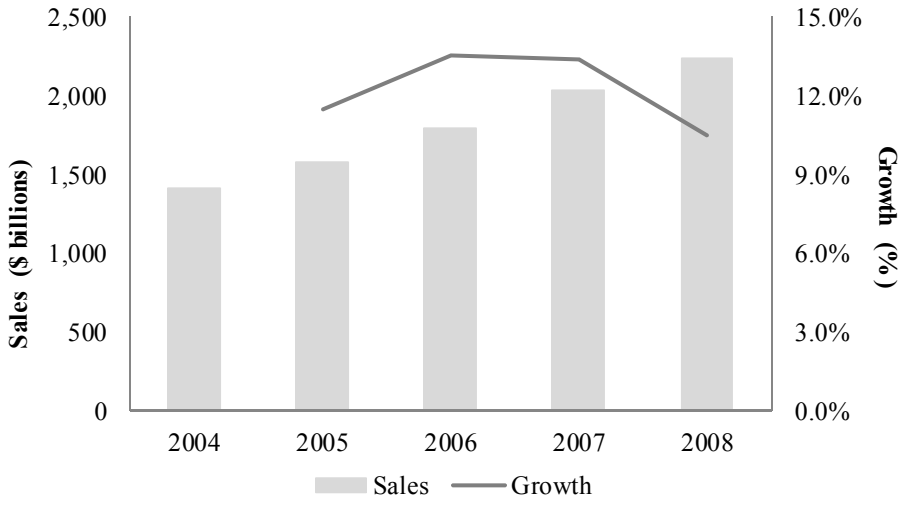
Data source: Datamonitor, "Global Computer Hardware: Industry Profile," December 2008.

Exhibit 2

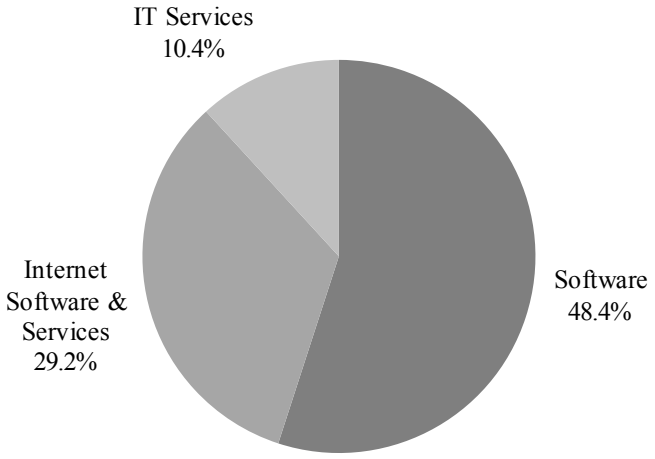
Sun Microsystems

Global Software & Services Sales

Global Software & Services Sales: 2004–08



Global Software & Services Sales by Product: 2008

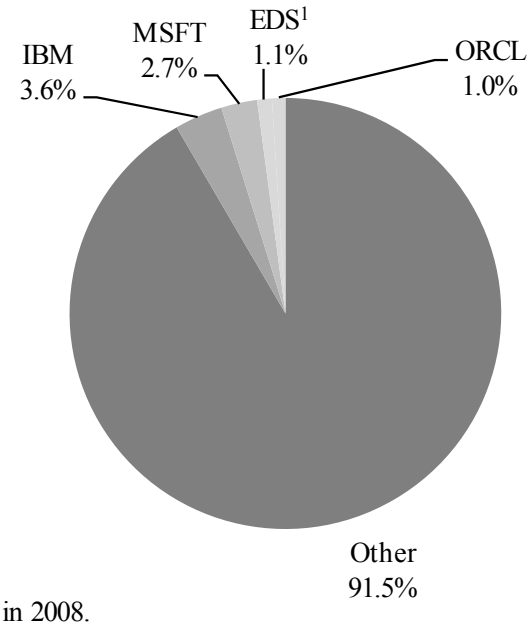


Data source: Datamonitor, "Global Software & Services: Industry Profile," March 2009.

Exhibit 3

Sun Microsystems

Global Software & Services Sales by Share, 2008



[1]EDS was acquired by HP in 2008.

Data source: Datamonitor, "Global Software & Services: Industry Profile," March 2009.

Exhibit 4

Sun Microsystems

IT Industry Companies

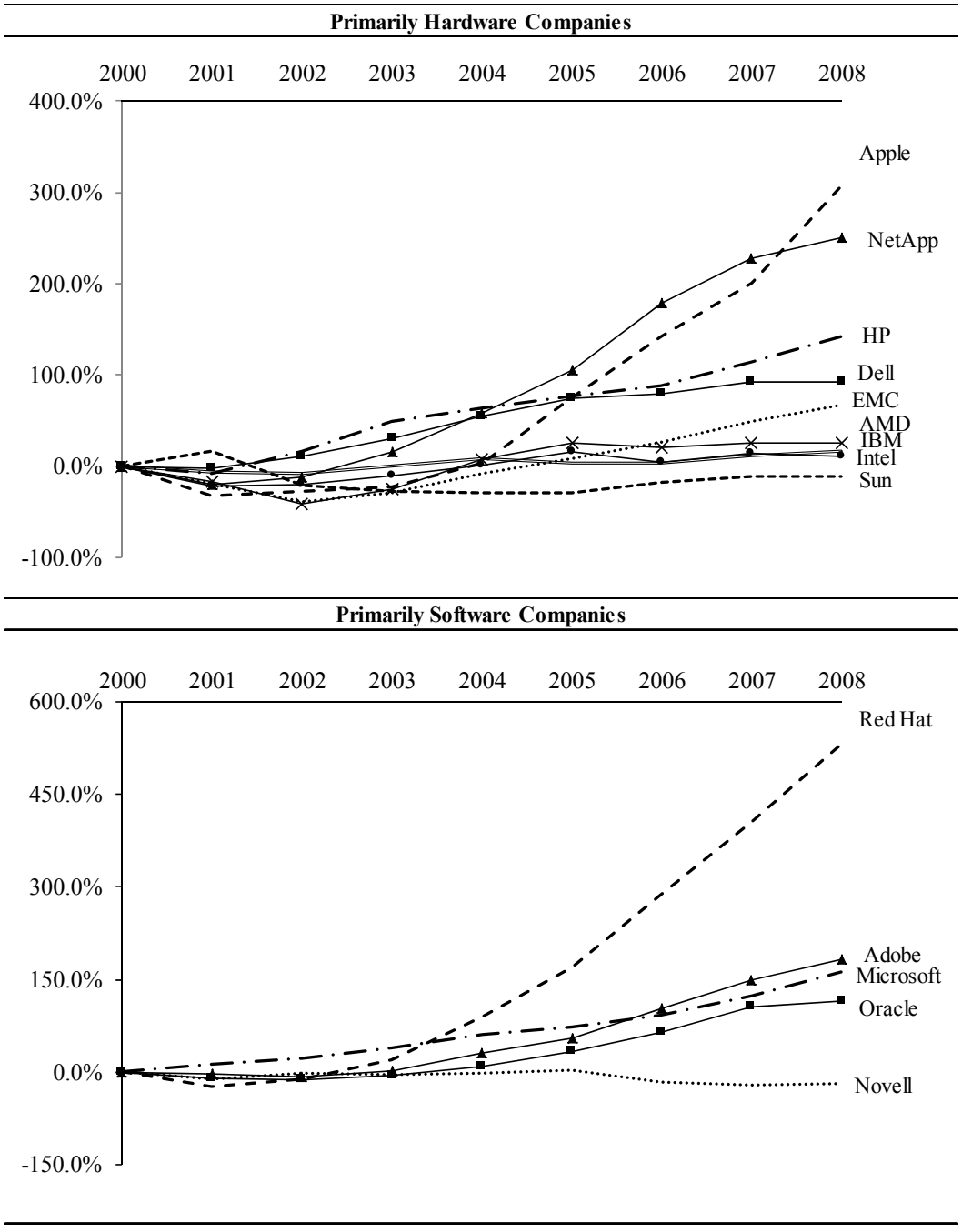
Primarily Hardware	Description	Key Products	Notable Acquisitions
Advanced Micro Devices	Develops and manufactures semiconductors and microprocessors	x86 microprocessors, microprocessors for computers and servers	*ATI Technologies (2006)
Apple	Designs, manufactures, and markets personal computers, related software and mobile communication and entertainment devices	Macintosh computers, iPhones, iPods, music-related products	
Dell	Offers a wide range of computers and related products	Desktop and laptop computers, software and peripherals, servers	*EqualLogic (2008)
EMC	Provides enterprise storage systems, software, networks, and services	Information storage, VMware	
Hewlett-Packard	Provides imaging and printing systems, computing systems, and information technology for business and home	Consulting services, enterprise storage and servers, personal computers, digital cameras, printers and ink	*Compaq (2002) *EDS (2008)
Intel	Designs and manufactures computing and communications components and platforms	Microprocessors, chipsets, motherboards, platforms	
International Business Machines	Offers computer solutions through the use of advanced information technology	Consulting services, middleware, servers, laptops	
NetApp	Provides storage and data management solutions	Filers	
Sun Microsystems	Provides products, services, and support for building and maintaining network computing environments	Enterprise systems and services; storage and software platforms Java, Solaris, and MySQL	*MySQL (2008)
Primarily Software			
Adobe Systems	Develops, markets and supports computer software products and technology	Creative solutions, Acrobat	
Microsoft	Develops, manufactures, licenses, sells and supports software products	Windows, business and server software, gaming and handheld devices	
Novell	Provides network and Internet directory software and services	Enterprise networking software	
Oracle	Supplies software for enterprise information management	Relational databases, middleware software, applications, related services	*PeopleSoft (2005) *Siebel Systems (2006) *Hyperion Solutions (2007) *BEA Systems (2008)
Red Hat	Develops and provides open source software and services	Linux	

Sources: Industry reports and Bloomberg.

Exhibit 5

Sun Microsystems

Relative Sales Growth, 2000–08



Data source: Compustat.

Exhibit 6

Sun Microsystems

Selected Acquisitions Completed by Oracle, 2005–08

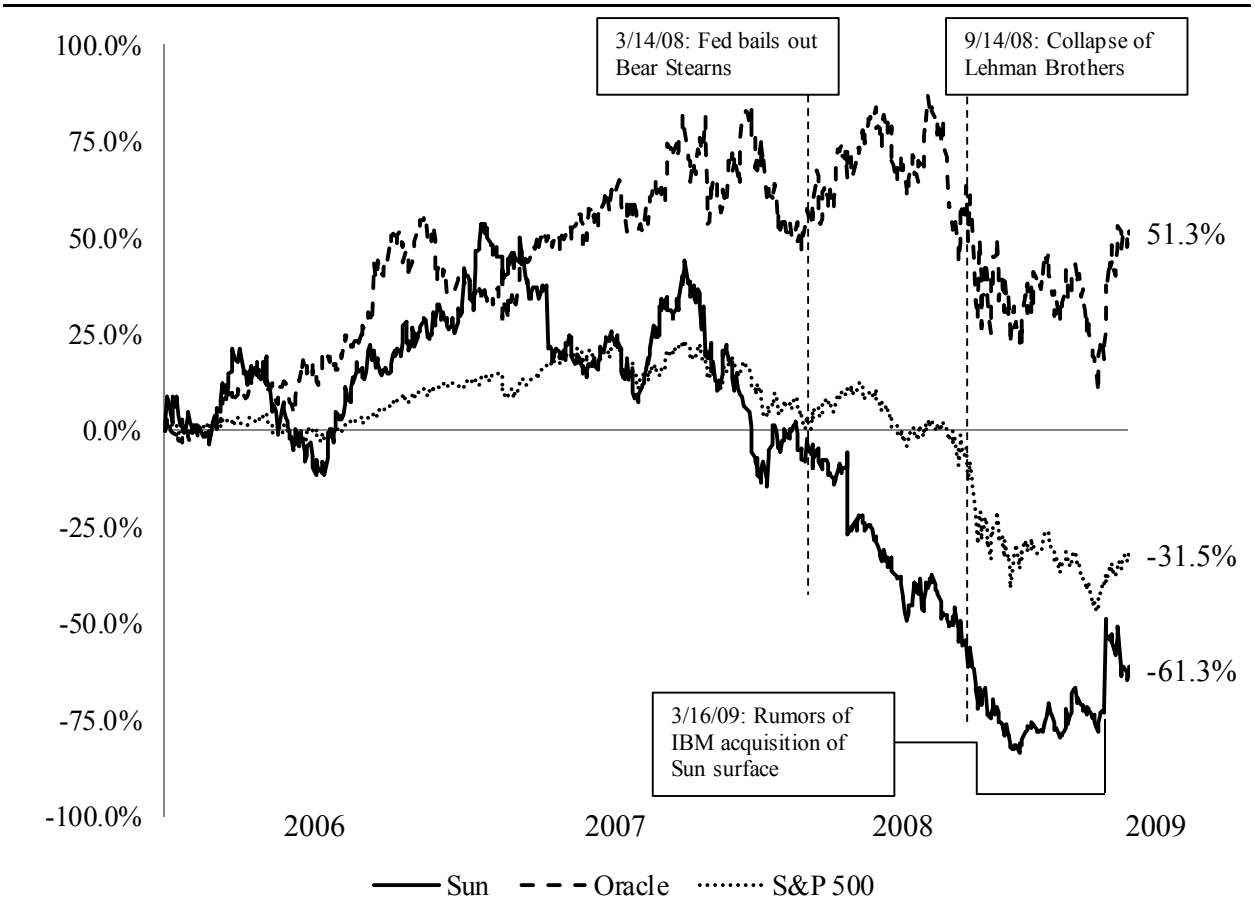
Target	Completion Date	Deal Size ($MM)	Product Category	Core Products
PeopleSoft	January 2005	10,300.0	Applications	Human resource management systems and customer relationship management software
Retek Inc.	April 2005	630.0	Industry Solutions	Management software for the retail industry
G-Log	September 2005	N/A	Industry Solutions	Logistics and transportation management software
Siebel Systems Inc.	January 2006	5,946.5	Applications	Customer relationship management, business intelligence and data integration software
360Commerce	January 2006	N/A	Industry Solutions	Open-store and multichannel solutions software
Portal Software Inc.	April 2006	233.7	Industry Solutions	Billing and revenue management solutions for communications and media industry
Mantas Inc.	October 2006	122.6	Industry Solutions	Fraud and compliance software for financial institutions
Stellent Inc.	November 2006	398.7	Middleware	Content management software solutions
MetaSolv Inc.	October 2006	217.7	Industry Solutions	Customer relationship software for the communications industry
Hyperion Solutions Corp.	March 2007	3,292.1	Applications	Performance management software
Agile Software Corp.	May 2007	480.1	Applications	Product life cycle software for the industrial products, electronics and high-tech, and life science industries
BEA Systems Inc.	January 2008	8,056.0	Middleware	Enterprise infrastructure software
Skywire Software LLC	June 2008	N/A	Industry Solutions	Web-based insurance, financial and enterprise management software
Primavera Software Inc.	October 2008	N/A	Applications	Project, program, and portfolio management software

Source: SDC Platinum.

Exhibit 7

Sun Microsystems

Relative Stock Performance, January 3, 2006 to April 16, 2009

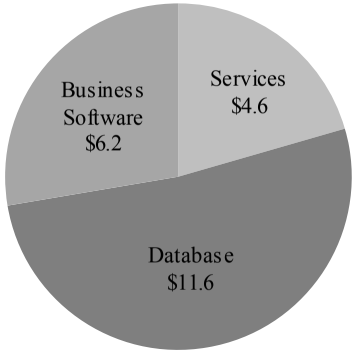
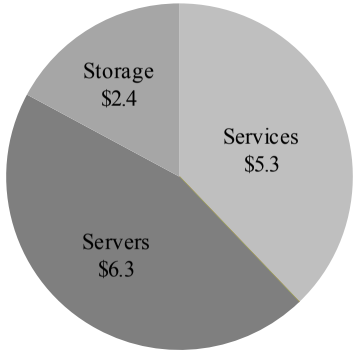


Data sources: Yahoo! Finance and Wharton Research Database Service.

Exhibit 8

Sun Microsystems

Comparing Oracle and Sun Microsystems
(in billions of U.S. dollars)

	ORACLE	SUN MICROSYSTEMS
Employees	86,500	30,000
FY08 Revenue	$22.43 billion	$13.88 billion
		
FY08 Profit	$5.52 billion	$403 million
Key Products	Databases, business software from Siebel, PeopleSoft	Server computers, storage devices, Java, and Solaris technology

Data source: Don Clark and Ben Worthen, "Oracle Snatches Sun, Foiling IBM," *Wall Street Journal*, April 21, 2009.

Exhibit 9

Sun Microsystems

IT Companies' Financial Data
(market data as of April 17, 2009)

	Ticker	Stock Price ($)	Shares Out (MM)	Market Cap ($MM)	BV Debt ($MM)	Levered Beta	Bond Rating	Cash & Investments ($MM)	LTM Sales ($MM)	LTM EBIT ($MM)	LTM EBITDA ($MM)	LTM Earnings ($MM)
Primarily Hardware												
Advanced Micro Devices	AMD	3.56	609	2,168	4,988	2.19	B	933	5,808	(1,955)	(732)	(3,098)
Apple	AAPL	123.42	889	109,713	-	1.11	-	24,490	37,096	7,984	8,739	5,728
Dell	DELL	11.06	1,944	21,505	2,011	1.12	A2	9,546	61,101	3,190	3,959	2,478
EMC	EMC	12.81	2,041	26,142	3,404	1.39	-	6,446	14,876	1,569	2,626	1,346
Hewlett-Packard	HPQ	36.30	2,416	87,708	20,458	1.25	A2	10,140	118,697	10,354	14,175	8,050
Intel	INTC	15.60	2,562	39,967	1,988	1.20	A1	8,840	37,586	8,954	13,570	5,292
International Business Machines	IBM	101.27	1,343	136,052	33,925	0.93	A1	12,907	103,630	16,715	22,165	12,334
NetApp	NTAP	17.59	330	5,808	1,265	1.80	-	2,604	3,464	116	286	101
Sun Microsystems	JAVA	6.69	739	4,941	1,257	1.73	Ba1	3,061	13,438	(2,231)	(1,757)	n/a
Primarily Software												
Adobe Systems	ADBE	24.70	524	12,944	350	1.32	-	2,018	3,476	961	1,231	809
Microsoft	MSFT	19.20	8,896	170,795	2,000	0.99	Aaa	31,447	61,981	22,128	24,485	17,232
Novell	NOVL	3.94	343	1,353	122	1.50	B1	1,067	940	10	55	(15)
Oracle	ORCL	19.06	5,046	96,180	11,238	1.27	A2	12,624	23,630	8,406	10,291	5,739
Red Hat	RHT	18.32	190	3,482	-	1.20	BB	663	628	80	119	85

Data sources: Yahoo! Finance, Moody's, Bloomberg, and company filings.

Exhibit 10

Sun Microsystems

Relevant Security Yields, April 2009

Corporate Bond Yields	
AAA	5.50%
AA	5.77%
A+	6.27%
A	6.35%
A-	6.50%
BBB+	7.54%
BBB	7.62%
BBB-	8.64%
BB+	11.42%
BB	11.49%
BB-	11.70%
B+	13.28%
B	14.70%
B-	15.46%
U.S. Treasury Yields	
180-Day	0.34%
1-Year	0.54%
3-Year	1.22%
5-Year	1.71%
10-Year	2.82%
30-Year	3.66%

Data sources: Mergent Bond Record, U.S. Treasury, and Ibbotson Associates.

Exhibit 11

Sun Microsystems

Sun Microsystems Historical and Projected Balance Sheet (in millions of U.S. dollars)

	Fiscal Year-End June 30		
	2007	**2008**	**2009E**
Assets			
Current Assets			
Cash[1]	3,620	2,272	1,876
Marketable Debt Securities	2,322	1,038	1,185
Net Receivables	2,964	3,019	2,258
Inventory	524	680	566
Deferred Prepaid Taxes[2]	200	216	188
Other Current Assets	1,058	1,218	995
Total Current Assets	10,688	8,443	7,068
Property, Plant, & Equipment, Net	1,504	1,611	1,616
Goodwill	2,514	3,215	1,743
Intangible Assets	633	565	269
Other Noncurrent Assets	499	506	536
Total Assets	**15,838**	**14,340**	**11,232**
Liabilities & Equity			
Current Liabilities			
Accounts Payable Including Accrued Payroll	2,222	2,121	1,600
Short/Current Long-Term Debt	1	-	554
Deferred Taxes[2]	2,047	2,236	2,341
Other Current Liabilities Including Warranty Reserve	1,182	1,311	1,126
Total Current Liabilities	5,451	5,668	5,621
Long-Term Debt	1,264	1,265	695
Deferred Long-Term Charges[2]	659	683	635
Other Noncurrent Liabilities[3]	1,285	1,136	976
Total Liabilities	8,659	8,752	7,927
Stockholders' Equity			
Common Stock	6,987	7,391	7,582
Treasury Stock	(311)	(2,726)	(2,569)
Retained Earnings	189	430	(2,055)
Other Stockholders' Equity	314	493	347
Total Stockholders' Equity	7,179	5,588	3,305
Total Liabilities & Equity	**15,838**	**14,340**	**11,232**

[1] (Sun Microsystems') long-term strategy is to maintain a minimum amount of cash and cash equivalents in subsidiaries for operational purposes and to invest the remaining amount of our cash in interest-bearing and highly liquid cash equivalents and marketable debt securities.

[2] Deferred taxes and related accounts are not expected to vary with sales or continue to accumulate as a company growth.

[3] Includes deferred settlement income from Microsoft as of June 30, 2009, 2008, 2007, and 2006, long-term tax liabilities as of June 30, 2009, 2008, 2007, and 2006, and long-term restructuring liabilities.

Data sources: Company filings and case writer estimates.

Exhibit 12

Sun Microsystems

Oracle Historical and Projected Balance Sheet
(in millions of U.S. dollars)

	Fiscal Year-End May 31		
	2007	**2008**	**2009E**
Assets			
Current Assets			
Cash & Cash Equivalents	7,020	11,043	12,624
Net Receivables	4,589	5,799	4,430
Inventory	-	-	-
Other Current Assets	1,274	1,261	1,527
Total Current Assets	12,883	18,103	18,581
Property, Plant, & Equipment, Net	1,603	1,688	1,922
Goodwill	13,479	17,991	18,842
Intangible Assets	5,964	8,395	7,269
Other Noncurrent Assets	643	1,091	802
Total Assets	**34,572**	**47,268**	**47,416**
Liabilities & Equity			
Current Liabilities			
Accounts Payable	315	383	271
Short/Current Long-Term Debt	1,358	1,001	1,001
Other Current Liabilities	7,714	8,645	7,877
Total Current Liabilities	9,387	10,029	9,149
Long-Term Debt	6,235	10,235	9,237
Deferred Long-Term Charges	1,121	1,218	480
Other Noncurrent Liabilities	910	2,761	3,460
Total Liabilities	17,653	24,243	22,326
Stockholders' Equity			
Common Stock	10,293	12,446	12,980
Treasury Stock	-	-	-
Retained Earnings	6,223	9,961	11,894
Other Stockholders' Equity	403	618	216
Total Stockholders' Equity	16,919	23,025	25,090
Total Liabilities & Equity	**34,572**	**47,268**	**47,416**

Data sources: Company filings and case writer estimates.

Exhibit 13

Sun Microsystems

Oracle Historical and Projected Income Statement
(in millions of U.S. dollars)

	Fiscal Year-End May 31		
	2007	**2008**	**2009E**
Software Revenues	14,211	17,843	18,877
Services Revenues	3,785	4,587	4,375
Net Revenue	17,996	22,430	23,252
Selling, General, & Administrative	8,790	10,468	10,217
Research & Development	2,195	2,741	2,767
Amortization of Intangible Assets	878	1,212	1,713
Other Operating Expense	159	165	234
Total Operating Expense	12,022	14,586	14,931
Operating Income	5,974	7,844	8,321
Income Tax on Operations	1,709	2,316	2,380
Net Operating Profit After Tax	4,265	5,528	5,941
Effective Corporate Tax Rate	28.6%	29.5%	28.6%

Data sources: Company filings and case writer estimates.

Exhibit 14

Sun Microsystems

Sun Microsystems Historical and Projected Income Statement
(in millions of U.S. dollars)

	Fiscal Year-End June 30							
	2007	**2008**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**
Net Revenue	13,873	13,880	11,449	12,665	13,047	13,526	13,885	14,243
Cost of Sales	7,608	7,425	6,718	7,685	7,583	7,735	7,889	8,075
Gross Margin	6,265	6,455	4,731	4,980	5,464	5,791	5,996	6,168
Selling, General, & Administrative	3,851	3,955	3,461					
Research & Development	2,008	1,834	1,648					
Impairment of Goodwill	-	-	1,460					
Other Operating Expense	97	294	398					
Total Operating Expense	5,956	6,083	6,967	4,839	4,992	5,121	5,249	5,372
Operating Income	309	372	(2,236)	141	472	670	747	796
Depreciation & Amortization	517	476	474	536	456	470	487	500
as % of Prior Year PP&E	34.4%	29.5%	29.3%	30.0%	30.0%	30.0%	30.0%	30.0%
Net PP&E	1,504	1,611	1,616	1,520	1,566	1,623	1,666	1,709
as % of Sales	10.8%	11.6%	14.1%	12.0%	12.0%	12.0%	12.0%	12.0%

Data sources: Company filings and case writer estimates.