

SUN MICROSYSTEMS INC  
Form 10-Q  
February 05, 2004  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended December 28, 2003

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

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**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)

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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 an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). 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.

<u>Class</u>	<u>Outstanding at February 2, 2004</u>
Common Stock - \$0.00067 par value	3,286,897,540

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## SUN MICROSYSTEMS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	December 28,	December 29,	December 28,	December 29,
	2003	2002	2003	2002
Net revenues:				
Products	\$ 1,944	\$ 2,013	\$ 3,578	\$ 3,893
Services	944	902	1,846	1,769
Total net revenues	2,888	2,915	5,424	5,662
Cost of sales:				
Cost of sales-products	1,107	1,118	2,072	2,211
Cost of sales-services	573	534	1,128	1,056
Total cost of sales	1,680	1,652	3,200	3,267
Gross margin	1,208	1,263	2,224	2,395
Operating expenses:				
Research and development	471	451	938	888
Selling, general and administrative	828	830	1,626	1,712
Restructuring charges	(10)	357	(9)	381
Purchased in-process research and development		4	1	4
Impairment of goodwill and other intangible assets		2,125		2,125
Total operating expenses	1,289	3,767	2,556	5,110
Operating loss	(81)	(2,504)	(332)	(2,715)
Loss on equity investments, net	(36)	(11)	(61)	(42)
Interest income, net	20	38	41	77
Loss before income taxes	(97)	(2,477)	(352)	(2,680)
Provision (benefit) for income taxes	28	(194)	59	(286)
Net loss	\$ (125)	\$ (2,283)	\$ (411)	\$ (2,394)

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Net loss per common share-basic and diluted	\$ (0.04)	\$ (0.72)	\$ (0.13)	\$ (0.75)
Shares used in the calculation of net loss per common share - basic and diluted	3,262	3,181	3,248	3,175

See accompanying notes.

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## SUN MICROSYSTEMS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

	December 28, 2003	June 30, 2003
	<u>(unaudited)</u>	<u></u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,428	\$ 2,015
Short-term marketable debt securities	732	1,047
Accounts receivable, net.	2,214	2,381
Inventories	480	416
Deferred and prepaid tax assets	140	133
Prepaid expenses and other current assets	826	787
	<u>5,820</u>	<u>6,779</u>
Total current assets	5,820	6,779
Property, plant and equipment, net	2,115	2,267
Long-term marketable debt securities	3,001	2,679
Goodwill	466	326
Other acquisition-related intangible assets, net	120	91
Other non-current assets, net	702	843
	<u>12,224</u>	<u>12,985</u>
	\$ 12,224	\$ 12,985
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and short-term borrowings	\$ 263	\$ 903
Accounts payable	906	479
Accrued payroll-related liabilities	469	1,027
Accrued liabilities and other	859	1,453
Deferred revenues	1,213	267
Warranty reserve	255	4,129
	<u>3,965</u>	<u>4,129</u>
Total current liabilities	3,965	4,129
Long-term debt	1,214	1,531
Long-term deferred revenues	463	450
Other non-current obligations	343	384
Total stockholders' equity	6,239	6,491
	<u>12,224</u>	<u>12,985</u>
	\$ 12,224	\$ 12,985

See accompanying notes.



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## SUN MICROSYSTEMS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in millions)

	Six Months Ended	
	December 28, 2003	December 29, 2002
Cash flows from operating activities:		
Net loss	\$ (411)	\$ (2,394)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	361	483
Amortization of acquisition-related other intangible assets and unearned equity compensation	46	64
Impairment of goodwill and other intangible assets		2,125
Tax benefits from employee stock plans		4
Deferred taxes		(286)
Loss on equity investments, net	61	42
Purchased in-process research and development	1	4
Changes in operating assets and liabilities:		
Accounts receivable, net	178	454
Inventories	(63)	109
Prepaid and other assets	(59)	140
Accounts payable	4	(236)
Other liabilities	(449)	(186)
<b>Net cash provided by (used in) operating activities</b>	<b>(331)</b>	<b>323</b>
Cash flows from investing activities:		
Purchases of marketable debt securities	(5,065)	(2,851)
Proceeds from sales of marketable debt securities	5,029	2,675
Proceeds from maturities of marketable debt securities		311
Proceeds from (purchases of) equity investments, net	10	(2)
Acquisition of property, plant and equipment, net	(127)	(181)
Acquisition of spare parts and other assets	(26)	(89)
Payments for acquisitions, net of cash acquired	(190)	(30)
<b>Net cash used in investing activities</b>	<b>(369)</b>	<b>(167)</b>
Cash flows from financing activities:		
Acquisition of common stock		(499)
Proceeds from issuance of common stock, net	113	77
Principal payments on borrowings and other obligations		(201)
<b>Net cash provided by (used in) financing activities</b>	<b>113</b>	<b>(623)</b>
Net decrease in cash and cash equivalents	(587)	(467)
Cash and cash equivalents, beginning of period	2,015	2,024
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,428</b>	<b>\$ 1,557</b>



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<b>Supplemental disclosures of cash flow information:</b>		
Interest paid (net of interest received from swap agreements of \$36 and \$36, respectively)	\$ 13	\$ 20
<b>Income taxes paid (refunded) (net of refunds of \$67 and \$279, respectively)</b>		
	\$ 74	\$ (201)
<b>Supplemental schedule of noncash investing activities:</b>		
Stock and options issued in connection with acquisitions	\$ 16	\$ 193

See accompanying notes.

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**SUN MICROSYSTEMS, INC.**

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

**1. DESCRIPTION OF BUSINESS**

Sun's business is singularly focused on providing products and services for network computing. Network computing has been at the core of the company's offerings for the 21 years of our existence and is based on the pre