

**Notice to Employees of Sun Microsystems, Inc. of
Application for Authorization Under Prohibited Transaction
Exemption 96-62, as Amended**

You are hereby notified that Sun Microsystems, Inc. ("Sun") and its indirect wholly-owned captive insurance company, Solaris Vermont have applied to the U.S. Department of Labor ("DOL") for authorization of a reinsurance transaction. The transaction involves the reinsurance of risks and the receipt of premiums by Solaris Vermont from insurance contracts currently funding basic, supplemental, and dependent life insurance benefits (the "Programs") offered under the Sun Microsystems, Inc. Comprehensive Welfare Benefit Plan (the "Plan") and the Sun Microsystems Inc. Flexible Benefit Plan (the "Flex Plan"). The purpose of the authorization is to exempt the transaction from certain of the prohibited transaction rules of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The authorization is necessary because Solaris Vermont is an affiliate of Sun. Because of the relationship between Solaris Vermont and Sun, such reinsurance might otherwise constitute a prohibited transaction under ERISA. This notice informs you of the application to the DOL and certain changes to the basic and supplemental life insurance benefits offered under the Plan, and describes your right to comment to the DOL about these changes.

Overview

The Programs, which cover active employees, will be insured with AIG Life Insurance Company ("AIG"). AIG will reinsure the risks with Solaris Vermont. The Plan Administrator of the Plan has determined that the transaction is in the best interest of the participants and beneficiaries of the Plan because of benefit improvements that will be provided to them if the transaction is authorized by the DOL. The authorization by the DOL will be subject to the conditions described below and set forth in more detail in Exhibit A.

The terms of the reinsurance arrangement will not affect your benefits in any way, as it is simply an internal arrangement between Solaris Vermont and AIG. AIG will insure the benefits provided to you under the Programs, including the improved accelerated life insurance benefit and the new special education benefit described below. Under the Flex Plan, Sun will continue to provide you with Sun Dollars that can be applied to the cost of this insurance; you will retain the same freedom you currently possess to use additional Sun Dollars (or your own contributions) to increase the level of benefits, or to direct that these Sun Dollars be applied to the cost of other benefits or included in your taxable salary.

Parties to the Proposed Reinsurance Transaction

Sun

Sun is a global computer and technology company headquartered in Santa Clara, California, and is a leading supplier of computer hardware and software that powers the internal networks and internet sites of thousands of companies, government agencies, educational institutions, and research centers. Sun manufactures servers, desktop computers, workstations, storage devices, and the equipment used to link all of these devices together. Sun also creates and supports operating system software and network protocols that operate these devices and allow them to communicate with each other. Sun's Java programming language operates on every major operating system and allows developers to create software that will work on virtually any computer platform. Sun markets its products to any enterprise that needs to operate a computer network, internally or externally, with a special emphasis on the computing and networking needs of larger and mid-size enterprises. For the full fiscal year 2004, Sun reported global sales of approximately \$11.2 billion and had more than 35,000 employees worldwide.

Solaris Vermont

Solaris Vermont is a branch of Solaris Indemnity, Ltd. ("Solaris"), a captive insurance and reinsurance corporation wholly-owned by Sun. Solaris was established in Bermuda on February 21, 1997, to provide direct coverage to Sun and affiliates for various exposures. Solaris is licensed as a Class 1 insurer under the Bermuda Insurance Act of 1978. Effective January 1, 2006, Solaris will be licensed as a Class 3 long-term insurer under that Act. Solaris Vermont was established in Vermont to provide coverage to Sun for certain employee benefits risks. Solaris Vermont was issued a Certificate of Authority permitting it to transact the business of a captive insurance company by the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration on June 17, 2005. The Certificate of Authority permits Solaris Vermont to provide reinsurance of the type that is the subject of the request for authorization of the DOL.

Solaris provides the following coverage to Sun and its affiliates: Auto Liability; General Liability; Employers' Liability; Errors & Omissions Liability; Directors' & Officers' Liability; Employment Practices Liability; Crime; Transit; and Property. As of June 30, 2004, total capital and surplus of Solaris was \$16,558,087 and gross written premium was \$6,278,353.

The Plan

Sun maintains the Plan for the benefit of its eligible U.S. employees. Under the Plan, Sun provides employer-paid basic life insurance in an amount equal to \$50,000. Under the Flex Plan, Sun provides Sun Dollars in an amount sufficient to pay for life insurance in an amount equal to the greater of \$50,000 or two times an employee's salary. Employees may use the Sun Dollars not needed to pay for the first \$50,000 in life insurance to pay for other benefits or to supplement their taxable salary; they may also use their own contributions and/or Sun Dollars derived from other sources to pay for additional supplemental life insurance or dependent life insurance.

The Plan provides other benefits in addition to the Programs. Some of these benefits are self-insured; others are subject to insurance arrangements that will not be affected by the transaction. All of the benefits provided under the Plan are treated as one integrated employee benefit plan for insurance, reporting and disclosure purposes and have the plan number 501. The Flex Plan has the

plan number 510. The official names of the Plan and the Flex Plan are: Sun Microsystems, Inc. Comprehensive Welfare Plan and Sun Microsystems, Inc. Flexible Benefits Plan. The federal employer identification number of Sun, the plan sponsor, is 94-2805249.

Changes to the Plan

Sun recently formulated a plan to utilize Solaris Vermont for the reinsurance of benefits and will make improvements, described below, to the Programs under the Plan if the DOL authorization is granted. In addition, when the transaction is put in place, the premiums for supplemental and spouse or domestic partner life insurance coverage will be reduced in an amount depending on the age and smoking status of the insured. The reduction in premiums will range from 1.5% to 35.3%, with an average reduction of 14.7%. AIG will insure the Plan with the new enhanced benefits. However, AIG will reinsure the Plan risk with Solaris Vermont. The changes will be effective January 1, 2006, if the transaction has been approved by the DOL.

The benefit improvements Sun will institute are as follows. First, Sun will substantially improve the accelerated death benefit ("ADB") which is already incorporated into the Programs. Participants who are eligible for the ADB are currently able to receive 50% (up to \$100,000) of their death benefit as an ADB. This will be increased to 75% (up to \$250,000). Further, two additional circumstances under which a participant would be eligible to receive an ADB will be added. Currently, participants are eligible for an ADB in the event of a terminal illness (as defined in the Programs). Under the improved benefit structure, participants will also be eligible if they have conditions that limit their activities of daily living in certain ways defined in the Programs, or impair their cognitive functions. The Programs will also add a special education benefit that will be available to the spouses, domestic partners, or dependent children covered by dependent coverage.¹ If a participant's covered spouse or domestic partner was enrolled in any accredited school for the purpose of retaining or refreshing skills needed for employment within one year of the participant's death, and incurs expenses payable directly to, or applied and certified by the school, the education benefit will pay up to \$20,000 in covered educational expenses for up to one year. A participant's covered dependent children (up to age 23) who are enrolled as full-time students will be eligible to receive up to \$20,000 per year for covered educational expenses for up to four consecutive years. In the event that covered family members are not enrolled in educational programs, they will receive a cash payment -- \$1,500 for a spouse or domestic partner, \$3,000 for a dependent child -- in addition to life insurance benefits.

As stated above, the terms of the reinsurance arrangement will not affect Plan benefits in any way, as it is simply an internal arrangement between Solaris Vermont and AIG. AIG will insure the benefits provided under the Plan, including the improved ADB and the special education benefit.

Independent Fiduciary

In connection with the application to the DOL, Sun has retained, at its sole expense, Milliman, Inc. ("Milliman") which provides specialized fiduciary services on behalf of employee benefit plans. Milliman, as the Independent Fiduciary for the Plan, has analyzed the transaction and rendered an

¹ The special education benefit is not currently part of any policy filed by AIG with state regulators. AIG is currently seeking approval from state regulators to add the benefit to the appropriate policy, and the benefit will be incorporated into the Programs as soon as such approval is received.

opinion that the requirements of subsections (a) through (f) of the draft requested authorization, attached as Exhibit A, have been complied with. In addition, Milliman will represent the interests of the Plan as the Independent Fiduciary at all times with respect to the proposed transaction. Milliman will monitor compliance by the parties with the terms and conditions of the proposed transaction, and will take whatever action is necessary and appropriate to safeguard the interests of the Plan and its participants and beneficiaries with respect thereto, and to insure that the proposed transaction remains in the interest of the Plan and its participants and beneficiaries.

Overview of Exemption Conditions

The following is a summary of the principal conditions that would be imposed by the DOL authorization (a full version of which is attached as Exhibit A):

- The Plan will pay no more than adequate consideration for the insurance contracts.
- No commissions will be paid by the Plan with respect to the direct sale of such contracts or the reinsurance thereof.
- In the initial year of any such contract involving Solaris Vermont, there will be an immediate and objectively determined benefit to the participants and beneficiaries of the Plan in form of increased benefits.
- Sun has retained an independent fiduciary, at its sole expense, to analyze the transaction and render an opinion that the requirements of subsections (a) through (f) of Exhibit A have been complied with.

Tentative Authorization of Proposed Transaction

Authorization of the DOL was requested under a procedure, Prohibited Transaction Exemption ("PTE") 96-62, which requires that at least two prior exemptions that are substantially similar to the proposed transaction have been granted by the DOL. A description of these transactions and the DOL's comments relating thereto may be found in the Federal Register as Prohibited Transaction Exemptions 2004-12 (Svenska Cellulosa Akiebolaget) ("SCA"), 69 Fed. Reg. 40978 (July 7, 2004) and 2003-07 (Archer Daniels Midland Company) ("ADM"), 68 Fed. Reg. 23764 (May 5, 2003). Like the proposed transaction, the exemptions granted to SCA and ADM involved the reinsurance of basic and supplemental life insurance with a captive reinsurer. (The SCA exemption also involved the reinsurance of SCA's long-term disability and accidental death & dismemberment insurance). Each of the exemptions involved an improvement to benefits, and in each case an independent fiduciary was appointed to review the transaction on behalf of the plan and its participants.

The proposed transaction described in this notice has met the requirements for tentative authorization from the DOL under PTE 96-62. Unless the DOL otherwise notifies Sun, a final authorization would be effective September 29, 2005.

Your Right to Comment on Tentative Authorization

As an interested party, you have the right to submit comments to the DOL on the tentative authorization. If you decide to do so, you should submit your comments to the following address:

Employee Benefits Security Administration
Office of Exemption Determinations, Division of Exemptions
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room N-5649
Washington, D.C. 20210

Be sure to refer to the submission number, which is E-00456. Comments must be received by the DOL no later than September 24, 2005.

Comments may be faxed or e-mailed to the DOL. The fax number is (202) 219-0204 and the e-mail address is lefkowitz.gary@dol.gov. If you have questions regarding your right to comment on this tentative authorization, you may call Gary Lefkowitz at (202) 693-8546.

We expect to implement the benefit improvements (except the special education benefit, which must first be approved by state regulators) and the reinsurance program as of January 1, 2006.

If you have any questions about any information in this notice, contact Anne Duggan, Benefits Program Manager, at (408) 276-7103.

Pending Authorization

[Sun Microsystems, Inc.]

The restrictions of sections 406(a) and 406(b) of the Employee Retirement Income Security Act of 1974, as amended (the "Act") shall not apply to the reinsurance of risks and the receipt of premiums therefrom by Solaris Vermont in connection with an insurance contract sold by AIG Life Insurance Company ("AIG"), or any successor insurance company to AIG which is unrelated to Sun Microsystems, Inc. ("Sun"), to provide life insurance benefits to participants in the Sun Microsystems, Inc. Comprehensive Welfare Benefit Plan (the "Plan") and the Sun Microsystems, Inc. Flexible Benefit Plan (the "Flex Plan"), provided that the following conditions are met:

- (a) Solaris Vermont –
 - (1) Is a party in interest with respect to the Plan by reason of a stock or partnership affiliation with Sun that is described in section 3(14)(E) or (G) of the Act;
 - (2) Is licensed to sell insurance or conduct reinsurance operations in at least one State as defined in section 3(10) of the Act;
 - (3) Has obtained a Certificate of Authority from the Insurance Commissioner of its domiciliary state that has neither been revoked nor suspended;
 - (4)(A) Has undergone an examination by an independent certified public accountant for its last completed taxable year immediately prior to the taxable year of the reinsurance transaction; or
 - (B) Has undergone a financial examination (within the meaning of the law of its domiciliary State) by the Insurance Commissioner of the State within 5 years prior to the end of the year preceding the year in which the reinsurance transaction occurred; and
 - (5) Is licensed to conduct reinsurance transactions by a State whose law requires that an actuarial review of reserves be conducted annually by an independent firm of actuaries and reported to the appropriate regulatory authority; and
- (b) The Plan pays no more than adequate consideration for the insurance contracts;
- (c) No commissions are paid by the Plan with respect to the direct sale of such contracts or the reinsurance thereof;

(d) In the initial year of any contract involving Solaris Vermont, there will be an immediate and objectively determined benefit to the Plan's participants and beneficiaries in the form of increased benefits and decreased premium cost;

(e) In subsequent years, the formula used to calculate premiums by AIG or any successor insurer will be similar to formulae used by other insurers providing comparable life and long-term disability coverage under similar programs. Furthermore, the premium charge calculated in accordance with the formula will be reasonable and will be comparable to the premium charged by the insurer and its competitors with the same or a better rating providing the same coverage under comparable programs;

(f) The Plan only contracts with insurers with a rating of A or better from A.M. Best Company (Best's). The reinsurance arrangement between the insurers and Solaris Vermont will be indemnity only, *i.e.*, the insurer will not be relieved of liability to the Plan should Solaris Vermont be unable or unwilling to cover any liability arising from the reinsurance arrangement;

(g) Solaris Vermont retains an independent fiduciary (the "Independent Fiduciary") at Sun's expense, to analyze the transactions and render an opinion that the requirements of sections (a) through (f) have been complied with. For purposes of this exemption, the Independent Fiduciary is a person who:

(1) Is not directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with Sun or Solaris Vermont (this relationship hereinafter referred to as an "Affiliate");

(2) Is not an officer, director, employee of, or partner in Sun or Solaris Vermont (or any Affiliate of either);

(3) Is not a corporation or partnership in which Sun or Solaris Vermont has an ownership interest or is a partner;

(4) Does not have an ownership interest in Sun, Solaris Vermont, or any of either's Affiliates;

(5) Is not a fiduciary with respect to the Plan prior to the appointment; and

(6) Has acknowledged in writing acceptance of fiduciary responsibility and has agreed not to participate in any decision with respect to any transaction in which the Independent Fiduciary has an interest that might affect its best judgment as a fiduciary.

For purposes of this definition of an "Independent Fiduciary", no organization or individual may serve as an Independent Fiduciary for any fiscal year if the gross income received by such organization or individual (or partnership or corporation of which such individual is an officer, director, or 10 percent or more partner or shareholder) from Sun,

Solaris Vermont, or their Affiliates (including amounts received for services as Independent Fiduciary under any prohibited transaction exemption granted by the Department) for the fiscal year exceeds 5 percent of that organization or individual's annual gross income from all sources for such fiscal year.

In addition, no organization or individual who is an Independent Fiduciary, and no partnership or corporation of which such organization or individual is an officer, director, or 10 percent or more partner or shareholder, may acquire any property from, sell any property to, or borrow funds from Sun, Solaris Vermont, or their Affiliates during the period that such organization or individual serves as Independent Fiduciary, and continuing for a period of six months after such organization or individual ceases to be an Independent Fiduciary, or negotiates any such transaction during the period that such organization or individual serves as Independent Fiduciary.