

ORACLE CORP
Form 10-Q
September 21, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 31, 2009

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: 000-51788

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware

54-2185193

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(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

500 Oracle Parkway

94065

Redwood City, California
(Address of principal executive offices)

(Zip Code)

(650) 506-7000

(Registrant's telephone number, including area code)

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 has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 ☐

Smaller reporting company ☐

(Do not check if a 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 ☒

The number of shares of registrant's common stock outstanding as of September 16, 2009 was: 5,013,168,000.

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FORM 10-Q QUARTERLY REPORT

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****ORACLE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****As of August 31, 2009 and May 31, 2009****(Unaudited)**

(in millions, except per share data)		August 31, 2009	May 31, 2009
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 16,098	\$ 8,995
Marketable securities		4,467	3,629
Trade receivables, net of allowances of \$245 and \$270 as of August 31, 2009 and May 31, 2009		2,584	4,430
Deferred tax assets		710	661
Prepaid expenses and other current assets		586	866
Total current assets		24,445	18,581
Non-current assets:			
Property, net		1,924	1,922
Intangible assets: software support agreements and related relationships, net		3,280	3,411
Intangible assets: other, net		3,606	3,858
Goodwill		18,867	18,842
Other assets		876	802
Total non-current assets		28,553	28,835
Total assets		\$ 52,998	\$ 47,416
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable, current and other current borrowings		\$ 1,001	\$ 1,001
Accounts payable		260	271
Accrued compensation and related benefits		1,033	1,409
Deferred revenues		5,283	4,592
Other current liabilities		1,583	1,876
Total current liabilities		9,160	9,149
Non-current liabilities:			
Notes payable and other non-current borrowings		13,723	9,237
Income taxes payable		2,485	2,423
Deferred tax liabilities		465	480
Other non-current liabilities		678	682
Total non-current liabilities		17,351	12,822
Commitments and contingencies			
Oracle Corporation stockholders' equity:			

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Preferred stock, \$0.01 par value authorized: 1.0 shares; outstanding: none		
Common stock, \$0.01 par value and additional paid in capital authorized: 11,000 shares; outstanding: 5,012 shares as of August 31, 2009 and 5,005 shares as of May 31, 2009	13,319	12,980
Retained earnings	12,563	11,894
Accumulated other comprehensive income	261	216
 Total Oracle Corporation stockholders' equity	 26,143	 25,090
Noncontrolling interests	344	355
 Total equity	 26,487	 25,445
 Total liabilities and equity	 \$ 52,998	 \$ 47,416

See notes to condensed consolidated financial statements.

Table of Contents**ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three Months Ended August 31, 2009 and 2008****(Unaudited)**

(in millions, except per share data)	Three Months Ended August 31,	
	2009	2008
Revenues:		
New software licenses	\$ 1,028	\$ 1,237
Software license updates and product support	3,117	2,935
Software revenues	4,145	4,172
Services	909	1,159
Total revenues	5,054	5,331
Operating expenses:		
Sales and marketing	960	1,112
Software license updates and product support	226	282
Cost of services	782	1,026
Research and development	660	708
General and administrative	201	206
Amortization of intangible assets	431	413
Acquisition related and other	6	49
Restructuring	48	14
Total operating expenses	3,314	3,810
Operating income	1,740	1,521
Interest expense	(179)	(159)
Non-operating income, net	1	82
Income before provision for income taxes	1,562	1,444
Provision for income taxes	438	367
Net income	\$ 1,124	\$ 1,077
Earnings per share:		
Basic	\$ 0.22	\$ 0.21
Diluted	\$ 0.22	\$ 0.21
Weighted average common shares outstanding:		
Basic	5,009	5,152
Diluted	5,063	5,235
Dividends declared per common share	\$ 0.05	\$

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See notes to condensed consolidated financial statements.

Table of Contents**ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three Months Ended August 31, 2009 and 2008****(Unaudited)**

(in millions)	Three Months Ended August 31,	
	2009	2008
Cash Flows From Operating Activities:		
Net income	\$ 1,124	\$ 1,077
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	61	64
Amortization of intangible assets	431	413
Deferred income taxes	(75)	(53)
Stock-based compensation	84	91
Tax benefits on the exercise of stock options	51	101
Excess tax benefits on the exercise of stock options	(30)	(65)
Other, net	40	19
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	1,870	1,812
Decrease in prepaid expenses and other assets	251	397
Decrease in accounts payable and other liabilities	(642)	(906)
Decrease in income taxes payable	(9)	(361)
Increase in deferred revenues	582	651
Net cash provided by operating activities	3,738	3,240
Cash Flows From Investing Activities:		
Purchases of marketable securities and other investments	(2,760)	(3,188)
Proceeds from maturities and sales of marketable securities and other investments	1,947	1,420
Acquisitions, net of cash acquired	(79)	(395)
Capital expenditures	(55)	(323)
Net cash used for investing activities	(947)	(2,486)
Cash Flows From Financing Activities:		
Payments for repurchases of common stock	(244)	(500)
Proceeds from issuances of common stock	247	280
Payment of dividends to stockholders	(251)	
Proceeds from borrowings, net of issuance costs	4,461	
Repayments of borrowings		(4)
Excess tax benefits on the exercise of stock options	30	65
Distributions to noncontrolling interests	(34)	(30)
Net cash provided by (used for) financing activities	4,209	(189)
Effect of exchange rate changes on cash and cash equivalents	103	(274)
Net increase in cash and cash equivalents	7,103	291
Cash and cash equivalents at beginning of period	8,995	8,262

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Cash and cash equivalents at end of period	\$ 16,098	\$ 8,553
Non-cash investing and financing transactions:		
Decrease in unsettled repurchases of common stock	\$ (1)	\$
See notes to condensed consolidated financial statements.		

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2009

(Unaudited)

1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

We believe that all necessary adjustments, which consisted only of normal recurring items, have been included in the accompanying financial statements to present fairly the results of the interim periods. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for our fiscal year ending May 31, 2010. In the first quarter of fiscal 2010, we adopted certain new accounting pronouncements that affected our significant accounting policies, including Financial Accounting Standards Board (FASB) Statement No. 141 (revised 2007), *Business Combinations* and related Staff Positions. We disclosed our accounting policies for these new pronouncements in Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009. There have been no other significant changes to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

As a result of our fiscal 2010 adoption of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, we retrospectively classified noncontrolling interest positions of certain of our consolidated entities as a separate component of consolidated equity from the equity attributable to Oracle's stockholders for all periods presented. The noncontrolling interests in our net income were not significant to our consolidated results for the periods presented and therefore have been included as a component of non-operating income, net in our condensed consolidated statements of operations.

Certain other prior year balances have been reclassified to conform to the current year's presentation. Such reclassifications did not affect total revenues, operating income or net income.

In accordance with FASB Statement No. 165, *Subsequent Events*, we evaluated subsequent events through the date and time our condensed consolidated financial statements were issued on September 21, 2009.

Acquisition Related and Other Expenses

Acquisition related and other expenses consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments after the measurement period or purchase price allocation period has ended, and certain other operating expenses, net. Stock-based compensation included in acquisition related and other expenses resulted from unvested options assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those options. As a result of our adoption of Statement 141(R) in fiscal 2010, certain acquisition related and other expenses are now recorded as expenses in our statements of operations that had been historically included as a part of the consideration transferred and capitalized as a part of the accounting for our acquisitions pursuant to previous accounting rules, primarily direct transaction costs such as professional services fees.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2009****(Unaudited)**

(in millions)	Three Months Ended August 31,	
	2009	2008
Transitional and other employee related costs	\$ 3	\$ 27
Stock-based compensation		5
Professional fees and other, net	3	8
Business combination adjustments		9
Total acquisition related and other expenses	\$ 6	\$ 49

Non-Operating Income, net

Non-operating income, net consists primarily of interest income, net foreign currency exchange gains (losses), the noncontrolling interests in the net profits of our majority-owned subsidiaries (Oracle Financial Services Software Limited and Oracle Japan), and other income (losses), net, including net realized gains and losses related to all of our investments and net unrealized gains and losses related to the small portion of our investment portfolio that we classify as trading.

(in millions)	Three Months Ended August 31,	
	2009	2008
Interest income	\$ 35	\$ 88
Foreign currency (losses) gains, net	(19)	9
Noncontrolling interests in income	(24)	(16)
Other income, net	9	1
Total non-operating income, net	\$ 1	\$ 82

Comprehensive Income

Comprehensive income consists of the following, net of income tax effects: net income, foreign currency translation gains and losses, gains and losses related to certain of our derivative financial instruments that are reflected in Oracle Corporation stockholders' equity and unrealized gains and losses on marketable debt and equity securities that we classify as available-for-sale. The following table sets forth the calculation of comprehensive income:

(in millions)	Three Months Ended August 31,	
	2009	2008
Net income	\$ 1,124	\$ 1,077
Foreign currency translation gains (losses), net	52	(243)
Unrealized (losses) gains on derivative financial instruments, net	(7)	19
Unrealized gains on marketable securities, net		1

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Comprehensive income	\$ 1,169	\$ 854
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Recent Accounting Pronouncements

Measuring Liabilities at Fair Value: In August 2009, the FASB issued Accounting Standards Update 2009-05, *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value* (Update 2009-05). Update 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. We will adopt Update 2009-05 in the second quarter of fiscal 2010 and are currently evaluating the impact of its pending adoption on our consolidated financial statements.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2009

(Unaudited)

Accounting Standards Codification: In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (the Codification). The Codification, which was launched on July 1, 2009, became the single source of authoritative non-governmental U.S. generally accepted accounting principles (GAAP), superseding various existing authoritative accounting pronouncements. The Codification eliminates the GAAP hierarchy contained in Statement 162 and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. This Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will adopt the Codification in the second quarter of fiscal 2010. There will be no change to our consolidated financial statements due to the implementation of the Codification other than changes in reference to various authoritative accounting pronouncements in our consolidated financial statements.

Transfers of Financial Assets: In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*. Statement 166 eliminates the concept of a qualifying special-purpose entity from Statement 140 and changes the requirements for derecognizing financial assets. We will adopt Statement 166 in fiscal 2011 and are currently evaluating the impact of its pending adoption on our consolidated financial statements.

Variable Interest Entities: In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. Statement 167 amends the evaluation criteria to identify the primary beneficiary of a variable interest entity provided by FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities An Interpretation of ARB No. 51*. Additionally, Statement 167 requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. We will adopt Statement 167 in fiscal 2011 and are currently evaluating the impact of its pending adoption on our consolidated financial statements.

2. ACQUISITIONS

Proposed Acquisition of Sun Microsystems, Inc. and Other Proposed Acquisitions

On April 19, 2009, we entered into an Agreement and Plan of Merger (Merger Agreement) with Sun Microsystems, Inc. (Sun), a provider of enterprise computing systems, software and services. Pursuant to the Merger Agreement, our wholly owned subsidiary will merge with and into Sun and Sun will become a wholly owned subsidiary of Oracle. Upon the consummation of the merger, each share of Sun common stock will be converted into the right to receive \$9.50 in cash. In addition, options to acquire Sun common stock, Sun restricted stock unit awards and other equity-based awards denominated in shares of Sun common stock outstanding immediately prior to the consummation of the merger will generally be converted into options, restricted stock unit awards or other equity-based awards, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of Sun is approximately \$7.4 billion.

The Merger Agreement contains certain termination rights for both Sun and Oracle and further provides that, upon termination of the Merger Agreement under certain circumstances, Sun may be obligated to pay Oracle a termination fee of \$260 million.

Completion of this transaction is subject to customary closing conditions, including regulatory clearance under the applicable antitrust laws of the European Commission and other jurisdictions.

Separately, in the first quarter of fiscal 2010, we agreed to acquire certain other companies for amounts that are not material to our business. We expect these transactions to close in the second quarter of fiscal 2010.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2009

(Unaudited)

Fiscal 2010 Acquisitions

During the first quarter of fiscal 2010, we acquired several companies and purchased certain technology and development assets to expand our product offerings. These acquisitions were not significant individually or in the aggregate. We have accounted for these acquisitions in accordance with Statement 141(R). We have included the financial results of these companies in our consolidated results from their respective acquisition dates. The preliminary purchase price allocations for each of these acquisitions were based upon a preliminary valuation and our estimates and assumptions for certain of these acquisitions are subject to change as we obtain additional information for our estimates during the measurement period. The primary areas of those purchase price allocations that are not yet finalized relate to identifiable intangible assets, certain legal matters, income and non-income based taxes and residual goodwill.

Fiscal 2009 Acquisitions

During fiscal 2009, we acquired several companies and purchased certain technology and development assets to expand our product offerings. These acquisitions were not individually significant. We have included the financial results of these companies in our consolidated results from their respective acquisition dates. In the aggregate, the total purchase price for these acquisitions was approximately \$1.2 billion, which consisted of approximately \$1.2 billion in cash, \$1 million for the fair value of stock awards assumed and \$13 million for transaction costs. In allocating the total purchase price for these acquisitions based on estimated fair values, we preliminarily recorded \$712 million of goodwill, \$587 million of identifiable intangible assets, \$100 million of net tangible liabilities (resulting primarily from deferred tax and restructuring liabilities assumed as a part of these transactions) and \$10 million of in-process research and development. The preliminary allocation of purchase price for certain of these acquisitions were based upon preliminary valuations and our estimates and assumptions are subject to change. The primary areas of the purchase price allocations that are not yet finalized relate to certain restructuring liabilities, intangible assets, legal matters, income and non-income based taxes and residual goodwill.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle and certain other companies that we acquired since the beginning of fiscal 2009 (which were collectively significant for purposes of unaudited pro forma financial information disclosure) as though the companies were combined as of the beginning of fiscal 2009. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from these acquisitions including our amortization charges from acquired intangible assets, stock-based compensation charges for unvested stock awards assumed and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2009. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2009.

The unaudited pro forma financial information for the first quarter of fiscal 2010 combined the historical results of Oracle for the three months ended August 31, 2009 and the historical results for certain other companies that we acquired since the beginning of fiscal 2010 based upon their respective previous reporting periods and the dates that these companies were acquired by us, and the effects of the pro forma adjustments (some of which are based upon preliminary estimates) listed above.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2009****(Unaudited)**

The unaudited pro forma financial information for the first quarter of fiscal 2009 combined the historical results of Oracle for the three months ended August 31, 2008 and the historical results of certain other companies that we acquired since the beginning of fiscal 2009 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above. The unaudited pro forma financial information was as follows for the first quarters of fiscal 2010 and 2009:

(in millions, except per share data)	Three Months Ended	
	August 31,	
	2009	2008
Total revenues	\$ 5,060	\$ 5,415
Net income	\$ 1,124	\$ 1,067
Basic earnings per share	\$ 0.22	\$ 0.21
Diluted earnings per share	\$ 0.22	\$ 0.20

3. FAIR VALUE MEASUREMENTS

We perform fair value measurements in accordance with the guidance provided by FASB Statement No. 157, *Fair Value Measurements* and certain related FASB Staff Positions. Statement 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

Statement 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Statement 157 establishes three levels of inputs that may be used to measure fair value:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****August 31, 2009****(Unaudited)****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

Our assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments (Level 1 and 2 inputs are defined above):

(in millions)	August 31, 2009			May 31, 2009		
	Fair Value Measurements Using Input Types			Fair Value Measurements Using Input Types		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds	\$ 2,146	\$	\$ 2,146	\$ 467	\$	\$ 467
U.S. Treasury, U.S. government and U.S. government agency debt securities	3,830		3,830	4,078		4,078
Commercial paper debt securities		1,872	1,872		1,365	1,365
Corporate debt securities and other		2,439	2,439		1,335	1,335
Total assets	\$ 5,976	\$ 4,311	\$ 10,287	\$ 4,545	\$ 2,700	\$ 7,245
Liabilities:						
Derivative financial instrument liabilities	\$	\$ 29	\$ 29	\$	\$ 35	\$ 35
Total liabilities	\$	\$ 29	\$ 29	\$	\$ 35	\$ 35

Our valuation techniques used to measure the fair values of our money market funds and U.S. Treasury, U.S. government and U.S. government agency debt securities were derived from quoted market prices as substantially all of these instruments have maturity dates (if any) within one year from our date of purchase and active markets for these instruments exist. Our valuation techniques used to measure the fair values of all other instruments listed in the table above, substantially all of which mature within one year and the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that are corroborated by observable market data; quoted market prices for similar instruments; or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data. Our discounted cash flow techniques use observable market inputs, such as LIBOR-based yield curves, and currency spot and forward rates.

Our cash and cash equivalents, marketable securities and derivative financial instruments are recognized and measured at fair value in the condensed consolidated financial statements. Based on the trading prices of our \$14.75 billion and \$10.25 billion senior notes that were outstanding as of August 31, 2009 and May 31, 2009, respectively, and the interest rates we could obtain for other borrowings with similar terms at those dates, the estimated fair value of our borrowings at August 31, 2009 and May 31, 2009 was \$15.87 billion and \$10.79 billion, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2009

(Unaudited)

4. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2010 and the net book value of intangible assets at August 31, 2009 and May 31, 2009 were as follows:

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted
(Dollars in millions)	May 31, 2009	Additions	August 31, 2009	May 31, 2009	Expense	August 31, 2009	May 31, 2009	August 31, 2009	Average Useful Life
Software support agreements and related relationships	\$ 5,012	\$ 8	\$ 5,020	\$ (1,601)	\$ (139)	\$ (1,740)	\$ 3,411	\$ 3,280	9 years
Developed technology	3,844	28	3,872	(1,925)	(179)	(2,104)	1,919	1,768	5 years
Core technology	1,502	5	1,507	(687)	(65)	(752)	815	755	6 years
Customer relationships	1,284	5	1,289	(320)	(39)	(359)	964	930	8 years
Trademarks	273	2	275	(113)	(9)	(122)	160	153	7 years
Total	\$ 11,915	\$ 48	\$ 11,963	\$ (4,646)	\$ (431)	\$ (5,077)	\$ 7,269	\$ 6,886	

Total amortization expense related to our intangible assets was \$431 million and \$413 million for the three months ended August 31, 2009 and 2008, respectively. Estimated future amortization expense related to our intangible assets was \$1.2 billion for the remainder of fiscal 2010, \$1.4 billion in fiscal 2011, \$1.2 billion in fiscal 2012, \$1.1 billion in fiscal 2013, \$890 million in fiscal 2014, \$703 million in fiscal 2015 and \$372 million thereafter.

The changes in the carrying amount of goodwill, which is generally not deductible for tax purposes, by operating segment for the three months ended August 31, 2009 were as follows:

(in millions)	New Software Licenses	Software License Updates and Product Support	Services	Total
Balances as of May 31, 2009	\$ 5,716	\$ 11,334	\$ 1,792	\$ 18,842
Goodwill from acquisitions	22	17	2	41
Goodwill adjustments ⁽¹⁾	(6)	(6)	(4)	(16)
Balances as of August 31, 2009	\$ 5,732	\$ 11,345	\$ 1,790	\$ 18,867

⁽¹⁾ Pursuant to our business combinations accounting policy, we record goodwill adjustments for the effect on goodwill of changes to net assets acquired during the measurement or purchase price allocation period (which can be up to one year from date of acquisition). All of our goodwill adjustments recorded during fiscal 2010 relate to acquisitions that were consummated prior to fiscal 2010.

5. NOTES PAYABLE AND OTHER BORROWINGS

In July 2009, we issued \$4.5 billion of fixed rate senior notes comprised of \$1.5 billion of 3.750% notes due July 2014 (2014 Notes), \$1.75 billion of 5.000% notes due July 2019 (2019 Notes) and \$1.25 billion of 6.125% notes due July 2039 (2039 Notes and, together with 2014 Notes and 2019 Notes, the Senior Notes). We issued the Senior Notes for general corporate purposes and future acquisitions, including our proposed acquisition of Sun and acquisition related expenses.

The effective interest yields of the 2014 Notes, 2019 Notes and 2039 Notes at August 31, 2009 were 3.750%, 5.056% and 6.188%, respectively. On September 1, 2009 we entered into interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with the 2014 Notes so that the interest payable on these notes effectively became variable (see Note 8 for additional information).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Unaudited)

The Senior Notes rank pari passu with any commercial paper notes that we may issue pursuant to our commercial paper program (see Note 7 of Notes to Consolidated Financial Statements included in our fiscal 2009 Annual Report on Form 10-K for further information on our commercial paper program) and all existing and future senior indebtedness of Oracle Corporation. All existing and future liabilities of the subsidiaries of Oracle Corporation will be effectively senior to the Senior Notes.

We were in compliance with all debt-related covenants at August 31, 2009. Future principal payments of our borrowings at August 31, 2009 were as follows: \$1.0 billion in fiscal 2010, \$2.25 billion in fiscal 2011, none in fiscal 2012, \$1.25 billion in fiscal 2013, none in fiscal 2014, \$1.5 billion in fiscal 2015 and \$8.75 billion thereafter.

There have been no other significant changes in our notes payable and other borrowing arrangements that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

6. RESTRUCTURING ACTIVITIES

Fiscal 2009 Oracle Restructuring Plan

During the third quarter of fiscal 2009, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our Oracle-based operations (the 2009 Plan). Our management amended the 2009 Plan in the first quarter of fiscal 2010 to reflect additional actions that we expect to take over the course of fiscal 2010. The total estimated restructuring costs associated with the 2009 Plan are \$441 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are recognized. In the first quarter of fiscal 2010, we recorded \$48 million of restructuring expenses in connection with the 2009 Plan. We expect to incur the majority of the approximately \$300 million that is remaining during fiscal 2010. Any changes to the estimates of executing the 2009 Plan will be reflected in our future results of operations.

Acquisition Related Restructuring Plans Adopted Prior to Fiscal 2010

During the fourth quarter of fiscal 2008 and third quarter of fiscal 2006, our management approved, committed to and initiated plans to restructure certain pre-acquisition operations of BEA Systems, Inc. (BEA Restructuring Plan) and Siebel Systems, Inc. (Siebel Restructuring Plan), respectively. Our management initiated these plans in connection with our acquisitions of these companies in order to improve the cost efficiencies in our operations. These plans were initiated and approved prior to our adoption of Statement 141(R). Costs related to these restructuring plans were originally recognized as liabilities assumed in each of the respective business combinations and included in the allocation of the cost to acquire these companies and, accordingly, have resulted in an increase to goodwill. Our restructuring expenses may change as our management executes the approved plans. Future decreases to the estimates of executing these acquisition related restructuring plans will be recorded as an adjustment to goodwill indefinitely. Increases to the estimates of the acquisition related restructuring plans will be recorded to operating expenses. The total restructuring costs associated with exiting activities of BEA were \$208 million, consisting of severance, excess facilities obligations through fiscal 2017, as well as other restructuring costs. The total restructuring costs associated with exiting activities of Siebel were \$588 million, consisting of severance, excess facilities obligations through fiscal 2022, and other restructuring costs.

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Summary of All Plans

	Three Months Ended August 31, 2009							Total	Total
(in millions)	Accrued May 31, 2009 ⁽²⁾	Initial Costs ⁽³⁾	Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾	Accrued Aug. 31, 2009 ⁽²⁾	Total Costs Accrued to Date	Expected Program Costs	
Fiscal 2009 Oracle Restructuring Plan									
New software licenses	\$ 12	\$ 20	\$ 4	\$ (15)	\$ (1)	\$ 20	\$ 53	\$ 162	
Software license updates and product support			2	(1)		1	2	21	
Services	22	11	(2)	(16)		15	45	209	
Other ⁽¹⁾	13	17	(1)	(5)		24	36	49	
Total Fiscal 2009 Oracle Restructuring	\$ 47	\$ 48	\$ 3	\$ (37)	\$ (1)	\$ 60	\$ 136	\$ 441	
BEA Restructuring Plan									
Severance	\$ 52	\$	\$ (8)	\$ (3)	\$ 1	\$ 42	\$ 136	\$ 136	
Facilities	33		(2)	(4)		27	57	57	
Contracts and other	8			(1)		7	15	15	
Total BEA Restructuring	\$ 93	\$	\$ (10)	\$ (8)	\$ 1	\$ 76	\$ 208	\$ 208	
Siebel Restructuring Plan									
Severance	\$	\$	\$	\$	\$	\$	\$ 59	\$ 59	
Facilities	146		3	(8)	1	142	498	498	
Contracts and other	7		(5)			2	31	31	
Total Siebel Restructuring	\$ 153	\$	\$ (2)	\$ (8)	\$ 1	\$ 144	\$ 588	\$ 588	
Total Other Restructuring Plans	\$ 96	\$	\$ (3)	\$ (7)	\$ 10	\$ 96			
Total Restructuring Plans ⁽⁶⁾	\$ 389	\$ 48	\$ (12)	\$ (60)	\$ 11	\$ 376			

(1) Includes severance costs associated with research and development, general and administrative functions, and certain other facility related costs.

(2) Accrued restructuring at August 31, 2009 and May 31, 2009 was \$376 million and \$389 million, respectively. The balances include \$176 million and \$203 million recorded in other current liabilities and \$200 million and \$186 million recorded in other non-current liabilities in the accompanying condensed consolidated balance sheets at August 31, 2009 and May 31, 2009, respectively.

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- (3) Initial costs recorded for the respective restructuring plans.
- (4) All plan adjustments are changes in estimates whereby all increases in costs are recorded to operating expenses in the period of adjustment with decreases in costs of Oracle-based plans recorded to operating expenses and decreases in costs of acquisition related plans adopted prior to fiscal 2010 recorded as adjustments to goodwill indefinitely.
- (5) Represents foreign currency translation and other adjustments.
- (6) Restructuring plans included in this footnote represent those plans that management has deemed significant.

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Deferred revenues consisted of the following:

(in millions)	August 31, 2009	May 31, 2009
Software license updates and product support	\$ 4,840	\$ 4,158
Services	245	243
New software licenses	198	191
Deferred revenues, current	5,283	4,592
Deferred revenues, non-current (in other non-current liabilities)	175	204
Total deferred revenues	\$ 5,458	\$ 4,796

Deferred software license updates and product support revenues represent customer payments made in advance for annual support contracts. Software license updates and product support contracts are typically billed on a per annum basis in advance and revenues are recognized ratably over the support periods. Deferred service revenues include prepayments for consulting, On Demand and education services. Revenue for these services is recognized as the services are performed. Deferred new software license revenues typically result from undelivered products or specified enhancements, customer specific acceptance provisions or software license transactions that cannot be segmented from consulting services, or certain extended payment term arrangements.

In connection with the purchase price allocations related to our acquisitions, we have estimated the fair values of the support obligations assumed. The estimated fair values of the support obligations assumed were determined using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligations. These fair value adjustments reduce the revenues recognized over the support contract term of our acquired contracts and, as a result, we did not recognize software license updates and product support revenues related to support contracts assumed from our acquisitions in the amount of \$9 million and \$91 million which would have been otherwise recorded by our acquired businesses as independent entities, for the three months ended August 31, 2009 and 2008, respectively.

8. DERIVATIVE FINANCIAL INSTRUMENTS

On December 1, 2008, we adopted FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement 133*. The adoption of Statement 161 had no impact on our consolidated financial position or results of operations and only required additional financial statement disclosures. We have applied the requirements of Statement 161 on a prospective basis. Accordingly, disclosures related to interim periods prior to the date of adoption have not been presented.

Interest Rate Swap Agreements**Cash Flow Hedges**

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We use an interest rate swap agreement to manage the economic effect of variable interest obligations associated with our senior notes due May 2010 (Floating Rate Notes) so that the interest payable on the Floating Rate Notes effectively became fixed at a rate of 4.59%, thereby reducing the impact of future interest rate changes on our future interest expense. The critical terms of the interest rate swap agreement and the Floating Rate Notes match, including the notional amounts, interest rate reset dates, maturity dates and underlying market indices. Accordingly, we have designated this swap agreement as a qualifying hedging instrument and are accounting for it as a cash flow hedge pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and*

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Hedging Activities. The unrealized losses on this interest rate swap agreement are included in accumulated other comprehensive income and the corresponding fair value payables are included in other current liabilities in our consolidated balance sheet. The periodic interest settlements, which occur at the same interval as the Floating Rate Notes, are recorded as interest expense.

Fair Value Hedges

On September 1, 2009 we entered into interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with the 2014 Notes so that the interest payable on these notes effectively will become variable based on LIBOR. The critical terms of the interest rate swap agreements and the 2014 Notes match, including the notional amounts and maturity dates. Accordingly, we have designated these swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges pursuant to Statement 133. These transactions are characterized as fair value hedges for financial accounting purposes because they protect us against changes in the fair value of our fixed rate borrowings due to benchmark interest rate movements. The changes in fair value of these interest rate swap agreements will be recognized as interest expense in our consolidated statements of operations with the corresponding amount included in other assets or other non-current liabilities in our consolidated balance sheets. The amount of net gain (loss) attributable to the risk being hedged will be recognized as interest expense in our consolidated statement of operations with the corresponding amount included in notes payable and other non-current borrowings. The periodic interest settlements, which occur at the same interval as the 2014 Notes, will be recorded as interest expense.

We do not use any interest rate swap agreements for trading purposes.

Net Investment Hedges

Periodically, we hedge net assets of certain of our international subsidiaries using foreign currency forward contracts to offset the translation and economic exposures related to our foreign currency-based investments in these subsidiaries. These contracts have been designated as net investment hedges pursuant to Statement 133. We use the spot method to measure the effectiveness of our net investment hedges. Under this method for each reporting period, the change in fair value of the forward contracts attributable to the changes in spot exchange rates (the effective portion) is reported in accumulated other comprehensive income on our consolidated balance sheet and the remaining change in fair value of the forward contract (the ineffective portion, if any) is recognized in non-operating income, net, in our consolidated statement of operations. We record settlements under these forward contracts in a similar manner. The fair value of both the effective and ineffective portions is recorded to our consolidated balance sheet as prepaid expenses and other current assets for amounts receivable from the counterparties or other current liabilities for amounts payable to the counterparties.

As of August 31, 2009, we had one net investment hedge in Japanese Yen. The Yen net investment hedge minimizes currency risk arising from net assets held in Yen as a result of equity capital raised during the initial public offering and secondary offering of our majority owned subsidiary, Oracle Japan. As of August 31, 2009, the fair value of our net investment hedge in Japanese Yen was nominal and had a notional amount of \$704 million.

Foreign Currency Forward Contracts Not Designated as Hedges

We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effects of certain foreign currency exposures. Under this program, our strategy is to have increases or decreases in our foreign currency exposures offset by gains or losses on the foreign currency forward contracts to mitigate the risks and volatility associated with foreign currency transaction gains or losses. These foreign currency exposures typically arise from intercompany sublicense fees and other intercompany transactions. Our foreign currency forward contracts generally settle

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within 90 days. We do not use these forward contracts for trading purposes. We do not designate these forward contracts as hedging instruments pursuant to Statement 133. Accordingly, we record the fair value of these contracts as of the end of our reporting period to our consolidated balance sheet with changes in fair value recorded in our consolidated statement of operations. The balance sheet classification for the fair values of these forward contracts is to prepaid expenses and other current assets for unrealized gains and to other current liabilities for unrealized losses. The statement of operations classification for the fair values of these forward contracts is to non-operating income, net, for both realized and unrealized gains and losses.

As of August 31, 2009, the notional amounts of the forward contracts we held to purchase and sell U.S. Dollars in exchange for other major international currencies were approximately \$1.1 billion and \$99 million, respectively, and the notional amounts of the foreign currency forward contracts we held to purchase European Euros in exchange for other major international currencies were 176 million (\$250 million).

The effects of derivative instruments on our condensed consolidated financial statements were as follows as of August 31, 2009 and for the three months then ended (amounts presented exclude any income tax effects):

Fair Value of Derivative Instruments in Condensed Consolidated Balance Sheet

(in millions)	August 31, 2009	
	Balance Sheet Location	Fair Value
Interest rate swap agreement designated as cash flow hedge	Other current liabilities	\$ 29
Foreign currency forward contracts designated as net investment hedges	Other current liabilities	
Total derivatives designated as hedging instruments		\$ 29
Foreign currency forward contracts not designated as hedges	Other current liabilities	\$
Total derivatives		\$ 29

Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI)

(in millions)	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	Location and Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location and Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended August 31, 2009	Three Months Ended August 31, 2009		Three Months Ended August 31, 2009	
Cash flow hedges:					
Interest rate swap	\$ (2)	Interest Expense	\$ (9)	Non-operating Income, net	\$
Net investment hedges:					
Foreign currency forward contracts	\$ (11)	Not Applicable	\$	Non-operating Income, net	\$ 1

	Location and Amount of Gain (Loss) Recognized in Income on Derivative Three Months Ended	
(in millions)	August 31, 2009	
Derivatives Not Designated as Hedges:		
Foreign currency forward contracts	Non-operating Income, net	\$ (29)

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Our Board of Directors has approved a program for us to repurchase shares of our common stock. On October 20, 2008, we announced that our Board of Directors approved the expansion of our repurchase program by \$8.0 billion and as of August 31, 2009, approximately \$6.0 billion was available for share repurchases pursuant to our stock repurchase program. We repurchased approximately 11.4 million shares for \$243 million during the three months ended August 31, 2009 (including approximately 0.5 million shares for \$11 million that were repurchased but not settled at August 31, 2009) and approximately 22.7 million shares for \$500 million during the three months ended August 31, 2008 (including 1.1 million shares for \$24 million that were repurchased but not settled at August 31, 2008) under the applicable repurchase programs authorized.

Our stock repurchase authorization does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our cash requirements for acquisitions and dividend payments, our debt repayment obligations or repurchase of our debt, our stock price, and economic and market conditions. Our stock repurchases may be effected from time to time through open market purchases or pursuant to a Rule 10b5-1 plan. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

Dividends on Common Stock

In the first quarter of fiscal 2010, our Board of Directors declared a cash dividend of \$0.05 per share of our outstanding common stock, which we paid during the same period.

In September 2009, our Board of Directors declared a quarterly cash dividend of \$0.05 per share of outstanding common stock payable on November 4, 2009 to stockholders of record as of the close of business on October 14, 2009. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Stock-Based Compensation Expense and Valuation of Awards

Stock-based compensation is included in the following operating expense line items in our condensed consolidated statements of operations:

(in millions)	Three Months Ended August 31,	
	2009	2008
Sales and marketing	\$ 16	\$ 19
Software license updates and product support	4	3
Cost of services	3	3
Research and development	32	37
General and administrative	29	24
Acquisition related and other		5
Total stock-based compensation	\$ 84	\$ 91

We estimate the fair value of our share-based payments using the Black-Scholes-Merton option-pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models, including the

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Black-Scholes-Merton option-pricing model, require the input of assumptions, including stock price volatility. Changes in the input assumptions can materially affect the fair value estimates and ultimately how much we recognize as stock-based compensation

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expense. The fair values of our stock options were estimated at the date of grant or date of acquisition for options assumed in a business combination. The weighted average input assumptions used and resulting fair values were as follows for the three months ended August 31, 2009 and 2008:

	Three Months Ended	
	August 31,	2008
	2009	2008
Expected life (in years)	5.3	5.4
Risk-free interest rate	2.5%	3.4%
Volatility	32%	36%
Dividend yield	1.0%	
Weighted-average fair value of grants	\$ 6.33	\$ 7.86

The expected life input is based on historical exercise patterns and post-vesting termination behavior, the risk-free interest rate input is based on United States Treasury instruments and the volatility input is calculated based on the implied volatility of our longest-term, traded options. Our expected dividend rate was zero prior to our first dividend declaration on March 18, 2009 as we did not historically pay cash dividends on our common stock and did not anticipate doing so for the foreseeable future for grants issued prior to March 18, 2009. For grants issued subsequent to March 18, 2009, we used an annualized dividend yield based on the per share dividend declared by our Board of Directors.

10. INCOME TAXES

The effective tax rate for the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Our provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to state taxes and earnings considered as indefinitely reinvested in foreign operations. Our effective tax rate was 28.0% and 25.4% for the three months ended August 31, 2009 and 2008, respectively.

Domestically, U.S. federal and state taxing authorities are currently examining income tax returns of Oracle and various acquired entities for years through fiscal 2007. Our U.S. federal and, with some exceptions, our state income tax returns have been examined for all years prior to fiscal 2000, and we are no longer subject to audit for those periods.

Internationally, tax authorities for numerous non-U.S. jurisdictions are also examining returns affecting unrecognized tax benefits. With some exceptions, we are generally no longer subject to tax examinations in non-U.S. jurisdictions for years prior to fiscal 1998.

We believe that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits and that any settlement will not have a material adverse effect on our consolidated financial position or results of operations; however, there can be no assurances as to the actual outcomes.

We previously negotiated three unilateral Advance Pricing Agreements with the U.S. Internal Revenue Service (IRS) that cover many of our intercompany transfer pricing issues and preclude the IRS from making a transfer pricing adjustment within the scope of these agreements. These agreements are effective for fiscal years through May 31, 2006. We have submitted to the IRS a request for renewal of this Advance Pricing Agreement for the years ending May 31, 2007 through May 31, 2011. However, these agreements do not cover all elements of our transfer pricing and do not bind tax authorities outside the United States. We have finalized one bilateral Advance Pricing Agreement, which was effective for the years ending May 31, 2002 through May 31, 2006 and we have submitted a renewal for the years ending May 31, 2007 through May 31, 2011. There can be no guarantee that such negotiations will result in an agreement. We concluded an additional bilateral agreement to cover the period from June 1, 2001 through January 25, 2008.

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11. SEGMENT INFORMATION

FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. We are organized geographically and by line of business. While our Chief Executive Officer evaluates results in a number of different ways, the line of business management structure is the primary basis for which the allocation of resources and financial results are assessed. We have two businesses, software and services, which are further divided into five operating segments. Our software business is comprised of two operating segments: (1) new software licenses and (2) software license updates and product support. Our services business is comprised of three operating segments: (1) consulting, (2) On Demand and (3) education.

The new software licenses line of business is engaged in the licensing of database and middleware software as well as applications software. Database and middleware software includes database management software, application server software, business intelligence software, identification and access management software, content management software, portal and user interaction software, Service-Oriented Architecture and business process management software, data integration software and development tools. Applications software provides enterprise information that enables companies to manage their business cycles and provide intelligence in functional areas such as customer relationship management, financials, human resources, maintenance management, manufacturing, marketing, order fulfillment, product lifecycle management, enterprise project portfolio management, enterprise performance management, procurement, sales, services, enterprise resource planning and supply chain planning. The software license updates and product support line of business provides customers with rights to unspecified software product upgrades and maintenance releases, internet access to technical content, as well as internet and telephone access to technical support personnel during the support period. In addition, the software license updates and product support line of business offers customers Oracle Unbreakable Linux Support, which provides enterprise level support for the Linux operating system, and also offers support for Oracle VM server virtualization software.

The consulting line of business provides services to customers in business strategy and analysis, business process simplification, solutions integration and the implementation, enhancement and upgrade of our database, middleware and applications software. On Demand includes Oracle On Demand and Advanced Customer Services. Oracle On Demand provides multi-featured software and hardware management and maintenance services for customers that deploy our database, middleware and applications software at our data center facilities, select partner data centers or customer facilities. Advanced Customer Services consists of solution lifecycle management services, database and application management services, industry-specific solution support centers and remote and on-site expert services. The education line of business provides instructor-led, media-based and internet-based training in the use of our database, middleware and applications software.

We do not track our assets by operating segments. Consequently, it is not practical to show assets by operating segments results.

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The following table presents a summary of our businesses and operating segments results:

(in millions)	Three Months Ended August 31,	
	2009	2008
New software licenses:		
Revenues ⁽¹⁾	\$ 1,026	\$ 1,234
Sales and distribution expenses	812	968
Margin ⁽²⁾	\$ 214	\$ 266
Software license updates and product support:		
Revenues ⁽¹⁾	\$ 3,126	\$ 3,026
Cost of services	208	264
Margin ⁽²⁾	\$ 2,918	\$ 2,762
Total software business:		
Revenues ⁽¹⁾	\$ 4,152	\$ 4,260
Expenses	1,020	1,232
Margin ⁽²⁾	\$ 3,132	\$ 3,028
Consulting:		
Revenues ⁽¹⁾	\$ 659	\$ 858
Cost of services	570	756
Margin ⁽²⁾	\$ 89	\$ 102
On Demand:		
Revenues ⁽¹⁾	\$ 180	\$ 195
Cost of services	123	145
Margin ⁽²⁾	\$ 57	\$ 50
Education:		
Revenues ⁽¹⁾	\$ 72	\$ 109
Cost of services	56	79
Margin ⁽²⁾	\$ 16	\$ 30
Total services business:		
Revenues ⁽¹⁾	\$ 911	\$ 1,162
Cost of services	749	980
Margin ⁽²⁾	\$ 162	\$ 182
Totals:		
Revenues ⁽¹⁾	\$ 5,063	\$ 5,422

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Expenses	1,769	2,212
Margin ⁽²⁾	\$ 3,294	\$ 3,210

(1) Operating segment revenues differ from the external reporting classifications due to certain software license products that are classified as service revenues for management reporting purposes. Additionally, software license updates and product support revenues for management reporting included \$9 million and \$91 million of revenues that we did not recognize in the accompanying condensed consolidated statements of operations for the three months ended August 31, 2009 and 2008, respectively. See Note 7 for an explanation of these adjustments and the following table for a reconciliation of operating segment revenues to total revenues.

(2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, information technology, marketing and partner programs, and corporate and general and administrative expenses incurred in support of the lines of business. Additionally, the margins do not reflect the amortization of intangible assets, acquisition related and other expenses, restructuring costs, or stock-based compensation.

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The following table reconciles operating segment revenues to total revenues as well as operating segment margin to income before provision for income taxes:

(in millions)	Three Months Ended August 31,	
	2009	2008
Total revenues for reportable segments	\$ 5,063	\$ 5,422
Software license updates and product support revenues ⁽¹⁾	(9)	(91)
Total revenues	\$ 5,054	\$ 5,331
 Total margin for reportable segments	 \$ 3,294	 \$ 3,210
Software license updates and product support revenues ⁽¹⁾	(9)	(91)
Product development and information technology expenses	(716)	(767)
Marketing and partner program expenses	(94)	(94)
Corporate and general and administrative expenses	(162)	(166)
Amortization of intangible assets	(431)	(413)
Acquisition related and other	(6)	(49)
Restructuring	(48)	(14)
Stock-based compensation	(84)	(86)
Interest expense	(179)	(159)
Non-operating income, net	(3)	73
 Income before provision for income taxes	 \$ 1,562	 \$ 1,444

⁽¹⁾ Software license updates and product support revenues for management reporting include \$9 million and \$91 million of revenues that we did not recognize in the accompanying condensed consolidated statements of operations for the three months ended August 31, 2009 and 2008, respectively. See Note 7 for an explanation of these adjustments and this table for a reconciliation of operating segment revenues to total revenues.

12. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock awards and shares issuable under the employee stock purchase plan using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

(in millions, except per share data)	Three Months Ended August 31,	
	2009	2008

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Net income	\$ 1,124	\$ 1,077
Weighted average common shares outstanding	5,009	5,152
Dilutive effect of employee stock plans	54	83
Dilutive weighted average common shares outstanding	5,063	5,235
Basic earnings per share	\$ 0.22	\$ 0.21
Diluted earnings per share	\$ 0.22	\$ 0.21
Shares subject to anti-dilutive stock options excluded from calculation ⁽¹⁾	201	143

⁽¹⁾ These weighted shares relate to anti-dilutive stock options as calculated using the treasury stock method (described above) and could be dilutive in the future.

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13. LEGAL PROCEEDINGS

Securities Class Action

Stockholder class actions were filed in the United States District Court for the Northern District of California against us and our Chief Executive Officer on and after March 9, 2001. Between March 2002 and March 2003, the court dismissed plaintiffs consolidated complaint, first amended complaint and a revised second amended complaint. The last dismissal was with prejudice. On September 1, 2004, the United States Court of Appeals for the Ninth Circuit reversed the dismissal order and remanded the case for further proceedings. The revised second amended complaint named our Chief Executive Officer, our then Chief Financial Officer (who currently is Chairman of our Board of Directors) and a former Executive Vice President as defendants. This complaint was brought on behalf of purchasers of our stock during the period from December 14, 2000 through March 1, 2001. Plaintiffs alleged that the defendants made false and misleading statements about our actual and expected financial performance and the performance of certain of our applications products, while certain individual defendants were selling Oracle stock in violation of federal securities laws. Plaintiffs further alleged that certain individual defendants sold Oracle stock while in possession of material non-public information. Plaintiffs also allege that the defendants engaged in accounting violations. On July 26, 2007, defendants filed a motion for summary judgment, and plaintiffs filed a motion for partial summary judgment against all defendants and a motion for summary judgment against our Chief Executive Officer. On August 7, 2007, plaintiffs filed amended versions of these motions. On October 5, 2007, plaintiffs filed a motion seeking a default judgment against defendants or various other sanctions because of defendants alleged destruction of evidence. A hearing on all these motions was held on December 20, 2007. On April 7, 2008, the case was reassigned to a new judge. On June 27, 2008, the court ordered supplemental briefing on plaintiffs sanctions motion. On September 2, 2008, the court issued an order denying plaintiffs motion for partial summary judgment against all defendants. The order also denied in part and granted in part plaintiffs motion for sanctions. The court denied plaintiffs request that judgment be entered in plaintiffs favor due to the alleged destruction of evidence, and the court found that no sanctions were appropriate for several categories of evidence. The court found that sanctions in the form of adverse inferences were appropriate for two categories of evidence: e-mails from our Chief Executive Officer s account, and materials that had been created in connection with a book regarding our Chief Executive Officer. The court then denied defendants motion for summary judgment and plaintiffs motion for summary judgment against our Chief Executive Officer and directed the parties to revise and re-file these motions to clearly specify the precise contours of the adverse inferences that should be drawn, and to take these inferences into account with regard to the propriety of summary judgment. The court also directed the parties to address certain legal issues in the briefing.

On October 13, 2008, the parties participated in a court-ordered mediation, which did not result in a settlement. On October 20, 2008, defendants filed a motion for summary judgment, and plaintiffs filed a motion for summary judgment against our Chief Executive Officer. The parties also filed several motions challenging the admissibility of the testimony of various expert witnesses. Opposition briefs were filed on November 17, 2008, and reply briefs were filed on December 12, 2008. A hearing on all these motions was held on February 13, 2009.

On June 16, 2009, the court issued an order granting defendants motion for summary judgment and denying plaintiffs motion for summary judgment against our Chief Executive Officer, and it entered a judgment dismissing the entire case with prejudice. On July 14, 2009, plaintiffs filed a notice of appeal. Plaintiffs seek unspecified damages plus interest, attorneys fees and costs, and equitable and injunctive relief.

EpicRealm/Parallel Networks Intellectual Property Litigation

On June 30, 2006, we filed a declaratory judgment action against EpicRealm Licensing, LP (EpicRealm) in the United States District Court, District of Delaware, seeking a judicial declaration of noninfringement and

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(Unaudited)

invalidity of U.S. Patent Nos. 5,894,554 (the 554 Patent) and 6,415,335B1 (the 335 Patent). We filed the lawsuit following the resolution of an indemnification claim by one of our customers related to EpicRealm's assertion of the 554 Patent and 335 Patent against the customer in a patent infringement case in the United States District Court for the Eastern District of Texas.

On April 13, 2007, EpicRealm filed an Answer and Counterclaim in which it: (1) denies our noninfringement and invalidity allegations; (2) alleges that we have willfully infringed, and are willfully infringing, the 554 Patent and 335 Patent; and (3) requests a permanent injunction, an award of unspecified money damages, interest, attorneys' fees, and costs. On May 7, 2007, we filed an Answer to EpicRealm's infringement counterclaim, denying EpicRealm's infringement allegations and asserting affirmative defenses. In August 2007, the patents-in-suit were sold to Parallel Networks, LLC, which thereafter substituted in as the defendant in place of EpicRealm.

The parties have completed discovery and filed briefing on claim construction and summary judgment motions. A Markman hearing and oral argument on summary judgment motions were held October 3, 2008. A court-ordered mediation was held on October 8, 2008, which did not result in a settlement. On December 4, 2008, the court issued an order granting summary judgment that our Web Cache, Internet Application Server, and RAC Database do not infringe the patents. The court also denied our motion for summary judgment that the patents are invalid, and denied in part and granted in part Parallel Networks's motion for summary judgment that certain prior art references do not invalidate the patents through anticipation. Trial was scheduled to begin on January 12, 2009, on issues of invalidity and inequitable conduct. On December 23, 2008, the parties reached an agreement allowing Parallel Networks to immediately appeal the court's summary judgment order and preserving Oracle's invalidity and inequitable conduct claims in the event that the matter is remanded for trial at a later time. On January 23, 2009, Parallel Networks filed a notice of appeal, and filed its opening brief on April 10, 2009. A court-ordered mediation was held on June 1, 2009, which did not result in a settlement. Oracle's opposition on appeal was filed on September 10, 2009, and EpicRealm's reply is due October 9, 2009. We will continue to pursue this action vigorously.

SAP Intellectual Property Litigation

On March 22, 2007, Oracle Corporation, Oracle USA, Inc. and Oracle International Corporation (collectively, Oracle) filed a complaint in the United States District Court for the Northern District of California against SAP AG, its wholly owned subsidiary, SAP America, Inc., and its wholly owned subsidiary, TomorrowNow, Inc., (collectively, the SAP Defendants) alleging violations of the Federal Computer Fraud and Abuse Act and the California Computer Data Access and Fraud Act, civil conspiracy, trespass, conversion, violation of the California Unfair Business Practices Act, and intentional and negligent interference with prospective economic advantage. Oracle alleged that SAP unlawfully accessed Oracle's Customer Connection support website and improperly took and used Oracle's intellectual property, including software code and knowledge management solutions. The complaint seeks unspecified damages and preliminary and permanent injunctive relief. On June 1, 2007, Oracle filed its First Amended Complaint, adding claims for infringement of the federal Copyright Act and breach of contract, and dropping the conversion and separately pled conspiracy claims. On July 2, 2007 the SAP Defendants filed their Answer and Affirmative Defenses, acknowledging that TomorrowNow had made some inappropriate downloads and otherwise denying the claims alleged in the First Amended Complaint. The parties are engaged in discovery and continue to negotiate a Preservation Order. At case management conferences held on February 12, 2008 and April 24, 2008, Oracle advised the Court that Oracle intended to file a Second Amended Complaint, based on new facts learned during the course of discovery.

On July 28, 2008, Oracle filed a Second Amended Complaint, which added additional allegations based on facts learned during discovery. Among the new allegations contained in the Second Amended Complaint, Oracle alleges that TomorrowNow's business model relied on illegal copies of Oracle's underlying software

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August 31, 2009

(Unaudited)

applications and that TomorrowNow used these copies as generic software environments that TomorrowNow then used to create fixes and updates, to service customers and to train employees. The Second Amended Complaint also alleges that these practices may have extended to other Oracle products, including Siebel products.

On October 8, 2008, Oracle filed a Third Amended Complaint pursuant to stipulation. The Third Amended Complaint made some changes relating to the Oracle plaintiff entities (removing Oracle Corporation and adding Oracle Systems Corporation, Oracle EMEA Ltd., and J.D. Edwards Europe Ltd.) but did not change the substantive allegations. On October 15, 2008, the SAP Defendants filed a motion to dismiss portions of the Third Amended Complaint, and after full briefing, the court heard oral argument on November 26, 2008. On December 15, 2008, the court issued an order granting in part and denying in part the motion. The court dismissed with prejudice the claims asserted by plaintiffs JD Edwards Europe Ltd. and Oracle Systems Corporation, and denied the motion in all other respects. The parties are engaged in discovery.

On July 15, 2009, Oracle filed a motion for leave to file a Fourth Amended Complaint to add claims for infringement of Oracle's Siebel software and database programs. The Court granted Oracle's motion and Oracle filed its Fourth Amended Complaint on August 18, 2009. The SAP Defendants filed an Answer to Oracle's Fourth Amended Complaint on August 26, 2009.

On August 26, 2009, the SAP Defendants filed an early motion for summary judgment directed to Oracle's damages theory. Oracle's opposition is due September 23, 2009. That motion is set to be heard on October 28, 2009.

On June 11, 2009, the court entered a Stipulated Revised Case Management and Pretrial Order, pursuant to which the court set a new trial date of November 2010.

Other Litigation

We are party to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including proceedings and claims that relate to acquisitions we have completed or to companies we have acquired or are attempting to acquire. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any of these claims or any of the above mentioned legal matters will have a materially adverse effect on our consolidated financial position, results of operations or cash flows.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations with an overview of our key operating business segments and significant trends. This overview is followed by a summary of our critical accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then provide a more detailed analysis of our results of operations and financial condition.

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially. When used in this report, the words "will," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document. You should carefully review the risk factors described in other documents we file from time to time with the U.S. Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for our fiscal year ended May 31, 2009 and our other Quarterly Reports on Form 10-Q to be filed by us in our fiscal year 2010, which runs from June 1, 2009 to May 31, 2010.

Business Overview

We are the world's largest enterprise software company. We develop, manufacture, market, distribute and service database and middleware software as well as applications software designed to help our customers manage and grow their business operations. We believe our internal, or organic, growth and continued innovation with respect to our software products and services offerings provide the foundation for our long-term strategic plan. We invest billions of dollars in research and development each year to enhance our existing portfolio of products and services and to develop new products, features and services. Our internally developed offerings have been enhanced by our acquisitions.

We are organized into two businesses, software and services, which are further divided into five operating segments. Each of these operating segments has unique characteristics and faces different opportunities and challenges. Although we report our actual results in U.S. Dollars, we conduct a significant number of transactions in currencies other than U.S. Dollars. Therefore, we present constant currency information to provide a framework for assessing how our underlying business performed excluding the effect of foreign currency rate fluctuations. An overview of our five operating segments follows.

Software Business

Our software business, which represented 82% of our total revenues on a trailing 4-quarter basis, is comprised of two operating segments: (1) new software license revenues and (2) software license updates and product support revenues. On a constant currency basis we expect that our software business revenues generally will continue to increase due to continued demand for our products, including the high percentage of customers that renew their software license update and product support contracts, and due to our acquisitions, which should allow us to grow our profits and continue to make investments in research and development.

New Software Licenses: We license our database and middleware as well as our applications software to businesses of many sizes, government agencies, educational institutions and resellers. The growth in new software license revenues that we report is affected by the strength of general economic and business conditions, governmental budgetary constraints, the competitive position of our software products, our acquisitions and foreign currency fluctuations. Our new software license business is also characterized by long sales cycles. The timing of a few large software license transactions can substantially affect our quarterly new software license revenues. Since our new software license revenues in a particular quarter can be difficult to predict as a result of the timing of a few large software license transactions, we believe that analysis of new software license revenues on a trailing 4-quarter period provides additional visibility into the underlying performance of our new software license business. New software license revenues represented 30% of our total revenues on a trailing 4-quarter basis. Our new software license margins have historically trended upward over the course of the four quarters

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within a particular fiscal year due to the historical upward trend of our new software license revenues over the corresponding quarterly periods and because our costs are predominantly fixed in the short term. However, our new software license margins have been, and will continue to be, affected by the amortization of intangible assets associated with companies that we have acquired.

Competition in the software business is intense. Our goal is to maintain a first or second position in each of our software product categories and certain industry segments as well as to grow our software revenues faster than our competitors. We believe that the features and functionality of our software products are as strong as they have ever been. We have focused on lowering the total cost of ownership of our software products by improving integration, decreasing installation times, lowering administration costs and improving the ease of use. In addition, our broad portfolio of product offerings (many of which have been acquired in recent years) helps us to offer customers the ability to gain efficiencies by consolidating their IT software stack with a single vendor, which reduces the number of disparate software vendors with which customers interact. Reducing the total cost of ownership of our products provides our customers with a higher return on their IT investments, which we believe creates more demand for our products and services and provides us with a competitive advantage. We have also continued to focus on improving the overall quality of our software products and service levels. We believe this will lead to higher customer satisfaction and loyalty and help us achieve our goal of becoming our customers' leading technology advisor.

Software License Updates and Product Support: Customers that purchase software license updates and product support are granted rights to unspecified product upgrades and maintenance releases issued during the support period, as well as technical support assistance. In addition, we offer Oracle Unbreakable Linux Support, which provides enterprise level support for the Linux operating system, and also offer support for our Oracle VM server virtualization software. Substantially all of our customers renew their software license updates and product support contracts annually. The growth of software license updates and product support revenues is primarily influenced by three factors: (1) the percentage of our support contract customer base that renews its support contracts, (2) the amount of new support contracts sold in connection with the sale of new software licenses, and (3) the amount of support contracts assumed from companies we have acquired.

Software license updates and product support revenues, which represented approximately 52% of our total revenues on a trailing 4-quarter basis, is our highest margin business unit. Support margins over the trailing 4-quarters were 84%, and accounted for 82% of our total margins over the same period. Our software license update and product support margins have been affected by fair value adjustments relating to support obligations assumed in business acquisitions (described further below) and by amortization of intangible assets. However, over the longer term, we believe that software license updates and product support revenues and margins will grow for the following reasons:

substantially all of our customers, including customers from acquired companies, renew their support contracts when eligible for renewal;

substantially all of our customers purchase license updates and product support contracts when they buy new software licenses, resulting in a further increase in our support contract base. Even if new software license revenues growth was flat or declined modestly, software license updates and product support revenues would most likely continue to grow in comparison to the corresponding prior year periods assuming renewal and cancellation rates and foreign currency rates remained relatively constant since substantially all new software license transactions add to our support contract base; and

our acquisitions have increased our support contract base, as well as the portfolio of products available to be licensed and supported. We record adjustments to reduce support obligations assumed in business combinations to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize software license updates and product support revenues related to support contracts that would have been otherwise recorded by the acquired businesses as independent entities in the amount of \$9 million and \$91 million for the three months ended August 31, 2009 and 2008, respectively. To the extent underlying support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the support contracts over the support periods, the majority of which are one year.

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Services Business

Our services business consists of consulting, On Demand and education. Our services business, which represented 18% of our total revenues on a trailing 4-quarter basis, has significantly lower margins than our software business.

Consulting: Our consulting line of business provides services to customers in business/IT strategy alignment; business process simplification; solution integration; and product implementation, enhancements, and upgrades of our database, middleware and applications software. The amount of consulting revenues recognized tends to lag software revenue recognition by several quarters since consulting services, if purchased, are typically performed after the purchase of new software licenses. Our consulting revenues are dependent upon general economic conditions and the level of new software license sales, particularly our application product sales. To the extent we are able to grow our new software license revenues, in particular our application product revenues, we would also generally expect to be able to eventually grow our consulting revenues.

On Demand: On Demand includes Oracle On Demand and our Advanced Customer Services offerings. We believe that our On Demand offerings provide our customers flexibility in how they manage their IT environments and an additional opportunity to lower their total cost of ownership and can therefore provide us with a competitive advantage. Recently, we have grown the base of customers that have purchased certain of our On Demand services while managing our expenses to a consistent or lower level in comparison to the prior year periods. To the extent we are able to continue this trend, we would expect our On Demand revenues and margins to increase. We have made and plan to continue to make investments in our On Demand business to support current and future revenue growth, which historically has negatively impacted On Demand margins and could do so in the future.

Education: The purpose of our education services is to further the adoption and usage of our software products by our customers and to create opportunities to grow our software revenues. Education revenues are impacted by general economic conditions, personnel reductions in our customers' information technology departments, tighter controls over discretionary spending and greater use of outsourcing solutions. We believe the recent global economic environment has unfavorably affected customer demand for our education services in comparison to prior year periods, which has negatively impacted our revenues and margins.

Acquisitions

An active acquisition program is another important element of our corporate strategy. In recent years, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies.

On April 19, 2009, we entered into an Agreement and Plan of Merger (Merger Agreement) with Sun Microsystems, Inc. (Sun), a provider of enterprise computing systems, software and services. Pursuant to the Merger Agreement, our wholly owned subsidiary will merge with and into Sun and Sun will become a wholly owned subsidiary of Oracle. Upon the consummation of the merger, each share of Sun common stock will be converted into the right to receive \$9.50 in cash. In addition, options to acquire Sun common stock, Sun restricted stock unit awards and other equity-based awards denominated in shares of Sun common stock outstanding immediately prior to the consummation of the merger will generally be converted into options, restricted stock unit awards or other equity-based awards, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of Sun is approximately \$7.4 billion. Completion of this transaction is subject to customary closing conditions, including regulatory clearance under the applicable antitrust laws of the European Commission and other jurisdictions.

We believe our acquisition program supports our long-term strategic direction, strengthens our competitive position, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings, and increases stockholder value. We expect to continue to acquire companies, products, services and technologies. See Note 2 of Notes to Condensed Consolidated Financial Statements for additional information related to our recent acquisitions.

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We believe we can fund our pending and future acquisitions with our internally available cash, cash equivalents and marketable securities, cash generated from operations, amounts available under our existing debt capacity, additional borrowings or from the issuance of additional securities. We estimate the financial impact of any potential acquisition with regard to earnings, operating margin, cash flow and return on invested capital targets before deciding to move forward with an acquisition.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Business Combinations

Goodwill and Intangible Assets Impairment Assessments

Accounting for Income Taxes

Legal and Other Contingencies

Stock-Based Compensation

Allowances for Doubtful Accounts

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. Our senior management has reviewed these critical accounting policies and related disclosures with the Finance and Audit Committee of the Board of Directors.

During the first quarter of fiscal 2010, we adopted certain new accounting pronouncements that affected our critical accounting policies and estimates, namely FASB Statement No. 141 (revised 2007), *Business Combinations*, which affected our Business Combinations and Accounting for Income Taxes policies. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended May 31, 2009 for a more complete discussion of our critical accounting policies and estimates in these areas for fiscal 2010, as well as our other critical accounting policies and estimates. There were no other significant changes in our critical accounting policies and estimates.

Results of Operations

Impact of Acquisitions

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The comparability of our operating results in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 is impacted by our acquisitions.

In our discussion of changes in our results of operations from the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, we quantify the contribution of our acquired products (for acquisitions that were completed since the beginning of the first quarter of fiscal 2009) to the growth in new software license revenues and to the growth in software license updates and product support revenues. We also present supplemental

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disclosures related to certain charges. Although certain revenue and expense contributions from our acquisitions are quantifiable, we are unable to identify the following:

the contribution of the significant majority of our services revenues from acquired companies during the first quarter of fiscal 2010 and fiscal 2009 as the significant majority of these services had been fully integrated into our existing operations; and

the contribution of the significant majority of the expenses associated with acquired products and services during the first quarter of fiscal 2010 and fiscal 2009 as the significant majority of these expenses had been fully integrated into our existing operations.

We caution readers that, while pre- and post-acquisition comparisons as well as the quantified amounts themselves may provide indications of general trends, the information has inherent limitations for the following reasons:

the quantifications cannot address the substantial effects attributable to our sales force integration efforts, in particular the effect of having a single sales force offer similar products. We believe that if our sales forces had not been integrated, the relative mix of products sold would have been different;

our acquisitions in the periods presented did not result in our entry into a new line of business or product category therefore, we provided multiple products with substantially similar features and functionality; and

although substantially all of our customers, including customers from acquired companies, renew their software license updates and product support contracts when the contracts are eligible for renewal, amounts shown as support deferred revenues in our supplemental disclosure related to certain charges (see below) are not necessarily indicative of revenue improvements we will achieve upon contract renewal to the extent customers do not renew.

Seasonality

Our quarterly revenues have historically been affected by a variety of seasonal factors, including the structure of our sales force incentive compensation plans, which are common in the software industry. The operating margins of our businesses are affected by seasonal factors in a similar manner as our revenues (in particular, our new software licenses business) as certain expenses within our cost structure are relatively fixed in the short term.

Constant Currency Presentation

Our international operations have provided and will continue to provide a significant portion of our total revenues and expenses. As a result, total revenues and expenses including our non-operating income and expenses, will continue to be affected by changes in the U.S. Dollar against major international currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the percent change in the results from one period to another period in this Quarterly Report using constant currency disclosure. To present this information, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e. the rates in effect on May 31, 2009, which was the last day of our prior fiscal year) rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on August 31, 2009 and August 31, 2008, our financial statements would reflect reported revenues of \$1.42 million in the first quarter of fiscal 2010 (using 1.42 as the month-end average exchange rate for the period) and \$1.47 million in the first quarter of fiscal 2009 (using 1.47 as the month-end average exchange rate for the period). The constant currency presentation would translate the results for the first quarter of fiscal 2010 using the May 31, 2009 exchange rate and indicate, in this example, no change in revenues during the period. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

Table of Contents**Total Revenues and Operating Expenses**

	Three Months Ended August 31, Percent Change			
(Dollars in millions)	2009	Actual	Constant	2008
Total Revenues by Geography:				
Americas	\$ 2,671	-1%	1%	\$ 2,687
EMEA ⁽¹⁾	1,642	-10%	-1%	1,830
Asia Pacific ⁽²⁾	741	-9%	-9%	814
Total revenues	5,054	-5%	-1%	5,331
Total Operating Expenses	3,314	-13%	-9%	3,810
Total Operating Margin	\$ 1,740	14%	21%	\$ 1,521
Total Operating Margin %	34%			29%
% Revenues by Geography:				
Americas	53%			51%
EMEA	32%			34%
Asia Pacific	15%			15%
Total Revenues by Business:				
Software	\$ 4,145	-1%	4%	\$ 4,172
Services	909	-22%	-18%	1,159
Total revenues	\$ 5,054	-5%	-1%	\$ 5,331
% Revenues by Business:				
Software	82%			78%
Services	18%			22%

(1) Comprised of Europe, the Middle East and Africa

(2) Asia Pacific includes Japan

Our operating results for the first quarter of fiscal 2010 were impacted by the strengthening of the U.S. Dollar relative to other major international currencies. These currency variances resulted in a reduction to our total revenues of 4 percentage points during the first quarter of fiscal 2010. On a constant currency basis, total revenues decreased slightly in the first quarter of fiscal 2010 as our growth in total software revenues was offset by a reduction in our total services revenues. Excluding the effect of currency rate fluctuations, our total software revenues increased by 4% due to an 11% increase in our software license updates and product support revenues, while our total services revenues declined by 18%. Excluding the effect of currency rate fluctuations, total revenues in the Americas increased by 1%, while total revenues in the EMEA and Asia Pacific regions declined by 1% and 9%, respectively.

Total operating expenses were favorably affected by foreign currency rate fluctuations of 4 percentage points in the first quarter of fiscal 2010. Excluding the effect of currency rate fluctuations, the 9% decrease in total operating expenses in the first quarter of fiscal 2010 is primarily due to reductions in salary and external contractor expenses in our services business to align our cost structure with current revenues, and decreased variable compensation and travel and entertainment expenses (including reimbursable travel and entertainment expenses) across all of our operating segments.

Excluding the effects of unfavorable foreign currency variations of 7 percentage points, total operating margin and total operating margin as a percentage of total revenues increased during the first quarter of fiscal 2010 as our total operating expenses declined at a higher rate than our total revenues.

Table of Contents**Supplemental Disclosure Related to Certain Charges**

To supplement our consolidated financial information we believe the following information is helpful to an overall understanding of our past financial performance and prospects for the future. You should review the introduction under **Impact of Acquisitions** (above) for a discussion of the inherent limitations in comparing pre- and post-acquisition information.

Our operating results include the following business combination accounting adjustments and expenses related to acquisitions as well as certain other significant expense items:

(in millions)	Three Months Ended August 31,	
	2009	2008
Support deferred revenues ⁽¹⁾	\$ 9	\$ 91
Amortization of intangible assets ⁽²⁾	431	413
Acquisition related and other ⁽³⁾⁽⁵⁾	6	49
Restructuring ⁽⁴⁾	48	14
Stock-based compensation ⁽⁵⁾	84	86
Income tax effects ⁽⁶⁾	(162)	(186)
	\$ 416	\$ 467

(1) In connection with purchase price allocations related to our acquisitions, we have estimated the fair values of the support obligations assumed. Due to our application of business combination accounting rules, we did not recognize software license updates and product support revenues related to support contracts that would have otherwise been recorded by the acquired businesses as independent entities, in the amounts of \$9 million and \$91 million in the first quarter of fiscal 2010 and fiscal 2009, respectively. Approximately \$15 million of estimated software license updates and product support revenues related to support contracts assumed will not be recognized during the remainder of fiscal 2010 that would have otherwise been recognized by the acquired businesses as independent entities due to the application of these business combination accounting rules. To the extent customers renew these support contracts, we expect to recognize revenues for the full contract value over the support renewal period.

(2) Represents the amortization of intangible assets acquired in connection with our acquisitions, primarily BEA Systems, Inc., Hyperion Solutions Corporation, Siebel Systems, Inc. and PeopleSoft, Inc. As of August 31, 2009, estimated future amortization expenses related to intangible assets, excluding the impact of additional intangible assets resulting from any subsequent acquisitions, such as from our proposed acquisition of Sun, are as follows (in millions):

Remainder of Fiscal 2010	\$ 1,204
Fiscal 2011	1,388
Fiscal 2012	1,239
Fiscal 2013	1,090
Fiscal 2014	890
Fiscal 2015	703
Thereafter	372
Total	\$ 6,886

(3) Acquisition related and other expenses primarily consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments after the measurement period or purchase price allocation period has ended, and certain other operating expenses, net. As a result of our adoption of Statement 141(R) as of the beginning of fiscal 2010, certain acquisition related and other expenses are now recorded as expenses in our statements of operations that had been historically included as a part of the consideration transferred and capitalized as a part of our accounting for acquisitions pursuant to previous accounting rules, primarily direct transaction costs such as professional services fees (see further discussion in **Critical Accounting Policies and Estimates** in Part II, Item 7 of our Annual Report on Form 10-K for our

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fiscal year ended May 31, 2009).

- (4) Restructuring expenses during the first quarter of fiscal 2010 relate to Oracle employee severance and facility exit costs in connection with our Fiscal 2009 Oracle Restructuring Plan that was initiated in the third quarter of fiscal 2009, and amended in the first quarter of fiscal 2010. Restructuring expenses during the first quarter of fiscal 2009 relate to costs

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incurred pursuant to our Fiscal 2008 Oracle Restructuring Plan that was initiated in the second quarter of fiscal 2008. As a result of our fiscal 2010 adoption of Statement 141(R), in connection with any acquisition that we close prospectively, we will record involuntary termination and other exit costs associated with the acquisition to restructuring expenses, which is a change in the accounting in comparison to prior year periods (see further discussion in Critical Accounting Policies and Estimates in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended May 31, 2009).

- (5) Stock-based compensation is included in the following operating expense line items of our condensed consolidated statements of operations (in millions):

	Three Months Ended August 31,	
	2009	2008
Sales and marketing	\$ 16	\$ 19
Software license updates and product support	4	3
Cost of services	3	3
Research and development	32	37
General and administrative	29	24
Subtotal	84	86
Acquisition related and other		5
Total stock-based compensation	\$ 84	\$ 91

Stock-based compensation included in acquisition related and other expenses resulted from unvested stock awards assumed from acquisitions whose vesting was accelerated upon termination of the employees pursuant to the terms of those stock awards.

- (6) The income tax effects presented were calculated as if the above described charges were not included in our results of operations for each of the respective periods presented. Income tax effects were calculated reflecting an effective tax rate of 28.0% for the first quarter of fiscal 2010 and 26.4% for the first quarter of fiscal 2009. The income tax effects in the first quarter of fiscal 2009 were calculated using a rate that excluded the effect of an adjustment to our non-current deferred tax liability associated with acquired intangible assets.

Table of Contents**Software**

Software includes new software licenses and software license updates and product support.

New Software Licenses: New software license revenues represent fees earned from granting customers licenses to use our database and middleware as well as our application software products. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market our products through indirect channels. Sales and marketing expenses are largely personnel related and include commissions earned by our sales force for the sale of our software products, and also include marketing program costs and amortization of intangible assets.

	Three Months Ended August 31,			
	Percent Change			
(Dollars in millions)	2009	Actual	Constant	2008
<i>New Software License Revenues:</i>				
Americas	\$ 495	-7%	-5%	\$ 536
EMEA	314	-25%	-20%	420
Asia Pacific	219	-22%	-22%	281
Total revenues	1,028	-17%	-14%	1,237
<i>Expenses:</i>				
Sales and marketing ⁽¹⁾	944	-14%	-11%	1,093
Stock-based compensation	16	-19%	-19%	19
Amortization of intangible assets ⁽²⁾	206	6%	6%	193
Total expenses	1,166	-11%	-7%	1,305
<i>Total Margin</i>	\$ (138)	-97%	-127%	\$ (68)
<i>Total Margin %</i>	-13%			-5%
<i>% Revenues by Geography:</i>				
Americas	48%			43%
EMEA	31%			34%
Asia Pacific	21%			23%
<i>Revenues by Product:</i>				
Database and middleware	\$ 693	-22%	-20%	\$ 888
Applications	317	-4%	0%	331
Total revenues by product	1,010	-17%	-14%	1,219
Other revenues	18	1%	3%	18
Total new software license revenues	\$ 1,028	-17%	-14%	\$ 1,237
<i>% Revenues by Product:</i>				
Database and middleware	69%			73%
Applications	31%			27%

⁽¹⁾ Excluding stock-based compensation

⁽²⁾ Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations
 New software license revenues were unfavorably affected by foreign currency rate fluctuations of 3 percentage points in the first quarter of fiscal 2010. Excluding the effect of currency rate fluctuations, total new software license revenues decreased by 14% in the first quarter of fiscal 2010

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due to database and middleware revenues declines across all major geographic regions. Applications new software license revenues remained flat compared with the prior year period.

Excluding the effect of currency rate fluctuations of 2 percentage points, database and middleware revenues declined 20% in the first quarter of fiscal 2010 and 2% over the trailing 4-quarters. The decline in our database and middleware revenues was affected by the high growth rates in our database and middleware revenues against

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which the results for the aforementioned periods are compared and weaker global economic conditions that we believe impacted customers purchasing decisions. In addition, our database and middleware products are sold with or are embedded in a number of other products developed and marketed by other vendors, including products from other software applications vendors, and our revenues earned from certain of these vendors decreased in the first quarter of fiscal 2010 as these vendors' own revenues decreased. In reported currency, our recently acquired products contributed an incremental \$6 million to our database and middleware revenues in the first quarter of fiscal 2010.

Excluding the effect of currency rate fluctuations of 4 percentage points, applications new software license revenues were flat in the first quarter of fiscal 2010 in comparison to the prior year period. On a constant currency basis, applications revenues decreased 7% over the trailing 4-quarters due to weaker global economic conditions. In reported currency, our recently acquired products contributed an incremental \$15 million to our applications revenues in the first quarter of fiscal 2010.

In reported currency, new software license revenues earned from transactions over \$0.5 million declined by 21% in the first quarter of fiscal 2010 (consistent with the decline in our total new software license revenues) and represented 42% of our new software license revenues in the first quarter of fiscal 2010 in comparison to 44% in the first quarter of fiscal 2009.

Total sales and marketing expenses were favorably impacted by 4 percentage points of currency variations during the first quarter of fiscal 2010. Excluding the effect of currency rate fluctuations, total sales and marketing expenses decreased in the first quarter of fiscal 2010 primarily due to a reduction in variable compensation expenses and lower travel and entertainment expenses resulting from cost management initiatives.

On a constant currency basis, total new software license margin and margin as a percentage of revenues decreased as our new software license revenues declined at a faster rate than our related expenses.

Software License Updates and Product Support: Software license updates grant customers rights to unspecified software product upgrades and maintenance releases issued during the support period. Product support includes internet access to technical content as well as internet and telephone access to technical support personnel in our global support centers. Expenses associated with our software license updates and product support line of business include the cost of providing the support services, largely personnel related expenses, and the amortization of our intangible assets associated with software support contracts and customer relationships obtained from our acquisitions.

(Dollars in millions)	Three Months Ended August 31, Percent Change			
	2009	Actual	Constant	2008
Software License Updates and Product Support Revenues:				
Americas	\$ 1,694	9%	11%	\$ 1,556
EMEA	1,032	1%	13%	1,018
Asia Pacific	391	8%	8%	361
Total revenues	3,117	6%	11%	2,935
Expenses:				
Software license updates and product support ⁽¹⁾	222	-20%	-17%	279
Stock-based compensation	4	9%	9%	3
Amortization of intangible assets ⁽²⁾	213	4%	4%	207
Total expenses	439	-10%	-7%	489
Total Margin	\$ 2,678	9%	15%	\$ 2,446
Total Margin %	86%			83%
% Revenues by Geography:				
Americas	54%			53%
EMEA	33%			35%
Asia Pacific	13%			12%

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(1) Excluding stock-based compensation

(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

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The growth in our software license updates and product support revenues was unfavorably affected by foreign currency rate fluctuations of 5 percentage points in the first quarter of fiscal 2010. Excluding the effect of currency rate fluctuations, software license updates and product support revenues increased in the first quarter of fiscal 2010 as a result of new software licenses sold (with substantially all customers electing to purchase support contracts) during the trailing 4-quarter period, the renewal of substantially all of the customer base eligible for renewal in the current fiscal year and, to a lesser extent, incremental revenues from recent acquisitions. Excluding the effect of currency rate fluctuations, the Americas contributed 53%, EMEA contributed 38% and Asia Pacific contributed 9% to the increase in software license updates and product support revenues.

In reported currency, software license updates and product support revenues in the first quarter of fiscal 2010 include incremental revenues of \$25 million from our recently acquired companies. As a result of our acquisitions, we recorded adjustments to reduce support obligations assumed to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, software license updates and product support revenues related to support contracts in the amounts of \$9 million and \$91 million that would have been otherwise recorded by our acquired businesses as independent entities, were not recognized in the first quarter of fiscal 2010 and 2009, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their support contracts when such contracts are eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full value of these contracts over the support periods, the substantial majority of which are one year.

Total software license updates and product support expenses were favorably impacted by 3 percentage points of currency variations during the first quarter of fiscal 2010. Excluding the effect of currency rate fluctuations, software license updates and product support expenses decreased due to a decrease in variable compensation expenses and a reduction in bad debt expense. Total software license updates and product support margin as a percentage of revenues increased as our revenues grew while our expenses declined.

Services

Services consist of consulting, On Demand and education.

Consulting: Consulting revenues are earned by providing services to customers in the design, implementation, deployment and upgrade of our database and middleware software products as well as applications software products. The cost of providing consulting services consists primarily of employee and external contractor related expenditures.

	Three Months Ended August 31, Percent Change			
(Dollars in millions)	2009	Actual	Constant	2008
Consulting Revenues:				
Americas	\$ 360	-19%	-17%	\$ 444
EMEA	218	-27%	-18%	297
Asia Pacific	85	-32%	-29%	124
Total revenues	663	-23%	-19%	865
Expenses:				
Cost of services ⁽¹⁾	593	-24%	-20%	782
Stock-based compensation	2	14%	14%	2
Amortization of intangible assets ⁽²⁾	9	-9%	-9%	10
Total expenses	604	-24%	-19%	794
Total Margin	\$ 59	-19%	-17%	\$ 71
Total Margin %	9%			8%
% Revenues by Geography:				
Americas	54%			51%
EMEA	33%			35%
Asia Pacific	13%			14%

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(1) Excluding stock-based compensation

(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

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Consulting revenues were unfavorably affected by foreign currency rate fluctuations of 4 percentage points in the first quarter of fiscal 2010. Excluding the effect of currency rate fluctuations, we believe the decline in our consulting revenues was generally due to weaker demand resulting from a deterioration of global economic conditions over the trailing 4-quarters.

Consulting expenses were favorably impacted by 5 percentage points of currency variations during the first quarter of fiscal 2010. Excluding the effect of currency rate fluctuations, consulting expenses decreased during the first quarter due primarily to a reduction in employee and external contractor related expenses as we aligned our cost structure with current revenue levels.

On a constant currency basis, consulting margin decreased in the first quarter of fiscal 2010 as our revenues declined at a greater rate than our expenses while our consulting margin as a percentage of revenues was flat.

On Demand: On Demand includes our Oracle On Demand and Advanced Customer Services offerings. Oracle On Demand provides multi-featured software and hardware management, and maintenance services for our database and middleware as well as our applications software delivered either at our data center facilities, at select partner data centers, or at customer facilities. Advanced Customer Services consists of solution lifecycle management services, database and application management services, industry-specific solution support centers and remote and on-site expert services. The cost of providing On Demand services consists primarily of personnel related expenditures, technology infrastructure expenditures and facilities costs.

(Dollars in millions)	Three Months Ended August 31,			
	2009	Actual	Percent Change Constant	2008
On Demand Revenues:				
Americas	\$ 91	-14%	-12%	\$ 106
EMEA	58	-4%	6%	60
Asia Pacific	31	8%	11%	29
Total revenues	180	-8%	-3%	195
Expenses:				
Cost of services ⁽¹⁾	128	-20%	-16%	159
Stock-based compensation	1	0%	0%	1
Amortization of intangible assets ⁽²⁾	3	0%	0%	3
Total expenses	132	-19%	-16%	163
Total Margin	\$ 48	54%	60%	\$ 32
Total Margin %	27%			16%
% Revenues by Geography:				
Americas	51%			54%
EMEA	32%			31%
Asia Pacific	17%			15%

⁽¹⁾ Excluding stock-based compensation

⁽²⁾ Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

On Demand revenues growth was unfavorably affected by foreign currency rate fluctuations of 5 percentage points in the first quarter of fiscal 2010. Excluding the effects of currency rate fluctuations, On Demand revenues declined slightly.

Excluding the effects of favorable currency fluctuations of 3 percentage points, On Demand expenses decreased primarily due to lower employee related expenses.

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On a constant currency basis, On Demand margins and margins as a percentage of revenues improved as our expenses declined faster than revenues.

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Education: Education revenues are earned by providing instructor-led, media-based and internet-based training in the use of our database and middleware software products as well as our applications software products. Education expenses primarily consist of personnel related expenditures, facilities and external contractor costs.

(Dollars in millions)	Three Months Ended August 31,			
	2009	Percent Change		2008
		Actual	Constant	
Education Revenues:				
Americas	\$ 30	-34%	-33%	\$ 45
EMEA	20	-43%	-37%	35
Asia Pacific	16	-15%	-15%	19
Total revenues	66	-34%	-30%	99
Expenses:				
Cost of services ⁽¹⁾	58	-29%	-25%	82
Total Margin	\$ 8	-56%	-57%	\$ 17
Total Margin %	11%			17%
% Revenues by Geography:				
Americas	45%			46%
EMEA	30%			35%
Asia Pacific	25%			19%

⁽¹⁾ Excluding stock-based compensation

Excluding the effect of unfavorable currency rate fluctuations of 4 percentage points, education revenues decreased in the first quarter of fiscal 2010 as we experienced weaker demand for our educational services that we believe was the result of weaker global economic conditions.

Excluding the effect of favorable currency rate fluctuations of 4 percentage points, education expenses declined in comparison to the first quarter of fiscal 2010 as we better aligned our employee related and external contractor expenses to correlate with current revenue levels.

Education margin and margin as a percentage of revenues decreased in the first quarter of fiscal 2010 due to a reduction in our revenues, which declined at a higher rate than our expense reductions.

Research and Development Expenses: Research and development expenses consist primarily of personnel related expenditures. We intend to continue to invest significantly in our research and development efforts because, in our judgment, they are essential to maintaining our competitive position.

(Dollars in millions)	Three Months Ended August 31,			
	2009	Percent Change		2008
		Actual	Constant	
Research and development ⁽¹⁾	\$ 628	-7%	-4%	\$ 671
Stock-based compensation	32	-12%	-12%	37
Total expenses	\$ 660	-7%	-5%	\$ 708
% of Total Revenues	13%			13%

⁽¹⁾ Excluding stock-based compensation

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Total research and development expenses were favorably affected by 2 percentage points of currency variations during the first quarter of fiscal 2010. On a constant currency basis, total research and development expenses decreased slightly, primarily due to a decrease in variable compensation expenses and a reduction in external contractor expenses. Research and development headcount as of the end of the first quarter of fiscal 2010 increased by approximately 100 employees, or 1%, in comparison to the first quarter of fiscal 2009.

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General and Administrative Expenses: General and administrative expenses primarily consist of personnel related expenditures for information technology, finance, legal and human resources support functions.

(Dollars in millions)	Three Months Ended August 31, Percent Change			
	2009	Actual	Constant	2008
General and administrative ⁽¹⁾	\$ 172	-6%	-1%	\$ 182
Stock-based compensation	29	21%	21%	24
Total expenses	\$ 201	-3%	1%	\$ 206
 <i>% of Total Revenues</i>	 4%			 4%

⁽¹⁾ Excluding stock-based compensation

Total general and administrative expenses were affected by 4 percentage points of favorable currency variations during the first quarter of fiscal 2010. Excluding the effect of currency rate fluctuations, general and administrative expenses increased slightly during the first quarter of fiscal 2010 as a result of increased professional services fees and increased stock-based compensation expenses, which were almost entirely offset by decreases in variable compensation expenses. Our headcount and constant currency salary expenses were relatively consistent with the prior year period.

Amortization of Intangible Assets:

Three Months
Ended
August 31,