

ORACLE CORP  
Form 10-Q  
December 21, 2010  
Table of Contents

**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 November 30, 2010

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)

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

**54-2185193**  
(I.R.S. Employer  
Identification No.)

**500 Oracle Parkway**

**Redwood City, California**  
(Address of principal executive offices)

**94065**  
(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 December 13, 2010 was: 5,052,420,000.

**Table of Contents**

**ORACLE CORPORATION**  
**FORM 10-Q QUARTERLY REPORT**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of November 30, 2010 and May 31, 2010</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended November 30, 2010 and 2009</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended November 30, 2010 and 2009</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4. <u>Controls and Procedures</u>	50
<b>PART II. <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	52
Item 1A. <u>Risk Factors</u>	52
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
Item 6. <u>Exhibits</u>	53
<u>Signatures</u>	54

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****ORACLE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

As of November 30, 2010 and May 31, 2010

(Unaudited)

(in millions, except per share data)	November 30, 2010	May 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,420	\$ 9,914
Marketable securities	14,425	8,555
Trade receivables, net of allowances for doubtful accounts of \$346 and \$305 as of November 30, 2010 and May 31, 2010, respectively	4,406	5,585
Inventories	236	259
Deferred tax assets	1,219	1,159
Prepaid expenses and other current assets	2,017	1,532
<b>Total current assets</b>	<b>32,723</b>	<b>27,004</b>
Non-current assets:		
Property, plant and equipment, net	2,870	2,763
Intangible assets, net	8,526	9,321
Goodwill	20,889	20,425
Deferred tax assets	1,220	1,267
Other assets	1,015	798
<b>Total non-current assets</b>	<b>34,520</b>	<b>34,574</b>
<b>Total assets</b>	<b>\$ 67,243</b>	<b>\$ 61,578</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Notes payable, current and other current borrowings	\$ 2,255	\$ 3,145
Accounts payable	762	775
Accrued compensation and related benefits	1,642	1,895
Deferred revenues	5,742	5,900
Other current liabilities	2,935	2,976
<b>Total current liabilities</b>	<b>13,336</b>	<b>14,691</b>
Non-current liabilities:		
Notes payable and other non-current borrowings	14,780	11,510
Income taxes payable	2,791	2,695
Deferred tax liabilities	350	424
Other non-current liabilities	1,136	1,059

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Total non-current liabilities	19,057	15,688
Commitments and contingencies		
Oracle Corporation stockholders' equity:		
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:		
5,051 shares as of November 30, 2010 and 5,026 shares as of May 31, 2010	15,663	14,648
Retained earnings	18,422	16,146
Accumulated other comprehensive income	327	4
Total Oracle Corporation stockholders' equity	34,412	30,798
Noncontrolling interests	438	401
Total equity	34,850	31,199
Total liabilities and equity	\$ 67,243	\$ 61,578

See notes to condensed consolidated financial statements.

**Table of Contents****ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three and Six Months Ended November 30, 2010 and 2009****(Unaudited)**

<b>(in millions, except per share data)</b>	<b>Three Months Ended November 30,</b>		<b>Six Months Ended November 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>				
New software licenses	\$ 1,999	\$ 1,653	\$ 3,284	\$ 2,681
Software license updates and product support	3,645	3,247	7,096	6,364
Software revenues	5,644	4,900	10,380	9,045
Hardware systems products	1,112		2,190	
Hardware systems support	641		1,261	
Hardware systems revenues	1,753		3,451	
Services	1,185	958	2,253	1,866
<b>Total revenues</b>	<b>8,582</b>	<b>5,858</b>	<b>16,084</b>	<b>10,911</b>
<b>Operating expenses:</b>				
Sales and marketing	1,530	1,133	2,864	2,093
Software license updates and product support	307	264	615	490
Hardware systems products	525		1,082	
Hardware systems support	356		656	
Services	969	832	1,865	1,614
Research and development	1,119	708	2,222	1,368
General and administrative	156	183	428	383
Amortization of intangible assets	614	436	1,217	867
Acquisition related and other	47	10	130	16
Restructuring	189	114	318	162
<b>Total operating expenses</b>	<b>5,812</b>	<b>3,680</b>	<b>11,397</b>	<b>6,993</b>
Operating income	2,770	2,178	4,687	3,918
Interest expense	(214)	(188)	(410)	(368)
Non-operating income, net	90	33	165	35
Income before provision for income taxes	2,646	2,023	4,442	3,585
Provision for income taxes	776	565	1,219	1,003
<b>Net income</b>	<b>\$ 1,870</b>	<b>\$ 1,458</b>	<b>\$ 3,223</b>	<b>\$ 2,582</b>
<b>Earnings per share:</b>				
Basic	\$ 0.37	\$ 0.29	\$ 0.64	\$ 0.52
Diluted	\$ 0.37	\$ 0.29	\$ 0.63	\$ 0.51

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<b>Weighted average common shares outstanding:</b>				
Basic	5,044	5,010	5,035	5,010
Diluted	5,117	5,064	5,100	5,063
Dividends declared per common share	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10

See notes to condensed consolidated financial statements.

**Table of Contents****ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Six Months Ended November 30, 2010 and 2009****(Unaudited)**

<b>(in millions)</b>	<b>Six Months Ended November 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 3,223	\$ 2,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	194	123
Amortization of intangible assets	1,217	867
Deferred income taxes	(76)	(216)
Stock-based compensation	254	188
Tax benefits on the exercise of stock options and vesting of restricted stock-based awards	142	71
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	(86)	(42)
Other, net	24	56
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	1,343	1,437
Decrease in inventories	25	
Decrease in prepaid expenses and other assets	280	235
Decrease in accounts payable and other liabilities	(620)	(523)
(Decrease) increase in income taxes payable	(613)	59
Decrease in deferred revenues	(546)	(448)
<b>Net cash provided by operating activities</b>	<b>4,761</b>	<b>4,389</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of marketable securities and other investments	(16,802)	(6,185)
Proceeds from maturities and sales of marketable securities and other investments	11,153	4,088
Acquisitions, net of cash acquired	(806)	(392)
Capital expenditures	(239)	(100)
<b>Net cash used for investing activities</b>	<b>(6,694)</b>	<b>(2,589)</b>
<b>Cash Flows From Financing Activities:</b>		
Payments for repurchases of common stock	(504)	(496)
Proceeds from issuances of common stock	734	371
Payment of dividends to stockholders	(504)	(501)
Proceeds from borrowings, net of issuance costs	3,204	4,461
Repayments of borrowings	(890)	
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	86	42
Distributions to noncontrolling interests	(38)	(34)
<b>Net cash provided by financing activities</b>	<b>2,088</b>	<b>3,843</b>
Effect of exchange rate changes on cash and cash equivalents	351	281
<b>Net increase in cash and cash equivalents</b>	<b>506</b>	<b>5,924</b>
Cash and cash equivalents at beginning of period	9,914	8,995
<b>Cash and cash equivalents at end of period</b>	<b>\$ 10,420</b>	<b>\$ 14,919</b>



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Non-cash investing and financing transactions:

Fair value of stock options and restricted stock-based awards assumed in connection with acquisitions	\$	1	\$	1
Decrease in unsettled repurchases of common stock	\$	(4)	\$	(4)

See notes to condensed consolidated financial statements.

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****November 30, 2010****(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 herein 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, 2010.

On January 26, 2010, we completed our acquisition of Sun Microsystems, Inc. (Sun), a provider of hardware systems, software and services, by means of a merger of one of our wholly owned subsidiaries with and into Sun such that Sun became a wholly owned subsidiary of Oracle. As a result of our acquisition of Sun, we entered into the hardware systems business. Our hardware systems business consists of two operating segments: hardware systems products and hardware systems support. In addition, we enhanced our existing software and services businesses with additional offerings.

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, 2011. General and administrative expenses as presented in our condensed consolidated statements of operations during the three and six months ended November 30, 2010 included a benefit of \$120 million related to the recovery of legal costs, which reduced our expenses in these periods.

There have been no significant changes in new accounting pronouncements or to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2010 that have had a significant impact on our consolidated financial statements or notes thereto.

Certain 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.

**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 periods have ended, and certain other operating expenses, net. Stock-based compensation included in acquisition related and other expenses resulted from unvested options and restricted stock-based awards assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those options and restricted stock-based awards.

(in millions)	Three Months Ended November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Transitional and other employee related costs	\$ 28	\$ 2	\$ 77	\$ 5
Stock-based compensation	5		6	
Professional fees and other, net	31	4	59	7

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Business combination adjustments, net	(17)	4	(12)	4
Total acquisition related and other expenses	\$ 47	\$ 10	\$ 130	\$ 16

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)****Non-Operating Income, net**

Non-operating income, net consists primarily of interest income, net foreign currency gains (losses), the noncontrolling interests in the net profits of our majority-owned subsidiaries (Oracle Financial Services Software Limited and Oracle Corporation Japan), and net other income (losses), 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 November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Interest income	\$ 39	\$ 30	\$ 73	\$ 65
Foreign currency gains (losses), net	33	(2)	82	(20)
Noncontrolling interests in income	(22)	(16)	(47)	(40)
Other income, net	40	21	57	30
Total non-operating income, net	\$ 90	\$ 33	\$ 165	\$ 35

**Comprehensive Income**

Comprehensive income consists of the following, net of income tax effects: net income, net foreign currency translation gains and losses, net gains and losses related to certain of our derivative financial instruments that were reflected in Oracle Corporation stockholders' equity, net unrealized gains and losses related to defined benefit plans and net 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 November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Net income	\$ 1,870	\$ 1,458	\$ 3,223	\$ 2,582
Foreign currency translation gains, net	160	225	310	276
Unrealized gains on defined benefit plans, net			2	
Unrealized losses on derivative financial instruments, net		(25)		(31)
Unrealized gains on marketable securities, net	11		11	
Comprehensive income	\$ 2,041	\$ 1,658	\$ 3,546	\$ 2,827

**Recent Accounting Pronouncements**

**Performing Step 2 of the Goodwill Impairment Test:** In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (Topic 350) Intangibles - Goodwill and Other* (ASU 2010-28). ASU 2010-28 amends the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate

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that it is more likely than not that a goodwill impairment exists. We will adopt ASU 2010-28 in fiscal 2012 and any impairment to be recorded upon adoption will be recognized as an adjustment to our beginning retained earnings. We are currently evaluating the impact of the pending adoption of ASU 2010-28 on our consolidated financial statements.

**Table of Contents**

**ORACLE CORPORATION**

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

**November 30, 2010**

**(Unaudited)**

**Disclosure Requirements Related to Financing Receivables:** In July 2010, the FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Topic 310) Receivables* (ASU 2010-20). ASU 2010-20 enhances the disclosure requirements about the credit quality and related allowances for credit losses of financing receivables. We will adopt ASU 2010-20 in our third quarter of fiscal 2011, except for certain of the provisions of this update that will be effective in our fourth quarter of fiscal 2011. We are currently evaluating the impact of the pending adoption of ASU 2010-20 on our consolidated financial statements.

**Milestone Method of Revenue Recognition:** In April 2010, the FASB issued Accounting Standards Update No. 2010-17, *Revenue Recognition Milestone Method (Topic 605) Revenue Recognition* (ASU 2010-17). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive. ASU 2010-17 is effective for us in our first quarter of fiscal 2012 and should be applied prospectively. Early adoption is permitted. If we were to adopt ASU 2010-17 prior to the first quarter of fiscal 2012, we must apply it retrospectively to the beginning of the fiscal year of adoption and to all interim periods presented. We are currently evaluating the impact of the pending adoption of ASU 2010-17 on our consolidated financial statements.

**Disclosure Requirements Related to Fair Value Measurements:** In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements (Topic 820) Fair Value Measurements and Disclosures* (ASU 2010-06), to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, and the activity in Level 3 fair value measurements (as defined in Note 3 below). Certain provisions of this update will be effective for us in fiscal 2012 and we are currently evaluating the impact of the pending adoption of ASU 2010-06 on our consolidated financial statements.

**2. ACQUISITIONS**  
**Fiscal 2011 Acquisitions**

In the second quarter of fiscal 2011, we agreed to acquire Art Technology Group, Inc. (ATG), a provider of eCommerce software and related on demand commerce optimization applications, and certain other technology and development assets for approximately \$1.1 billion in cash. Our acquisition of ATG is expected to close in our third quarter of fiscal 2011 but remains subject to certain customary closing conditions.

In the first quarter of fiscal 2011, we completed our acquisition of Phase Forward Incorporated (Phase Forward), a provider of applications for life sciences companies and healthcare providers. We have included the financial results of Phase Forward in our consolidated financial statements from the date of acquisition. The total preliminary purchase price for Phase Forward was approximately \$736 million, which consisted of approximately \$735 million in cash and \$1 million for the fair value of restricted stock-based awards assumed. In allocating the total preliminary purchase price for Phase Forward based on estimated fair values, we preliminarily recorded \$351 million of goodwill, \$370 million of identifiable intangible assets, \$20 million of in-process research and development and \$5 million of net tangible liabilities (resulting primarily from deferred tax liabilities assumed as a part of this transaction).

During the first half of fiscal 2011, we acquired certain other companies and purchased certain technology and development assets to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate. We have included the financial results of these companies in our consolidated results from their respective acquisition dates.



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**Table of Contents**

**ORACLE CORPORATION**

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

**November 30, 2010**

**(Unaudited)**

The preliminary purchase price allocations for acquisitions completed during the first half of fiscal 2011 were based upon preliminary calculations and valuations and our estimates and assumptions for each of these acquisitions are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the acquisition date). The primary areas of those preliminary purchase price allocations that are not yet finalized relate to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters, income and non-income based taxes and residual goodwill.

**Fiscal 2010 Acquisitions**

***Acquisition of Sun Microsystems, Inc.***

On January 26, 2010 we completed our acquisition of Sun, a provider of hardware systems, software and services, by means of a merger of one of our wholly owned subsidiaries with and into Sun such that Sun became a wholly owned subsidiary of Oracle. We acquired Sun to, among other things, expand our product offerings by adding Sun's existing hardware systems business and broadening our software and services offerings. We have included the financial results of Sun in our consolidated financial statements from the date of acquisition. For the first half of fiscal 2011, Sun contributed \$454 million to our total software revenues and \$3.5 billion to our total hardware systems revenues. Other revenue and earnings contributions from Sun were not separately identifiable due to our integration activities.

The total purchase price for Sun was \$7.3 billion which consisted of \$7.2 billion in cash paid to acquire the outstanding common stock of Sun and \$99 million for the fair value of stock options and restricted-stock based awards assumed. In allocating the purchase price based on estimated fair values, we preliminarily recorded approximately \$1.3 billion of goodwill, \$3.3 billion of identifiable intangible assets, \$415 million of in-process research and development and \$2.2 billion of net tangible assets. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change within the measurement period. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain tangible assets and liabilities acquired, certain legal matters, income and non-income based taxes and residual goodwill. We expect to continue to obtain information to assist us in finalizing these preliminary valuations during the measurement period.

***Other Fiscal 2010 Acquisitions***

During fiscal 2010, we acquired certain other companies and purchased certain technology and development assets to expand our product and services offerings. These acquisitions were not significant individually or in the aggregate. We have included the financial results of these companies in our consolidated results from their respective acquisition dates. The preliminary purchase price allocations for certain 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 respective measurement periods. The primary areas of those purchase price allocations that are not yet finalized relate to certain 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, Sun, Phase Forward and certain other companies that we acquired since the beginning of fiscal 2010 (which were collectively significant for the purposes of unaudited pro forma financial information disclosure) as though the companies were combined as of the beginning of fiscal 2010. 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 (certain of which are preliminary), the elimination of certain





**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)**

goodwill and intangible asset impairment charges incurred by Sun, stock-based compensation charges for unvested stock options and restricted stock-based awards assumed, adjustments to interest expense for certain borrowings and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2010. 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 and any borrowings undertaken to finance these acquisitions had taken place at the beginning of fiscal 2010.

The unaudited pro forma financial information for the three and six months ended November 30, 2010 combined the historical results of Oracle for the three and six months ended November 30, 2010, the adjusted historical results of Phase Forward for the three months ended June 30, 2010 (due to differences in reporting periods and considering the date we acquired Phase Forward), and the effects of the pro forma adjustments listed above.

The unaudited pro forma financial information for the three and six months ended November 30, 2009 combined the historical results of Oracle for the three and six months ended November 30, 2009, the historical results of Phase Forward for the three and six months ended September 30, 2009 (due to differences in reporting periods), the adjusted historical results of Sun for the three and six months ended September 27, 2009 (due to differences in reporting periods) and the adjusted historical results for certain other companies that we acquired since the beginning of fiscal 2010 based upon their respective previous reporting periods, the dates that these companies were acquired by us, and the effects of the pro forma adjustments listed above.

(in millions, except per share data)	Three Months Ended		Six Months Ended	
	November 30,		November 30,	
	2010	2009	2010	2009
Total revenues	\$ 8,582	\$ 8,145	\$ 16,130	\$ 15,898
Net income	\$ 1,870	\$ 1,261	\$ 3,217	\$ 2,159
Basic earnings per share	\$ 0.37	\$ 0.25	\$ 0.64	\$ 0.43
Diluted earnings per share	\$ 0.37	\$ 0.25	\$ 0.63	\$ 0.43

**3. FAIR VALUE MEASUREMENTS**

We perform fair value measurements in accordance with the guidance provided by the FASB's Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 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 their fair values, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the assets or liabilities, such as inherent risk, transfer restrictions, and risk of nonperformance.

ASC 820 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. An asset's or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 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;

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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 values of the assets or liabilities.

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)****Assets Measured at Fair Value on a Recurring Basis**

Our assets 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)	November 30, 2010			May 31, 2010		
	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	\$ 935	\$	\$ 935	\$ 2,423	\$	\$ 2,423
U.S. Treasury, U.S. government and U.S. government agency debt securities	3,753		3,753	3,010		3,010
Commercial paper debt securities		10,037	10,037		3,378	3,378
Corporate debt securities and other	82	2,707	2,789		2,256	2,256
Derivative financial instruments		79	79		33	33
<b>Total assets</b>	<b>\$ 4,770</b>	<b>\$ 12,823</b>	<b>\$ 17,593</b>	<b>\$ 5,433</b>	<b>\$ 5,667</b>	<b>\$ 11,100</b>

Our valuation techniques used to measure the fair values of our money market funds, U.S. Treasury, U.S. government and U.S. government agency debt securities and certain other marketable securities, that were classified as Level 1 in the table above, 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, generally 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 used observable market inputs such as LIBOR-based yield curves, among others.

Our cash and cash equivalents, marketable securities and derivative financial instruments are recognized and measured at fair value in our condensed consolidated financial statements. Based on the trading prices of our \$17.0 billion and \$14.6 billion of borrowings, which consisted of senior notes that were outstanding at November 30, 2010 and senior notes and commercial paper notes that were outstanding as of May 31, 2010 and the interest rates we could obtain for other borrowings with similar terms at those dates, the estimated fair values of our borrowings at November 30, 2010 and May 31, 2010 were \$18.6 billion and \$15.9 billion, respectively.

**4. INVENTORIES**

Inventories consisted of the following:

(in millions)	November 30, 2010	May 31, 2010
Raw materials	\$ 91	\$ 95

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Work-in-process	46	43
Finished goods	99	121
Total	\$ 236	\$ 259

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)****5. INTANGIBLE ASSETS AND GOODWILL**

The changes in intangible assets for fiscal 2011 and the net book values of intangible assets at November 30, 2010 and May 31, 2010 were as follows:

(Dollars in millions)	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted Average Useful Life
	May 31, 2010	Additions	November 30, 2010	May 31, 2010	Expense	November 30, 2010	May 31, 2010	November 30, 2010	
Software support agreements and related relationships	\$ 5,078	\$ 11	\$ 5,089	\$ (2,175)	\$ (282)	\$ (2,457)	\$ 2,903	\$ 2,632	9 years
Hardware systems support agreements and related relationships	759		759	(29)	(59)	(88)	730	671	7 years
Developed technology	5,338	423	5,761	(2,736)	(490)	(3,226)	2,602	2,535	5 years
Core technology	2,111	20	2,131	(964)	(158)	(1,122)	1,147	1,009	5 years
Customer relationships	1,765	213	1,978	(554)	(194)	(748)	1,211	1,230	7 years
Trademarks	504	13	517	(161)	(34)	(195)	343	322	7 years
Total intangible assets subject to amortization	15,555	680	16,235	(6,619)	(1,217)	(7,836)	8,936	8,399	
In-process research and development	385	(258)	127				385	127	N.A.
Total intangible assets, net	\$ 15,940	\$ 422	\$ 16,362	\$ (6,619)	\$ (1,217)	\$ (7,836)	\$ 9,321	\$ 8,526	

Total amortization expense related to our intangible assets was \$614 million and \$1.2 billion for the three and six months ended November 30, 2010, respectively and \$436 million and \$867 million for the three and six months ended November 30, 2009, respectively. As of November 30, 2010, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of Fiscal 2011	\$ 1,175
Fiscal 2012	2,157
Fiscal 2013	1,788
Fiscal 2014	1,449
Fiscal 2015	1,065
Fiscal 2016	575
Thereafter	190
Total intangible assets subject to amortization	8,399
In-process research and development	127
Total intangible assets, net	\$ 8,526

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The changes in the carrying amount of goodwill, which is generally not deductible for tax purposes, for our software business operating segments, our hardware support operating segment and our services business for the six months ended November 30, 2010 were as follows:

(in millions)	New Software Licenses	Software License Updates and Product Support	Hardware Systems Support	Services	Total
Balances as of May 31, 2010	\$ 5,995	\$ 11,802	\$ 923	\$ 1,705	\$ 20,425
Goodwill from acquisitions	408	36		2	446
Goodwill adjustments <sup>(1)</sup>	(2)	(1)	20	1	18
Balances as of November 30, 2010	\$ 6,401	\$ 11,837	\$ 943	\$ 1,708	\$ 20,889

<sup>(1)</sup> 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 period (up to one year from the date of an acquisition). Goodwill adjustments were not significant to our previously reported operating results or financial position.

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)****6. NOTES PAYABLE AND OTHER BORROWINGS****Senior Notes**

In July 2010, we issued \$3.25 billion of fixed rate senior notes comprised of \$1.0 billion of 3.875% notes due July 2020 (2020 Notes) and \$2.25 billion of 5.375% notes due July 2040 (2040 Notes, and together with the 2020 Notes, the Senior Notes). We issued the Senior Notes in order to repay indebtedness, including repayment of our 5.00% senior notes that are due January 2011 (\$2.25 billion principal amount outstanding as of November 30, 2010), for general corporate purposes, for future acquisitions and in order to replenish cash used to repay \$1.0 billion of floating rate senior notes that matured in May 2010. As part of the offering of these Senior Notes, we entered into a registration rights agreement with the initial purchasers for the benefit of the holders of the Senior Notes in which we agreed that we will file with the SEC a registration statement with respect to senior notes identical in all material respects to the Senior Notes within fourteen months after the issue date of the Senior Notes and use commercially reasonable efforts to cause the registration statement to be declared effective under the U.S. Securities Act of 1933, as amended. If we fail to perform our registration obligations, holders of the Senior Notes will be entitled to additional payments based upon an additional interest rate of 0.25% per year that will accrue and be payable to holders of the Senior Notes generally from the date of the registration default. Upon the cure of a registration default, the interest rate on the Senior Notes will be reduced to the original interest rate.

The effective interest yields of the 2020 Notes and 2040 Notes at November 30, 2010 were 3.90% and 5.45%, respectively. Interest on the Senior Notes is payable semi-annually. All of the Senior Notes may be redeemed at any time, subject to payment of a make-whole premium. The Senior Notes rank pari passu with any other notes we may issue in the future pursuant to our commercial paper program (See Note 8 of Notes to Consolidated Financial Statements included in our fiscal 2010 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 are effectively senior to the Senior Notes and any of our commercial paper notes. We were in compliance with all debt-related covenants at November 30, 2010. Future principal payments for all of our borrowings at November 30, 2010 were as follows (in millions):

Remainder of Fiscal 2011	\$ 2,250
Fiscal 2012	
Fiscal 2013	1,250
Fiscal 2014	
Fiscal 2015	1,500
Fiscal 2016	2,000
Thereafter	10,000
Total	\$ 17,000

There have been no other significant changes in our notes payable or other borrowing arrangements that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2010.

**7. RESTRUCTURING ACTIVITIES****Sun Restructuring Plan**



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During the third quarter of fiscal 2010, our management approved, committed to and initiated a plan to restructure our operations due to our acquisition of Sun (the Sun Restructuring Plan) in order to improve the cost efficiencies in our merged operations. Our management subsequently amended the Sun Restructuring Plan to reflect additional actions that we expect to take to improve the cost efficiencies in our merged operations. The total estimated restructuring costs associated with the Sun Restructuring Plan are \$1.1 billion consisting primarily

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)**

of employee severance expenses, abandoned facilities obligations and contract termination costs. The restructuring costs will be recorded to the restructuring expense line item within our consolidated statements of operations as they are recognized. We recorded \$270 million of restructuring expenses in connection with the Sun Restructuring Plan in the first half of fiscal 2011 and we expect to incur the majority of the approximately \$485 million of remaining expenses pursuant to the Sun Restructuring Plan through fiscal 2012. Any changes to the estimates of executing the Sun Restructuring Plan will be reflected in our future results of operations.

**Summary of All Plans**

(in millions)	Accrued May 31, 2010 <sup>(2)</sup>	Six Months Ended November 30, 2010				Accrued November 30, 2010 <sup>(2)</sup>	Total Costs Accrued to Date	Total Expected Program Costs
		Initial Costs <sup>(3)</sup>	Adj. to Cost <sup>(4)</sup>	Cash Payments	Others <sup>(5)</sup>			
<b>Sun Restructuring Plan</b>								
New software licenses	\$ 5	\$ 50	\$	\$ (23)	\$	\$ 32	\$ 56	\$ 88
Software license updates and product support	3	18		(11)		10	24	89
Hardware systems business	42	25		(59)	1	9	86	98
Services	8	44		(17)		35	55	152
General and administrative and other <sup>(1)</sup>	29	133		(61)	(4)	97	391	670
<b>Total Sun Restructuring</b>	<b>\$ 87</b>	<b>\$ 270</b>	<b>\$</b>	<b>\$ (171)</b>	<b>\$ (3)</b>	<b>\$ 183</b>	<b>\$ 612</b>	<b>\$ 1,097</b>
Total other restructuring plans	\$ 459	\$ 47	\$ (9)	\$ (156)	\$ 17	\$ 358		
<b>Total restructuring plans<sup>(6)</sup></b>	<b>\$ 546</b>	<b>\$ 317</b>	<b>\$ (9)</b>	<b>\$ (327)</b>	<b>\$ 14</b>	<b>\$ 541</b>		

(1) Other includes severance costs related to operating segments that were not individually or collectively significant, facilities related restructuring expenses and contract termination costs.

(2) Accrued restructuring for our most significant restructuring plans at November 30, 2010 and May 31, 2010 was \$541 million and \$546 million, respectively. The balances at November 30, 2010 and May 31, 2010 include \$303 million and \$290 million recorded in other current liabilities, respectively, and \$238 million and \$256 million recorded in other non-current liabilities, respectively.

(3) Initial costs recorded for the respective restructuring plans.

(4) All plan adjustments are changes in estimates whereby all increases in costs are generally recorded to operating expenses in the period of adjustment with decreases in the costs of our Oracle-based plans and the Sun Restructuring Plan being recorded to operating expenses and decreases in costs of our acquisition related plans adopted prior to fiscal 2010 recorded as adjustments to goodwill.

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(5) Represents foreign currency translation and other adjustments.

(6) Restructuring plans included in this footnote represent those plans that management has deemed the most significant.

### 8. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	November 30, 2010	May 31, 2010
Software license updates and product support	\$ 4,485	\$ 4,618
Hardware systems support	535	537
Services	379	376
New software licenses	325	330
Hardware systems products	18	39
Deferred revenues, current	5,742	5,900
Deferred revenues, non-current (in other non-current liabilities)	353	388
Total deferred revenues	\$ 6,095	\$ 6,288

**Table of Contents**

**ORACLE CORPORATION**

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

**November 30, 2010**

**(Unaudited)**

Deferred software license updates and product support revenues and deferred hardware systems support revenues represent customer payments made in advance for support contracts that are typically billed on a per annum basis in advance with corresponding revenues being recognized ratably over the support periods. Deferred services 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, time based arrangements and software license transactions that cannot be segmented from consulting or other services. Deferred hardware systems products revenues typically result from sales to customers, including channel partners and resellers, where revenue recognition criteria have not been met, transactions involving customer specific acceptance provisions and transactions that cannot be segmented from consulting or other services that have yet to be delivered.

In connection with the purchase price allocations related to our acquisitions, we have estimated the fair values of the software license updates and product support obligations and hardware systems support obligations assumed from our acquired companies. We have estimated the fair values of the support obligations assumed 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 acquired support obligations. Substantially all of the fair value adjustments recorded for support obligations assumed reduce the software license updates and product support and hardware systems support deferred revenue balances that we record as liabilities and also reduce the resulting revenues that we recognize over the support contract term of the acquired contracts during the post-combination periods.

**9. DERIVATIVE FINANCIAL INSTRUMENTS**

**Interest Rate Swap Agreements**

***Fair Value Hedges***

In September 2009, we entered into interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with our 3.75% senior notes due July 2014 (2014 Notes) so that the interest payable on these notes effectively became 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 ASC 815, *Derivatives and Hedging*. 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 values of these interest rate swap agreements are recognized as interest expense in our consolidated statements of operations with the corresponding amounts 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 is 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, are recorded as interest expense.

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

***Cash Flow Hedges***

In relation to the variable interest obligations associated with our floating rate senior notes that were due and repaid in May 2010 (Floating Rate Notes), we had entered into certain variable to fixed interest rate swap agreements to manage the economic effects of the variable interest obligations and designated these agreements as qualifying cash flow hedges. Upon repayment of the Floating Rate Notes in May 2010, we settled the interest rate swap agreements associated with the Floating Rate Notes and no other arrangements were outstanding as of



**Table of Contents**

**ORACLE CORPORATION**

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

**November 30, 2010**

**(Unaudited)**

November 30, 2010. Accordingly, in the tables below, we have only provided information from prior periods related to these cash flow hedges.

**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 ASC 815. We entered into these net investment hedges for the majority of fiscal 2010. We suspended this program during our fourth quarter of fiscal 2010 and, as of November 30, 2010, we have no contracts of this nature outstanding. Accordingly, in the tables below, we have only provided information from prior periods related to these net investment hedges.

**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 enter into foreign currency forward contracts so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. We may suspend this program from time to time and did so during the fourth quarter of fiscal 2010 until resuming the program in the second quarter of fiscal 2011. Our foreign currency exposures typically arise from intercompany sublicense fees, intercompany loans and other intercompany transactions that are expected to be cash settled in the near term. Our foreign currency forward contracts are generally short term in duration. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of cross-currency exposures that we enter into, the currency exchange rates associated with these exposures and changes in those rates, the net realized and unrealized gains or losses on foreign currency forward contracts to offset these exposures and other factors.

We neither use these foreign currency forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to ASC 815. Accordingly, we record the fair values of these contracts as of the end of our reporting period to our consolidated balance sheet with changes in fair values recorded to our consolidated statement of operations. The balance sheet classification for the fair values of these forward contracts is prepaid expenses and other current assets for unrealized gains and other current liabilities for unrealized losses. The statement of operations classification for changes in fair values of these forward contracts is non-operating income, net, for both realized and unrealized gains and losses.

As of November 30, 2010, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$1.6 billion, the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$153 million, and the notional amounts of the foreign currency forward contracts we held to purchase Euros in exchange for other major international currencies were \$287 million (approximately \$384 million). The net unrealized losses of our outstanding foreign currency forward contracts were nominal at November 30, 2010. As of May 31, 2010, we had a nominal amount of foreign currency forward contracts outstanding.

The effects of derivative instruments on our condensed consolidated financial statements were as follows as of or for each of the respective periods presented below (amounts presented exclude any income tax effects):

**Fair Value of Derivative Instruments in Condensed Consolidated Balance Sheets**

**November 30, 2010**

**May 31, 2010**

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<b>(in millions)</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>
Interest rate swap agreements designated as fair value hedges	Other assets	\$ 79	Other assets	\$ 33

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

November 30, 2010

(Unaudited)

**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 November 30,	Six Months Ended November 30,	Three Months Ended November 30,	Six Months Ended November 30,	Three Months Ended November 30,	Six Months Ended November 30,
	2009	2009	2009	2009	2009	2009
<b>Cash flow hedges:</b>						
Interest rate swap	\$ 9	\$ 7	Interest expense	\$ (11)	\$ (20)	Not applicable \$ \$
<b>Net investment hedges:</b>						
Foreign currency forward contract	\$ (49)	\$ (60)	Not applicable	\$	\$	Non-operating income, net \$ \$ 1

(in millions)	Location and Amount of Gain (Loss) Recognized in Income on Derivative		Location and Amount of Gain (Loss) on Hedged Item Recognized in Income Attributable to Risk Being Hedged	
	Three Months Ended November 30,	Six Months Ended November 30,	Three Months Ended November 30,	Six Months Ended November 30,
	2010	2010	2010	2010
<b>Fair value hedges:</b>				
Interest rate swaps	Interest expense	\$	\$ 46	Interest expense \$ \$ (46)

(in millions)	Location and Amount of Gain (Loss) Recognized in Income on Derivative		Location and Amount of Gain (Loss) on Hedged Item Recognized in Income Attributable to Risk Being Hedged	
	Three Months Ended November 30,	Six Months Ended November 30,	Three Months Ended November 30,	Six Months Ended November 30,
	2009	2009	2009	2009
<b>Fair value hedges:</b>				
Interest rate swaps	Interest expense	\$ 27	\$ 27	Interest expense \$ (27) \$ (27)



		<b>Location and Amount of Gain (Loss) Recognized in Income on Derivative</b>	
		<b>Three Months Ended November 30, 2010</b>	<b>Six Months Ended November 30, 2010</b>
<b>(in millions)</b>			
<b>Derivatives not designated as hedges:</b>			
Foreign currency forward contracts	Non-operating income, net	\$ (5)	\$ (5)

		<b>Location and Amount of Gain (Loss) Recognized in Income on Derivative</b>	
		<b>Three Months Ended November 30, 2009</b>	<b>Six Months Ended November 30, 2009</b>
<b>(in millions)</b>			
<b>Derivatives not designated as hedges:</b>			
Foreign currency forward contracts	Non-operating income, net	\$ (34)	\$ (63)

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)****10. STOCKHOLDERS EQUITY****Stock Repurchases**

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 November 30, 2010, approximately \$4.8 billion was available for share repurchases pursuant to our stock repurchase program. We repurchased 20.0 million shares for \$500 million during the six months ended November 30, 2010 (including 0.3 million shares for \$8 million that were repurchased but not settled) and 23.0 million shares for \$492 million during the six months ended November 30, 2009 (including 0.4 million shares for \$8 million that were repurchased but not settled) under the applicable repurchase programs.

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**

During the first six months of fiscal 2011, our Board of Directors declared cash dividends of \$0.10 per share of our outstanding common stock, which we paid during the same period.

In December 2010, our Board of Directors declared a quarterly cash dividend of \$0.05 per share of outstanding common stock payable on February 9, 2011 to stockholders of record as of the close of business on January 19, 2011. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

**Amended Stock Option Plan**

During the second quarter of fiscal 2011, our stockholders, upon the recommendation of our Board of Directors, approved the adoption of the Amended and Restated 2000 Long-Term Equity Incentive Plan (the 2000 Stock Plan). The amended 2000 Stock Plan extends the termination date of the plan by ten years and increased the number of authorized shares of stock that may be issued under the 2000 Stock Plan by 388,313,015 shares.

**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 November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Sales and marketing	\$ 19	\$ 20	\$ 42	\$ 36
Software license updates and product support	3	4	8	8

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Hardware systems products	1		2	
Hardware systems support	1		2	
Services	4	3	8	6
Research and development	55	44	114	76
General and administrative	36	33	72	62
Acquisition related and other	5		6	
Total stock-based compensation	\$ 124	\$ 104	\$ 254	\$ 188

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)**

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 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 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 and six months ended November 30, 2010 and 2009:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Expected life (in years)	5.1	4.7	5.1	5.3
Risk-free interest rate	1.5%	2.5%	1.8%	2.5%
Volatility	31%	32%	33%	32%
Dividend yield	0.8%	0.9%	0.9%	1.0%
Weighted-average fair value per share	\$ 6.73	\$ 6.06	\$ 6.40	\$ 6.33

The expected life input is based on historical exercise patterns and post-vesting termination behavior, the risk-free interest rate input is based on U.S. Treasury instruments, the annualized dividend yield input is based on the per share dividend declared by our Board of Directors and the volatility input is calculated based on the implied volatility of our longest-term, traded options.

**11. 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 29.3% and 27.4% for the three and six months ended November 30, 2010, respectively and 27.9% and 28.0% for the three and six months ended November 30, 2009, respectively.

Our net deferred tax assets were \$2.0 billion and \$1.9 billion as of November 30, 2010 and May 31, 2010, respectively. We believe it is more likely than not that the net deferred tax assets will be realized in the foreseeable future. Realization of our net deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences, net operating loss carryforwards, and tax credit carryforwards. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

Domestically, U.S. federal and state taxing authorities are currently examining income tax returns of Oracle and various acquired entities for years through fiscal 2009. 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 possible outcomes.



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**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)**

We previously negotiated three successive 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. The additional bilateral agreement covers the period from June 1, 2001 through January 25, 2008.

**12. SEGMENT INFORMATION**

ASC 280, *Segment Reporting*, 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. As a result of our acquisition of Sun in our third quarter of fiscal 2010, we entered into a new hardware systems business with two operating segments as described further below. We have three businesses—software, hardware systems and services—which are further divided into seven operating segments. Our software business is comprised of two operating segments: (1) new software licenses and (2) software license updates and product support. Our hardware systems business is comprised of two operating segments: (1) hardware systems products and (2) hardware systems 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 our 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. Our database and middleware software product offerings also include Java, which is a global software development platform used in a wide range of computers, networks and devices. Applications software provides enterprise information that enables companies to manage their business cycles and provides 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.

The hardware systems products line of business consists primarily of computer server and storage product offerings. Most of our computer servers are based on our SPARC family of microprocessors and on microprocessors from Intel Corporation. Our servers range from high performance computing servers to cost efficient, entry-level servers, and run with our Solaris Operating System, Linux and certain other operating systems environments. Our storage products are designed to securely manage, protect, archive and restore customers' data assets and consist of tape, disk and networking solutions for open systems and mainframe server environments. Customers that purchase our hardware systems products may also elect to purchase our hardware



**Table of Contents**

**ORACLE CORPORATION**

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

**November 30, 2010**

**(Unaudited)**

systems support offerings. Our hardware systems support offerings provide customers with software updates for the software components that are essential to the functionality of our hardware systems and storage products and can include product repairs, maintenance services, and technical support services.

The consulting line of business primarily 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 are delivered at our data center facilities, select partner data centers or customer facilities. Advanced Customer Services consists of solution lifecycle management services, industry-specific solution support centers, hardware systems expert services, packaged offerings that support the installation and optimization of our hardware products 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 software and hardware products.

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



**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)**

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

(in millions)	Three Months Ended		Six Months Ended	
	November 30, 2010	2009	November 30, 2010	2009
New software licenses:				
Revenues <sup>(1)</sup>	\$ 1,991	\$ 1,649	\$ 3,272	\$ 2,676
Sales and distribution expenses	1,068	948	1,958	1,760
Margin <sup>(2)</sup>	\$ 923	\$ 701	\$ 1,314	\$ 916
Software license updates and product support:				
Revenues <sup>(1)</sup>	\$ 3,667	\$ 3,261	\$ 7,143	\$ 6,387
Software license update and product support expenses	282	243	555	451
Margin <sup>(2)</sup>	\$ 3,385	\$ 3,018	\$ 6,588	\$ 5,936
Total software business:				
Revenues <sup>(1)</sup>	\$ 5,658	\$ 4,910	\$ 10,415	\$ 9,063
Expenses	1,350	1,191	2,513	2,211
Margin <sup>(2)</sup>	\$ 4,308	\$ 3,719	\$ 7,902	\$ 6,852
Hardware systems products:				
Revenues	\$ 1,112	\$	\$ 2,190	\$
Hardware systems products expenses	523		1,076	
Sales and distribution expenses	232		462	
Margin <sup>(2)</sup>	\$ 357	\$	\$ 652	\$
Hardware systems support:				
Revenues <sup>(1)</sup>	\$ 686	\$	\$ 1,367	\$
Hardware systems support expenses	345		638	
Margin <sup>(2)</sup>	\$ 341	\$	\$ 729	\$
Total hardware systems business:				
Revenues <sup>(1)</sup>	\$ 1,798	\$	\$ 3,557	\$
Expenses	1,100		2,176	
Margin <sup>(2)</sup>	\$ 698	\$	\$ 1,381	\$
Consulting:				
Revenues <sup>(1)</sup>	\$ 735	\$ 689	\$ 1,397	\$ 1,348
Services expenses	599	595	1,136	1,165
Margin <sup>(2)</sup>	\$ 136	\$ 94	\$ 261	\$ 183
On Demand:				
Revenues <sup>(1)</sup>	\$ 353	\$ 188	\$ 675	\$ 368
Services expenses	260	131	512	254
Margin <sup>(2)</sup>	\$ 93	\$ 57	\$ 163	\$ 114

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Education:				
Revenues <sup>(1)</sup>	\$ 105	\$ 85	\$ 193	\$ 155
Services expenses	68	59	133	115
Margin <sup>(2)</sup>	\$ 37	\$ 26	\$ 60	\$ 40
Total services business:				
Revenues <sup>(1)</sup>	\$ 1,193	\$ 962	\$ 2,265	\$ 1,871
Services expenses	927	785	1,781	1,534
Margin <sup>(2)</sup>	\$ 266	\$ 177	\$ 484	\$ 337
Totals:				
Revenues <sup>(1)</sup>	\$ 8,649	\$ 5,872	\$ 16,237	\$ 10,934
Expenses	3,377	1,976	6,470	3,745
Margin <sup>(2)</sup>	\$ 5,272	\$ 3,896	\$ 9,767	\$ 7,189

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)**

(1) Operating segment revenues generally differ from the external reporting classifications due to certain software license products that are classified as service revenues for management reporting purposes. Software license updates and product support revenues for management reporting included \$22 million and \$14 million of revenues that we did not recognize in the accompanying condensed consolidated statements of operations for the three months ended November 30, 2010 and 2009, respectively, and \$47 million and \$23 million for the six months ended November 30, 2010 and 2009, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by Sun as an independent entity, in the amount of \$45 million and \$106 million for the three and six months ended November 30, 2010, respectively. See Note 8 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.

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 November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Total revenues for reportable segments	\$ 8,649	\$ 5,872	\$ 16,237	\$ 10,934
Software license updates and product support revenues <sup>(1)</sup>	(22)	(14)	(47)	(23)
Hardware systems support revenues <sup>(1)</sup>	(45)		(106)	
Total revenues	\$ 8,582	\$ 5,858	\$ 16,084	\$ 10,911
Total margin for reportable segments	\$ 5,272	\$ 3,896	\$ 9,767	\$ 7,189
Software license updates and product support revenues <sup>(1)</sup>	(22)	(14)	(47)	(23)
Hardware systems support revenues <sup>(1)</sup>	(45)		(106)	
Product development and information technology expenses	(1,184)	(747)	(2,343)	(1,462)
Marketing and partner program expenses	(159)	(120)	(292)	(213)
Corporate and general and administrative expenses	(113)	(162)	(346)	(324)
Amortization of intangible assets	(614)	(436)	(1,217)	(867)
Acquisition related and other	(47)	(10)	(130)	(16)
Restructuring	(189)	(114)	(318)	(162)
Stock-based compensation	(119)	(104)	(248)	(188)
Interest expense	(214)	(188)	(410)	(368)
Non-operating income, net	80	22	132	19
Income before provision for income taxes	\$ 2,646	\$ 2,023	\$ 4,442	\$ 3,585

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- (1) Software license updates and product support revenues for management reporting include \$22 million and \$14 million of revenues that we did not recognize in the accompanying condensed consolidated statements of operations for the three months ended November 30, 2010 and 2009, respectively and \$47 million and \$23 million for the six months ended November 30, 2010 and 2009, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by Sun as an independent entity, in the amount of \$45 million and \$106 million for the three and six months ended November 30, 2010, respectively. See Note 8 for an explanation of these adjustments and this table for a reconciliation of operating segment revenues to total revenues.

### **13. 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

**Table of Contents****ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****November 30, 2010****(Unaudited)**

the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock options, restricted stock-based 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		Six Months Ended	
	November 30, 2010	2009	November 30, 2010	2009
Net income	\$ 1,870	\$ 1,458	\$ 3,223	\$ 2,582
Weighted average common shares outstanding	5,044	5,010	5,035	5,010
Dilutive effect of employee stock plans	73	54	65	53
Dilutive weighted average common shares outstanding	5,117	5,064	5,100	5,063
Basic earnings per share	\$ 0.37	\$ 0.29	\$ 0.64	\$ 0.52
Diluted earnings per share	\$ 0.37	\$ 0.29	\$ 0.63	\$ 0.51
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation <sup>(1)</sup>	40	177	100	189

<sup>(1)</sup> These weighted shares relate to anti-dilutive stock options and restricted stock-based awards as calculated using the treasury stock method (described above) and could be dilutive in the future.

**14. 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

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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.

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**Table of Contents**

**ORACLE CORPORATION**

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

**November 30, 2010**

**(Unaudited)**

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 filed their opening appellate brief on November 30, 2009. Defendants filed their opposition brief on February 4, 2010, and plaintiffs filed their reply on March 15, 2010. The court heard oral argument on July 13, 2010. On November 16, 2010, the court issued an opinion, affirming the lower court's grant of summary judgment. On November 30, 2010, plaintiffs filed a petition for rehearing. On December 9, 2010, the parties filed a joint motion with the appellate court, seeking dismissal of the petition with each party to bear its own attorneys' fees and costs in the action. On December 13, 2010, the appellate court issued an order dismissing the petition for rehearing. This order represents the final conclusion of this litigation.

**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 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' 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. A court-ordered mediation was held on June 1, 2009, which did not result in a settlement. The appellate court heard oral argument on December 10, 2009 after full briefing. On April 28, 2010, the Federal Circuit issued a decision vacating the district court's grant of





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**Table of Contents**

**ORACLE CORPORATION**

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

**November 30, 2010**

**(Unaudited)**

summary judgment of noninfringement in Oracle's favor and remanding the case to the district court for further proceedings. On May 28, 2010, Oracle filed a Petition for Rehearing with the Federal Circuit which was denied on June 11, 2010. The parties have completed discovery. Trial is set for May 9, 2011. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

**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.

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.

Based on information obtained during discovery, Oracle amended its complaint several times. Oracle filed its operative complaint, Oracle's Fourth Amended Complaint, on August 18, 2009. The SAP Defendants filed an Answer on August 26, 2009.

On August 26, 2009, the SAP Defendants filed an early motion for summary judgment directed to Oracle's damages theory. After full briefing, the motion was heard on October 28, 2009. By order dated January 28, 2010, SAP's motion for partial summary judgment was denied.

On March 3, 2010, the SAP Defendants and Oracle each filed a motion for partial summary judgment. After receiving briefing and hearing oral argument, the Court issued an order on August 17, 2010, granting in part and denying in part each of these motions. Regarding Oracle's motion, the Court granted partial summary judgment regarding certain copyright infringement, Federal Computer Fraud and Abuse Act, and California Computer Data Access and Fraud Act claims against TomorrowNow. The Court also granted partial summary judgment regarding certain vicarious copyright infringement claims against SAP AG. Regarding the SAP Defendants' motion, the Court found that Oracle EMEA Ltd. could not pursue claims in California. The Court further held that Oracle could not recover, as a measure of damages, saved development costs (that is, the amount the SAP Defendants would have had to pay to independently develop the software at issue).

On September 13, 2010, the Court approved a stipulation by the parties. Pursuant to the stipulation, TomorrowNow stipulated to all liability on all claims asserted against it in this action, and preserved no defenses as to that liability. TomorrowNow retained defenses as to damages. Under the stipulation, SAP AG and SAP America, Inc. stipulated to vicarious liability on the copyright claims against TomorrowNow. SAP AG and SAP America, Inc. retained all defenses related to damages.

Trial commenced November 1, 2010. On November 2, 2010, the Court approved a stipulation by the parties, pursuant to which SAP AG and SAP America, Inc. stipulated to liability for contributory infringement of 120 of Oracle's copyrights. The trial proceeded to determine the amount of damages the SAP Defendants should pay to Oracle. Following trial, the jury awarded Oracle the sum of \$1.3 billion. The amount has not been received and has not been recorded as a benefit to our results of operations. The time to bring post-trial motions challenging the verdict or to appeal has not run.



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**Table of Contents**

**ORACLE CORPORATION**

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

**November 30, 2010**

**(Unaudited)**

**Derivative Litigation and Related Action**

On August 2, 2010, a stockholder derivative lawsuit was filed in the United States District Court for the Northern District of California. On August 19, 2010, a similar stockholder derivative lawsuit was filed in the Superior Court of the State of California, County of San Mateo. The derivative suits were brought by alleged stockholders of Oracle, purportedly on our behalf, against some of our current officers and directors. Citing the claims in a qui tam action (discussed below), plaintiffs allege that Oracle improperly overcharged the United States government by failing to provide discounts required under its contract with the General Services Administration (GSA), and that Oracle made false statements to the United States government. Plaintiffs alleged that the officer and director defendants are responsible for this alleged conduct and have exposed Oracle to reputational damage, potential monetary damages, and costs relating to the investigation, defense, and remediation of the underlying claims. Plaintiffs bring claims for breach of fiduciary duty, abuse of control, and unjust enrichment. The plaintiffs seek compensatory and other damages, restitution, disgorgement of alleged illicit proceeds, punitive damages and other relief. On September 20, 2010, Oracle removed the San Mateo action to the United States District Court for the Northern District of California, where the case has been designated as being related to the other action. On September 30, 2010, plaintiff in the former San Mateo action brought a motion to remand that case to San Mateo Superior Court. On October 28, 2010, Oracle brought a motion to dismiss the two related actions, arguing that the Delaware Chancery Court is the proper venue for both actions. After full briefing, the court heard oral argument on plaintiff's remand motion and Oracle's motion to dismiss on December 2, 2010. The court has not yet ruled on either motion. As discussed in the paragraph below, Oracle believes that the claims in the qui tam action are meritless.

On June 16, 2009, the United States Department of Justice notified us that a qui tam action had been filed against the Company in the United States District Court for the Eastern District of Virginia and that the government was conducting an investigation of the allegations in the sealed complaint. On July 29, 2010, the United States government filed a Complaint in Intervention in that action, alleging that Oracle made false and fraudulent statements to the GSA in 1997-98 regarding Oracle's commercial pricing practices, discounts provided to Oracle's commercial customers, and discounts provided to government purchasers. The government alleges that Oracle also improperly manipulated commercial sales to avoid the discounting restrictions imposed by the GSA contract, reiterated and confirmed in 2001 false statements allegedly made during the 1997-98 contract negotiations, and breached a duty to inform the government about discounts offered to commercial customers. The Complaint in Intervention alleges False Claims Act violations and claims for breach of contract, fraud in the inducement, constructive fraud, fraud by omission, payment by mistake, and unjust enrichment. The Complaint in Intervention seeks statutory penalties and damages, including treble damages. Oracle filed a motion to dismiss the complaint and on November 3, 2010, the Court granted the motion in part and denied it in part. The Court dismissed the government's claims to the extent they arose before May 29, 2001, and ordered the government to file a new complaint. This First Amended Complaint was filed on November 16, 2010, and makes allegations similar to those in the original complaint. Oracle filed a motion to dismiss the First Amended Complaint. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

**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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**Table of Contents**

**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, including changes to our business as a result of our acquisition of Sun Microsystems, Inc. (Sun) in the third quarter of fiscal 2010. 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 *expects*, *anticipates*, *intends*, *plans*, *believes*, *seeks*, *estimates*, *will*, *is designed to* 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, 2010 and our other Quarterly Reports on Form 10-Q filed by us in our fiscal year 2011, which runs from June 1, 2010 to May 31, 2011.

**Business Overview**

We are the world's largest enterprise software company. As a result of our acquisition of Sun in January 2010, we are also a leading provider of hardware systems products and services. We develop, manufacture, market, distribute and service database and middleware software, applications software and hardware systems, consisting primarily of computer server and storage products, which are designed to help our customers manage and grow their business operations.

Our goal is to be the world's most complete, open and integrated enterprise software and hardware company. We offer customers scalable, reliable, secure and integrated software and hardware solutions that are designed to improve transactional efficiencies, adapt to an organization's unique needs and allow better ways to access and manage information and automate business processes at a lower total cost of ownership. We seek to be an industry leader in each of the specific product categories in which we compete and to expand into new and emerging markets.

We believe our internal, or organic, growth and continued innovation with respect to our software, hardware systems and services businesses are the foundation of 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. We also believe that an active acquisition program is an important element of our corporate strategy as it strengthens our competitive position, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings, and increases stockholder value. In recent years, we have invested billions of dollars to acquire a number of companies, products, services and technologies that add to, are complementary to or have otherwise enhanced our existing offerings. We expect to continue to acquire companies, products, services and technologies in furtherance of our corporate strategy.

We are organized into three businesses—software, hardware systems and services—which are further divided into seven operating segments. Each of these businesses and 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 businesses performed excluding the effects of foreign currency rate fluctuations. An overview of our three businesses and seven operating segments follows.

**Software Business**

Our software business, which represented 68% of our total revenues on a trailing 4-quarter basis, is comprised of two operating segments: (1) new software licenses and (2) software license updates and product support. On a

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## **Table of Contents**

constant currency basis we expect that our software business' total revenues generally will continue to increase in comparison to the corresponding prior year periods due to continued demand for our software products and software license updates and product support offerings, including the high percentage of customers that renew their software license updates 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. As a result of our acquisition of Sun, we acquired certain software technologies, including Java, which is a global software development platform used in a wide range of computers, networks and devices.

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, and our acquisitions and foreign currency fluctuations. The significant majority of our new software license segment 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 segment. New software license revenues represented 25% of our total revenues on a trailing 4-quarter basis. Our new software license segment's margins have historically trended upward over the course of the four quarters within a particular fiscal year due to the historical upward trend of our new software license revenues over those quarterly periods and because the majority of our costs for this segment are predominantly fixed in the short term. However, our new software license segment's margins have been and will continue to be affected by the amortization of intangible assets associated with companies that we have acquired.

***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. 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 43% of our total revenues on a trailing 4-quarter basis, is our highest margin segment. Software license update and product support margins over the trailing 4-quarters were 85%, and accounted for 74% 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 combinations (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 software 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, software license updates and product support revenues would continue to grow in comparison to the corresponding prior year periods assuming prices, renewal and cancellation rates and foreign currency rates remained relatively constant since substantially all new software license transactions result in the sale of software license updates and product support contracts, which 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.

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## **Table of Contents**

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 \$22 million and \$14 million for the three months ended November 30, 2010 and 2009, respectively, and \$47 million and \$23 million for the six months ended November 30, 2010 and 2009, respectively. To the extent underlying support contracts are renewed with us following an acquisition, we will recognize the revenues for the full value of the support contracts over the support periods, the majority of which are one year.

### **Hardware Systems Business**

As a result of our acquisition of Sun in January 2010, we entered into a new hardware systems business. Our hardware systems business consists of two operating segments: (1) hardware systems products and (2) hardware systems support. Our hardware business represented 18% of our total revenues on a trailing 4-quarter basis and we expect that it will continue to add a significant amount of revenues and expenses to our results of operations in comparison to our historical operating results. We expect our hardware business to have lower operating margins as a percentage of revenues than our software business due to the incremental costs we incur to produce and distribute these products and to provide support services, including direct materials and labor costs. We expect to make investments in research and development to improve existing hardware products and services or to develop new hardware products and services.

To produce our hardware products, we rely on both our internal manufacturing operations as well as third party manufacturing partners. Our internal manufacturing operations consist primarily of final assembly, test and quality control of enterprise and data center servers and storage systems. For all other manufacturing, we rely on third party manufacturing partners. We distribute most of our hardware products either from our facilities or partner facilities. One of our main goals is to reduce costs by simplifying our manufacturing processes through increased standardization of components across product types, through a reduction of the number of assembly and distribution centers we rely on and through our transition to a build-to-order process in which products are built only after customers have placed firm orders. In addition, we are focusing on identifying hardware systems support processes that are intended to proactively identify and solve quality issues and to increase the amount of new hardware systems support contracts sold in connection with the sales of new hardware products.

**Hardware Systems Products:** Our hardware systems products consist primarily of computer server and storage product offerings and hardware-related software, including our Solaris operating system.

We offer a wide range of server systems using our SPARC microprocessor. Our SPARC servers are differentiated by their size, cost, form factor or configuration (rack, blade or stand-alone systems) and customer environments that they target (general purpose or specialized systems). Our mid- and large-size servers are designed to offer greater performance and lower total cost of ownership than mainframe systems for business critical applications and for customers having more computationally intensive needs. Our SPARC servers run our Solaris operating system and are designed for the most demanding mission critical enterprise environments at any scale.

We also offer a wide range of x86 servers differentiated by the same features as our SPARC servers. These x86 systems are substantially based upon microprocessor platforms from Intel Corporation and are also compatible with Solaris, Linux, Windows and other operating systems.

Our storage products are designed to securely manage, protect, archive and restore customers' data assets and consist of tape, disk and networking solutions for open systems and mainframe server environments.

Prior to our acquisition of Sun, the majority of Sun's hardware systems products were sold through indirect channels. Although we plan to continue to sell our hardware products through indirect channels, including independent distributors and value added resellers, we have begun enhancing direct sales coverage for our hardware systems products and intend that our direct sales force will sell proportionately more of our hardware systems products in the future than they do currently.

Our operating margins for our hardware systems products segment have been and will be affected by the amortization of intangible assets associated with our acquisition of Sun. We have limited experience in predicting

**Table of Contents**

our quarterly hardware systems products revenues. The timing of customer orders and delays in our ability to timely manufacture or deliver a few large transactions could substantially affect the amount of hardware systems products revenues, expenses and operating margins that we report.

**Hardware Systems Support:** Customers that purchase our hardware systems products may also elect to purchase our hardware systems support offerings. Our hardware systems support offerings provide customers with software updates for the software components that are essential to the functionality of our systems and storage products, including Solaris, and can include product repairs, maintenance services, and technical support services. Typically, our hardware systems support contract arrangements are invoiced to the customer at the beginning of the support period and are one year in duration. The growth of our hardware systems support revenues is influenced by a number of factors, including the volume of purchases of hardware products, the mix of hardware products purchased, and the percentage of our hardware systems support contract customer base that renews its support contracts. All of these factors are heavily influenced by our customers' decisions to either maintain or upgrade their existing hardware systems' infrastructure to newly developed technologies that are available.

Our hardware systems support margins have been and will be affected by fair value adjustments relating to hardware systems support obligations assumed through, and by the amortization of intangible assets resulting from, our acquisition of Sun. As required by business combination accounting rules, we recorded adjustments to reduce our hardware systems support revenues for contracts assumed from our acquisition of Sun to their estimated fair values as of the acquisition date by an aggregate of \$45 million and \$106 million for the three and six months ended November 30, 2010, respectively. This amount would have been recorded as hardware systems support revenues by Sun as a standalone entity. To the extent underlying hardware systems support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the hardware systems support contracts over the support periods.

**Services Business**

Our services business consists of consulting, On Demand and education. Our services business, which represented 14% of our total revenues on a trailing 4-quarter basis, has significantly lower margins than our software business and what we have recently achieved from our hardware business.

**Consulting:** Our consulting line of business primarily provides services to customers in enterprise architecture design and implementation; business/IT strategy alignment; business process simplification; solution integration; and product implementation, enhancements, and upgrades. The amount of consulting revenues recognized tends to lag the amount of our software and hardware systems products revenues by several quarters since consulting services, if purchased, are typically segmentable from the products with which they relate and are performed after the customer's purchase of the products. Our consulting revenues are dependent upon general economic conditions and the level of our product revenues, in particular the new software license sales of our application products. To the extent we are able to grow our products revenues, in particular our software application product revenues, we would also generally expect to be able to eventually grow our consulting revenues.

**On Demand:** On Demand includes our Oracle On Demand and our Advanced Customer Services offerings. As a result of our acquisition of Sun, we increased the volume and breadth of our On Demand services offerings, primarily with additional Advanced Customer Services offerings, including staff augmentation and managed services, to architect, implement and manage customer IT environments. 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. While we have grown the base of customers that purchase certain of our On Demand services through our organic growth and the acquisition of Sun, we continue to focus on managing our expenses to increase our margins and margins as a percentage of our revenues. 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 and hardware products by our customers and to create opportunities to grow our product revenues. Education

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## **Table of Contents**

revenues are impacted by certain of our acquisitions (including our acquisition of Sun), general economic conditions, personnel reductions in our customers' information technology departments, tighter controls over discretionary spending and greater use of outsourcing solutions.

### **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 including Sun in the third quarter of fiscal 2010, among others. 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 in furtherance of our corporate strategy. See Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information related to our pending and recent acquisitions.

We believe we can fund our future acquisitions with our internally available cash, cash equivalents and marketable securities, cash generated from operations, amounts available under our existing debt facilities, 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) as set forth in the Financial Accounting Standards Board's Accounting Standards Codification (Codification) and consider the various staff accounting bulletins and other applicable guidance issued by the SEC. GAAP, as set forth within the Codification, requires 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



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Audit Committee of the Board of Directors.

During the first half of fiscal 2011, there were no significant changes to our critical accounting policies and estimates. 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, 2010 for a more complete discussion of our critical accounting policies and estimates.

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## **Table of Contents**

### **Results of Operations**

#### ***Impact of Acquisitions***

The comparability of our operating results in the second quarter and first half of fiscal 2011 compared to the same periods of fiscal 2010 is impacted by our acquisitions, primarily the acquisition of Sun in our third quarter of fiscal 2010.

In our discussion of changes in our results of operations from the second quarter and first half of fiscal 2011 compared to the same periods of fiscal 2010, we quantify the contribution of our acquisitions (for acquisitions that were completed since the beginning of fiscal 2010) to the growth in new software license revenues, software license updates and product support revenues, hardware systems products revenues and hardware systems support revenues. We also are able to quantify the total incremental expenses associated with our hardware systems products and hardware systems support segments. The incremental contributions of our acquisitions to our other businesses and operating segments revenues and expenses are not provided as they either were not separately identifiable due to the integration of these operating segments into our existing operations and/or were insignificant to our results of operations during the periods presented.

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

the quantifications cannot address the substantial effects attributable to changes in business strategies, including our sales force integration efforts. We believe that if our acquired companies had operated independently and sales forces had not been integrated, the relative mix of products sold would have been different; 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 and we intend to focus our efforts on renewing hardware systems support contracts, the amounts shown as software license updates and product support deferred revenues and hardware systems support deferred revenues in our supplemental disclosure related to certain charges (presented 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 technology industry. Our total revenues and operating margins are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. The operating margins of our businesses are affected by seasonal factors in a similar manner as our revenues (in particular, our new software licenses and hardware systems products segments) 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 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, 2010, 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 November 30, 2010 and November 30, 2009, our financial statements would reflect reported revenues of \$1.33 million in the first half of fiscal 2011 (using 1.33 as the month-end average exchange

**Table of Contents**

rate for the period) and \$1.50 million in the first half of fiscal 2010 (using 1.50 as the month-end average exchange rate for the period). The constant currency presentation would translate the results for the three and six months ended November 30, 2010 and 2009 using the May 31, 2010 exchange rate and indicate, in this example, no change in revenues during these periods. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

**Total Revenues and Operating Expenses**

(Dollars in millions)	Three Months Ended November 30,				Six Months Ended November 30,			
	2010	Percent Change		2009	2010	Percent Change		2009
		Actual	Constant			Actual	Constant	
<b>Total Revenues by Geography:</b>								
Americas	\$ 4,452	49%	49%	\$ 2,979	\$ 8,356	48%	47%	\$ 5,650
EMEA <sup>(1)</sup>	2,738	39%	47%	1,976	5,119	41%	51%	3,618
Asia Pacific <sup>(2)</sup>	1,392	54%	47%	903	2,609	59%	50%	1,643
<b>Total revenues</b>	<b>8,582</b>	<b>47%</b>	<b>48%</b>	<b>5,858</b>	<b>16,084</b>	<b>47%</b>	<b>49%</b>	<b>10,911</b>
<b>Total Operating Expenses</b>	<b>5,812</b>	<b>58%</b>	<b>59%</b>	<b>3,680</b>	<b>11,397</b>	<b>63%</b>	<b>64%</b>	<b>6,993</b>
<b>Total Operating Margin</b>	<b>\$ 2,770</b>	<b>27%</b>	<b>28%</b>	<b>\$ 2,178</b>	<b>\$ 4,687</b>	<b>20%</b>	<b>20%</b>	<b>\$ 3,918</b>
<b>Total Operating Margin %</b>	<b>32%</b>			<b>37%</b>	<b>29%</b>			<b>36%</b>
<b>% Revenues by Geography:</b>								
Americas	52%			51%	52%			52%
EMEA	32%			34%	32%			33%
Asia Pacific	16%			15%	16%			15%
<b>Total Revenues by Business:</b>								
Software	\$ 5,644	15%	17%	\$ 4,900	\$ 10,380	15%	16%	\$ 9,045
Hardware Systems	1,753	*	*		3,451	*	*	
Services	1,185	24%	25%	958	2,253	21%	22%	1,866
<b>Total revenues</b>	<b>\$ 8,582</b>	<b>47%</b>	<b>48%</b>	<b>\$ 5,858</b>	<b>\$ 16,084</b>	<b>47%</b>	<b>49%</b>	<b>\$ 10,911</b>
<b>% Revenues by Business:</b>								
Software	66%			84%	65%			83%
Hardware Systems	20%			0%	21%			0%
Services	14%			16%	14%			17%

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

(2) Asia Pacific includes Japan

\* Not meaningful

**Fiscal Second Quarter 2011 Compared to Fiscal Second Quarter 2010:** Excluding the effect of foreign currency rate fluctuations, total revenues increased in the second quarter of fiscal 2011 due to a \$1.8 billion revenue contribution from our new hardware systems business that resulted from our acquisition of Sun, an increase in our software business revenues resulting from growth in our new software licenses revenues and our software license updates and product support revenues and an increase in our services revenues resulting primarily from an increase in our On Demand revenues that resulted primarily from our acquisition of Sun. Excluding the effect of currency rate fluctuations, the Americas contributed 55%, EMEA contributed 30% and Asia Pacific contributed 15% to our total revenues growth.

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Excluding the effect of foreign currency rate fluctuations, the increase in total operating expenses in the second quarter of fiscal 2011 was due to additional operating expenses incurred as a result of our acquisition of Sun, including increased expenses pertaining to hardware systems products sold and related hardware systems support offerings, additional employee related expenses including additional stock-based compensation, an increase in

**Table of Contents**

intangible asset amortization and increased restructuring expenses primarily as a result of our Sun Restructuring Plan. Total operating expense increases were partially offset by a \$120 million benefit related to the recovery of legal costs during the second quarter of fiscal 2011.

On a constant currency basis, our operating margin increased during the second quarter of fiscal 2011 as the increase in total revenues exceeded the increase in total expenses. However, on a constant currency basis our operating margin as a percentage of revenues declined due to the post-combination contributions from our acquisition of Sun, which increased our total expenses, primarily research and development, amortization of intangibles and restructuring expenses, at a faster rate than our total revenues. The decline in our operating margin as a percentage of revenues was partially offset by the aforementioned recovery of legal costs during the second quarter of fiscal 2011.

**First Half Fiscal 2011 Compared to First Half Fiscal 2010:** Excluding the effect of foreign currency rate fluctuations, the increase in total revenues in the first half of fiscal 2011 was generally consistent with the reasons noted above. Excluding the effect of currency rate fluctuations, the Americas contributed 52%, EMEA contributed 32% and Asia Pacific contributed 16% to our total revenues growth.

Excluding the effect of foreign currency rate fluctuations, the increases in total operating expenses and total operating margin in the first half of fiscal 2011 were generally consistent with the reasons noted above. On a constant currency basis, operating margin as a percentage of revenues decreased in the first half of fiscal 2011 due to reasons consistent with those noted above.

**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 and income items:

(in millions)	Three Months Ended November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Software license updates and product support deferred revenues <sup>(1)</sup>	\$ 22	\$ 14	\$ 47	\$ 23
Hardware systems support deferred revenues <sup>(1)</sup>	45		106	
Amortization of intangible assets <sup>(2)</sup>	614	436	1,217	867
Acquisition related and other <sup>(3)(5)</sup>	47	10	130	16
Restructuring <sup>(4)</sup>	189	114	318	162
Stock-based compensation <sup>(5)</sup>	119	104	248	188
Income tax effects <sup>(6)</sup>	(274)	(175)	(528)	(337)
	\$ 762	\$ 503	\$ 1,538	\$ 919

<sup>(1)</sup> In connection with purchase price allocations related to our acquisitions, we have estimated the fair values of software support and hardware systems 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 \$22 million and \$14 million for the three months ended November 30, 2010 and 2009, respectively, and \$47 million and \$23 million for the six months ended November 30, 2010 and 2009, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by Sun as an independent entity, in the amount of \$45 million and \$106 million for the three and six months ended November 30, 2010, respectively.

Approximately \$25 million, \$19 million and \$7 million of estimated software license updates and product support revenues related to support contracts assumed will not be recognized during the remainder of fiscal 2011, fiscal 2012 and fiscal 2013, respectively, that would have otherwise been recognized by the acquired businesses as independent entities due to the application of the aforementioned business combination accounting rules. In addition, approximately \$42 million, \$35 million and \$11 million of estimated hardware systems support revenues related to hardware systems support contracts assumed will not be recognized during the remainder of fiscal



**Table of Contents**

2011, fiscal 2012 and fiscal 2013, respectively that would have otherwise been recognized by Sun as an independent entity. To the extent customers renew these support contracts, we expect to recognize revenues for the full contract values over the support renewal period.

- (2) Represents the amortization of intangible assets acquired in connection with our acquisitions. As of November 30, 2010, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of Fiscal 2011	\$ 1,175
Fiscal 2012	2,157
Fiscal 2013	1,788
Fiscal 2014	1,449
Fiscal 2015	1,065
Fiscal 2016	575
Thereafter	190
Total intangible assets subject to amortization	8,399
In-process research and development	127
Total intangible assets, net	\$ 8,526

- (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 periods have ended, and certain other operating expenses, net.
- (4) Substantially all restructuring expenses incurred during the three and six months ended November 30, 2010 relate to employee severance, facility exit costs and contract termination costs in connection with our Sun Restructuring Plan. Additional information regarding our restructuring plans is provided in Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.
- (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 November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Sales and marketing	\$ 19	\$ 20	\$ 42	\$ 36
Software license updates and product support	3	4	8	8
Hardware systems products	1		2	
Hardware systems support	1		2	
Services	4	3	8	6
Research and development	55	44	114	76
General and administrative	36	33	72	62
Subtotal	119	104	248	188
Acquisition related and other	5		6	
Total stock-based compensation	\$ 124	\$ 104	\$ 254	\$ 188

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

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- (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 based on the applicable jurisdictional tax rates applied to the items within the table above and resulted in an effective tax rate of 28.5% and 27.4% for the second quarter of fiscal 2011 and 2010, respectively, and 26.8% and 27.7% for the first half of fiscal 2011 and 2010, respectively. The differences in the income tax rates for the second quarter and first half of fiscal 2011 and fiscal 2010 in comparison to the income tax rates derived per our condensed consolidated statements of operations were due to differences in jurisdictional tax rates and the related tax benefits attributable to our restructuring expenses in these periods.



**Table of Contents****Software Business**

Our software business consists of our new software licenses segment and software license updates and product support segment.

**New Software Licenses:** New software license revenues primarily 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.

(Dollars in millions)	Three Months Ended November 30,				Six Months Ended November 30,			
	2010	Percent Change		2009	2010	Percent Change		2009
		Actual	Constant			Actual	Constant	
<b>New Software License Revenues:</b>								
Americas	\$ 1,030	32%	32%	\$ 778	\$ 1,687	33%	32%	\$ 1,274
EMEA	574	5%	12%	548	925	7%	14%	862
Asia Pacific	395	21%	16%	327	672	23%	17%	545
Total revenues	1,999	21%	23%	1,653	3,284	22%	24%	2,681
<b>Expenses:</b>								
Sales and marketing <sup>(1)</sup>	1,260	13%	14%	1,113	2,326	13%	14%	2,057
Stock-based compensation	18	-16%	-16%	20	39	9%	9%	36
Amortization of intangible assets <sup>(2)</sup>	211	1%	1%	208	415	0%	0%	413
Total expenses	1,489	11%	12%	1,341	2,780	11%	12%	2,506
<b>Total Margin</b>	<b>\$ 510</b>	<b>64%</b>	<b>73%</b>	<b>\$ 312</b>	<b>\$ 504</b>	<b>190%</b>	<b>218%</b>	<b>\$ 175</b>
<b>Total Margin %</b>	<b>26%</b>			<b>19%</b>	<b>15%</b>			<b>6%</b>
<b>% Revenues by Geography:</b>								
Americas	51%			47%	52%			48%
EMEA	29%			33%	28%			32%
Asia Pacific	20%			20%	20%			20%
<b>Revenues by Product:</b>								
Database and middleware	\$ 1,420	21%	23%	\$ 1,175	\$ 2,356	25%	27%	\$ 1,886
Applications	579	21%	22%	478	928	17%	17%	795
Total new software license revenues	\$ 1,999	21%	23%	\$ 1,653	\$ 3,284	22%	24%	\$ 2,681
<b>% Revenues by Product:</b>								
Database and middleware	71%			71%	72%			70%
Applications	29%			29%	28%			30%

<sup>(1)</sup> Excluding stock-based compensation

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

**Fiscal Second Quarter 2011 Compared to Fiscal Second Quarter 2010:** Excluding the effect of currency rate fluctuations, total new software license revenues increased by 23% in the second quarter of fiscal 2011 due to growth across all major regions and product types and incremental revenues from our acquisitions. On a constant currency basis, the Americas contributed 70%, EMEA contributed 16% and Asia Pacific contributed 14% to our new software license revenues growth during the second quarter of fiscal 2011.

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Excluding the effect of currency fluctuations, database and middleware revenues and applications revenues increased by 23% and 22%, respectively, in the second quarter of fiscal 2011, and 20% and 13%, respectively, over the trailing 4-quarters, primarily due to improved customer demand for our products, our sales force's execution and incremental revenues from our acquisitions. In reported currency, Sun contributed \$136 million and other recent acquisitions contributed \$6 million to the growth in our database and middleware revenues during the second quarter of fiscal 2011. In reported currency, our recent acquisitions contributed \$27 million to the growth in our applications revenues.

**Table of Contents**

In reported currency, new software license revenues earned from transactions over \$0.5 million increased by 12% in the second quarter of fiscal 2011 and represented 47% of our new software license revenues in the second quarter of fiscal 2011 in comparison to 51% in the second quarter of fiscal 2010.

Excluding the effect of favorable foreign currency rate fluctuations, our total software sales and marketing expenses increased in the second quarter of fiscal 2011 primarily due to higher employee related and other operating expenses resulting from our acquisition of Sun and higher variable compensation expenses resulting from higher revenues.

New software license margin and margin as a percentage of revenues increased as our revenues increased at a faster rate than our expenses.

**First Half Fiscal 2011 Compared to First Half Fiscal 2010:** Excluding the effect of foreign currency rate fluctuations, total new software license revenues increased by 24% in the first half of fiscal 2011 for similar reasons as noted above. In reported currency, products acquired from Sun and other recent acquisitions contributed \$284 million and \$16 million, respectively, to the growth in our database and middleware revenues during the first half of fiscal 2011 and products from our other recent acquisitions contributed \$30 million to the growth in our applications revenues during the first half of fiscal 2011. In reported currency, new software license revenues earned from transactions over \$0.5 million increased by 14% in the first half of fiscal 2011 and represented 44% of new software license revenues in the first half of fiscal 2011 in comparison to 48% in the first half of fiscal 2010.

Excluding the effect of foreign currency rate fluctuations, total software sales and marketing expenses, new software license margin and margin as a percentage of revenues increased due to reasons that are generally consistent with those noted above.

**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 segment 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 acquisitions.

(Dollars in millions)	Three Months Ended November 30,				Six Months Ended November 30,			
	2010	Percent Change		2009	2010	Percent Change		2009
	Actual	Constant			Actual	Constant		
<b>Software License Updates and Product Support Revenues:</b>								
Americas	\$ 1,959	13%	12%	\$ 1,734	\$ 3,843	12%	11%	\$ 3,429
EMEA	1,183	9%	16%	1,088	2,289	8%	15%	2,120
Asia Pacific	503	18%	12%	425	964	18%	11%	815
<b>Total revenues</b>	<b>3,645</b>	<b>12%</b>	<b>13%</b>	<b>3,247</b>	<b>7,096</b>	<b>12%</b>	<b>13%</b>	<b>6,364</b>
<b>Expenses:</b>								
Software license updates and product support <sup>(1)</sup>	304	17%	18%	260	607	26%	27%	482
Stock-based compensation	3	-40%	-40%	4	8	-10%	-10%	8
Amortization of intangible assets <sup>(2)</sup>	208	-3%	-3%	215	414	-3%	-3%	428
<b>Total expenses</b>	<b>515</b>	<b>8%</b>	<b>8%</b>	<b>479</b>	<b>1,029</b>	<b>12%</b>	<b>12%</b>	<b>918</b>
<b>Total Margin</b>	<b>\$ 3,130</b>	<b>13%</b>	<b>14%</b>	<b>\$ 2,768</b>	<b>\$ 6,067</b>	<b>11%</b>	<b>13%</b>	<b>\$ 5,446</b>
<b>Total Margin %</b>	<b>86%</b>			<b>85%</b>	<b>85%</b>			<b>86%</b>
<b>% Revenues by Geography:</b>								
Americas	54%			53%	54%			54%
EMEA	32%			34%	32%			33%
Asia Pacific	14%			13%	14%			13%

<sup>(1)</sup> Excluding stock-based compensation

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

**Table of Contents**

**Fiscal Second Quarter 2011 Compared to Fiscal Second Quarter 2010:** Excluding the effect of currency rate fluctuations, software license updates and product support revenues increased in the second quarter of fiscal 2011 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 quarter and incremental revenues from recent acquisitions. Excluding the effect of currency rate fluctuations, the Americas contributed 53%, EMEA contributed 35% and Asia Pacific contributed 12% to the increase in software license updates and product support revenues.

In reported currency, software license updates and product support revenues in the second quarter of fiscal 2011 included incremental revenues of \$93 million from Sun and \$38 million from our other recent acquisitions. As a result of our acquisitions, we recorded adjustments to reduce assumed software license updates and product support obligations 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 \$22 million and \$14 million that would have been otherwise recorded by our acquired businesses as independent entities, were not recognized in the second quarter of fiscal 2011 and fiscal 2010, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their software support contracts when such contracts are eligible for renewal. To the extent these underlying software 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 in duration.

On a constant currency basis, total software license updates and product support expenses increased primarily due to an increase in salaries and benefits expenses resulting from increased headcount that was primarily Sun-related.

Excluding the effect of currency rate fluctuations, total software license updates and product support margin and margin as a percentage of total revenues increased as our total revenues increased at a faster rate than our total expenses.

**First Half Fiscal 2011 Compared to First Half Fiscal 2010:** On a constant currency basis, the growth in our software license updates and product support revenues and expenses is primarily attributable to the same reasons as noted above. On a constant currency basis, the Americas contributed 51%, EMEA contributed 37% and Asia Pacific contributed 12% to the increase in software license updates and product support revenues. Software license updates and product support revenues in the first half of fiscal 2011 included incremental contributions of \$168 million from Sun and \$60 million from our other recent acquisitions. Software license updates and product support revenues related to support contracts in the amounts of \$47 million and \$23 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the first half of fiscal 2011 and 2010, respectively, due to business combination accounting rules.

On a constant currency basis, total software license updates and product support expenses increased due to similar reasons as noted above as well as an increase in bad debt expenses. Excluding the effect of currency rate fluctuations, total software license updates and product support margin increased due to an increase in our revenues, and our margin as a percentage of total revenues was flat.

**Hardware Systems Business**

As a result of our acquisition of Sun in January 2010, we entered into a new hardware systems business. Our hardware systems business consists of two operating segments: hardware systems products and hardware systems support.

**Hardware Systems Products:** Hardware systems products revenues are primarily generated from the sales of our computer server and storage products. We market and sell our hardware systems products through our direct sales force and indirect channels such as independent distributors and value added resellers. Operating expenses associated with our hardware systems products include the cost of hardware systems products, which consist of expenses for materials and labor used to produce these products by our internal manufacturing operations or by third party manufacturers, warranty expenses and the impact of periodic changes in inventory valuation, including the impact of inventory determined to be excess and obsolete. Operating expenses associated with our

**Table of Contents**

hardware systems products also include sales and marketing expenses, which are largely personnel related and include incentive compensation earned by our sales force for the sales of our hardware products, and amortization of intangible assets.

(Dollars in millions)	Three Months Ended November 30,				Six Months Ended November 30,			
	2010	Actual	Percent Change Constant	2009	2010	Actual	Percent Change Constant	2009
<b>Hardware Systems Products Revenues:</b>								
Americas	\$ 602	*	*	\$	\$ 1,144	*	*	\$
EMEA	329	*	*		667	*	*	
Asia Pacific	181	*	*		379	*	*	
<b>Total revenues</b>	<b>1,112</b>	<b>*</b>	<b>*</b>		<b>2,190</b>	<b>*</b>	<b>*</b>	
<b>Expenses:</b>								
Hardware systems products <sup>(1)</sup>	524	*	*		1,080	*	*	
Sales and marketing <sup>(1)</sup>	251	*	*		496	*	*	
Stock-based compensation	2	*	*		5	*	*	
Amortization of intangible assets <sup>(2)</sup>	103	*	*		204	*	*	
<b>Total expenses</b>	<b>880</b>	<b>*</b>	<b>*</b>		<b>1,785</b>	<b>*</b>	<b>*</b>	
<b>Total Margin</b>	<b>\$ 232</b>	<b>*</b>	<b>*</b>	<b>\$</b>	<b>\$ 405</b>	<b>*</b>	<b>*</b>	<b>\$</b>
<b>Total Margin %</b>	<b>21%</b>			<b>*</b>	<b>18%</b>			<b>*</b>
<b>% Revenues by Geography:</b>								
Americas	54%			*	52%			*
EMEA	30%			*	31%			*
Asia Pacific	16%			*	17%			*

(1) Excluding stock-based compensation

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

\* Not meaningful

**Hardware Systems Support:** Our hardware systems support offerings provide customers with software updates for the software components that are essential to the functionality of our hardware systems and storage products and can include product repairs, maintenance services, and technical support services. Expenses associated with our hardware systems support operating segment include the cost of materials used to repair customer products, the cost of providing support services, largely personnel related expenses, and the amortization of our intangible assets associated with hardware systems support contracts and customer relationships obtained from the Sun acquisition.

(Dollars in millions)	Three Months Ended November 30,				Six Months Ended November 30,			
	2010	Actual	Percent Change Constant	2009	2010	Actual	Percent Change Constant	2009
<b>Hardware Systems Support Revenues:</b>								
Americas	\$ 259	*	*	\$	\$ 512	*	*	\$
EMEA	264	*	*		523	*	*	
Asia Pacific	118	*	*		226	*	*	
<b>Total revenues</b>	<b>641</b>	<b>*</b>	<b>*</b>		<b>1,261</b>	<b>*</b>	<b>*</b>	
<b>Expenses:</b>								
Hardware systems support <sup>(1)</sup>	355	*	*		654	*	*	

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Stock-based compensation	1	*	*	2	*	*
Amortization of intangible assets <sup>(2)</sup>	74	*	*	149	*	*
Total expenses	430	*	*	805	*	*
<b>Total Margin</b>	\$ 211	*	*	\$ 456	*	*
<b>Total Margin %</b>	33%		*	36%		*
<b>% Revenues by Geography:</b>						
Americas	41%		*	41%		*
EMEA	41%		*	41%		*
Asia Pacific	18%		*	18%		*

(1) Excluding stock-based compensation

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

\* Not meaningful

**Table of Contents**

Our hardware systems support revenues were attributable to hardware systems support contracts that we assumed through our acquisition of Sun and hardware systems support contracts that were purchased or renewed by customers in the post-combination period. As a result of our acquisition of Sun, we recorded adjustments to reduce assumed hardware systems support obligations to their estimated fair values at the acquisition date. Due to our application of business combination accounting rules, hardware systems support revenues related to support contracts in the amount of \$45 million and \$106 million that would have been otherwise recorded by Sun as an independent entity were not recognized in the three and six months ended November 30, 2010, respectively. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full value of these contracts over the future support periods.

**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 personnel related expenditures.

(Dollars in millions)	Three Months Ended November 30,				Six Months Ended November 30,			
	2010	Percent Change		2009	2010	Percent Change		2009
		Actual	Constant			Actual	Constant	
<b>Consulting Revenues:</b>								
Americas	\$ 391	17%	17%	\$ 335	\$ 762	10%	10%	\$ 695
EMEA	224	-12%	-8%	253	411	-13%	-9%	472
Asia Pacific	123	19%	14%	104	231	23%	17%	188
<b>Total revenues</b>	<b>738</b>	<b>7%</b>	<b>8%</b>	<b>692</b>	<b>1,404</b>	<b>4%</b>	<b>5%</b>	<b>1,355</b>
<b>Expenses:</b>								
Services <sup>(1)</sup>	627	0%	1%	628	1,192	-2%	-1%	1,221
Stock-based compensation	2	4%	4%	2	4	-3%	-3%	4
Amortization of intangible assets <sup>(2)</sup>	10	0%	0%	10	19	3%	3%	19
<b>Total expenses</b>	<b>639</b>	<b>0%</b>	<b>1%</b>	<b>640</b>	<b>1,215</b>	<b>-2%</b>	<b>-1%</b>	<b>1,244</b>
<b>Total Margin</b>	<b>\$ 99</b>	<b>90%</b>	<b>87%</b>	<b>\$ 52</b>	<b>\$ 189</b>	<b>70%</b>	<b>63%</b>	<b>\$ 111</b>
<b>Total Margin %</b>	<b>14%</b>			<b>8%</b>	<b>14%</b>			<b>8%</b>
<b>% Revenues by Geography:</b>								
Americas	53%			48%	55%			51%
EMEA	30%			37%	29%			35%
Asia Pacific	17%			15%	16%			14%

<sup>(1)</sup> Excluding stock-based compensation

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

**Fiscal Second Quarter 2011 Compared to Fiscal Second Quarter 2010:** Excluding the effect of currency rate fluctuations, consulting revenues increased in the second quarter of fiscal 2011 due to revenue increases in the Americas and Asia Pacific regions and revenue contributions from our recently acquired companies, which were partially offset by a reduction in consulting revenues in the EMEA region.

Excluding the effect of currency rate fluctuations, consulting expenses increased slightly in the second quarter of fiscal 2011 due to increases in external contractor costs to support our increase in revenues and an increase in variable compensation expenses, which were almost entirely offset by a reduction in salary and related expenses resulting from reduced headcount.

On a constant currency basis, consulting margin and margin as a percentage of revenues increased in the second quarter of fiscal 2011 due primarily to an increase in our revenues.





**Table of Contents**

**First Half Fiscal 2011 Compared to First Half Fiscal 2010:** Excluding the effect of currency rate fluctuations, the increase in consulting revenues in the first half of fiscal 2011 was generally due to similar reasons as those discussed above. On a constant currency basis, our expense decreases in the first half of fiscal 2011 were primarily due to a reduction in salary and related expenses from reduced headcount, partially offset by increases in external contractor expenses and variable compensation expenses. On a constant currency basis, total margin and total margin as a percentage of revenues increased during the first half of fiscal 2011 due to both revenue increases and expense decreases.

**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 customers that are delivered either at our data center facilities, at select partner data centers, or physically on-site 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. As a result of our acquisition of Sun in the third quarter of fiscal 2010, we increased the volume and breadth of our Advanced Customer Services offerings, including onsite and remote operations management, hardware systems expert services, and packaged offerings that support the installation and optimization of Sun systems. 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 November 30, Percent Change			Six Months Ended November 30, Percent Change				
	2010	Actual	Constant	2009	2010	Actual	Constant	2009
<b>On Demand Revenues:</b>								
Americas	\$ 171	73%	71%	\$ 99	\$ 332	74%	73%	\$ 190
EMEA	128	121%	135%	58	244	111%	125%	116
Asia Pacific	51	61%	52%	31	95	53%	44%	62
Total revenues	350	86%	86%	188	671	82%	83%	368
<b>Expenses:</b>								
Services <sup>(1)</sup>	267	94%	93%	138	527	99%	99%	266
Stock-based compensation	2	24%	24%	1	4	38%	38%	2
Amortization of intangible assets <sup>(2)</sup>	8	129%	129%	3	16	129%	129%	7
Total expenses	277	94%	93%	142	547	99%	99%	275
<b>Total Margin</b>	\$ 73	60%	62%	\$ 46	\$ 124	34%	35%	\$ 93
<b>Total Margin %</b>	21%			24%	19%			25%
<b>% Revenues by Geography:</b>								
Americas	49%			53%	50%			52%
EMEA	37%			30%	36%			31%
Asia Pacific	14%			17%	14%			17%

<sup>(1)</sup> Excluding stock-based compensation

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

Excluding the effect of currency rate fluctuations, the increases in our On Demand revenues during the fiscal 2011 periods were primarily due to revenue contributions from Sun and, to a lesser extent, increased revenues from our legacy Advanced Customer Services and legacy Oracle On Demand offerings. Excluding the effect of currency rate fluctuations, the Americas contributed 46% and 48%, EMEA contributed 44% and 43% and Asia Pacific contributed 10% and 9% to the increases in On Demand revenues during the second quarter and first half of fiscal 2011, respectively.

On a constant currency basis, On Demand expenses increased during the fiscal 2011 periods primarily due to additional employee related expenses associated with the acquisition of Sun and higher third-party contractor expenses that supported the increases in our revenues.

**Table of Contents**

On a constant currency basis, On Demand margin increased and margin as a percentage of revenues declined during the fiscal 2011 periods due to the post-combination contributions from our acquisition of Sun, which increased our total margin but also increased our total expenses at a faster rate than our total revenues.

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

(Dollars in millions)	Three Months Ended November 30,				Six Months Ended November 30,			
	2010	Percent Change		2009	2010	Percent Change		2009
		Actual	Constant			Actual	Constant	
<b>Education Revenues:</b>								
Americas	\$ 40	21%	21%	\$ 33	\$ 76	22%	21%	\$ 62
EMEA	35	23%	30%	29	60	23%	31%	48
Asia Pacific	22	36%	29%	16	42	31%	24%	33
Total revenues	97	25%	26%	78	178	25%	25%	143
<b>Expenses:</b>								
Services	71	13%	14%	63	138	15%	16%	121
Total Expenses	71	13%	14%	63	138	15%	16%	121
<b>Total Margin</b>	\$ 26	71%	74%	\$ 15	\$ 40	77%	74%	\$ 22
<b>Total Margin %</b>	27%			19%	22%			15%
<b>% Revenues by Geography:</b>								
Americas	41%			42%	43%			43%
EMEA	36%			37%	33%			34%
Asia Pacific	23%			21%	24%			23%

On a constant currency basis, education revenues and expenses increased in the fiscal 2011 periods primarily due to Sun. Excluding the effect of currency rate fluctuations, the Americas contributed 36% and 39%, EMEA contributed 40% and 38%, and Asia Pacific contributed 24% and 23% to the increases in education revenues during the second quarter and first half of fiscal 2011, respectively. On a constant currency basis, education margin and margin as a percentage of revenues increased during the fiscal 2011 periods as a result of our revenues increasing at rate faster than our expenses.

**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 November 30,				Six Months Ended November 30,			
	2010	Percent Change		2009	2010	Percent Change		2009
		Actual	Constant			Actual	Constant	
Research and development <sup>(1)</sup>	\$ 1,064	60%	60%	\$ 664	\$ 2,108	63%	63%	\$ 1,292
Stock-based compensation	55	26%	26%	44	114	50%	50%	76
Total expenses	\$ 1,119	58%	58%	\$ 708	\$ 2,222	62%	62%	\$ 1,368
<b>% of Total Revenues</b>	13%			12%	14%			13%

<sup>(1)</sup> Excluding stock-based compensation

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On a constant currency basis, total research and development expenses increased during the fiscal 2011 periods primarily due to increased expenses from Sun, including additional employee related expenses such as salaries, variable compensation, benefits and stock-based compensation from increased headcount, and to a lesser extent, increased expenses related to facilities, other infrastructure costs and legal related expenses.

**Table of Contents**

**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 November 30, Percent Change				Six Months Ended November 30, Percent Change			
	2010	Actual	Constant	2009	2010	Actual	Constant	2009
General and administrative <sup>(1)</sup>	\$ 120	-20%	-23%	\$ 150	\$ 356	10%	9%	\$ 321
Stock-based compensation	36	11%	11%	33	72	19%	19%	62
<b>Total expenses</b>	<b>\$ 156</b>	<b>-15%</b>	<b>-17%</b>	<b>\$ 183</b>	<b>\$ 428</b>	<b>12%</b>	<b>11%</b>	<b>\$ 383</b>
<b>% of Total Revenues</b>	<b>2%</b>			<b>3%</b>	<b>3%</b>			<b>4%</b>

<sup>(1)</sup> Excluding stock-based compensation

**Fiscal Second Quarter 2011 Compared to Fiscal Second Quarter 2010:** On a constant currency basis, total general and administrative expenses decreased during the second quarter of fiscal 2011 primarily due to a \$120 million benefit related to the recovery of legal costs, which was partially offset by additional employee related expenses resulting from Sun.

**First Half Fiscal 2011 Compared to First Half Fiscal 2010:** On a constant currency basis, total general and administrative expenses increased during the first half of fiscal 2011 primarily due to additional employee related expenses resulting from Sun, partially offset by a \$120 million benefit related to the recovery of legal costs.

**Amortization of Intangible Assets:**

(Dollars in millions)	Three Months Ended November 30, Percent Change				Six Months Ended November 30, Percent Change			
	2010	Actual	Constant	2009	2010	Actual	Constant	2009
Software support agreements and related relationships	\$ 141	0%	0%	\$ 141	\$ 282	1%	1%	\$ 280
Hardware systems support agreements and related relationships	30	*	*		59	*	*	
Developed technology	250	39%	39%	180	490	36%	36%	360
Core technology	80	21%	21%	66	158	22%	22%	130
Customer relationships	96	140%	140%	40	194	149%	149%	78
Trademarks	17	89%	89%	9	34	79%	79%	19
<b>Total amortization of intangible assets</b>	<b>\$ 614</b>	<b>41%</b>	<b>41%</b>	<b>\$ 436</b>	<b>\$ 1,217</b>	<b>40%</b>	<b>40%</b>	<b>\$ 867</b>

\* Not meaningful

Amortization of intangible assets increased in the fiscal 2011 periods presented due to additional amortization from intangible assets that we acquired since the beginning of fiscal 2010, including those from our acquisition of Sun. See Note 5 of Notes to Condensed Consolidated Financial Statements for additional information regarding our intangible assets (including weighted average useful lives) and related amortization.

**Table of Contents**

**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 periods have ended, and certain other operating expenses, net. Stock-based compensation expenses included in acquisition related and other expenses resulted from unvested stock options and restricted stock-based awards assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those stock options and restricted stock-based awards.

(Dollars in millions)	Three Months Ended November 30,			Six Months Ended November 30,				
	2010	Percent Change		2009	2010	Percent Change		2009
		Actual	Constant			Actual	Constant	
Transitional and other employee related costs	\$ 28	1,078%	1,058%	\$ 2	\$ 77	1,346%	1,355%	\$ 5
Stock-based compensation	5	*	*					