

ORACLE CORP  
Form 10-Q  
April 01, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

**For the Quarterly Period Ended February 29, 2008**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission file number: 000-51788**

**Oracle Corporation  
(Exact name of registrant as specified in its charter)**

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

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

**500 Oracle Parkway  
Redwood City, California 94065  
(Address of principal executive offices, including 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 x NO o

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. (Check one):

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Large Accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

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 March 24, 2008 was: 5,151,525,269.

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

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EXHIBIT 32.01

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**ORACLE CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**As of February 29, 2008 and May 31, 2007**  
**(Unaudited)**

(in millions, except per share data)	February 29, 2008	May 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,409	\$ 6,218
Marketable securities	2,097	802
Trade receivables, net of allowances of \$251 and \$306	3,235	4,074
Other receivables	420	515
Deferred tax assets	964	968
Prepaid expenses and other current assets	606	306
Total current assets	15,731	12,883
Non-current assets:		
Property, net	1,570	1,603
Intangible assets: software support agreements and related relationships, net	2,792	3,002
Intangible assets: other, net	2,614	2,962
Goodwill	13,677	13,479
Deferred tax assets	257	48
Other assets	675	595
Total non-current assets	21,585	21,689
Total assets	\$ 37,316	\$ 34,572
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Commercial paper and other current borrowings	\$ 1	\$ 1,358
Accounts payable	383	315
Income taxes payable		1,237
Accrued compensation and related benefits	1,292	1,349
Accrued restructuring	168	201
Deferred revenues	3,683	3,492
Other current liabilities	1,303	1,435

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Total current liabilities	6,830	9,387
Non-current liabilities:		
Notes payable and other long-term debt, net of current portion	6,237	6,235
Income taxes payable	1,522	
Deferred tax liabilities	742	1,121
Accrued restructuring	229	258
Deferred revenues	257	93
Other long-term liabilities	684	559
Total non-current liabilities	9,671	8,266
Commitments and contingencies		
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: 5,149 shares at February 29, 2008 and 5,107 shares at May 31, 2007		
	11,847	10,293
Retained earnings	8,368	6,223
Accumulated other comprehensive income	600	403
Total stockholders' equity	20,815	16,919
Total liabilities and stockholders' equity	\$ 37,316	\$ 34,572

See notes to condensed consolidated financial statements.

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**ORACLE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three and Nine Months Ended February 29, 2008 and February 28, 2007**  
**(Unaudited)**

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Revenues:				
New software licenses	\$ 1,616	\$ 1,390	\$ 4,371	\$ 3,401
Software license updates and product support	2,624	2,108	7,497	6,056
Software revenues	4,240	3,498	11,868	9,457
Services	1,109	916	3,323	2,710
Total revenues	5,349	4,414	15,191	12,167
Operating expenses:				
Sales and marketing	1,083	967	3,153	2,632
Software license updates and product support	254	210	729	613
Cost of services	989	820	2,911	2,419
Research and development	682	570	2,007	1,596
General and administrative	206	175	608	503
Amortization of intangible assets	292	222	867	623
Acquisition related and other	(40)	53	28	65
Restructuring	8	3	14	23
Total operating expenses	3,474	3,020	10,317	8,474
Operating income	1,875	1,394	4,874	3,693
Interest expense	(82)	(82)	(265)	(248)
Non-operating income, net	84	94	284	277
Income before provision for income taxes	1,877	1,406	4,893	3,722
Provision for income taxes	537	373	1,409	1,052
Net income	\$ 1,340	\$ 1,033	\$ 3,484	\$ 2,670
Earnings per share:				
Basic	\$ 0.26	\$ 0.20	\$ 0.68	\$ 0.51
Diluted	\$ 0.26	\$ 0.20	\$ 0.67	\$ 0.51
Weighted average common shares outstanding:				
Basic	5,148	5,159	5,128	5,186



Diluted	5,235	5,257	5,228	5,284
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See notes to condensed consolidated financial statements.

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**ORACLE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended February 29, 2008 and February 28, 2007**  
**(Unaudited)**

<b>(in millions)</b>	<b>Nine Months Ended</b>	
	<b>February 29, 2008</b>	<b>February 28, 2007</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 3,484	\$ 2,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	202	184
Amortization of intangible assets	867	623
Deferred income taxes	(130)	(20)
Minority interests in income	45	52
Stock-based compensation	233	146
Tax benefits on the exercise of stock options	492	259
Excess tax benefits from stock-based compensation	(403)	(204)
In-process research and development	7	95
Other gains, net	(64)	(20)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	980	501
Decrease (increase) in prepaid expenses and other assets	61	(33)
Decrease in accounts payable and other liabilities	(482)	(817)
Decrease in income taxes payable	(273)	(110)
Increase (decrease) in deferred revenues	88	(21)
<b>Net cash provided by operating activities</b>	<b>5,107</b>	<b>3,305</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of marketable securities and other investments	(3,629)	(4,686)
Proceeds from maturities and sales of marketable securities and other investments	2,532	4,653
Acquisitions, net of cash acquired	(700)	(2,290)
Capital expenditures	(195)	(183)
Proceeds from sale of property	153	2
<b>Net cash used for investing activities</b>	<b>(1,839)</b>	<b>(2,504)</b>
<b>Cash Flows From Financing Activities:</b>		
Payments for repurchases of common stock	(1,520)	(2,933)
Proceeds from issuance of common stock	1,047	684
Payments of debt	(1,362)	(175)
Excess tax benefits from stock-based compensation	403	204
Distributions to minority interests	(49)	(46)

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Net cash used for financing activities	(1,481)	(2,266)
Effect of exchange rate changes on cash and cash equivalents	404	56
Net increase (decrease) in cash and cash equivalents	2,191	(1,409)
Cash and cash equivalents at beginning of period	6,218	6,659
Cash and cash equivalents at end of period	\$ 8,409	\$ 5,250
Non-cash investing and financing transactions:		
Fair value of stock awards assumed in connection with acquisitions	\$ 15	\$ 46
Change in unsettled repurchases of common stock	\$ 26	\$ 51
Debt issued in connection with acquisition	\$	\$ 13

See notes to condensed consolidated financial statements.

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**ORACLE CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**February 29, 2008**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2007.

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, 2008. Certain prior period balances have been reclassified to conform to the current period presentation. There have been no significant changes in new accounting pronouncements or in our critical accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2007 other than the impact of our adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, which affected our Accounting for Income Taxes policy (see Note 9).

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

*Derivative Instruments and Hedging Activities Disclosures:* In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. Statement 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We are currently evaluating the impact of the pending adoption of Statement 161 on our consolidated financial statements.

*Business Combinations:* In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations*. The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. Statement 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating the impact of the pending adoption of Statement 141(R) on our consolidated financial statements.

*Accounting and Reporting of Noncontrolling Interests:* In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as a

part of consolidated earnings. Additionally, Statement 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. Statement 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating the impact of the pending adoption of Statement 160 on our consolidated financial statements.

*Fair Value Measurements:* In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement 157 defines fair value, establishes a framework for measuring fair value and expands fair value

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measurement disclosures. Statement 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*. Collectively, the Staff Positions defer the effective date of Statement No. 157 to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of Statement 157. We are currently evaluating the impact of the pending adoption of Statement 157 on our consolidated financial statements.

*Fair Value Option for Financial Assets and Financial Liabilities:* In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. Subsequent measurements for the financial assets and liabilities an entity elects to record at fair value will be recognized in earnings. Statement 159 also establishes additional disclosure requirements. Statement 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts Statement 157. We are currently evaluating the impact of the potential adoption of Statement 159 on our consolidated financial statements.

*Accounting for Advanced Payments for Future Research and Development:* In June 2007, the FASB ratified EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 will not have a material impact on our consolidated financial statements.

### **3. STOCK-BASED COMPENSATION**

We account for share-based payments to employees, including grants of employee stock awards and purchases under employee stock purchase plans in accordance with FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which requires that share-based payments (to the extent they are compensatory) be recognized in our consolidated statements of operations based on their fair values. In addition, we have applied the provisions of the SEC's Staff Accounting Bulletin No. 107 in our accounting for Statement 123R.

As required by Statement 123R, we recognize stock-based compensation expense for share-based payments issued or assumed after June 1, 2006 that are expected to vest. For all share-based payments granted or assumed beginning June 1, 2006, we recognize stock-based compensation expense on a straight-line basis over the service period of the award, which is generally four years. The fair value of the unvested portion of share-based payments granted prior to June 1, 2006 is recognized over the remaining service period using the accelerated expense attribution method, net of estimated forfeitures. In determining whether an award is expected to vest, we use an estimated, forward-looking forfeiture rate based upon our historical forfeiture rates. Stock-based compensation expense recorded using an estimated forfeiture rate is updated for actual forfeitures quarterly. We also consider, each quarter, whether there have

been any significant changes in facts and circumstances that would affect our forfeiture rate. The net effect of forfeiture adjustments based on actual results was an increase to stock-based compensation expense of approximately \$8 million for the nine months ended February 29, 2008 (nominal for all other periods presented).

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

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 29, 2008</b>	<b>February 28, 2007</b>	<b>February 29, 2008</b>	<b>February 28, 2007</b>
Sales and marketing	\$ 12	\$ 9	\$ 38	\$ 27
Software license updates and product support	1	3	8	8
Cost of services	2	3	9	11
Research and development	31	21	84	63
General and administrative	16	12	55	36
Subtotal	62	48	194	145
Acquisition related and other <sup>(1)</sup>	3		39	1
Total	\$ 65	\$ 48	\$ 233	\$ 146

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

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. During the three and nine months ended February 29, 2008 and February 28, 2007, the fair value of stock awards was estimated at the date of grant or date of plan assumption (for awards assumed via acquisition) using the following weighted average assumptions:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 29, 2008</b>	<b>February 28, 2007</b>	<b>February 29, 2008</b>	<b>February 28, 2007</b>
Expected life (in years)	4.7	4.4	5.3	5.0
Risk-free interest rate	2.8%	4.7%	5.0%	5.1%
Volatility	32%	28%	27%	27%
Dividend yield				
Weighted average fair value at grant or assumption date	\$ 6.89	\$ 5.70	\$ 7.10	\$ 4.97



The expected life input is based on historical exercise patterns and post-vesting termination behavior, the risk-free interest rate input is based on United States Treasury instruments and the volatility input is calculated from the implied volatility of our longest-term, traded options. We do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future.

#### **4. ACQUISITIONS**

##### **Proposed Acquisition of BEA Systems, Inc.**

On January 16, 2008, we entered into an Agreement and Plan of Merger (Merger Agreement) with BEA Systems, Inc., a provider of enterprise infrastructure software. Pursuant to the Merger Agreement, our wholly owned subsidiary will merge with and into BEA and BEA will become a wholly owned subsidiary of Oracle. Upon the consummation of the merger, each share of BEA common stock will be converted into the right to receive \$19.375 in cash. In addition, options to acquire BEA common stock, BEA restricted stock unit awards, BEA restricted stock

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**(Unaudited)**

awards and other equity-based awards denominated in shares of BEA common stock outstanding immediately prior to the consummation of the merger will generally be converted into options, restricted stock unit awards, restricted stock awards or other equity-based awards, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of BEA is approximately \$8.6 billion.

The Merger Agreement contains certain termination rights for both BEA and Oracle and further provides that, upon termination of the Merger Agreement under certain circumstances, (i) BEA may be obligated to pay Oracle a termination fee of \$250 million and (ii) Oracle may be obligated to pay to BEA a termination fee of \$500 million.

We expect that our proposed acquisition of BEA will close in our fourth quarter of fiscal 2008, subject to BEA stockholder approval, regulatory clearance by the European Commission and other closing conditions. On March 26, 2008, BEA and Oracle submitted a pre-merger notification filing to the European Commission; the European Commission has set a provisional deadline of April 30, 2008 for determining whether further review of the proposed merger will be required. In addition, BEA has scheduled a meeting of its stockholders on April 4, 2008 to vote upon the proposed merger.

**Fiscal 2008 Acquisition**

***Agile Software Corporation***

We acquired Agile Software Corporation to expand our offering of product life cycle management solutions on July 16, 2007 by means of a merger of Agile with our wholly owned subsidiary. We have included the financial results of Agile in our consolidated financial results effective July 16, 2007.

The total purchase price for Agile was \$492 million which consisted of \$471 million in cash paid to acquire the outstanding common stock of Agile, \$14 million for the fair value of Agile options assumed and \$7 million for transaction costs. In allocating the purchase price based on estimated fair values, we recorded approximately \$107 million of goodwill, \$198 million of identifiable intangible assets, \$182 million of net tangible assets and \$5 million of in-process research and development. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

**Fiscal 2007 Acquisitions**

***Hyperion Solutions Corporation***

On April 13, 2007, we acquired majority ownership of Hyperion Solutions Corporation by means of a cash tender offer and, subsequently, completed a merger of Hyperion with our wholly owned subsidiary on April 19, 2007. We acquired Hyperion to expand our offerings of enterprise performance management and business intelligence software solutions.

The total purchase price for Hyperion was \$3.2 billion which consisted of \$3,171 million in cash paid to acquire the outstanding common stock of Hyperion, \$51 million for the fair value of Hyperion options assumed and restricted stock awards exchanged and \$27 million for acquisition related transaction costs. In allocating the purchase price based on estimated fair values, we recorded approximately \$1,660 million of goodwill, \$1,460 million of identifiable intangible assets, \$73 million of net tangible assets and \$56 million of in-process research and development. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to certain restructuring liabilities, legal matters, income and non-income based taxes and residual goodwill.

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**ORACLE CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**February 29, 2008**  
**(Unaudited)**

***i-flex solutions limited***

During fiscal 2007 and fiscal 2006, we acquired interests in and increased our ownership of i-flex solutions limited (Bombay Stock Exchange: IFLX.BO and National Stock Exchange of India: IFLX.NS) to approximately 83% by means of share purchase agreements, an open offer to acquire shares and open market purchases. We acquired a majority ownership in i-flex to expand our offerings of software solutions and services to the financial services industry.

Our cumulative investment in i-flex as of February 29, 2008 was approximately \$2.1 billion, which consisted of \$2,039 million of cash paid for common stock and \$31 million in transaction costs and other expenses. Our cumulative investment in i-flex has been allocated to i-flex's net tangible and identifiable intangible assets based on their estimated fair values as of the respective dates of acquisition of the interests. The minority interest in the net assets of i-flex has been recorded at historical book values. In allocating the purchase price, we recorded approximately \$1.6 billion of goodwill, \$281 million of identifiable intangible assets, \$180 million of net tangible assets and \$46 million of in-process research and development.

**Other Acquisitions**

During the first nine months of fiscal 2008 and during fiscal year 2007, we acquired several other companies and purchased certain technology and development assets. Our acquisitions during the first nine months of fiscal 2008, excluding Agile, were insignificant. Our fiscal year 2007 acquisitions, other than Hyperion and i-flex, had a total preliminary purchase price of approximately \$1.3 billion, which included cash paid of \$1,258 million and the fair value of options assumed of \$46 million. We recorded approximately \$595 million of goodwill, \$578 million of identifiable intangible assets, \$82 million of net tangible assets and \$49 million of in-process research and development associated with these other fiscal 2007 acquisitions. We have included the effects of these transactions in our results of operations prospectively from the respective dates of the acquisitions. The preliminary purchase price allocations for each of these acquisitions were based upon a preliminary valuation and our estimates and assumptions for certain of these acquisitions are subject to change. The primary areas of the purchase price allocations that are not yet finalized relate to identifiable intangible assets, certain legal matters, income and non-income based taxes and residual goodwill.

**Unaudited Pro Forma Financial Information**

The unaudited financial information in the table below summarizes the combined results of operations of Oracle, Agile, Hyperion and other collectively significant companies acquired during the first nine months of fiscal 2008 and during fiscal year 2007, on a pro forma basis, as though the companies had been combined as of the beginning of each of the periods presented. The pro forma financial information is presented 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 each of the periods presented. The pro forma financial information for the periods presented also includes the business combination accounting effect on historical Agile, Hyperion and other collectively significant companies' support revenues, amortization charges from acquired intangible assets, stock-based compensation charges for unvested stock awards assumed, adjustments to interest expense and related tax effects.

The impact of our acquisitions on our unaudited pro forma financial information during the three months ended February 29, 2008 was nominal and, therefore, we have only presented our historical results for this period in the below table. The unaudited pro forma financial information for the nine months ended February 29, 2008 combines the historical results of Oracle for the nine months ended February 29, 2008, the historical results of Agile for the period from June 1, 2007 to July 15, 2007, and the business combination accounting effects listed above. The unaudited pro forma financial information for the three and nine months ended February 28, 2007 combines the

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**February 29, 2008**  
**(Unaudited)**

historical results of Oracle for the three and nine months ended February 28, 2007 and, due to differences in our reporting periods, the historical results of Agile for the three and nine months ended January 31, 2007, the historical results of Hyperion for the three and nine months ended March 31, 2007, the historical results of other collectively significant companies acquired based upon their respective previous reporting periods and the dates that these companies were acquired by us, and the business combination accounting effects listed above.

(in millions, except per share data)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 29, 2008</b>	<b>February 28, 2007</b>	<b>February 29, 2008</b>	<b>February 28, 2007</b>
Total revenues	\$ 5,349	\$ 4,603	\$ 15,204	\$ 12,800
Net income	\$ 1,340	\$ 938	\$ 3,477	\$ 2,345
Basic net income per share	\$ 0.26	\$ 0.18	\$ 0.68	\$ 0.45
Diluted net income per share	\$ 0.26	\$ 0.18	\$ 0.67	\$ 0.44

**5. ACQUISITION RELATED AND OTHER EXPENSES**

Acquisition related and other expenses consist of in-process research and development expenses, personnel related costs for transitional employees, stock-based compensation expenses, integration related professional services, certain business combination contingency adjustments after the purchase price allocation period has ended, and certain other operating expenses (income), net. Stock-based compensation included in acquisition related and other expenses resulted from unvested options assumed from acquisitions whose vesting was accelerated upon termination of the employees pursuant to the terms of those options.

(in millions)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 29, 2008</b>	<b>February 28, 2007</b>	<b>February 29, 2008</b>	<b>February 28, 2007</b>
In-process research and development	\$	\$ 45	\$ 7	\$ 95
Transitional employee related costs	6	7	27	17
Stock-based compensation	3		39	1
Professional fees	3	1	7	4
Business combination contingency adjustments	5		5	(52)
Gain on sale of property	(57)		(57)	
Total acquisition related and other expenses	\$ (40)	\$ 53	\$ 28	\$ 65

In December 2007, we sold certain of our land and buildings for \$153 million in cash. Concurrent with the sale, we leased the property back from the buyer for a period of up to three years. We have accounted for this transaction in accordance with FASB Statement No. 28, *Accounting for Sales with Leasebacks*, FASB Statement No. 66, *Accounting*

*for Sales of Real Estate*, and FASB Statement No. 98, *Accounting for Leases, et al.* We deferred \$19 million of the gain on the sale representing the present value of the operating lease commitment and recognized a gain of approximately \$57 million during the three and nine months ended February 29, 2008. The deferred portion of the gain will be recognized as a reduction of rent expense over the operating lease term.

For the nine months ended February 28, 2007, acquisition related and other expenses also included a benefit related to the settlement of a lawsuit filed against PeopleSoft, Inc. on behalf of the U.S. government. This lawsuit was filed in October 2003, prior to our acquisition of PeopleSoft. The lawsuit alleged PeopleSoft made defective pricing disclosures to the U.S. General Services Administration. This lawsuit represented a pre-acquisition contingency that we identified and assumed in connection with the PeopleSoft acquisition. On October 10, 2006, we agreed to pay the U.S. government \$98 million to settle this lawsuit. Business combination accounting standards require that after the end of the purchase price allocation period, any adjustment to amounts recorded that relate to a pre-

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acquisition contingency should be included as an element of net income in the period of settlement, and not as an adjustment to the original purchase price allocation. Since the purchase price allocation period for PeopleSoft ended in the third quarter of our fiscal year 2006, the favorable difference of \$52 million between the estimated exposure recorded for this lawsuit during the purchase price allocation period and the actual settlement amount has been included in our consolidated statements of operations for the nine months ended February 28, 2007.

**6. NON-OPERATING INCOME, NET**

Non-operating income, net consists primarily of interest income, net foreign currency exchange gains, the minority owners' share in the net profits of i-flex and Oracle Japan, and other income including gains related to our marketable securities and other investments.

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Interest income	\$ 89	\$ 67	\$ 253	\$ 225
Foreign currency gains, net	20	22	47	38
Minority interests	(17)	(20)	(45)	(52)
Other	(8)	25	29	66
Total non-operating income, net	\$ 84	\$ 94	\$ 284	\$ 277

**7. GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill, the majority of which is not deductible for tax purposes, by operating segment for the nine months ended February 29, 2008, were as follows:

(in millions)	New Software Licenses		Software License Updates and Product Support		Services	Other <sup>(1)</sup>	Total
	Licenses	Licenses	Updates and Product Support	Support			
Balance as of May 31, 2007	\$ 3,169	\$ 7,122	\$ 1,505	\$ 1,683	\$ 13,479		
Allocation of goodwill <sup>(1)</sup>	653	966	64	(1,683)			
Agile acquisition goodwill <sup>(1)</sup>	49	49	9				107
Other acquisition goodwill <sup>(1)</sup>	111	62	16				189
Goodwill adjustments <sup>(2)</sup>	(1)	(91)	(6)				(98)



Balance as of February 29, 2008      \$      3,981      \$      8,108      \$      1,588      \$      13,677

- (1) Represents goodwill associated with certain acquisitions that was or will be allocated to our operating segments upon the finalization of our intangible asset valuations.
- (2) Pursuant to business combination accounting rules, goodwill adjustments represent the effect on goodwill of changes to net assets acquired during the purchase price allocation period that were recorded during the nine months ended February 29, 2008. Goodwill adjustments also include the effects on goodwill of our adoption of FASB Interpretation No. 48 as of June 1, 2007 (see Note 9).

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The changes in intangible assets for the nine months ended February 29, 2008 and the net book value of intangible assets at February 29, 2008 were as follows:

(Dollars in millions)	Intangible Assets, Gross			Accumulated Amortization			Net Book Value		Weighted Average Useful Life
	May 31, 2007	Additions	Feb. 29, 2008	May 31, 2007	Expense	Feb. 29, 2008	May 31, 2007	Feb. 29, 2008	
Software support agreements and related relationships	\$ 3,652	\$ 82	\$ 3,734	\$ (650)	\$ (292)	\$ (942)	\$ 3,002	\$ 2,792	10 year
Developed technology	2,342	153	2,495	(688)	(370)	(1,058)	1,654	1,437	5 year
Core technology	883	27	910	(254)	(129)	(383)	629	527	5 year
Customer relationships	599	45	644	(85)	(52)	(137)	514	507	9 year
Trademarks	209	2	211	(44)	(24)	(68)	165	143	8 year
<b>Total</b>	<b>\$ 7,685</b>	<b>\$ 309</b>	<b>\$ 7,994</b>	<b>\$ (1,721)</b>	<b>\$ (867)</b>	<b>\$ (2,588)</b>	<b>\$ 5,964</b>	<b>\$ 5,406</b>	

Total amortization expense related to our intangible assets was \$292 million and \$867 million for the three and nine months ended February 29, 2008, respectively, and \$222 million and \$623 million for the three and nine months ended February 28, 2007, respectively. As of February 29, 2008, estimated future amortization expense related to intangible assets, excluding the impact of additional intangible assets arising through any subsequent acquisitions such as BEA, is \$317 million for the remainder of fiscal 2008, \$1.2 billion in fiscal 2009, \$1.0 billion in fiscal 2010, \$799 million in fiscal 2011, \$660 million in fiscal 2012, \$306 million in fiscal 2013 and \$1.1 billion thereafter.

**8. DEFERRED REVENUES**

Deferred revenues consisted of the following:

(in millions)	February 29, 2008	May 31, 2007
Software license updates and product support	\$ 3,140	\$ 3,079
Services	336	279
New software licenses	207	134
Deferred revenues, current	3,683	3,492
Deferred revenues, non-current	257	93
<b>Total deferred revenues</b>	<b>\$ 3,940</b>	<b>\$ 3,585</b>

Deferred software license updates and product support revenues represent customer payments made in advance for annual support contracts. Software license updates and product support are typically billed on a per annum basis in advance and revenue is recognized ratably over the support period. The deferred software license updates and product support revenues are typically highest at the end of our first fiscal quarter due to the collection of cash from the large volume of service contracts that are sold or renewed in the fiscal quarter ending in May of each year due to the peak in sales surrounding our fiscal year-end. Deferred service revenues include prepayments for consulting, On Demand and education services. Revenue for these services is recognized as the services are performed. Deferred new software license revenues typically result from undelivered products or specified enhancements, customer specific acceptance provisions, software license transactions that cannot be segmented from consulting services or certain extended payment term arrangements.

In connection with purchase price allocations related to our acquisitions, we have estimated the fair values of the support obligations assumed. The estimated fair values of the support obligations assumed were determined using a cost-build up approach. The cost-build up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in

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theory, the amount that we would be required to pay a third party to assume the support obligations. These fair value adjustments reduce the revenues recognized over the support contract term of our acquired contracts and, as a result, we did not recognize software license updates and product support revenues related to support contracts assumed in business acquisitions in the amount of \$138 million and \$158 million, which would have been otherwise recorded by the acquired entities, for the nine months ended February 29, 2008 and February 28, 2007, respectively.

**9. INCOME TAXES**

The effective tax rate in 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. The 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. The effective tax rate was 28.6% and 28.8% for the three and nine months ended February 29, 2008, respectively, and 26.5% and 28.3% for the three and nine months ended February 28, 2007, respectively.

On June 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The total amount of gross unrecognized tax benefits as of June 1, 2007 (the date of adoption of FIN 48) was \$1.3 billion. The adoption of FIN 48 resulted in an increase to our retained earnings of \$3 million. In addition, as of the date of adoption, \$612 million of unrecognized benefits would affect our effective tax rate if realized. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes line of our consolidated statements of operations. The gross amount of interest and penalties accrued as of the date of adoption was \$286 million.

Domestically, U.S. federal and state taxing authorities are currently examining income tax returns of Oracle and various acquired entities for years through fiscal 2006. Many issues are at an advanced stage in the examination process, the most significant of which include the deductibility of certain royalty payments, issues related to certain capital gains and losses, Foreign Sales Corporation/Extraterritorial Income exemptions, stewardship deductions and foreign tax credits taken. Other issues are related to years with expiring statutes of limitation. With all of these domestic audit issues considered in the aggregate, we believe it was reasonably possible that, as of June 1, 2007, the unrecognized tax benefits related to these audits could decrease (whether by payment, release, or a combination of both) in the next 12 months by as much as \$256 million (\$225 million net of offsetting tax benefits). 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. We believe it was reasonably possible that, as of June 1, 2007, the gross unrecognized tax benefits could

decrease in the next 12 months by as much as \$73 million (\$14 million net of offsetting tax benefits), related primarily to a technical matter of corporate restructuring, which would be affected by the possible passage of favorable legislation. 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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**10. RESTRUCTURING ACTIVITIES**

**Fiscal 2008 Oracle Restructuring Plan**

During the second quarter of fiscal 2008, our management approved, committed to and initiated plans to restructure and improve efficiencies in our Oracle-based operations as a result of certain management and organizational changes and our recent acquisitions. The total estimated restructuring costs (primarily related to employee severance) associated with our Fiscal 2008 Oracle Restructuring Plan are \$64 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are recognized. For the three and nine months ended February 29, 2008, we recorded \$8 million and \$14 million, respectively in restructuring expenses and expect to incur the majority of the remaining \$50 million over the course of calendar 2008. Any changes to the estimates of executing the Fiscal 2008 Oracle Restructuring Plan will be reflected in our future results of operations.

**Hyperion Restructuring Plan**

During the fourth quarter of fiscal 2007, our management approved and initiated plans to restructure certain operations of pre-merger Hyperion to eliminate redundant costs, primarily in general and administrative functions, resulting from the acquisition of Hyperion and improve efficiencies in operations. The cash restructuring charges recorded are based on restructuring plans that have been committed to by our management.

The total estimated restructuring costs associated with exiting activities of Hyperion are \$109 million, consisting primarily of excess facilities obligations through fiscal 2019 as well as severance and other restructuring costs. These costs were recognized as a liability assumed in the purchase business combination and included in the allocation of the cost to acquire Hyperion and, accordingly, have resulted in an increase to goodwill. Our restructuring expenses may change as we execute the approved plan. Future decreases to the estimates of executing the Hyperion restructuring plan will be recorded as an adjustment to goodwill indefinitely, whereas increases to the estimates will be recorded as an adjustment to goodwill during the purchase accounting allocation period and as an adjustment to operating expenses thereafter.

**Siebel Restructuring Plan**

During the third quarter of fiscal 2006, our management approved and initiated plans to restructure certain operations of pre-merger Siebel Systems, Inc. to eliminate redundant costs resulting from the acquisition of Siebel and improve efficiencies in operations. The cash restructuring charges recorded were based on a restructuring plan that was committed to by our management.

The total estimated restructuring costs associated with exiting activities of Siebel were \$577 million, consisting primarily of excess facilities obligations through fiscal 2022 as well as severance and other restructuring costs. These costs were recognized as a liability assumed in the purchase business combination and included in the allocation of the cost to acquire Siebel and, accordingly, have resulted in an increase to goodwill. Our restructuring expenses may change as our management executes the approved plan. Future decreases to the estimates of executing the Siebel restructuring plan will be recorded as an adjustment to goodwill indefinitely, whereas increases to the estimates will be recorded as operating expenses.



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**Summary of All Plans**

(in millions)	Nine Months Ended February 29, 2008					Feb. 29, 2008 <sup>(2)</sup>	Total	Total
	Accrued				Accrued		Costs	Expected
	May 31, 2007 <sup>(2)</sup>	Initial Costs <sup>(3)</sup>	Adj. to Cost <sup>(4)</sup>	Cash Payments	Others <sup>(5)</sup>		to Date	Program Costs
<b>Fiscal 2008 Oracle Restructuring Plan</b>								
New software licenses	\$	\$ 5	\$	\$ (1)	\$	\$ 4	\$ 5	\$ 18
Software license updates and product support		1		(1)			1	6
Services		3		(2)		1	3	25
Other <sup>(1)</sup>		5		(2)	(1)	2	5	15
<b>Total Fiscal 2008 Oracle Restructuring</b>	<b>\$</b>	<b>\$ 14</b>	<b>\$</b>	<b>\$ (6)</b>	<b>\$ (1)</b>	<b>\$ 7</b>	<b>\$ 14</b>	<b>\$ 64</b>
<b>Hyperion Restructuring Plan</b>								
Severance	\$	45	\$	\$ 2	\$ (11)	\$	\$ 36	\$ 47
Facilities		46		(4)	(10)		32	43
Contracts and other		16		3	(2)		17	19
<b>Total Hyperion Restructuring</b>	<b>\$</b>	<b>107</b>	<b>\$</b>	<b>\$ 1</b>	<b>\$ (23)</b>	<b>\$</b>	<b>\$ 85</b>	<b>\$ 109</b>
<b>Siebel Restructuring Plan</b>								
Severance	\$	6	\$	\$ (1)	\$ (1)	\$	\$ 4	\$ 62
Facilities		230		2	(44)	2	190	474
Contracts and other		10		2			12	41
<b>Total Siebel Restructuring</b>	<b>\$</b>	<b>246</b>	<b>\$</b>	<b>\$ 3</b>	<b>\$ (45)</b>	<b>\$ 2</b>	<b>\$ 206</b>	<b>\$ 577</b>
<b>Total Other Restructuring Plans</b>	<b>\$</b>	<b>106</b>	<b>\$</b>	<b>\$ 10</b>	<b>\$ (23)</b>	<b>\$ 6</b>	<b>\$ 99</b>	
<b>Total All Restructuring Plans</b>	<b>\$</b>	<b>459</b>	<b>\$</b>	<b>14</b>	<b>\$ (97)</b>	<b>\$ 7</b>	<b>\$ 397</b>	

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



- (2) Accrued restructuring at February 29, 2008 and May 31, 2007 was \$397 million and \$459 million, respectively. The balances include \$168 million and \$201 million recorded in accrued restructuring, current and \$229 million and \$258 million recorded in accrued restructuring, non-current in the accompanying condensed consolidated balance sheets at February 29, 2008 and May 31, 2007, respectively.
- (3) Costs associated with initial restructuring plan.
- (4) Hyperion plan adjustments relate to changes in estimates within the purchase price allocation period (offset recorded to goodwill). Siebel and other plan adjustments are changes in estimates whereby increases are recorded to operating expense in the period of adjustment and decreases are recorded as an adjustment to goodwill indefinitely.
- (5) Represents foreign currency translation adjustments and certain other non-cash settlements.

## **11. DERIVATIVE FINANCIAL INSTRUMENTS**

In September 2007, we entered into two interest rate swap agreements that have the economic effect of modifying the variable interest obligations associated with our floating rate senior notes due May 2009 and May 2010 so that the interest payable on the senior notes effectively becomes fixed at a rate of 4.62% and 4.59%, respectively. The critical terms of the interest rate swap agreements and the senior notes that the swap agreements pertain to match, including the notional amounts, interest rate reset dates, maturity dates and underlying market indices. The fair values of the interest rate swaps totaled an unrealized loss of \$43 million, net of tax effects, at February 29, 2008. We are accounting for these swaps as hedges pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The losses on these swaps are included in accumulated other comprehensive

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income and the corresponding fair value payable is included in other long-term liabilities in our condensed consolidated balance sheet.

**12. STOCK REPURCHASES**

Our Board of Directors has approved a program to repurchase shares of our common stock to reduce the dilutive effect of our stock option and stock purchase plans. In April 2007, our Board of Directors expanded our repurchase program by \$4.0 billion and as of February 29, 2008, \$2.7 billion was available for share repurchases pursuant to our stock repurchase program. We repurchased 73.2 million shares for \$1.5 billion during the nine months ended February 29, 2008 (including 1.3 million shares for \$26 million that were repurchased but not settled) and 179.0 million shares for \$3.0 billion during the nine months ended February 28, 2007 (including 3.0 million shares for \$51 million that were repurchased but not settled) under the applicable repurchase programs authorized.

Our stock repurchase authorization does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our cash requirements for acquisitions, our debt repayment obligations, 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.

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

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Net income	\$ 1,340	\$ 1,033	\$ 3,484	\$ 2,670
Weighted average common shares outstanding	5,148	5,159	5,128	5,186
Dilutive effect of employee stock plans	87	98	100	98
Diluted weighted average common shares outstanding	5,235	5,257	5,228	5,284
Basic earnings per share	\$ 0.26	\$ 0.20	\$ 0.68	\$ 0.51
Diluted earnings per share	\$ 0.26	\$ 0.20	\$ 0.67	\$ 0.51
	99	63	97	77

Effect of shares subject to anti-dilutive stock options  
excluded from calculation<sup>(1)</sup>

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

#### **14. COMPREHENSIVE INCOME**

Comprehensive income includes the following, net of income tax effects: foreign currency translation gains and losses, hedge gains and losses that are reflected in stockholders' equity instead of net income, and unrealized gains

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and losses on marketable debt and equity securities. The following table sets forth the calculation of comprehensive income:

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Net income	\$ 1,340	\$ 1,033	\$ 3,484	\$ 2,670
Change in foreign currency translation gain (loss), net	78	(9)	287	(7)
Change in unrealized gain (loss) on hedges, net	(40)	13	(92)	25
Change in unrealized gain (loss) on investments, net		(1)	1	
Comprehensive income	\$ 1,378	\$ 1,036	\$ 3,680	\$ 2,688

**15. SEGMENT INFORMATION**

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

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

support for Oracle VM server virtualization software.

The consulting line of business provides services to customers in business strategy and analysis, business process optimization, and the implementation, deployment and upgrade of our database, middleware and applications software. On Demand includes Oracle On Demand, CRM On Demand and Advanced Customer Services. Oracle On Demand provides multi-featured software and hardware management and maintenance services for customers that deploy our database, middleware and applications software at Oracle's data center facilities or at a site of our customer's choosing. CRM On Demand is a service offering that provides our customers with our Siebel CRM Software functionality delivered via a hosted solution that we manage. Advanced Customer Services consists of solution support centers, business critical assistance, technical account management, expert services, configuration and performance analysis, personalized support and annual on-site technical services. The education line of

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business provides instructor led, media based and internet based training in the use of our database, middleware and applications software.

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

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

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
New software licenses:				
Revenues <sup>(1)</sup>	\$ 1,612	\$ 1,388	\$ 4,362	\$ 3,394
Sales and distribution expenses	927	826	2,701	2,222
Margin <sup>(2)</sup>	\$ 685	\$ 562	\$ 1,661	\$ 1,172
Software license updates and product support:				
Revenues <sup>(1)</sup>	\$ 2,647	\$ 2,143	\$ 7,634	\$ 6,214
Cost of services	234	196	676	573
Margin <sup>(2)</sup>	\$ 2,413	\$ 1,947	\$ 6,958	\$ 5,641
Total software business:				
Revenues <sup>(1)</sup>	\$ 4,259	\$ 3,531	\$ 11,996	\$ 9,608
Expenses	1,161	1,022	3,377	2,795
Margin <sup>(2)</sup>	\$ 3,098	\$ 2,509	\$ 8,619	\$ 6,813
Consulting:				
Revenues <sup>(1)</sup>	\$ 837	\$ 690	\$ 2,504	\$ 2,037
Cost of services	727	587	2,124	1,724
Margin <sup>(2)</sup>	\$ 110	\$ 103	\$ 380	\$ 313
On Demand:				
Revenues <sup>(1)</sup>	\$ 174	\$ 142	\$ 501	\$ 407
Cost of services	142	135	419	400
Margin <sup>(2)</sup>	\$ 32	\$ 7	\$ 82	\$ 7
Education:				
Revenues <sup>(1)</sup>	\$ 101	\$ 86	\$ 328	\$ 273
Cost of services	74	64	230	192
Margin <sup>(2)</sup>	\$ 27	\$ 22	\$ 98	\$ 81

Total services business:				
Revenues <sup>(1)</sup>	\$ 1,112	\$ 918	\$ 3,333	\$ 2,717
Cost of services	943	786	2,773	2,316
Margin <sup>(2)</sup>	\$ 169	\$ 132	\$ 560	\$ 401
Totals:				
Revenues <sup>(1)</sup>	\$ 5,371	\$ 4,449	\$ 15,329	\$ 12,325
Expenses	2,104	1,808	6,150	5,111
Margin <sup>(2)</sup>	\$ 3,267	\$ 2,641	\$ 9,179	\$ 7,214

- (1) Operating segment revenues differ from the external reporting classifications for our revenues due to certain software license products that are classified as service revenues for management reporting purposes. Additionally, software license updates and product support revenues for management reporting include \$22 million and \$35 million of revenues that we did not recognize in the accompanying condensed consolidated statements of operations for the three months ended February 29, 2008 and February 28, 2007, respectively, and \$138 million and \$158 million for the nine months ended February 29, 2008 and February 28, 2007. 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 and expenses of each line of business and do not represent the actual margins for each operating segment because they do not contain an allocation 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, restructuring costs, acquisition related and other expenses or stock-based compensation expenses.

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

(in millions)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 29, 2008</b>	<b>February 28, 2007</b>	<b>February 29, 2008</b>	<b>February 28, 2007</b>
Total revenues for reportable segments	\$ 5,371	\$ 4,449	\$ 15,329	\$ 12,325
Software license updates and product support revenues <sup>(1)</sup>	(22)	(35)	(138)	(158)
Total revenues	\$ 5,349	\$ 4,414	\$ 15,191	\$ 12,167
Total margin for reportable segments	\$ 3,267	\$ 2,641	\$ 9,179	\$ 7,214
Software license updates and product support revenues <sup>(1)</sup>	(22)	(35)	(138)	(158)
Product development and information technology expenses	(749)	(620)	(2,208)	(1,759)
Marketing and partner program expenses	(108)	(96)	(322)	(295)
Corporate and general and administrative expenses	(170)	(157)	(502)	(428)
Amortization of intangible assets	(292)	(222)	(867)	(623)
Acquisition related and other	40	(53)	(28)	(65)
Restructuring	(8)	(3)	(14)	(23)
Stock-based compensation	(62)	(48)	(194)	(145)
Interest expense	(82)	(82)	(265)	(248)
Non-operating income, net	63	81	252	252
Income before provision for income taxes	\$ 1,877	\$ 1,406	\$ 4,893	\$ 3,722

<sup>(1)</sup> Software license updates and product support revenues for management reporting include \$22 million and \$35 million of revenues that we did not recognize in the accompanying condensed consolidated statements of operations for the three months ended February 29, 2008 and February 28, 2007, respectively, and \$138 million and \$158 million for the nine months ended February 29, 2008 and February 28, 2007, respectively. See Note 8 for an explanation of these adjustments.

**16. PEOPLESOFT CUSTOMER ASSURANCE PROGRAM**



In June 2003, in response to our tender offer, PeopleSoft, Inc. implemented what it referred to as the customer assurance program (CAP). The CAP incorporated a provision in PeopleSoft's standard licensing arrangement that purports to contractually burden Oracle, as a result of our acquisition of PeopleSoft, with a contingent obligation to make payments to PeopleSoft customers should we fail to take certain business actions for a fixed period. PeopleSoft ceased using the CAP on December 29, 2004, the date on which we acquired a controlling interest in PeopleSoft. The payment obligation, which typically expires four years from the date of the contract, is fixed at an amount generally between two and five times the license and first year support fees paid to PeopleSoft in the applicable license transaction. PeopleSoft customers retain rights to the licensed products whether or not the CAP payments are triggered.

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The maximum potential penalty under the CAP, by version, as of February 29, 2008 was as follows:

CAP Version	Dates Offered to Customers <sup>(1)</sup>		Maximum Potential Penalty (in millions)
	Start Date	End Date	
Version 1	June 1, 2003	September 12, 2003	\$ 3
Version 2	September 12, 2003	September 30, 2003	
Version 3	September 30, 2003	November 7, 2003	
Version 4	November 18, 2003	June 30, 2004	519
Version 5	June 16, 2004	December 28, 2004	728
Version 6	October 12, 2004	December 28, 2004	1,050
			\$ 2,300

- (1) Some contracts originally submitted to customers prior to these end dates were executed following such dates. The substantial majority of the CAP provisions will expire no later than four years after the contract date.

This purported obligation was not reflected as a liability on PeopleSoft's balance sheet as PeopleSoft concluded that it could be triggered only following the consummation of an acquisition. We have concluded that, as of the date of acquisition, the penalty provisions under the CAP represented a contingent liability of Oracle. The aggregate potential CAP obligation as of February 29, 2008 was \$2.3 billion. Some of the CAP provisions have expired or have been removed from these licensing arrangements. We expect the significant majority of the remaining CAP provisions to expire by the end of calendar 2008. We have not recorded a liability related to the CAP, as we do not believe it is probable that our post-acquisition activities related to the PeopleSoft and JD Edwards product lines will trigger an obligation to make any payment pursuant to the CAP. While no assurance can be given as to the ultimate outcome of any litigation, we believe we would also have substantial defenses with respect to the legality and enforceability of the CAP contract provisions in response to any claims seeking payment from us under the CAP terms.

## 17. 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. The parties' summary judgment motions are fully briefed. On October 5, 2007, plaintiffs filed a motion seeking a default judgment against defendants or various other sanctions because of defendants' alleged

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destruction of evidence. This motion is fully briefed. A hearing on all these motions was held on December 20, 2007. The court had set a trial date of March 24, 2008. However, on February 19, 2008, the court clerk issued a notice, stating that the trial date had been vacated, and that the case would be assigned to a new judge. The notice also stated that the current judge planned to resolve the submitted summary judgment motions prior to reassigning the case. Plaintiffs seek unspecified damages plus interest, attorneys' fees and costs, and equitable and injunctive relief. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

**Siebel Securities Class Action**

On March 10, 2004, William Wollrab, on behalf of himself and purportedly on behalf of a class of stockholders of Siebel, filed a complaint in the United States District Court for the Northern District of California against Siebel and certain of its officers relating to predicted adoption rates of Siebel v7.0 and certain customer satisfaction surveys. This complaint was consolidated and amended on August 27, 2004, with the Policemen's Annuity and Benefit Fund of Chicago being appointed to serve as lead plaintiff. The consolidated complaint also raised claims regarding Siebel's business performance in 2002. In October 2004, Siebel filed a motion to dismiss, which was granted on January 28, 2005 with leave to amend. Plaintiffs filed an amended complaint on March 1, 2005. Plaintiffs sought unspecified damages plus interest, attorneys' fees and costs, and equitable and injunctive relief. Siebel filed a motion to dismiss the amended complaint on April 27, 2005, and on December 28, 2005, the Court dismissed the case with prejudice. On January 17, 2006, plaintiffs filed a notice of appeal, and on September 18, 2006, plaintiffs filed their opening appellate brief. Defendants' responsive brief was filed on December 15, 2006. Plaintiffs filed their reply brief on January 16, 2007. The court heard oral arguments on this appeal on December 6, 2007, and on December 21, 2007, the appellate court issued a decision affirming the trial court's dismissal of this action. Plaintiffs' time to seek reconsideration of the appellate court's decision has expired, and plaintiffs' time to seek further appeal to the United States Supreme Court has also expired. Thus, plaintiffs can no longer pursue their claims in this action.

**Intellectual Property Litigation**

Mangosoft, Inc. and Mangosoft Corporation filed a patent infringement action against us in the United States District Court for the District of New Hampshire on November 22, 2002. Plaintiffs alleged that we are willfully infringing U.S. Patent Nos. 6,148,377 (the '377 patent) and 5,918,229 (the '229 patent), which they claim to own. Plaintiffs seek damages based on our license sales of the Real Application Clusters database option, the 9i and 10g databases, and the Application Server, and seek injunctive relief. We denied infringement and asserted affirmative defenses and counterclaimed against plaintiffs for declaratory judgment that the '377 and '229 patents are invalid, unenforceable and not infringed by us. On May 19, 2004, the court held a claims construction (Markman) hearing, and on September 21, 2004, it issued a Markman order. On June 21, 2005, plaintiffs withdrew their allegations of infringement of the '229 patent. Discovery closed on July 1, 2005. Summary judgment motions were filed on August 25, 2005, and the court held a hearing on these motions on October 17, 2005. On March 14, 2006 the court ruled that Oracle's Real Application Clusters database option did not infringe the '377 patent.

Oracle's counterclaims against Mangosoft, alleging that the '377 patent is invalid and unenforceable, were the only claims that the Court left open for trial. On April 21, 2006 Mangosoft filed a motion asking that Mangosoft be allowed to appeal the noninfringement ruling immediately to the Federal Circuit Court of Appeals and that trial on Oracle's counterclaims be stayed until that appeal has been resolved. Oracle filed a brief opposing that motion on May 8, 2006.

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On March 28, 2007, the Court issued an order largely granting the relief sought by Mangosoft. The Court dismissed Oracle's counterclaims of invalidity and inequitable conduct without prejudice and ordered the entry of judgment of noninfringement consistent with its March 14, 2006 order on summary judgment. On March 29, 2007, the Court entered Judgment in Oracle's favor on the issue of noninfringement and, on the same day, Mangosoft filed its notice of appeal to the Federal Circuit stating that it was appealing (1) the Court's March 14,

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2006 order on summary judgment, (2) the Court's order of March 28, 2007, (3) the Court's claim construction order of September 21, 2004, and (4) the entry of judgment on March 29, 2007. Oracle has filed its statement of costs in connection with the entry of judgment. On May 21, 2007, the parties were notified that the matter was selected for inclusion in the Federal Circuit's mandatory Appellate Mediation Program. A mediation was held on June 20, 2007, but the matter was not resolved. Mangosoft filed its opening appeal brief in the Federal Circuit on August 6, 2007. Oracle filed its responsive brief on November 16, 2007, and Mangosoft filed its reply brief on January 8, 2008. The Federal Circuit heard oral argument in the appeal on March 3, 2008. The court has not yet issued a decision. 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. The complaint seeks unspecified damages and preliminary and permanent injunctive relief. On April 10, 2007, Oracle filed a stipulation extending the time for the SAP Defendants to respond to the complaint. On June 1, 2007, Oracle filed its First Amended Complaint, adding claims for infringement of the federal Copyright Act and breach of contract, and dropping the conversion and separately pled conspiracy claims. On July 2, 2007 the SAP Defendants filed their Answer and Affirmative Defenses, acknowledging that TomorrowNow had made some inappropriate downloads and otherwise denying the claims alleged in the First Amended Complaint. The parties are engaged in discovery and continue to negotiate a Preservation Order. At a Case Management Conference held on February 12, 2008, Oracle advised the court that Oracle intends to file a Second Amended Complaint, based on new facts learned during the course of discovery. The next Case Management Conference is currently scheduled for April 3, 2008.

**Other Litigation**

We are party to various 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.

**18. SUBSEQUENT EVENTS**

**Amended Commercial Paper Program**

In March 2008, we increased our commercial paper program to \$5.0 billion from \$3.0 billion (the CP Program). The dealer agreements with each of Banc of America Securities LLC, JP Morgan Securities Inc., Lehman Brothers Inc.,

Merrill Lynch Money Markets Inc. and Merrill Lynch Pierce, Fenner & Smith Incorporated and the Issuing and Paying Agency Agreement with JPMorgan Chase Bank, National Association, remain in effect and were not changed. Under the CP Program, we may issue and sell unsecured short-term promissory notes (Commercial Paper Notes) pursuant to a private placement exemption from the registration requirements under federal and state securities laws. We did not issue any Commercial Paper Notes during the three and nine months ended February 29, 2008 and February 28, 2007, respectively, and did not have any Commercial Paper Notes outstanding as of February 29, 2008.

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**364-Day Revolving Credit Agreement**

As of February 29, 2008, we had a \$3.0 billion, 5-Year revolving credit facility that expires in March 2011 with Wachovia Bank, National Association (Wachovia); Bank of America, N.A. and certain other lenders. No debt was outstanding pursuant to this facility as of February 29, 2008 or May 31, 2007. This facility can be used to backstop any Commercial Paper Notes that we may issue and for working capital and other general corporate purposes.

In March 2008, we entered into a \$2.0 billion, 364-Day Revolving Credit Agreement with Wachovia, Bank of America, N.A. and certain other lenders (2008 Credit Agreement). The 2008 Credit Agreement provides for an unsecured revolving credit facility, which can also be used to backstop any Commercial Paper Notes that we may issue and for working capital and other general corporate purposes. Subject to certain conditions stated in the 2008 Credit Agreement, we may borrow, prepay and re-borrow amounts under the facility at any time during the term of the 2008 Credit Agreement. Any amounts drawn pursuant to the 2008 Credit Agreement are due on March 17, 2009. Interest is based on either (a) a LIBOR-based formula or (b) a formula based on Wachovia's prime rate or on the federal funds effective rate. We may, upon the agreement of either then existing lenders or of additional banks not currently party to the 2008 Credit Agreement, extend the termination date of the facility by an additional 364 days. The facility may be extended in this manner up to two times in succession.

The 2008 Credit Agreement contains certain customary representations and warranties, covenants and events of default, including the requirement that our total net debt to total capitalization ratio not exceed 45%. If any of the events of default occur and are not cured within applicable grace periods or waived, any unpaid amounts under the Credit Agreement may be declared immediately due and payable and the commitments may be terminated.



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

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

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 and similar expressions are generally 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, including our Annual Report on Form 10-K for our fiscal year ended May 31, 2007 and our other Quarterly Reports on Form 10-Q filed by us in our fiscal year 2008, which runs from June 1, 2007 to May 31, 2008.

**Business Overview**

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

**Software Business**

Our software business is comprised of two operating segments: (1) new software licenses and (2) software license updates and product support. We expect that our software business revenues will continue to increase, which should allow us to improve margins and profits and continue to make investments in research and development.

***New Software Licenses:*** We license our database and middleware as well as our applications software to businesses of many sizes, government agencies, educational institutions and resellers. The growth in new software license revenues is affected by the strength of general economic and business conditions, governmental budgetary constraints, the competitive position of our software products and our acquisitions. The new software license business is also characterized by long sales cycles. The timing of a few large software license transactions can substantially affect our quarterly new software license revenues. Since our new software license revenues in a particular quarter can be difficult to predict as a result of the timing of a few large software license transactions, we believe that the analysis of new software revenues on a trailing 4-quarter period provides additional visibility into the underlying performance of our new software license business. New software license revenues represent 33% of our total revenues on a trailing 4-quarter basis. Our new software license margins have been and will continue to be affected by the amortization of intangible assets associated with companies we have acquired.

Competition in the software business is intense. Our goal is to maintain a first or second position in each of our software product categories and certain industry segments as well as to grow our software revenues faster than our competitors. We believe that the features and functionality of our software products are as strong as they have ever been. We have focused on lowering the total cost of ownership of our software products by improving integration,

decreasing installation times, lowering administration costs and improving the ease of use. Reducing the total cost of ownership of our products provides our customers with a higher return on their investment, which we believe will create more demand and provide us with a competitive advantage. We have also continued to focus on improving the overall quality of our software products and service levels. We believe this will lead to higher customer satisfaction and loyalty and help us achieve our goal of becoming our customers' leading technology advisor.

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***Software License Updates and Product Support:*** Customers that purchase software license updates and product support are granted rights to unspecified product upgrades and maintenance releases issued during the support period, as well as technical support assistance. In addition, we offer Oracle Unbreakable Linux Support, which provides enterprise level support for the Linux operating system and, in fiscal 2008, we introduced support for Oracle VM server virtualization software. Substantially all of our customers renew their software license updates and product support contracts annually. The growth of software license updates and product support revenues is primarily influenced by three factors: (1) the renewal rate of the support contract base, (2) the amount of new support contracts sold in connection with the sale of new software licenses, and (3) the support contract base assumed from companies we have acquired.

Software license updates and product support revenues, which represent approximately 46% of our total revenues on a trailing 4-quarter basis, is our highest margin business unit. Support margins over the trailing 4-quarters were 84%, and account for 77% of our total margins over the same respective period. We believe that software license updates and product support revenues and margins will continue to grow for the following reasons:

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

Substantially all of our customers purchase license updates and product support contracts when they buy new software licenses, resulting in a further increase in our support contract base. Even if new license revenue growth was flat, software license updates and product support revenues would continue to grow assuming renewal and cancellation rates remained relatively constant since substantially all new software license transactions add to our support contract base.

Our acquisitions have significantly increased our support contract base, as well as the portfolio of products available to be licensed.

We record adjustments to reduce support obligations assumed in business acquisitions 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 acquired businesses as independent entities in the amount of \$22 million and \$35 million for the three months ended February 29, 2008 and February 28, 2007, respectively, and \$138 million and \$158 million for the nine months ended February 29, 2008 and February 28, 2007, 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.

## **Services Business**

Our services business consists of consulting, On Demand and education. Our services business, which represents 21% of our total revenues on a trailing 4-quarter basis, has significantly lower margins than our software business.

***Consulting:*** Consulting revenues have increased due to an increase in application implementations resulting from higher sales of new software applications over the past year and our recent acquisitions. We expect consulting revenues to continue to grow as consulting revenues tend to lag software revenues by several quarters since consulting services, if purchased, are typically performed after the purchase of new software licenses and our new license growth rates have generally increased over the last several quarters in comparison to the corresponding prior year periods.

***On Demand:*** On Demand includes our Oracle On Demand, CRM On Demand, as well as Advanced Customer Services offerings. We believe that our On Demand offerings provide our customers flexibility in how they manage

their information technology environments and an additional opportunity to lower their total costs of ownership and can therefore provide us with a competitive advantage. We have made and plan to continue to make investments in On Demand to support current and future revenue growth, which has negatively impacted On Demand margins and may continue to do so in the future.

**Education:** The purpose of our education services is to further the adoption and usage of our software products by our customers and to create opportunities to grow our software revenues. Education revenues have been impacted

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by personnel reductions in our customers' information technology departments, tighter controls over discretionary spending and greater use of outsourcing solutions. However, education revenues and expenses have increased in recent periods in comparison to the corresponding periods of the prior year as a result of additional education offerings related to our acquired products.

## **Acquisitions**

An active acquisition program is an important element of our corporate strategy. Over the past four fiscal years, we have acquired PeopleSoft, Inc., a provider of enterprise applications software products; Siebel Systems, Inc., a provider of customer relationship management software; Hyperion Solutions Corporation, a provider of enterprise performance management and business intelligence software; and others. Typically, the significant majority of our integration activities related to an acquisition are substantially complete in the United States within three to six months after the closing of the acquisition. Integration activities for international operations, particularly in Europe, generally take longer.

On January 16, 2008, we entered into an Agreement and Plan of Merger (Merger Agreement) with BEA Systems, Inc., a provider of enterprise infrastructure software. Pursuant to the Merger Agreement, our wholly owned subsidiary will merge with and into BEA and BEA will become a wholly owned subsidiary of Oracle. Upon the consummation of the merger, each share of BEA common stock will be converted into the right to receive \$19.375 in cash. In addition, options to acquire BEA common stock, BEA restricted stock unit awards, BEA restricted stock awards and other equity-based awards denominated in shares of BEA common stock outstanding immediately prior to the consummation of the merger will generally be converted into options, restricted stock unit awards, restricted stock awards or other equity-based awards, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of BEA is approximately \$8.6 billion. We expect that the BEA acquisition will close in our fourth quarter of fiscal 2008, subject to BEA stockholder approval, regulatory clearance by the European Commission and other closing conditions. On March 26, 2008, BEA and Oracle submitted a pre-merger notification filing to the European Commission; the European Commission has set a provisional deadline of April 30, 2008 for determining whether further review of the proposed merger will be required. In addition, BEA has scheduled a meeting of its stockholders on April 4, 2008 to vote upon the proposed merger.

We believe our acquisition program supports our long-term strategic direction, strengthens our competitive position, particularly in the applications marketplace, expands our customer base and provides greater scale to increase our investment in research and development to accelerate innovation, grow our earnings and increase stockholder value. We expect to continue to acquire companies, products, services and technologies. See Note 4 to our condensed consolidated financial statements for additional information related to our recent and pending acquisitions.

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

## **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions

can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

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Business Combinations

Goodwill and Intangible Assets

Accounting for Income Taxes

Legal and Other Contingencies

Stock-Based Compensation

Allowances for Doubtful Accounts and Returns

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

With the exception of the below paragraph that discusses the impact of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48) on our critical accounting policy and estimates for accounting for income taxes, during the first nine months of fiscal 2008 there were no significant changes in 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, 2007 for a more complete discussion of our critical accounting policies and estimates.

On June 1, 2007, we adopted FIN 48, which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with Statement 109, *Accounting for Income Taxes*. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. During our first quarter of fiscal 2008, we adjusted our policy in the accounting for and presentation of uncertain tax positions in order to comply with the interpretive guidance set forth in FIN 48.

**Results of Operations**

The comparability of our operating results in the third quarter and first nine months of fiscal 2008 compared with the same periods in fiscal 2007 is impacted by our acquisitions, principally our acquisition of Hyperion in the fourth quarter of fiscal 2007.

In our discussion of changes in our results of operations for the third quarter and first nine months of fiscal 2008 compared to the corresponding periods in the prior year, we quantify the contribution of our acquired products to the growth in new software license revenues and the amount of revenues associated with software license updates and product support and present supplemental disclosure related to certain charges and gains (including acquisition accounting and stock-based compensation) where applicable. Although certain revenues were quantifiable, we are unable to identify the following:

The contribution of the significant majority of consulting and education services revenues from acquired companies during the third quarter and first nine months of fiscal 2008 as the significant majority of these services have been fully integrated into our existing operations.

The contribution of the significant majority of expenses associated with acquired products and services during the third quarter and first nine months of fiscal 2008 as the significant majority of these expenses have been fully integrated into our existing operations.

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

The quantifications cannot address the substantial effects attributable to our sales force integration efforts, in particular the effect of having a single sales force offer similar products. The commissions earned by our integrated sales force generally do not vary based on the application product sold. We believe that if our sales forces had not been integrated, the relative mix of products sold would have been different.



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Our acquisitions have not resulted in our entry into a new line of business or product category. Therefore, we provided multiple products with substantially similar features and functionality.

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

**Constant Currency Presentation**

We compare the percent change in the results from one period to another period in this quarterly report using constant currency disclosure. We present constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. 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 the exchange rate in effect on May 31, 2007, 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 February 29, 2008 and February 28, 2007, our financial statements would reflect revenues of \$1.51 million during the first nine months of fiscal 2008 (using 1.51 as the exchange rate) and \$1.32 million during the first nine months of fiscal 2007 (using 1.32 as the exchange rate). The constant currency presentation would translate the results for the nine months ended February 29, 2008 and February 28, 2007 using the May 31, 2007 exchange rate and indicate, in this example, no change in revenues during the periods. In each of the tables below, we present the percent change based on actual results as reported and based on constant currency.

**Total Revenues and Operating Expenses**

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2008	Percent Change Actual	Percent Change Constant	February 28, 2007	February 29, 2008	Percent Change Actual	Percent Change Constant	February 28, 2007
<b>Total Revenues by Geography:</b>								
Americas	\$ 2,707	17%	14%	\$ 2,315	\$ 7,756	20%	18%	\$ 6,441
EMEA <sup>(1)</sup>	1,871	26%	15%	1,484	5,265	30%	19%	4,046
Asia Pacific	771	25%	14%	615	2,170	29%	21%	1,680
Total revenues	5,349	21%	15%	4,414	15,191	25%	19%	12,167
<b>Total Operating Expenses</b>								
	3,474	15%	10%	3,020	10,317	22%	17%	8,474
<b>Total Operating Margin</b>	\$ 1,875	35%	24%	\$ 1,394	\$ 4,874	32%	24%	\$ 3,693
<b>Total Operating Margin %</b>	35%			32%	32%			31%
<b>% Revenues by Geography:</b>								

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Americas	51%			52%	51%			53%
EMEA <sup>(1)</sup>	35%			34%	35%			33%
Asia Pacific	14%			14%	14%			14%

**Total Revenues by Business:**

Software	\$ 4,240	21%	15%	\$ 3,498	\$ 11,868	25%	20%	\$ 9,457
Services	1,109	21%	14%	916	3,323	23%	16%	2,710
Total revenues	\$ 5,349	21%	15%	\$ 4,414	\$ 15,191	25%	19%	\$ 12,167

**% Revenues by Business:**

Software	79%			79%	78%			78%
Services	21%			21%	22%			22%

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

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***Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:*** Total revenues increased in the third quarter of fiscal 2008 due to increased demand for our products and services offerings and incremental revenues from our acquisitions. The growth in our total revenues was positively affected by foreign currency rate fluctuations of 6 percentage points in the third quarter of fiscal 2008 due to the weakening of the United States dollar relative to other major international currencies. Excluding the effect of currency rate fluctuations, new software license revenues contributed 20% to the growth in total revenues, software license updates and product support revenues contributed 60% and services revenues contributed 20%. Excluding the effect of currency rate fluctuations, the Americas contributed 51% to the increase in total revenues, EMEA contributed 35% and Asia Pacific contributed 14%.

Operating expenses were adversely affected by foreign currency rate fluctuations of 5 percentage points. Excluding the effect of currency rate fluctuations, the increase in operating expenses in the third quarter of fiscal 2008 was primarily due to higher salary and employee benefits associated with increased headcount levels (primarily resulting from our acquisitions of Hyperion, Agile and other companies since the third quarter of fiscal 2007), as well as higher commissions and bonuses associated with both increased revenues and headcount levels. In addition, operating expenses also increased in the third quarter of fiscal 2008 due to higher amortization costs of intangible assets resulting primarily from acquisitions that we completed since the third quarter of fiscal 2007 and higher stock-based compensation charges resulting primarily from a higher fair value (caused primarily by our higher stock price) for stock options that we granted during fiscal 2008. Our operating expense growth during the third quarter of fiscal 2008 was partially offset by a \$42 million reduction in litigation related expenses primarily related to the timing and settlement of certain legal matters, lower in-process research and development charges of \$45 million and a \$57 million gain on property sale.

Operating margin as a percentage of total revenues increased during the third quarter of fiscal 2008. The growth in our operating margin in the third quarter of fiscal 2008 was favorably affected by foreign currency rate fluctuations of 11 percentage points and the favorable impact of lower litigation related expenses, lower in-process research and development expenses and a gain on property sale (described above).

International operations 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 relative strength of the U.S. Dollar against certain major international currencies.

***First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:*** Total revenues increased in the first nine months of fiscal 2008 primarily due to the same reasons as noted above. The growth in our total revenues was positively affected by foreign currency rate fluctuations of 6 percentage points. Excluding the effect of currency rate fluctuations, new software license revenues contributed 33% to the growth in total revenues, software license updates and product support revenues contributed 48% and services revenues contributed 19%. Excluding the effect of currency rate fluctuations, the Americas contributed 51% to the increase in total revenues, EMEA contributed 35% and Asia Pacific contributed 14%.

Operating expenses were adversely affected by foreign currency rate fluctuations of 5 percentage points. Excluding the effect of currency rate fluctuations, the increase in operating expenses in the first nine months of fiscal 2008 was primarily due to the same reasons as noted above, as well as additional stock-based compensation charges recorded in the first quarter of fiscal 2008 resulting from the acceleration of vesting of certain acquired stock awards upon employee terminations pursuant to the original terms of those awards. Our operating expense growth during the first nine months of fiscal 2008 was partially offset by lower in-process research and development expenses of \$87 million and a \$57 million gain on property sale.

Operating margin as a percentage of total revenues increased during the first nine months of fiscal 2008. The growth in our operating margin in the first nine months of fiscal 2008 was favorably affected by foreign currency rate fluctuations of 8 percentage points. Our operating margin increased during the first nine months of fiscal 2008 primarily due to the same reasons as noted above.

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

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. Readers are directed to the introduction under Results of Operations (above) for a discussion of the inherent limitations in comparing pre- and post-acquisition information.

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

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Support deferred revenues <sup>(1)</sup>	\$ 22	\$ 35	\$ 138	\$ 158
Amortization of intangible assets <sup>(2)</sup>	292	222	867	623
Acquisition related and other <sup>(3)(5)</sup>	(40)	53	28	65
Restructuring <sup>(4)</sup>	8	3	14	23
Stock-based compensation <sup>(5)</sup>	62	48	194	145
Income tax effect <sup>(6)</sup>	(98)	(93)	(357)	(287)
	\$ 246	\$ 268	\$ 884	\$ 727

- (1) In connection with purchase price allocations related to our acquisitions, we have estimated the fair values of the support obligations assumed. Due to our application of business combination accounting rules, we did not recognize software license updates and product support revenues related to support contracts that would have otherwise been recorded by the acquired businesses as independent entities, in the amounts of \$22 million and \$35 million for the three months ended February 29, 2008 and February 28, 2007, respectively, and \$138 million and \$158 million for the nine months ended February 29, 2008 and February 28, 2007, respectively. As of February 29, 2008, approximately \$9 million of estimated software license updates and product support revenues related to support contracts assumed will not be recognized during the remainder of fiscal 2008 that would have otherwise been recognized by the acquired businesses as independent entities, due to the application of business combination accounting rules. To the extent customers renew these support contracts, we expect to recognize revenues for the full contract value over the support renewal period.
- (2) Represents the amortization of intangible assets acquired in connection with our acquisitions, primarily PeopleSoft, Siebel, Hyperion and i-flex. As of February 29, 2008, estimated future amortization expenses related to intangible assets, excluding the impact of additional intangible assets arising through any subsequent acquisitions such as BEA, are as follows (in millions):

Remainder of Fiscal 2008	\$ 317
Fiscal 2009	1,153
Fiscal 2010	1,029
Fiscal 2011	799
Fiscal 2012	660

Fiscal 2013	306
Thereafter	1,142
Total	\$ 5,406

- (3) Acquisition related and other expenses primarily consist of in-process research and development expenses, stock-based compensation expenses, integration related professional services, personnel related costs for transitional employees, certain business combination contingency adjustments after the purchase price allocation period has ended, and certain other operating expenses (income), net. For the three and nine months ended February 29, 2008, acquisition related and other expenses include a gain on property sale of \$57 million. For the nine months ended February 28, 2007, acquisition related and other expenses include a benefit of \$52 million related to the settlement of a pre-acquisition lawsuit against PeopleSoft (see Note 5 to our condensed consolidated financial statements for further information).
- (4) Restructuring costs during the three and nine months ended February 29, 2008 relate to Oracle employee severance in connection with restructuring plans initiated in the second quarter of fiscal 2008. Restructuring costs during the three and nine months ended February 28, 2007 relate to an Oracle-based restructuring plan initiated in the third quarter of fiscal 2006 for which additional expenses were recorded during the fiscal 2007 periods presented.

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- (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		Nine Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Sales and marketing	\$ 12	\$ 9	\$ 38	\$ 27
Software license updates and product support	1	3	8	8
Cost of services	2	3	9	11
Research and development	31	21	84	63
General and administrative	16	12	55	36
Subtotal	62	48	194	145
Acquisition related and other	3		39	1
Total	\$ 65	\$ 48	\$ 233	\$ 146

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

- (6) The income tax effect on the above presented charges and gains was calculated based on our effective tax rate of 28.6% and 26.5% in the third quarter of fiscal 2008 and 2007, respectively, and 28.8% and 28.3% in the first nine months of fiscal 2008 and 2007, respectively.

**Software**

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

**New Software Licenses:** New software license revenues represent fees earned from granting customers licenses to use our database and middleware as well as our application software products. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market our products through indirect channels.

(Dollars in millions)	Three Months Ended			Nine Months Ended		
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007
<b>New Software License Revenues:</b>						
Americas	\$ 737	15% 12%	\$ 639	\$ 1,987	30% 27%	\$ 1,532
EMEA	588	21% 10%	488	1,565	31% 21%	1,193

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Asia Pacific	291	10%	1%	263	819	21%	14%	676
Total revenues	1,616	16%	9%	1,390	4,371	29%	22%	3,401
<b>Expenses:</b>								
Sales and marketing <sup>(1)</sup>	1,071	12%	6%	958	3,115	20%	14%	2,605
Stock-based compensation	12	31%	31%	9	38	40%	40%	27
Amortization of intangible assets <sup>(2)</sup>	134	55%	55%	87	395	62%	62%	244
Total expense	1,217	16%	10%	1,054	3,548	23%	18%	2,876
<b>Total Margin</b>	\$ 399	18%	7%	\$ 336	\$ 823	57%	45%	\$ 525
<b>Total Margin %</b>	25%			24%	19%			15%
<b>% Revenues by Geography:</b>								
Americas	46%			46%	45%			45%
EMEA	36%			35%	36%			35%
Asia Pacific	18%			19%	19%			20%
<b>Revenues by Product:</b>								
Database and middleware	\$ 1,153	20%	12%	\$ 959	\$ 2,949	24%	17%	\$ 2,383
Applications	451	7%	2%	423	1,380	39%	34%	990
Total revenues by product	1,604	16%	9%	1,382	4,329	29%	22%	3,373
Other revenues	12	34%	28%	8	42	51%	46%	28
Total new software license revenues	\$ 1,616	16%	9%	\$ 1,390	\$ 4,371	29%	22%	\$ 3,401
<b>% Revenues by Product:</b>								
Database and middleware	72%			69%	68%			71%
Applications	28%			31%	32%			29%

(1) Excluding stock-based compensation

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



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***Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:*** New software license revenues growth was positively affected by foreign currency rate fluctuations of 7 percentage points in the third quarter of fiscal 2008. Excluding the effect of currency rate fluctuations, new software license revenues grew in all major product lines and geographies. Our database and middleware products contributed the substantial majority of our total new software license revenues growth as a result of increased demand for our database and middleware products and contributions from recently acquired companies (as quantified below). Excluding the effect of currency rate fluctuations, the Americas contributed 61%, EMEA contributed 37% and Asia Pacific contributed 2% to the increase in our total new software license revenues.

We believe that the trailing 4-quarter growth rates provide additional visibility into the underlying performance of our new software license business since large transactions can cause significant swings in our quarterly reported product revenue growth rates and are not predictive of our future quarterly or annual growth rates.

Excluding the effect of currency rate fluctuations, database and middleware revenues grew 12% in the third quarter of fiscal 2008 and 16% over the trailing 4-quarters as a result of increased demand for our database and middleware products as well as incremental revenues from acquired companies. Hyperion products contributed \$22 million, Stellant products contributed \$9 million and other recently acquired products contributed \$5 million to the total database and middleware revenue growth in the third quarter of fiscal 2008.

On a constant currency basis, applications revenues increased 2% in the third quarter of fiscal 2008. Our growth rate in applications revenues for the third quarter of fiscal 2008 was affected by the high growth rate in our applications revenues for the third quarter of fiscal 2007 against which our current quarter's applications revenues were compared. On a constant currency basis, applications revenues increased 25% over the trailing 4-quarters due to continued strengthening of our competitive position in the applications market as a result of our broad suite of product offerings to a diverse customer base, improved product features and functionality and incremental revenues from acquired companies. Hyperion products contributed \$42 million, Agile products contributed \$14 million, and other recently acquired products contributed \$10 million to the growth in our applications revenues during the third quarter of fiscal 2008.

New software license revenues earned from transactions over \$0.5 million grew by 25% in the third quarter of fiscal 2008 and increased from 41% of new software license revenues in the third quarter of fiscal 2007 to 44% in the third quarter of fiscal 2008.

Sales and marketing expenses were adversely impacted by 6 percentage points of unfavorable currency variations during the third quarter of fiscal 2008. Excluding the effect of currency rate fluctuations, sales and marketing expenses increased in the third quarter of fiscal 2008 due to higher salaries, benefits and travel expenses resulting from increased headcount, higher commission expenses associated with both increased revenues and headcount levels, and an increase in marketing program expenses. These increases were partially offset by a \$42 million reduction in litigation related expenses resulting primarily from the settlement of certain legal matters during the third quarter of fiscal 2008.

Total new software license margin as a percentage of revenues increased due to our revenue growth rate and favorable foreign currency impacts, partially offset by higher growth rates in our amortization of intangible assets expenses and stock-based compensation expenses.

***First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:*** New software license revenues growth was positively affected by foreign currency rate fluctuations of 7 percentage points. Excluding the effect of currency rate fluctuations, the Americas contributed 55%, EMEA contributed 33% and Asia Pacific contributed 12%

to the increase in new software license revenues.

On a constant currency basis, database and middleware revenues grew 17% for similar reasons as noted above contributing 55% to the growth in the new software license revenues in the first nine months of fiscal 2008. Hyperion products contributed \$73 million, Stellent products contributed \$37 million and other recently acquired products contributed \$11 million to the total database and middleware revenue growth in the first nine months of fiscal 2008.

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On a constant currency basis, applications revenues grew 34% and contributed 45% to the growth in new software license revenues in the first nine months of fiscal 2008 due to similar reasons as noted above. The increase in our applications revenues in the first nine months of fiscal 2008 was due to similar reasons as noted above. Hyperion products contributed \$142 million, Agile products contributed \$33 million, MetaSolv products contributed \$14 million, Portal products contributed \$9 million and other recently acquired products contributed \$22 million.

New software license revenues earned from transactions over \$0.5 million grew by 45% in the first nine months of fiscal 2008 and increased from 39% of new software license revenues in the first nine months of fiscal 2007 to 44% in the first nine months of fiscal 2008.

Sales and marketing expenses increased primarily due to the same reasons as noted above. Total new software license margin as a percentage of revenues increased as the growth rate of our revenues exceeded the growth rate of our operating expenses, but was partially offset by higher growth rates in our amortization of intangible assets expenses and stock-based compensation expenses.

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

(Dollars in millions)	Three Months Ended				Nine Months Ended				
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	February 28, 2007	
<b>Software License Updates and Product Support</b>									
<b>Revenues:</b>									
Americas	\$ 1,436	21%	18%	\$ 1,192	\$ 4,097	19%	18%	\$ 3,430	
EMEA	879	31%	19%	671	2,509	31%	20%	1,923	
Asia Pacific	309	26%	16%	245	891	27%	19%	703	
Total revenues	2,624	25%	18%	2,108	7,497	24%	18%	6,056	
<b>Expenses:</b>									
Software license updates and product support <sup>(1)</sup>	253	23%	17%	207	721	19%	13%	605	
Stock-based compensation	1	-61%	-61%	3	8	1%	1%	8	
Amortization of intangible assets <sup>(2)</sup>	144	23%	23%	118	431	27%	27%	340	
Total expenses	398	22%	18%	328	1,160	22%	18%	953	
<b>Total Margin</b>	\$ 2,226	25%	18%	\$ 1,780	\$ 6,337	24%	18%	\$ 5,103	
<b>Total Margin %</b>	85%			85%	85%			84%	

**% Revenues by  
Geography:**

Americas	55%	57%	55%	57%
EMEA	33%	32%	33%	32%
Asia Pacific	12%	11%	12%	11%

- (1) Excluding stock-based compensation
- (2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

***Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:*** The growth in our software license updates and product support revenues was positively affected by foreign currency rate fluctuations of 7 percentage points in the third quarter of fiscal 2008. Excluding the effect of currency rate fluctuations, software license updates and product support revenues increased in the third quarter of fiscal 2008 as a result of new software licenses sold during the trailing 4-quarter period (in particular our fourth quarter of fiscal 2007, which was our largest quarter), the renewal of substantially all of the customer base eligible for renewal in the current fiscal year and incremental revenues from the expansion of our customer base from acquisitions. Excluding the effect of currency rate fluctuations, the Americas contributed 56%, EMEA contributed 34% and Asia Pacific contributed 10% to the increase in software license updates and product support revenues.

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Software license updates and product support revenues in the third quarter of fiscal 2008 include incremental revenues of \$87 million from Hyperion, \$12 million from Stellent, \$11 million from Agile and \$12 million from other recently acquired companies. As a result of our acquisitions, we recorded adjustments to reduce support obligations assumed to their estimated fair value 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 \$35 million that would have been otherwise recorded by our acquired businesses as independent entities, were not recognized in the third quarter of fiscal 2008 and 2007, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their support contracts when such contracts are eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full value of these contracts over the support periods, the substantial majority of which are one year.

Software license updates and product support expenses were adversely impacted by 5 percentage points of unfavorable currency variations during the third quarter of fiscal 2008. Excluding the effect of currency rate fluctuations, software license updates and product support expenses increased due to higher salary and benefits associated with increased headcount to support the expansion of our customer base and higher amortization expenses resulting from additional intangible assets acquired since the third quarter of fiscal 2007. Total software license updates and product support margin as a percentage of revenues remained constant as the growth rate of our revenues was offset by the higher growth rate of the amortization of our intangible assets.

***First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:*** The growth in our software license updates and product support revenues and expenses is primarily attributable to the same reasons as noted above. Excluding the effect of currency rate fluctuations, the Americas contributed 54%, EMEA contributed 34% 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 nine months of fiscal 2008 included incremental contributions from our recently acquired companies of \$207 million from Hyperion, \$30 million from Stellent, \$25 million from MetaSolv, \$22 million from Agile and \$39 million from other recently acquired companies. Software license updates and product support revenues related to support contracts in the amounts of \$138 million and \$158 million that would have been otherwise recorded by our acquired businesses as independent entities, were not recognized in the first nine months of fiscal 2008 and 2007, respectively.

Software license updates and product support expenses increased primarily due to the same reasons as noted above. Total software license updates and product support margin as a percentage of revenues increased primarily due to favorable foreign currency fluctuations.

## **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 as well as applications software products. The cost of providing consulting services consists primarily of personnel related expenditures.

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(Dollars in millions)	Three Months Ended			Nine Months Ended					
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007			
<b>Consulting Revenues:</b>									
Americas	\$ 400	8%	6%	\$ 369	\$ 1,265	12%	10%	\$ 1,126	
EMEA	311	24%	14%	250	915	28%	17%	715	
Asia Pacific	132	75%	57%	75	340	62%	48%	210	
Total revenues	843	21%	14%	694	2,520	23%	16%	2,051	
<b>Expenses:</b>									
Cost of services <sup>(1)</sup>	753	23%	16%	611	2,197	22%	16%	1,795	
Stock-based compensation	1	-69%	-69%	2	5	-18%	-18%	6	
Amortization of intangible assets <sup>(2)</sup>	11	-9%	-11%	12	31	48%	46%	21	
Total expenses	765	22%	15%	625	2,233	23%	16%	1,822	
<b>Total Margin</b>	\$ 78	12%	2%	\$ 69	\$ 287	26%	19%	\$ 229	
<b>Total Margin %</b>	9%			10%	11%			11%	
<b>% Revenues by Geography:</b>									
Americas	47%			53%	50%			55%	
EMEA	37%			36%	36%			35%	
Asia Pacific	16%			11%	14%			10%	

(1) Excluding stock-based compensation

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

**Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:** Consulting revenue growth was positively affected by foreign currency rate fluctuations of 7 percentage points in the third quarter of fiscal 2008. Excluding the effect of currency rate fluctuations, consulting revenues increased during the third quarter of fiscal 2008 primarily due to an increase in application product implementations associated with the sales of our application software products and incremental revenues from our recent acquisitions, primarily Hyperion. Excluding the effect of currency rate fluctuations, the Americas contributed 21%, EMEA contributed 35% and Asia Pacific contributed 44% to the increase in consulting revenues.

Consulting expenses were adversely impacted by 7 percentage points of unfavorable currency variations during the third quarter of fiscal 2008. Excluding the effect of currency rate fluctuations, consulting expenses increased during the third quarter of fiscal 2008 as a result of higher personnel related expenses attributed to higher headcount levels and third-party contractor expenses that supported our increase in revenues and included \$21 million of constant currency expense growth from i-flex. Total consulting margin increased due to the increase in our revenues. However, consulting margin as a percentage of revenues decreased as our expenses grew faster than our revenues in the

Americas and for i-flex, partially offset by improved margins in EMEA and the remainder of the Asia Pacific region.

**First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:** Consulting revenue growth was positively affected by foreign currency rate fluctuations of 7 percentage points in the first nine months of fiscal 2008. Excluding the effect of currency rate fluctuations, the growth in consulting revenues and expenses was generally due to the same reasons as noted above. On a constant currency basis, the Americas contributed 33% to the growth in consulting revenues, EMEA contributed 37% and Asia Pacific contributed 30%. Total consulting margin as a percentage of revenues remained constant during the first nine months of fiscal 2008 as margin improvements in the EMEA and Asia Pacific regions were offset by expense growth in the Americas region and for i-flex, and by an increase in our amortization of intangible asset expenses.

**On Demand:** On Demand includes our Oracle On Demand, CRM On Demand and Advanced Customer Services offerings. Oracle On Demand provides multi-featured software and hardware management, and maintenance

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services for our database and middleware as well as our applications software at our data center facilities or at a site of our customer's choosing. CRM On Demand is a service offering that provides our customers with our CRM software functionality delivered via a hosted solution that we manage. Advanced Customer Services consists of configuration and performance analysis, personalized support and on-site technical services. The cost of providing On Demand services consists primarily of personnel related expenditures, technology infrastructure expenditures and facilities costs.

(Dollars in millions)	Three Months Ended			Nine Months Ended				
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007		
<b>On Demand Revenues:</b>								
Americas	\$ 95	19%	18%	\$ 80	\$ 274	16%	15%	\$ 236
EMEA	57	28%	17%	44	161	31%	20%	123
Asia Pacific	22	27%	17%	18	65	38%	30%	47
Total revenues	174	23%	17%	142	500	23%	18%	406
<b>Expenses:</b>								
Cost of services <sup>(1)</sup>	157	12%	7%	139	467	13%	9%	413
Stock-based compensation	1	41%	41%	1	3	7%	7%	3
Amortization of intangible assets <sup>(2)</sup>	3	0%	0%	3	10	0%	0%	10
Total expenses	161	12%	8%	143	480	12%	9%	426
<b>Total Margin</b>	\$ 13	713%	643%	\$ (1)	\$ 20	195%	185%	\$ (20)
<b>Total Margin %</b>	8%			-2%	4%			-5%
<b>% Revenues by Geography:</b>								
Americas	54%			56%	55%			58%
EMEA	33%			31%	32%			30%
Asia Pacific	13%			13%	13%			12%

(1) Excluding stock-based compensation

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

**Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:** On Demand revenue growth was positively affected by foreign currency rate fluctuations of 6 percentage points in the third quarter of fiscal 2008. On Demand revenues increased due to an increase in each service category's subscription base as more customers engaged us to provide additional technology outsourcing solutions. On a constant currency basis, Oracle On Demand, Advanced Customer Services, and CRM On Demand contributed 51%, 33% and 16%, respectively, to the growth in On Demand revenues. Excluding the effect of currency rate fluctuations, the Americas contributed 56%, EMEA contributed 32% and Asia Pacific contributed 12% to the increase in On Demand revenues.



Excluding the effect of currency rate fluctuations, On Demand expenses increased due to higher salaries, bonus and benefits related expenditures associated with increased headcount, and higher technology infrastructure related costs to support the expansion of our customer base. These expense increases were partially offset by a shift of certain U.S. based costs to global support centers in lower cost countries. Total On Demand margin as a percentage of revenues improved primarily as a result of our Oracle On Demand business, which increased revenues while managing operating expenses to a relatively consistent level with the third quarter of fiscal 2007 and the favorable impact of currency effects during the period. Our Advanced Customer Services and CRM On Demand margin percentages remained relatively constant with the third quarter of fiscal 2007.

***First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:*** On Demand revenue growth was positively affected by foreign currency rate fluctuations of 5 percentage points in the first nine months of fiscal 2008. Excluding the effect of currency rate fluctuations, Oracle On Demand, Advanced Customer Services and CRM On Demand contributed 42%, 41% and 17%, respectively, to the growth in On Demand revenues for similar

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reasons as noted above. Excluding the effect of currency rate fluctuations, the Americas contributed 47% to the growth in On Demand revenues, EMEA contributed 34% and Asia Pacific contributed 19%. On Demand expenses and margin as a percentage of revenues also generally increased due to the same reasons as noted above.

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

(Dollars in millions)	Three Months Ended			Nine Months Ended				
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007		
<b>Education Revenues:</b>								
Americas	\$ 39	13%	10%	\$ 35	\$ 133	13%	11%	\$ 117
EMEA	36	17%	6%	31	115	25%	14%	92
Asia Pacific	17	24%	14%	14	55	24%	16%	44
Total revenues	92	16%	9%	80	303	19%	13%	253
<b>Expenses:</b>								
Cost of services <sup>(1)</sup>	77	15%	8%	67	238	19%	12%	200
Stock-based compensation		*	*		1	-12%	-12%	2
Total expenses	77	15%	8%	67	239	18%	12%	202
<b>Total Margin</b>	\$ 15	25%	14%	\$ 13	\$ 64	22%	17%	\$ 51
<b>Total Margin %</b>	16%			16%	21%			20%
<b>% Revenues by Geography:</b>								
Americas	42%			44%	44%			46%
EMEA	39%			39%	38%			36%
Asia Pacific	19%			17%	18%			18%

(1) Excluding stock-based compensation

\* Not meaningful

**Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:** Education revenue growth was positively affected by foreign currency rate fluctuations of 7 percentage points in the third quarter of fiscal 2008. Excluding the effect of currency rate fluctuations, education revenues increased in the third quarter of fiscal 2008 due primarily to an increase in customer training on the use of our applications products, including recently acquired products. Excluding the effect of currency rate fluctuations, the Americas contributed 48%, EMEA contributed 25% and Asia Pacific contributed 27% to the overall increase in education revenues.

Excluding the effect of currency rate fluctuations, education expenses increased due to an increase in salaries attributable to raises, higher commissions resulting from higher revenues, and third party contractor and royalty fees associated with increased revenues. Education margin as a percentage of revenues remained constant.

***First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:*** Excluding the effect of currency rate fluctuations, the growth rates for both education revenues and expenses were due generally to the same reasons as noted above. Excluding the effect of currency rate fluctuations, the Americas contributed 38% to the growth in education revenues, EMEA contributed 40% and Asia Pacific contributed 22%. Education margin increased slightly as revenue growth exceeded expense growth.

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**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				Nine Months Ended			
	February 29, 2008	Percent Actual Change	Constant	February 28, 2007	February 29, 2008	Percent Actual Change	Constant	February 28, 2007
Research and development <sup>(1)</sup>	\$ 651	18%	15%	\$ 549	\$ 1,923	26%	22%	\$ 1,533
Stock-based compensation	31	51%	51%	21	84	32%	32%	63
Amortization of intangible assets <sup>(2)</sup>		-100%	-100%	2		-100%	-100%	8
Total expenses	\$ 682	20%	17%	\$ 572	\$ 2,007	26%	23%	\$ 1,604
<b>% of Total Revenues</b>	13%			13%	13%			13%

(1) Excluding stock-based compensation

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

Excluding the effect of currency rate fluctuations, research and development expenses increased during our fiscal 2008 periods presented above due to higher employee expenses associated with higher headcount levels including higher stock-based compensation expenses. Research and development headcount increased by approximately 2,800 employees in comparison to the third quarter of fiscal 2007. The increase in headcount was the combined result of our recent acquisitions and our hiring of additional resources to develop new functionality for our existing products.

**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				Nine Months Ended			
	February 29, 2008	Percent Actual Change	Constant	February 28, 2007	February 29, 2008	Percent Actual Change	Constant	February 28, 2007
General and administrative <sup>(1)</sup>	\$ 190	16%	11%	\$ 163	\$ 553	18%	13%	\$ 467
Stock-based compensation	16	34%	34%	12	55	52%	52%	36
Total expenses	\$ 206	18%	12%	\$ 175	\$ 608	21%	16%	\$ 503
<b>% of Total Revenues</b>	4%			4%	4%			4%

(1) Excluding stock-based compensation

Excluding the effect of currency rate fluctuations, general and administrative expenses increased during our fiscal 2008 periods presented above as a result of higher personnel related costs associated with increased headcount to support our expanding operations and increased stock-based compensation expenses.

***Amortization of Intangible Assets Expenses:***

(Dollars in millions)	Three Months Ended			Nine Months Ended					
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007
Software support agreements and related relationships	\$ 98	21%	21%	\$ 81	\$ 292	25%	25%	\$ 233	
Developed technology	126	38%	38%	91	370	50%	50%	247	
Core technology	43	30%	29%	33	129	36%	36%	95	
Customer contracts	17	55%	55%	11	52	73%	73%	30	
Trademarks	8	33%	33%	6	24	28%	28%	18	
Total amortization of intangible assets	\$ 292	32%	31%	\$ 222	\$ 867	39%	39%	\$ 623	

Amortization of intangible assets increased in the third quarter and first nine months of fiscal 2008 due to the amortization of acquired intangibles from Agile, Hyperion, and other acquisitions that we consummated since the

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third quarter of fiscal 2007. See Note 7 to our condensed consolidated financial statements for additional information regarding our intangible assets (including weighted average useful lives) and related amortization expenses.

**Acquisition Related and Other Expenses:** Acquisition related and other expenses primarily consist of in-process research and development expenses, integration related professional services, stock compensation expenses, personnel-related costs for transitional employees, certain business combination contingency adjustments after the purchase price allocation period has ended, and certain other expenses (income), net. Stock-based compensation included in acquisition related and other expenses relates to unvested options assumed from acquisitions whose vesting was accelerated upon termination of the employees pursuant to the original terms of those options.

(Dollars in millions)	Three Months Ended			Nine Months Ended				
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007		
In-process research and development	\$	-100%	-100%	\$ 45	\$ 7	-93%	-93%	\$ 95
Transitional employee related costs	6	-17%	-15%	7	27	58%	54%	17
Stock-based compensation	3	*	*		39	3,800%	3,800%	1
Professional fees	3	97%	93%	1	7	75%	72%	4
Business combination contingency adjustments	5	*	*		5	110%	110%	(52)
Gain on sale of property and other, net	(57)	*	*		(57)	*	*	
Total acquisition related and other expenses	\$ (40)	-176%	-178%	\$ 53	\$ 28	-57%	-60%	\$ 65

\* Not meaningful

**Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:** Acquisition related and other expenses decreased during the third quarter of fiscal 2008 due to lower in-process research and development expenses and a \$57 million gain that was recognized on a property sale in December 2007 (see Note 5 to our condensed consolidated financial statements for additional information).

**First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:** For the first nine months of fiscal 2008, acquisition related and other expenses decreased in comparison to the corresponding period in the prior year due to the reasons noted above, partially offset by an increase in transitional employee costs and higher stock-based compensation expenses. In addition, results for the nine months ended February 28, 2007 included a \$52 million benefit relating to the settlement of a lawsuit filed against PeopleSoft on behalf of the U.S. government. This lawsuit was filed in October 2003, prior to our acquisition of PeopleSoft, and represented a pre-acquisition contingency that we identified and assumed in connection with our acquisition of PeopleSoft. We settled this lawsuit in October 2006, which was after the purchase price allocation period, for approximately \$98 million. Accordingly, we included the difference between the amount accrued as of the end of the purchase price allocation period and the settlement amount as a benefit in our consolidated statements of operations for the nine months ended February 28, 2007.

**Restructuring Expenses:** Restructuring expenses consist of Oracle employee severance costs and may also include Oracle duplicate facilities closures and other exit costs that were initiated to improve our cost structure, primarily as a result of our acquisitions.

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007		
Restructuring expenses	\$ 8	134%	125%	\$ 3	\$ 14	-41%	-44%	\$ 23

During the second quarter of fiscal 2008, our management with the appropriate level of authority approved, committed to, and initiated the Oracle Fiscal 2008 Restructuring Plan (2008 Plan) as a result of certain management and operational changes that are intended to improve efficiencies in our Oracle-based operations. The total estimated costs associated with the 2008 Plan are approximately \$64 million and are primarily related to employee

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severance. The majority of these estimated costs are expected to be incurred over the course of calendar 2008. Our estimated costs are preliminary and may be subject to change in future periods. We incurred restructuring expenses of \$8 million and \$14 million during the third quarter and first nine months of fiscal 2008, respectively, pursuant to the 2008 Plan (see Note 10 to our condensed consolidated financial statements for additional information). Restructuring expenses in the third quarter and first nine months of fiscal 2007 relate to Oracle employee severance and facility closures that were recorded in those periods and were a part of a restructuring plan initiated in the third quarter of fiscal 2006.

**Interest Expense:**

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 28, 2007	
Interest expense	\$ 82	0%	0%	\$ 82	\$ 265	7%	7%	\$ 248

**Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:** Interest expense remained constant in the third quarter of fiscal 2008 due to a decrease in our weighted average cost of borrowings resulting from certain refinancings of our long-term, floating rate senior notes in the fourth quarter of fiscal 2007. These decreases in our cost of borrowings offset our \$500 million of additional long-term senior notes that were outstanding during the third quarter of fiscal 2008.

**First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:** Interest expense increased in the first nine months of fiscal 2008 as result of higher average borrowings resulting from our issuances of short-term commercial paper in our fourth quarter of fiscal 2007 (these commercial paper issuances were repaid during our first quarter of fiscal 2008) and the aforementioned \$500 million increase in senior notes outstanding. These increases were partially offset by the aforementioned reduction in our weighted average cost of borrowings.

**Non-Operating Income, net:** Non-operating income, net consists primarily of interest income, net foreign currency exchange gains, the minority owners' share in the net profits of i-flex and Oracle Japan, and other income including gains (losses) related to our marketable securities and other investments.

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 28, 2007	
Interest income	\$ 89	33%	27%	\$ 67	\$ 253	12%	8%	\$ 225
Foreign currency gains	20	-7%	0%	22	47	24%	30%	38
Minority interests	(17)	-15%	-18%	(20)	(45)	-13%	-16%	(52)
Other	(8)	-132%	-133%	25	29	-56%	-57%	66
Total non-operating income, net	\$ 84	-11%	-13%	\$ 94	\$ 284	2%	0%	\$ 277



***Fiscal Third Quarter 2008 Compared to Fiscal Third Quarter 2007:*** Non-operating income, net decreased in the third quarter of fiscal 2008 due to certain net investment losses and other expenses incurred in comparison to net gains recorded in the prior year period, partially offset by an increase in interest income resulting from higher cash and marketable securities balances during the third quarter of fiscal 2008.

***First Nine Months Fiscal 2008 Compared to First Nine Months Fiscal 2007:*** Non-operating income, net increased in the first nine months of fiscal 2008 due to an increase in interest income from higher cash and marketable securities balances during the first nine months of fiscal 2008, partially offset by a reduction in net investment gains and other income.

***Provision for Income Taxes:*** The effective tax rate in all periods is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The 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. Future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where we have lower statutory rates, by unfavorable changes in tax laws and regulations, or by adverse rulings in tax related litigation.

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(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2008	Percent Change Actual Constant	February 28, 2007	February 29, 2008	Percent Change Actual Constant	February 28, 2007		
Provision for income taxes	\$ 537	44%	40%	\$ 373	\$ 1,409	34%	31%	\$ 1,052
<i>Effective tax rate</i>	28.6%			26.5%	28.8%			28.3%

Provision for income taxes increased in the fiscal 2008 periods presented due to higher earnings before taxes and a higher effective tax rate.

**Liquidity and Capital Resources**

(Dollars in millions)	February 29, 2008	Change	May 31, 2007
Working capital	\$ 8,901	155%	\$ 3,496
Cash, cash equivalents and marketable securities	\$ 10,506	50%	\$ 7,020

**Working capital:** The increase in working capital in the first nine months of fiscal 2008 was primarily due to an increase in our cash, cash equivalents and marketable securities balances resulting from additional cash generated from our operations and our adoption of FIN 48 (see Note 9 to our condensed consolidated financial statements for additional information), which resulted in a significant reclassification of certain short-term tax liabilities to long-term. The increase in working capital was partially offset by cash used during the first nine months of fiscal 2008 to repurchase our common stock and to pay for our acquisitions.

**Cash, cash equivalents and marketable securities:** Cash and cash equivalents consist of deposits held at major banks, money market funds, Tier-1 commercial paper, U.S. Treasury obligations, U.S. government agency and government sponsored enterprise obligations, and other securities with original maturities of 90 days or less. Marketable securities consist of Tier-1 commercial paper, corporate notes, U.S. government agency and government sponsored enterprise obligations, and time deposits held at major banks. Cash, cash equivalents and marketable securities include \$8.0 billion held by our foreign subsidiaries as of February 29, 2008. The increase in cash, cash equivalents and marketable securities at February 29, 2008 is due to an increase in our operating cash flows resulting primarily from an increase in net income and from the collection of our trade receivables generated by our higher sales volumes, partially offset by cash used during the first nine months of fiscal 2008 for repayment of commercial paper (issued in the fourth quarter of fiscal 2007), to repurchase our common stock and to pay for our acquisitions.

Days sales outstanding, which is calculated by dividing period end accounts receivable by average daily sales for the quarter, was 54 days at February 29, 2008 compared with 62 days at May 31, 2007. The days sales outstanding calculation excludes the adjustment to reduce software license updates and product support revenues acquired to fair value. The decline in days sales outstanding is primarily due to improved collections in the first nine months of fiscal 2008.

**Nine Months Ended**

<b>(Dollars in millions)</b>	<b>February 29, 2008</b>	<b>Change</b>	<b>February 28, 2007</b>
Cash provided by operating activities	\$ 5,107	55%	\$ 3,305
Cash used for investing activities	\$ (1,839)	-27%	\$ (2,504)
Cash used for financing activities	\$ (1,481)	-35%	\$ (2,266)

***Cash flows from operating activities:*** Our largest source of operating cash flows is cash collections from our customers following the purchase and renewal of their software license updates and product support agreements. Payments from customers for software license updates and product support are generally received near the beginning of the contract term, which is generally one year in length. We also generate significant cash from new software license sales and, to a lesser extent, services. Our primary uses of cash from operating activities are for personnel related expenditures as well as payments related to taxes and leased facilities.

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Net cash provided by operating activities increased in the first nine months of fiscal 2008 primarily due to higher earnings and the collection of trade receivables generated by our higher sales volumes.

**Cash flows from investing activities:** The changes in cash flows from investing activities primarily relate to acquisitions and the timing of purchases, maturities and sales of marketable securities. We also use cash to invest in capital and other assets to support our growth.

Net cash used for investing activities decreased in the first nine months of fiscal 2008 due to less cash used for our fiscal 2008 acquisitions in comparison to fiscal 2007 and an increase in cash flows from property sales, partially offset by an increase in cash used to purchase marketable securities (net of proceeds received from maturities).

**Cash flows from financing activities:** The changes in cash flows from financing activities primarily relate to borrowings and payments under debt obligations as well as stock repurchases and stock option exercise activity.

Net cash used for financing activities decreased in the first nine months of fiscal 2008 primarily due to decreased spending on stock repurchases, additional proceeds from employee stock option exercises and excess tax benefits realized from stock-based compensation arrangements, partially offset by the repayment of short-term commercial paper that we issued in the fourth quarter of fiscal 2007.

**Free cash flow:** To supplement our statements of cash flows presented on a GAAP basis, we use non-GAAP measures of cash flows on a trailing 4-quarter basis to analyze cash flow generated from our operations. We believe free cash flow is also useful as one of the bases for comparing our performance with our competitors. The presentation of non-GAAP free cash flow is not meant to be considered in isolation or as an alternative to net income as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity. We calculate free cash flows as follows:

(Dollars in millions)	Trailing 4-Quarters Ended		
	February 29, 2008	Change	February 28, 2007
Cash provided by operating activities	\$ 7,322	47%	\$ 4,984
Capital expenditures <sup>(1)</sup>	(331)	28%	(258)
Free cash flow	\$ 6,991	48%	\$ 4,726
Net income	\$ 5,088		\$ 3,970
Free cash flow as a percent of net income	137%		119%

(1) Represents capital expenditures as reported in cash flows from investing activities in our condensed consolidated statements of cash flows presented in accordance with U.S. generally accepted accounting principles.

**Long-Term Customer Financing**

We offer our customers the option to acquire our software and services through separate long-term payment contracts. We generally sell contracts that we have financed on a non-recourse basis to financial institutions. We record the

transfers of amounts due from customers to financial institutions as sales of financial assets because we are considered to have surrendered control of these financial assets. In the first nine months of fiscal 2008 and 2007, \$468 million and \$402 million, respectively, or approximately 11% and 12%, respectively, of our new software license revenues were financed through our financing division.

***Contractual Obligations***

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions, changing interest rates and other factors may result in actual payments differing from these estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our information within the context of our consolidated financial position, results of operations and cash flows.

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The following is a summary of our contractual obligations as of February 29, 2008:

(Dollars in millions)	Total	Year Ending May 31,						
		2008	2009	2010	2011	2012	2013	Thereafter
Principal payments on notes payable <sup>(1)</sup>	\$ 6,250	\$	\$ 1,000	\$ 1,000	\$ 2,250	\$	\$	\$ 2,000
Capital leases <sup>(2)</sup>	2	2						
Interest payments on notes payable <sup>(1)</sup>	1,345	23	312	266	219	105	105	315
Operating leases <sup>(3)</sup>	1,479	92	340	319	220	151	98	259
Purchase obligations <sup>(4)</sup>	361	103	234	5	4	3	3	9
Funding commitments <sup>(5)</sup>	3	3						
<b>Total contractual obligations</b>	<b>\$ 9,440</b>	<b>\$ 223</b>	<b>\$ 1,886</b>	<b>\$ 1,590</b>	<b>\$ 2,693</b>	<b>\$ 259</b>	<b>\$ 206</b>	<b>\$ 2,583</b>

(1) Notes payable consist of the following as of February 29, 2008 (dollars in millions):

	<b>Principal Balance</b>
Floating rate senior notes due May 2009 (effective interest rate of 3.09%)	\$ 1,000
Floating rate senior notes due May 2010 (effective interest rate of 3.13%)	1,000
5.00% senior notes due January 2011, net of discount of \$5	2,245
5.25% senior notes due January 2016, net of discount of \$9	1,991
<b>Total borrowings</b>	<b>\$ 6,236</b>

In September 2007, we entered into two interest-rate swap agreements that have the economic effect of modifying the variable interest obligations associated with our floating rate senior notes due May 2009 and May 2010 so that the interest payable on the senior notes effectively became fixed at a rate of 4.62% and 4.59%, respectively. Interest payments were calculated based on terms of the related agreements and include estimates based on the effective interest rates as of February 29, 2008 for variable rate borrowings after consideration of the aforementioned interest rate swap agreements.

- (2) Represents remaining payments under capital leases of computer equipment assumed from acquisitions.
- (3) Primarily represents leases of facilities and includes future minimum rent payments for facilities that we have vacated pursuant to our restructuring and merger integration activities. We have approximately \$322 million in facility obligations, net of estimated sublease income and other costs, in accrued restructuring for these locations in our condensed consolidated balance sheet at February 29, 2008.
- (4) Represents amounts associated with agreements that are enforceable, legally binding and that specify terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the

approximate timing of payments.

- (5) Represents the maximum additional capital we may need to contribute toward our venture fund investments which are payable upon demand.

On January 16, 2008, we agreed to acquire BEA Systems, Inc. a provider of enterprise infrastructure software, via an agreement and plan of merger (Merger Agreement) whereby our wholly owned subsidiary will merge with and into BEA and BEA will become a wholly owned subsidiary of Oracle. Upon the consummation of the merger, each share of BEA common stock will be converted into the right to receive \$19.375 in cash. In addition, options to acquire BEA common stock, BEA restricted stock unit awards, BEA restricted stock awards and other equity based awards denominated in shares of BEA common stock outstanding immediately prior to the consummation of the merger will generally be converted into options, restricted stock unit awards, restricted stock awards or other equity based awards, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of BEA is approximately \$8.6 billion. The Merger Agreement contains certain termination rights for both BEA and Oracle and further provides that, upon termination of the Merger Agreement under certain circumstances, (i) BEA may be obligated to pay Oracle a termination fee of \$250 million and (ii) Oracle may be obligated to pay to BEA a termination fee of \$500 million. We expect that the BEA acquisition will close in our fourth quarter of fiscal 2008, subject to BEA stockholder approval, regulatory clearance by the European Commission and other closing conditions. On March 26, 2008, BEA and Oracle submitted a pre-merger notification filing to the European Commission; the European Commission has set a provisional deadline of April 30, 2008 for determining whether further review of the proposed merger will be required. In addition, BEA has scheduled a meeting of its stockholders on April 4, 2008 to vote upon the proposed merger. We intend to finance this proposed acquisition through a combination of our internally available cash, our cash generated from operations, our existing available debt capacity, additional borrowings or the issuance of additional securities.

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On June 1, 2007, we adopted FIN 48 and reclassified \$1.3 billion of gross unrecognized tax benefits to non-current income taxes payable in our consolidated balance sheet. As of February 29, 2008, we cannot make a reasonably reliable estimate of the period in which these liabilities will be settled with the respective tax authorities, although we believe it is reasonably possible that certain of these liabilities could be settled during the remainder of fiscal 2008 (see Note 9 of Notes to Condensed Consolidated Financial Statements for additional information).

We believe that our current cash and cash equivalents, marketable securities and cash generated from operations will be sufficient to meet our working capital, capital expenditures and contractual obligations. In addition, we believe we could fund our acquisitions, including the proposed BEA acquisition, and repurchase common stock with our internally available cash and marketable securities, cash generated from operations, our existing available debt capacity, additional borrowings or from the issuance of additional securities.

### ***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### ***Recent Financing Activities***

#### **Commercial Paper Program**

In March 2008, we increased our commercial paper program to \$5.0 billion from \$3.0 billion (the CP Program). The dealer agreements with each of Banc of America Securities LLC, JP Morgan Securities Inc., Lehman Brothers Inc., Merrill Lynch Money Markets Inc. and Merrill Lynch Pierce, Fenner & Smith Incorporated and the Issuing and Paying Agency Agreement with JPMorgan Chase Bank, National Association, remain in effect and were not changed. Under the CP Program, we may issue and sell unsecured short-term promissory notes (Commercial Paper Notes) pursuant to a private placement exemption from the registration requirements under federal and state securities laws. We did not issue any Commercial Paper Notes during the three and nine months ended February 29, 2008 and February 28, 2007, respectively, and did not have any Commercial Paper Notes outstanding as of February 29, 2008.

#### **364-Day Revolving Credit Agreement**

As of February 29, 2008, we had a \$3.0 billion, 5-Year revolving credit facility that expires in March 2011 with Wachovia Bank, National Association (Wachovia); Bank of America, N.A. and certain other lenders. No debt was outstanding pursuant to this facility as of February 29, 2008 or May 31, 2007. This facility can be used to backstop any Commercial Paper Notes that we may issue and for working capital and other general corporate purposes.

In March 2008, we entered into a \$2.0 billion, 364-Day Revolving Credit Agreement with Wachovia, Bank of America, N.A. and certain other lenders (2008 Credit Agreement). The 2008 Credit Agreement provides for an unsecured revolving credit facility, which can also be used to backstop any Commercial Paper Notes that we may issue and for working capital and other general corporate purposes. Subject to certain conditions stated in the 2008 Credit Agreement, we may borrow, prepay and re-borrow amounts under the facility at any time during the term of the 2008 Credit Agreement. Any amounts drawn pursuant to the 2008 Credit Agreement are due on March 17, 2009. Interest is based on either (a) a LIBOR-based formula or (b) a formula based on Wachovia's prime rate or on the federal funds effective rate. We may, upon the agreement of either then existing lenders or of additional banks not currently party to the 2008 Credit Agreement, extend the termination date of the facility by an additional 364 days. The facility may be extended in this manner up to two times in succession.



The 2008 Credit Agreement contains certain customary representations and warranties, covenants and events of default, including the requirement that our total net debt to total capitalization ratio not exceed 45%. If any of the events of default occur and are not cured within applicable grace periods or waived, any unpaid amounts under the Credit Agreement may be declared immediately due and payable and the commitments may be terminated.

**Table of Contents****Stock Options**

Our stock option program is a key component of the compensation package we provide to attract and retain talented employees and align their interests with the interests of existing stockholders. We recognize that options dilute existing stockholders and have sought to control the number of options granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution since June 1, 2004 has been less than 2.0% and has a weighted average annualized rate of 1.5% per year. The potential dilution percentage is calculated as the weighted average of new option grants for the year, net of options forfeited by employees leaving the company, divided by the weighted average outstanding shares during the calculation period. This maximum potential dilution will only result if all options are exercised. Some of these options, which have 10-year exercise periods, have exercise prices substantially higher than the current market price. At February 29, 2008, 29% of our outstanding stock options had exercise prices in excess of the current market price. Consistent with our historical practices, we do not expect that dilution from future grants before the effect of our stock repurchase program will exceed 2.0% per year for our ongoing business. Over the last 10 years, our stock repurchase program has more than offset the dilutive effect of our stock option program; however, we may reduce the level of our stock repurchases in the future as we may use our available cash for acquisitions, to repay indebtedness or for other purposes. At February 29, 2008, the maximum potential dilution from all outstanding and unexercised option awards, regardless of when granted and regardless of whether vested or unvested and including options where the strike price is higher than the current market price, was 7.2%.

The Compensation Committee of the Board of Directors reviews and approves the organization-wide stock option grants to selected employees, all stock option grants to executive officers and any individual stock option grants in excess of 100,000 shares. A separate Plan Committee, which is an executive officer committee, approves individual stock option grants up to 100,000 shares to non-executive officers and employees.

Options granted from June 1, 2004 through February 29, 2008 are summarized as follows (shares in millions):

Options outstanding at May 31, 2004	440
Options granted	229
Options assumed	206
Options exercised	(377)
Forfeitures and cancellations	(129)
Options outstanding at February 29, 2008	369
Weighted average annualized options granted, net of forfeitures	78
Weighted average annualized stock repurchases	152
Shares outstanding at February 29, 2008	5,149
Weighted average shares outstanding from June 1, 2004 through February 29, 2008	5,147
Options outstanding as a percent of shares outstanding at February 29, 2008	7.2%
In the money options outstanding (based on our February 29, 2008 stock price) as a percent of shares outstanding at February 29, 2008	5.1%
Weighted average annualized options granted and assumed, net of forfeitures and before stock repurchases, as a percent of weighted average shares outstanding from June 1, 2004 through February 29, 2008	1.5%
Weighted average annualized options granted, net of forfeitures and after stock repurchases, as a percent of weighted average shares outstanding from June 1, 2004 through February 29, 2008	-1.4%

Our Compensation Committee approves the annual organization-wide option grants to selected employees. These annual option grants are made during the ten business day period following the second trading day after the announcement of our fiscal year end earnings report. During the first nine months of fiscal 2008, we made our annual grant of options on July 5, 2007, and made or assumed other grants to purchase approximately 60 million shares, which were partially offset by forfeitures of 12 million shares.

**Table of Contents****Recent Accounting Pronouncements**

*Derivative Instruments and Hedging Activities Disclosures:* In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. Statement 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We are currently evaluating the impact of the pending adoption of Statement 161 on our consolidated financial statements.

*Business Combinations:* In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations*. The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. Statement 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating the impact of the pending adoption of Statement 141(R) on our consolidated financial statements.

*Accounting and Reporting of Noncontrolling Interests:* In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as a part of consolidated earnings. Additionally, Statement 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. Statement 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating the impact of the pending adoption of Statement 160 on our consolidated financial statements.

*Fair Value Measurements:* In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement 157 defines fair value, establishes a framework for measuring fair value and expands fair value measurement disclosures. Statement 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*. Collectively, the Staff Positions defer the effective date of Statement No. 157 to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of Statement 157. We are currently evaluating the impact of the pending adoption of Statement 157 on our consolidated financial statements.

*Fair Value Option for Financial Assets and Financial Liabilities:* In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. Subsequent measurements for the financial assets and liabilities an entity elects to record at fair value will be recognized in earnings. Statement 159 also establishes additional disclosure requirements. Statement 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts Statement 157. We are currently evaluating the impact of the potential adoption of Statement 159 on our consolidated financial statements.

*Accounting for Advanced Payments for Future Research and Development:* In June 2007, the FASB ratified EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3

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is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 will not have a material impact on our consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Interest Rate Risk.** We generally purchase marketable security investments with relatively short maturities (see description of our marketable securities held in the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations presented above). Therefore, interest rate movements generally do not materially affect the valuation of our marketable security investments. Changes in the overall level of interest rates affect the interest income that is generated from our investments. For the nine months ended February 29, 2008, total interest income was \$253 million with investments yielding an average of 3.95% on a worldwide basis. This interest rate level was down by 4 basis points from 3.99% for the nine months ended February 28, 2007. If overall interest rates fell by 100 basis points from our average of 3.95% during the nine months ended February 29, 2008, our annual interest income would decline by approximately \$83 million, assuming consistent investment levels. The table below presents the cash, cash equivalent and marketable securities balances and the related weighted average interest rates for our investment portfolio at February 29, 2008. The cash, cash equivalent and marketable securities balances are recorded at their fair values at February 29, 2008:

(Dollars in millions)	Fair Value of Available-for-Sale Securities	Weighted Average Interest Rate
Cash and cash equivalents	\$ 8,409	3.50%
Marketable securities	2,097	3.19%
Total cash, cash equivalents and marketable securities	\$ 10,506	3.44%

The following table includes the U.S. Dollar equivalent of cash, cash equivalents and marketable securities denominated in foreign currencies. See discussion of our foreign currency risk below for a description of how we hedge net assets of certain international subsidiaries from foreign currency exposure.

(in millions)	U.S. Dollar Equivalent at February 29, 2008
Euro	\$ 1,921
Japanese Yen	717
British Pound	591
Chinese Renminbi	399
Indian Rupee	318
Australian Dollar	296
Canadian Dollar	257
Other currencies	1,597
Total cash, cash equivalents and marketable securities denominated in foreign currencies	\$ 6,096

Our borrowings as of February 29, 2008 were \$6.2 billion, consisting of \$4.2 billion of fixed rate borrowings and \$2.0 billion of variable rate borrowings. Our variable rate borrowings were as follows at February 29, 2008:

<b>(Dollars in millions)</b>	<b>Borrowings</b>	<b>Effective Interest Rate</b>
Floating rate senior notes due May 2009 <sup>(1)</sup>	\$ 1,000	3.09%
Floating rate senior notes due May 2010 <sup>(1)</sup>	1,000	3.13%
Total borrowings subject to variable interest rate fluctuations	\$ 2,000	

- <sup>(1)</sup> The 2009 and 2010 Notes bear interest at a floating rate equal to three-month LIBOR plus 0.02% per year and 0.06% per year, respectively. In September 2007, we entered into two interest-rate swap agreements that have the economic effect of modifying the variable interest obligations associated with our floating rate senior notes due May 2009 and May 2010 so that the interest payable on the senior notes effectively becomes fixed at a rate of 4.62% and 4.59%, respectively. The critical terms of the interest rate swap agreements and the senior notes that the swap agreements pertain to match, including the notional amounts, interest rate reset dates, maturity dates and underlying market indices. The fair values of the aforementioned interest rate swaps totaled an unrealized loss of \$43 million, net of tax effects, at February 29, 2008. We are accounting for these swaps as hedges pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and*

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*Hedging Activities.* The losses are included in accumulated other comprehensive income and the corresponding fair value payable is included in other long-term liabilities in our condensed consolidated balance sheet.

***Foreign Currency Transaction Risk.*** 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, increases or decreases in our foreign currency exposures are offset by gains or losses on the forward contracts, to mitigate the possibility of foreign currency transaction gains or losses. These foreign currency exposures typically arise from intercompany sublicense fees and other intercompany transactions. Our forward contracts generally have terms of 90 days or less. We do not use forward contracts for trading purposes. All outstanding foreign currency forward contracts (excluding our Yen equity hedge described below) are marked to market at the end of the period with unrealized gains and losses resulting from fair value changes included in non-operating income, net. Our ultimate realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature. Net foreign exchange transaction gains included in non-operating income, net in the accompanying condensed consolidated statements of operations were \$27 million and \$17 million for the nine months ended February 29, 2008 and February 28, 2007, respectively. The unrealized gains of our outstanding foreign currency forward contracts were \$10 million at February 29, 2008 and \$5 million at May 31, 2007.

***Net Investment Risk.*** We hedge the net assets of certain international subsidiaries (net investment hedges) using foreign currency forward contracts to offset the translation and economic exposures related to our investments in these subsidiaries. We measure the effectiveness of net investment hedges by using the changes in spot exchange rates because this method reflects our risk management strategies, the economics of those strategies in our financial statements and better manages interest rate differentials between different countries. Under this method, the change in fair value of the forward contract attributable to the changes in spot exchange rates (the effective portion) is reported in stockholders' equity to offset the translation results on the net investments. The remaining change in fair value of the forward contract (the ineffective portion) is recognized in non-operating income, net.

Net gains (losses) on investment hedges reported in stockholders' equity, net of tax effects, were \$(49) million and \$25 million for the nine months ended February 29, 2008 and February 28, 2007, respectively. Net gains on investment hedges reported in non-operating income, net were \$20 million and \$21 million for the nine months ended February 29, 2008 and February 28, 2007, respectively.

At February 29, 2008, we had one net investment hedge in Japanese Yen. The Yen investment hedge minimizes currency risk arising from net assets held in Yen as a result of equity capital raised during the initial public offering and secondary offering of Oracle Japan, our majority owned subsidiary. The fair value of our Yen investment hedge was nominal as of February 29, 2008 and May 31, 2007. As of February 29, 2008, the Yen investment hedge has a notional amount of \$625 million and an exchange rate of 105.54 Yen for each U.S. Dollar.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures.*** Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this quarterly report, have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

***Changes in Internal Control over Financial Reporting.*** There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



***Inherent Limitations on Effectiveness of Controls.*** Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

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Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The information set forth in Note 17 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended May 31, 2007. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Our Board of Directors has approved a program to repurchase shares of our common stock to reduce the dilutive effect of our stock option and stock purchase plans. In April 2007, our Board of Directors expanded our repurchase program by \$4.0 billion and as of February 29, 2008, \$2.7 billion was available for share repurchases pursuant to our stock repurchase program. We repurchased 73.0 million shares for \$1.5 billion during the nine months ended February 29, 2008 (including 1.3 million shares for \$26 million that were repurchased but not settled) and 179.0 million shares for \$3.0 billion during the nine months ended February 28, 2007 (including 3.0 million shares for \$51 million that were repurchased but not settled) under the applicable repurchase programs authorized.

Our stock repurchase authorization does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our cash requirements for acquisitions, our debt repayment obligations (as described above), 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.

The following table summarizes the stock repurchase activity for the three months ended February 29, 2008 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase programs:

<b>Total Number of</b>	<b>Approximate Dollar</b>
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<b>(in millions, except per share amounts)</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Shares Purchased as Part of Publicly Announced Program</b>	<b>Value of Shares that May Yet Be Purchased Under the Program</b>
December 1, 2007 - December 31, 2007	7.3	\$ 21.59	7.3	\$ 3,052.1
January 1, 2008 - January 31, 2008	8.0	\$ 21.19	8.0	\$ 2,881.8
February 1, 2008 - February 29, 2008	8.9	\$ 19.36	8.9	\$ 2,709.5
<b>Total</b>	<b>24.2</b>	<b>\$ 20.64</b>	<b>24.2</b>	

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**Item 5. Other Information**

On March 31, 2008, our stockholder rights plan expired by its terms.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Exhibit Title</b>
2.03 <sup>(1)</sup>	Agreement and Plan of Merger, dated as of January 16, 2008, among BEA Systems, Inc., Oracle Corporation and Bronco Acquisition Corporation
2.04 <sup>(1)</sup>	Voting Agreement, dated as of January 16, 2008, by and between Alfred S. Chuang, as stockholder, and Oracle Corporation, a Delaware corporation
2.05 <sup>(1)</sup>	Voting Agreement, dated as of January 16, 2008, among Oracle Corporation and the individuals listed on the signature page thereto
10.29 <sup>(2)</sup>	\$2,000,000,000 364-Day Revolving Credit Agreement dated as of March 18, 2008, among Oracle Corporation and the lenders and agents named therein
31.01	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Lawrence J. Ellison
31.02	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Safra A. Catz
32.01	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

<sup>(1)</sup> Incorporated by reference to the Form 8-K filed on January 18, 2008

<sup>(2)</sup> Incorporated by reference to the Form 8-K filed on March 21, 2008

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, Oracle Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ORACLE CORPORATION**

Date: April 1, 2008

By: /s/ Safra A. Catz

Safra A. Catz  
President, Chief Financial Officer and Director

Date: April 1, 2008

By: /s/ William Corey West

William Corey West  
Senior Vice President, Corporate Controller and  
Chief Accounting Officer