

ORACLE CORP
Form 10-Q
March 29, 2011
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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 28, 2011

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 000-51788

Oracle Corporation

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

54-2185193
(I.R.S. Employer

incorporation or organization)

Identification No.)

500 Oracle Parkway

Redwood City, California
(Address of principal executive offices)

94065
(Zip Code)

(650) 506-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of registrant's common stock outstanding as of March 21, 2011 was: 5,060,516,000.

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FORM 10-Q QUARTERLY REPORT

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Cautionary Note on Forward-Looking Statements

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates, will, is designed to and similar expressions are generally intended to identify forward-looking statements. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. 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 have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this Quarterly Report not to occur. You should carefully review the risk factors described in other documents we file from time to time with the U.S. Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for our fiscal year ended May 31, 2010 and our other Quarterly Reports on Form 10-Q filed by us in our fiscal year 2011, which runs from June 1, 2010 to May 31, 2011.

You should understand that the following important factors, in addition to those discussed elsewhere in this Quarterly Report and in our Annual Report on Form 10-K, could affect our future results, and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements:

Economic, political and market conditions, including the recent recession and global economic crisis and the current situation in Japan caused by the recent earthquake and resulting tsunami, can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price.

We may fail to achieve our financial forecasts due to such factors as delays or size reductions in transactions, fewer large transactions in a particular quarter, unanticipated fluctuations in currency exchange rates, delays in delivery of new products or releases or a decline in our renewal rates for software license updates and product support.

Our entrance into the hardware systems business may not be successful, and we may fail to achieve our financial forecasts with respect to this new business.

We have an active acquisition program and our acquisitions, including our acquisition of Sun Microsystems, Inc. may not be successful, may involve unanticipated costs or other integration issues or may disrupt our existing operations.

Our international sales and operations subject us to additional risks that can adversely affect our operating results, including risks relating to foreign currency gains and losses, risks relating to compliance with international and U.S. laws that apply to our international operations and risks to the sales of our products and services and supply chain operations caused by the recent earthquake and tsunami in Japan.

Intense competitive forces demand rapid technological advances and frequent new product introductions and could require us to reduce prices or cause us to lose customers.

If we are unable to develop new or sufficiently differentiated products and services, or to enhance and improve our products and support services in a timely manner or to position and/or price our products and services to meet market demand, customers may not buy new software licenses or hardware systems products or purchase or renew support contracts.

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

As of February 28, 2011 and May 31, 2010

(Unaudited)

| (in millions, except per share data) | February 28, 2011 | May 31, 2010 |
|--|----------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 11,864 | \$ 9,914 |
| Marketable securities | 12,491 | 8,555 |
| Trade receivables, net of allowances for doubtful accounts of \$358 and \$305 as of February 28, 2011 and May 31, 2010, respectively | 4,495 | 5,585 |
| Inventories | 276 | 259 |
| Deferred tax assets | 1,193 | 1,159 |
| Prepaid expenses and other current assets | 2,140 | 1,532 |
| Total current assets | 32,459 | 27,004 |
| Non-current assets: | | |
| Property, plant and equipment, net | 2,894 | 2,763 |
| Intangible assets, net | 8,324 | 9,321 |
| Goodwill | 21,425 | 20,425 |
| Deferred tax assets | 1,519 | 1,267 |
| Other assets | 1,045 | 798 |
| Total non-current assets | 35,207 | 34,574 |
| Total assets | \$ 67,666 | \$ 61,578 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Notes payable, current and other current borrowings | \$ | \$ 3,145 |
| Accounts payable | 673 | 775 |
| Accrued compensation and related benefits | 1,872 | 1,895 |
| Deferred revenues | 5,849 | 5,900 |
| Other current liabilities | 2,888 | 2,976 |
| Total current liabilities | 11,282 | 14,691 |
| Non-current liabilities: | | |
| Notes payable and other non-current borrowings | 14,752 | 11,510 |
| Income taxes payable | 3,078 | 2,695 |
| Deferred tax liabilities | 350 | 424 |
| Other non-current liabilities | 1,145 | 1,059 |

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| | | |
|---|-----------|-----------|
| Total non-current liabilities | 19,325 | 15,688 |
| Commitments and contingencies | | |
| Oracle Corporation stockholders' equity: | | |
| Preferred stock, \$0.01 par value authorized: 1.0 shares; outstanding: none | | |
| Common stock, \$0.01 par value and additional paid in capital authorized: 11,000 shares; outstanding: 5,061 shares as of February 28, 2011 and 5,026 shares as of May 31, 2010 | | |
| Retained earnings | 16,131 | 14,648 |
| Accumulated other comprehensive income | 20,059 | 16,146 |
| | 427 | 4 |
| Total Oracle Corporation stockholders' equity | 36,617 | 30,798 |
| Noncontrolling interests | 442 | 401 |
| Total equity | 37,059 | 31,199 |
| Total liabilities and equity | \$ 67,666 | \$ 61,578 |

See notes to condensed consolidated financial statements.

Table of Contents**ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three and Nine Months Ended February 28, 2011 and 2010****(Unaudited)**

| (in millions, except per share data) | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|--|------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | |
| New software licenses | \$ 2,214 | \$ 1,718 | \$ 5,498 | \$ 4,399 |
| Software license updates and product support | 3,740 | 3,297 | 10,835 | 9,661 |
| Software revenues | 5,954 | 5,015 | 16,333 | 14,060 |
| Hardware systems products | 1,035 | 273 | 3,225 | 273 |
| Hardware systems support | 629 | 185 | 1,890 | 185 |
| Hardware systems revenues | 1,664 | 458 | 5,115 | 458 |
| Services | 1,146 | 931 | 3,399 | 2,797 |
| Total revenues | 8,764 | 6,404 | 24,847 | 17,315 |
| Operating expenses: | | | | |
| Sales and marketing | 1,618 | 1,241 | 4,482 | 3,335 |
| Software license updates and product support | 299 | 281 | 914 | 771 |
| Hardware systems products | 465 | 206 | 1,547 | 206 |
| Hardware systems support | 294 | 116 | 950 | 116 |
| Services | 954 | 816 | 2,818 | 2,429 |
| Research and development | 1,127 | 823 | 3,349 | 2,191 |
| General and administrative | 286 | 236 | 714 | 619 |
| Amortization of intangible assets | 612 | 502 | 1,829 | 1,369 |
| Acquisition related and other | 30 | 34 | 160 | 50 |
| Restructuring | 92 | 306 | 410 | 467 |
| Total operating expenses | 5,777 | 4,561 | 17,173 | 11,553 |
| Operating income | 2,987 | 1,843 | 7,674 | 5,762 |
| Interest expense | (204) | (186) | (613) | (553) |
| Non-operating income (expense), net | 16 | (75) | 180 | (41) |
| Income before provision for income taxes | 2,799 | 1,582 | 7,241 | 5,168 |
| Provision for income taxes | 683 | 393 | 1,903 | 1,396 |
| Net income | \$ 2,116 | \$ 1,189 | \$ 5,338 | \$ 3,772 |
| Earnings per share: | | | | |
| Basic | \$ 0.42 | \$ 0.24 | \$ 1.06 | \$ 0.75 |
| Diluted | \$ 0.41 | \$ 0.23 | \$ 1.04 | \$ 0.74 |
| Weighted average common shares outstanding: | | | | |

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| | | | | |
|-------------------------------------|---------|---------|---------|---------|
| Basic | 5,057 | 5,015 | 5,042 | 5,012 |
| Diluted | 5,149 | 5,076 | 5,117 | 5,067 |
| Dividends declared per common share | \$ 0.05 | \$ 0.05 | \$ 0.15 | \$ 0.15 |

See notes to condensed consolidated financial statements.

Table of Contents**ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Months Ended February 28, 2011 and 2010****(Unaudited)**

| (in millions) | Nine Months Ended February 28, | |
|---|---|-------------|
| | 2011 | 2010 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 5,338 | \$ 3,772 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 283 | 196 |
| Amortization of intangible assets | 1,829 | 1,369 |
| Deferred income taxes | (174) | (362) |
| Stock-based compensation | 383 | 310 |
| Tax benefits on the exercise of stock options and vesting of restricted stock-based awards | 222 | 117 |
| Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards | (139) | (71) |
| Other, net | 42 | 79 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Decrease in trade receivables, net | 1,377 | 1,614 |
| (Increase) decrease in inventories | (9) | 18 |
| Decrease in prepaid expenses and other assets | 261 | 375 |
| Decrease in accounts payable and other liabilities | (821) | (842) |
| Decrease in income taxes payable | (591) | (269) |
| Decrease in deferred revenues | (564) | (136) |
| Net cash provided by operating activities | 7,437 | 6,170 |
| Cash Flows From Investing Activities: | | |
| Purchases of marketable securities and other investments | (22,861) | (11,162) |
| Proceeds from maturities and sales of marketable securities and other investments | 19,159 | 7,121 |
| Acquisitions, net of cash acquired | (1,673) | (5,567) |
| Capital expenditures | (372) | (161) |
| Proceeds from sale of property | 85 | |
| Net cash used for investing activities | (5,662) | (9,769) |
| Cash Flows From Financing Activities: | | |
| Payments for repurchases of common stock | (749) | (738) |
| Proceeds from issuances of common stock | 1,028 | 602 |
| Payment of dividends to stockholders | (757) | (753) |
| Proceeds from borrowings, net of issuance costs | 3,204 | 6,420 |
| Repayments of borrowings | (3,143) | (1,708) |
| Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards | 139 | 71 |
| Distributions to noncontrolling interests | (65) | (59) |
| Net cash (used for) provided by financing activities | (343) | 3,835 |
| Effect of exchange rate changes on cash and cash equivalents | 518 | 100 |
| Net increase in cash and cash equivalents | 1,950 | 336 |
| Cash and cash equivalents at beginning of period | 9,914 | 8,995 |
| Cash and cash equivalents at end of period | \$ 11,864 | \$ 9,331 |

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Non-cash investing and financing transactions:

| | | | | |
|---|----|----|----|----|
| Fair value of stock options and restricted stock-based awards assumed in connection with acquisitions | \$ | 17 | \$ | 91 |
| Increase in unsettled repurchases of common stock | \$ | 1 | \$ | 4 |

See notes to condensed consolidated financial statements.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****February 28, 2011****(Unaudited)****1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS****Basis of Presentation**

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures herein are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2010.

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

We believe that all necessary adjustments, which consisted only of normal recurring items, have been included in the accompanying financial statements to present fairly the results of the interim periods. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for our fiscal year ending May 31, 2011. General and administrative expenses as presented in our condensed consolidated statements of operations during the nine months ended February 28, 2011 included a benefit of \$120 million related to the recovery of legal costs, which reduced our expenses in this period.

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

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

Acquisition Related and Other Expenses

Acquisition related and other expenses consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments after the measurement periods have ended, and certain other operating expenses, net. Stock-based compensation included in acquisition related and other expenses resulted from unvested options and restricted stock-based awards assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those options and restricted stock-based awards.

| (in millions) | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|---|------------------------------------|------|-----------------------------------|-------|
| | 2011 | 2010 | 2011 | 2010 |
| Transitional and other employee related costs | \$ 16 | \$ 5 | \$ 93 | \$ 10 |
| Stock-based compensation | 1 | 10 | 8 | 10 |

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| | | | | |
|--|-------|-------|--------|-------|
| Professional fees and other, net | 14 | 19 | 72 | 25 |
| Business combination adjustments, net | (1) | | (13) | 5 |
| Total acquisition related and other expenses | \$ 30 | \$ 34 | \$ 160 | \$ 50 |

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)****Non-Operating Income (Expense), net**

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

| (in millions) | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|---|------------------------------------|---------|-----------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income | \$ 44 | \$ 27 | \$ 118 | \$ 91 |
| Foreign currency (losses) gains, net | (30) | (88) | 52 | (109) |
| Noncontrolling interests in income | (26) | (24) | (73) | (63) |
| Other income, net | 28 | 10 | 83 | 40 |
| Total non-operating income (expense), net | \$ 16 | \$ (75) | \$ 180 | \$ (41) |

Included in our non-operating income (expense), net for the three and nine months ended February 28, 2010 was a foreign currency remeasurement loss of \$70 million resulting from the designation of our Venezuelan subsidiary as highly inflationary in accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 830, *Foreign Currency Matters*, and subsequent devaluation of the Venezuelan currency by the Venezuelan government.

Comprehensive Income

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

| (in millions) | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|--|------------------------------------|----------|-----------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 2,116 | \$ 1,189 | \$ 5,338 | \$ 3,772 |
| Foreign currency translation gains (losses), net | 93 | (233) | 403 | 43 |
| Unrealized gains on defined benefit plans, net | 1 | | 3 | |
| Unrealized gains (losses) on derivative financial instruments, net | | 18 | | (13) |
| Unrealized gains on marketable securities, net | 6 | | 17 | |
| Comprehensive income | \$ 2,216 | \$ 974 | \$ 5,761 | \$ 3,802 |

Sale of Financing Receivables

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We offer certain of our customers the option to acquire our products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed on a non-recourse basis to financial institutions within 90 days of the contracts' dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financing receivables because we are considered to have

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2011

(Unaudited)

surrendered control of these financing receivables. During the three and nine months ended February 28, 2011, \$287 million and \$1.0 billion of financing receivables were sold to financial institutions, respectively.

Recent Accounting Pronouncements

Disclosure of Supplementary Pro Forma Information for Business Combinations: In December 2010, the FASB issued Accounting Standards Update No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations (Topic 805) Business Combinations* (ASU 2010-29), to improve consistency in how the pro forma disclosures are calculated. Additionally, ASU 2010-29 enhances the disclosure requirements and requires description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to a business combination. ASU 2010-29 is effective for us in fiscal 2012 and should be applied prospectively to business combinations for which the acquisition date is after the effective date. Early adoption is permitted. We are currently evaluating the impact of the pending adoption of ASU 2010-29 on our consolidated financial statements.

Performing Step 2 of the Goodwill Impairment Test: In December 2010, the FASB issued Accounting Standards Update No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (Topic 350) Intangibles Goodwill and Other* (ASU 2010-28). ASU 2010-28 amends the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. We will adopt ASU 2010-28 in fiscal 2012 and any impairment to be recorded upon adoption will be recognized as an adjustment to our beginning retained earnings. We are currently evaluating the impact of the pending adoption of ASU 2010-28 on our consolidated financial statements.

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

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

2. ACQUISITIONS
Fiscal 2011 Acquisitions

On January 5, 2011, we completed our acquisition of Art Technology Group, Inc. (ATG), a provider of eCommerce software and related on demand commerce optimization applications. We have included the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2011

(Unaudited)

financial results of ATG in our consolidated financial statements from the date of acquisition. These results were not material to our consolidated financial statements. The total preliminary purchase price for ATG was approximately \$1.0 billion, which consisted of approximately \$990 million in cash and \$16 million for the fair value of stock options and restricted stock-based awards assumed. In allocating the total preliminary purchase price for ATG based on estimated fair values, we preliminarily recorded \$484 million of goodwill, \$404 million of identifiable intangible assets and \$118 million of net tangible assets.

On August 11, 2010, we completed our acquisition of Phase Forward Incorporated (Phase Forward), a provider of applications for life sciences companies and healthcare providers. We have included the financial results of Phase Forward in our consolidated financial statements from the date of acquisition. These results were not material to our consolidated financial statements. The total preliminary purchase price for Phase Forward was approximately \$736 million, which consisted of approximately \$735 million in cash and \$1 million for the fair value of restricted stock-based awards assumed. In allocating the total preliminary purchase price for Phase Forward based on estimated fair values, we preliminarily recorded \$352 million of goodwill, \$370 million of identifiable intangible assets, \$20 million of in-process research and development and \$6 million of net tangible liabilities (resulting primarily from deferred tax liabilities assumed as a part of this transaction).

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

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

In the third quarter of fiscal 2011, we agreed to acquire certain technology development assets for amounts that are not material to our business, and we expect to close such acquisitions within the next twelve months.

Fiscal 2010 Acquisitions

Acquisition of Sun Microsystems, Inc.

On January 26, 2010 we completed our acquisition of Sun, a provider of hardware systems, software and services, by means of a merger of one of our wholly owned subsidiaries with and into Sun such that Sun became a wholly owned subsidiary of Oracle. We acquired Sun to, among other things, expand our product offerings by adding Sun's existing hardware systems business and broadening our software and services offerings. We have included the financial results of Sun in our consolidated financial statements from the date of acquisition. For the first nine months of fiscal 2011, Sun contributed \$705 million to our total software revenues and \$5.1 billion to our total hardware systems business revenues. Other revenue and earnings contributions from Sun were not separately identifiable due to our integration activities.

The total purchase price for Sun was \$7.3 billion which consisted of \$7.2 billion in cash paid to acquire the outstanding common stock of Sun and \$99 million for the fair value of stock options and restricted-stock based awards assumed. In allocating the purchase price based on estimated fair values, we recorded approximately \$1.4 billion of goodwill, \$3.3 billion of identifiable intangible assets, \$415 million of in-process research and development and \$2.2 billion of net tangible assets.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)*****Other Fiscal 2010 Acquisitions***

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

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, Sun, Phase Forward, ATG and certain other companies that we acquired since the beginning of fiscal 2010 (which were collectively significant for the purposes of unaudited pro forma financial information disclosure) as though the companies were combined as of the beginning of fiscal 2010. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from these acquisitions including our amortization charges from acquired intangible assets (certain of which are preliminary), the elimination of certain goodwill and intangible asset impairment charges incurred by Sun, stock-based compensation charges for unvested stock options and restricted stock-based awards assumed, adjustments to interest expense for certain borrowings and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2010. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions and any borrowings undertaken to finance these acquisitions had taken place at the beginning of fiscal 2010.

The unaudited pro forma financial information for the three and nine months ended February 28, 2011 combined the historical results of Oracle for the three and nine months ended February 28, 2011, the historical results of ATG for the three and nine months ended September 30, 2010 (adjusted due to differences in reporting periods and considering the date we acquired ATG), the historical results of Phase Forward for the three months ended June 30, 2010 (adjusted due to differences in reporting periods and considering the date we acquired Phase Forward), and the effects of the pro forma adjustments described above.

The unaudited pro forma financial information for the three and nine months ended February 28, 2010 combined the historical results of Oracle for the three and nine months ended February 28, 2010, the historical results of ATG for the three and nine months ended March 31, 2010 (due to differences in reporting periods), the historical results of Phase Forward for the three and nine months ended March 31, 2010 (due to differences in reporting periods), the historical results of Sun for the three and nine months ended September 27, 2009 (adjusted due to differences in reporting periods) and the adjusted historical results for certain other companies that we acquired since the beginning of fiscal 2010, which were collectively significant for the purposes of unaudited pro forma financial information disclosure, based upon their respective previous reporting periods, the dates that these companies were acquired by us, and the effects of the pro forma adjustments described above.

| (in millions, except per share data) | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|--------------------------------------|------------------------------------|----------|-----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Total revenues | \$ 8,784 | \$ 7,990 | \$ 25,008 | \$ 24,352 |
| Net income | \$ 2,112 | \$ 1,048 | \$ 5,316 | \$ 3,167 |
| Basic earnings per share | \$ 0.42 | \$ 0.21 | \$ 1.05 | \$ 0.63 |
| Diluted earnings per share | \$ 0.41 | \$ 0.21 | \$ 1.04 | \$ 0.63 |

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)****3. FAIR VALUE MEASUREMENTS**

We perform fair value measurements in accordance with the guidance provided by ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at their fair values, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the assets or liabilities, such as inherent risk, transfer restrictions, and risk of nonperformance.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset's or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

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

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

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

Assets Measured at Fair Value on a Recurring Basis

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

| (in millions) | February 28, 2011 | | | May 31, 2010 | | |
|---|--|------------------|------------------|--|-----------------|------------------|
| | Fair Value Measurements Using Input Types | | | Fair Value Measurements Using Input Types | | |
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Assets: | | | | | | |
| Money market funds | \$ 1,036 | \$ | \$ 1,036 | \$ 2,423 | \$ | \$ 2,423 |
| U.S. Treasury, U.S. government and U.S. government agency debt securities | 1,772 | | 1,772 | 3,010 | | 3,010 |
| Commercial paper debt securities | | 9,998 | 9,998 | | 3,378 | 3,378 |
| Corporate debt securities and other | 90 | 2,089 | 2,179 | | 2,256 | 2,256 |
| Derivative financial instruments | | 49 | 49 | | 33 | 33 |
| Total assets | \$ 2,898 | \$ 12,136 | \$ 15,034 | \$ 5,433 | \$ 5,667 | \$ 11,100 |

Our valuation techniques used to measure the fair values of our money market funds, U.S. Treasury, U.S. government and U.S. government agency debt securities and certain other marketable securities, that were classified as Level 1 in the table above, were derived from quoted market prices as substantially all of these instruments have maturity dates (if any) within one year from our date of purchase and active markets

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for these instruments exist. Our valuation techniques used to measure the fair values of all other instruments listed in the table above, generally all of which mature within one year and the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data. Our discounted cash flow techniques used observable market inputs such as LIBOR-based yield curves, among others.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)**

Our cash and cash equivalents, marketable securities and derivative financial instruments are recognized and measured at fair value in our condensed consolidated financial statements. Based on the trading prices of our \$14.8 billion and \$14.6 billion of borrowings, which consisted of senior notes that were outstanding at February 28, 2011 and senior notes and commercial paper notes that were outstanding as of May 31, 2010 and the interest rates we could obtain for other borrowings with similar terms at those dates, the estimated fair values of our borrowings at February 28, 2011 and May 31, 2010 were \$15.8 billion and \$15.9 billion, respectively.

4. INVENTORIES

Inventories consisted of the following:

| (in millions) | February 28, 2011 | May 31, 2010 |
|-----------------|----------------------|-----------------|
| Raw materials | \$ 89 | \$ 95 |
| Work-in-process | 16 | 43 |
| Finished goods | 171 | 121 |
| Total | \$ 276 | \$ 259 |

5. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2011 and the net book values of intangible assets at February 28, 2011 and May 31, 2010 were as follows:

| (Dollars in millions) | Intangible Assets, Gross | | | Accumulated Amortization | | | Intangible Assets, Net | | Weighted Average Useful Life |
|---|--------------------------|-----------|----------------------|--------------------------|----------|----------------------|------------------------|----------------------|---------------------------------------|
| | May 31, 2010 | Additions | February 28, 2011 | May 31, 2010 | Expense | February 28, 2011 | May 31, 2010 | February 28, 2011 | |
| Software support agreements and related relationships | \$ 5,078 | \$ 100 | \$ 5,178 | \$ (2,175) | \$ (426) | \$ (2,601) | \$ 2,903 | \$ 2,577 | 9 years |
| Hardware systems support agreements and related relationships | 759 | | 759 | (29) | (88) | (117) | 730 | 642 | 7 years |
| Developed technology | 5,338 | 680 | 6,018 | (2,736) | (747) | (3,483) | 2,602 | 2,535 | 5 years |
| Core technology | 2,111 | 65 | 2,176 | (964) | (235) | (1,199) | 1,147 | 977 | 5 years |
| Customer relationships | 1,765 | 298 | 2,063 | (554) | (282) | (836) | 1,211 | 1,227 | 7 years |
| Trademarks | 504 | 24 | 528 | (161) | (51) | (212) | 343 | 316 | 7 years |
| Total intangible assets subject to amortization | 15,555 | 1,167 | 16,722 | (6,619) | (1,829) | (8,448) | 8,936 | 8,274 | |
| In-process research and development | 385 | (335) | 50 | | | | 385 | 50 | N.A. |

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| | | | | | | | | | | | | | | | | |
|------------------------------|----|--------|----|-----|----|--------|----|---------|----|---------|----|---------|----|-------|----|-------|
| Total intangible assets, net | \$ | 15,940 | \$ | 832 | \$ | 16,772 | \$ | (6,619) | \$ | (1,829) | \$ | (8,448) | \$ | 9,321 | \$ | 8,324 |
|------------------------------|----|--------|----|-----|----|--------|----|---------|----|---------|----|---------|----|-------|----|-------|

Total amortization expense related to our intangible assets was \$612 million and \$1.8 billion for the three and nine months ended February 28, 2011, respectively and \$502 million and \$1.4 billion for the three and nine months ended February 28, 2010, respectively. As of February 28, 2011, estimated future amortization expenses related to intangible assets were as follows (in millions):

| | | |
|---|----|-------|
| Remainder of Fiscal 2011 | \$ | 598 |
| Fiscal 2012 | | 2,245 |
| Fiscal 2013 | | 1,874 |
| Fiscal 2014 | | 1,526 |
| Fiscal 2015 | | 1,127 |
| Fiscal 2016 | | 635 |
| Thereafter | | 269 |
| | | |
| Total intangible assets subject to amortization | | 8,274 |
| In-process research and development | | 50 |
| | | |
| Total intangible assets, net | \$ | 8,324 |

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)**

The changes in the carrying amount of goodwill, which is generally not deductible for tax purposes, for our software business operating segments, our hardware systems support operating segment and our services business for the nine months ended February 28, 2011 were as follows:

| (in millions) | New Software Licenses | Software License Updates and Product Support | Hardware Systems Support | Services | Total |
|-------------------------------------|-----------------------------|---|--------------------------------|----------|-----------|
| Balances as of May 31, 2010 | \$ 5,995 | \$ 11,802 | \$ 923 | \$ 1,705 | \$ 20,425 |
| Goodwill from acquisitions | 724 | 205 | | 2 | 931 |
| Goodwill adjustments ⁽¹⁾ | (6) | 11 | 63 | 1 | 69 |
| Balances as of February 28, 2011 | \$ 6,713 | \$ 12,018 | \$ 986 | \$ 1,708 | \$ 21,425 |

⁽¹⁾ Pursuant to our business combinations accounting policy, we record goodwill adjustments for the effect on goodwill of changes to net assets acquired during the measurement period (up to one year from the date of an acquisition). Goodwill adjustments were not significant to our previously reported operating results or financial position.

6. NOTES PAYABLE AND OTHER BORROWINGS**Senior Notes**

In January 2011, our 5.00% fixed rate senior notes for \$2.25 billion matured and were repaid.

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

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)**

The effective interest yields of the 2020 Notes and 2040 Notes at February 28, 2011 were 3.90% and 5.45%, respectively. Interest on the Senior Notes is payable semi-annually. All of the Senior Notes may be redeemed at any time, subject to payment of a make-whole premium. The Senior Notes rank pari passu with any other notes we may issue in the future pursuant to our commercial paper program (see additional discussion regarding our commercial paper program below) and all existing and future senior indebtedness of Oracle Corporation. All existing and future liabilities of the subsidiaries of Oracle Corporation are effectively senior to the Senior Notes and any of our commercial paper notes. We were in compliance with all debt-related covenants at February 28, 2011. Future principal payments for all of our borrowings at February 28, 2011 were as follows (in millions):

| | |
|--------------------------|-----------|
| Remainder of Fiscal 2011 | \$ |
| Fiscal 2012 | |
| Fiscal 2013 | 1,250 |
| Fiscal 2014 | |
| Fiscal 2015 | 1,500 |
| Fiscal 2016 | 2,000 |
| Thereafter | 10,000 |
| Total | \$ 14,750 |

Revolving Credit Agreement and Commercial Paper Notes

On March 14, 2011, our \$3.0 billion, five-year Revolving Credit Agreement dated March 15, 2006, among Oracle and the lenders named therein (the 2006 Credit Agreement) expired pursuant to its terms. No debt was outstanding pursuant to the 2006 Credit Agreement as of February 28, 2011, or as of its date of expiration.

Our commercial paper program allows us to issue and sell unsecured short term promissory notes pursuant to a private placement exemption from the registration requirements under federal and state securities laws. As of February 28, 2011, we had no commercial paper notes outstanding. During the first nine months of fiscal 2011, we repaid the \$881 million of commercial paper notes that were issued in fiscal 2010 and were outstanding as of May 31, 2010. Additional information regarding our commercial paper program is provided in Note 8 of Notes to Consolidated Financial Statements included in our fiscal 2010 Annual Report on Form 10-K. Our ability to issue commercial paper notes in the future is highly dependent upon our ability to provide a back-stop by means of a revolving credit facility for amounts equal to or greater than the amounts of commercial paper notes we intend to issue. While presently we have no such facilities in place, we currently believe that, if needed, we could put in place one or more new revolving credit facilities in a timely manner and on commercially reasonable terms.

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

7. RESTRUCTURING ACTIVITIES**Sun Restructuring Plan**

During the third quarter of fiscal 2010, our management approved, committed to and initiated a plan to restructure our operations due to our acquisition of Sun (the Sun Restructuring Plan) in order to improve the cost efficiencies in our merged operations. Our management

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subsequently amended the Sun Restructuring Plan to reflect additional actions that we expect to take to improve the cost efficiencies in our merged operations. The total estimated restructuring costs associated with the Sun Restructuring Plan are \$1.1 billion consisting primarily of employee severance expenses, abandoned facilities obligations and contract termination costs. The restructuring costs will be recorded to the restructuring expense line item within our consolidated statements of operations as they are

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recognized. We recorded \$366 million of restructuring expenses in connection with the Sun Restructuring Plan in the first nine months of fiscal 2011 and we expect to incur the majority of the approximately \$389 million of remaining expenses pursuant to the Sun Restructuring Plan through fiscal 2012. Any changes to the estimates of executing the Sun Restructuring Plan will be reflected in our future results of operations.

Summary of All Plans

| (in millions) | Nine Months Ended February 28, 2011 | | | | | Accrued February 28, 2011 ⁽²⁾ | Total Costs Accrued to Date | Total Expected Program Costs |
|--|--|---------------------------------|--------------------------------|------------------|-----------------------|---|--------------------------------------|---------------------------------------|
| | Accrued May 31, 2010 ⁽²⁾ | Initial Costs ⁽³⁾ | Adj. to Cost ⁽⁴⁾ | Cash Payments | Others ⁽⁵⁾ | | | |
| Sun Restructuring Plan⁽¹⁾ | | | | | | | | |
| New software licenses | \$ 5 | \$ 54 | \$ (3) | \$ (40) | \$ 1 | \$ 17 | \$ 57 | \$ 88 |
| Software license updates and product support | 3 | 38 | (1) | (18) | | 22 | 43 | 89 |
| Hardware systems business | 42 | 42 | | (71) | | 13 | 103 | 110 |
| Services | 8 | 36 | (2) | (31) | 1 | 12 | 45 | 140 |
| General and administrative and other | 29 | 193 | 9 | (101) | (6) | 124 | 460 | 670 |
| Total Sun Restructuring | \$ 87 | \$ 363 | \$ 3 | \$ (261) | \$ (4) | \$ 188 | \$ 708 | \$ 1,097 |
| Total other restructuring plans ⁽⁶⁾ | \$ 459 | \$ 51 | \$ (16) | \$ (191) | \$ 22 | \$ 325 | | |
| Total restructuring plans⁽⁷⁾ | \$ 546 | \$ 414 | \$ (13) | \$ (452) | \$ 18 | \$ 513 | | |

(1) Restructuring costs recorded for individual line items presented relate to employee severance costs except for general and administrative and other which included \$91 million recorded during the first nine months of fiscal 2011 for facilities related restructuring and contract termination costs.

(2) Accrued restructuring for our most significant restructuring plans at February 28, 2011 and May 31, 2010 was \$513 million and \$546 million, respectively. The balances at February 28, 2011 and May 31, 2010 include \$287 million and \$290 million recorded in other current liabilities, respectively, and \$226 million and \$256 million recorded in other non-current liabilities, respectively.

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

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

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- (5) Represents foreign currency translation and other adjustments.

- (6) Other restructuring plans presented in the table above include condensed information for other Oracle-based plans and other plans associated with certain of our acquisitions whereby we continued to make cash outlays to settle obligations under these plans during fiscal 2011 but for which the current impact to our consolidated statements of operations was not significant.

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

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)****8. DEFERRED REVENUES**

Deferred revenues consisted of the following:

| (in millions) | February 28, 2011 | May 31, 2010 |
|---|------------------------------|-------------------------|
| Software license updates and product support | \$ 4,562 | \$ 4,618 |
| Hardware systems support | 501 | 537 |
| Services | 419 | 376 |
| New software licenses | 351 | 330 |
| Hardware systems products | 16 | 39 |
| Deferred revenues, current | 5,849 | 5,900 |
| Deferred revenues, non-current (in other non-current liabilities) | 334 | 388 |
| Total deferred revenues | \$ 6,183 | \$ 6,288 |

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

In connection with the purchase price allocations related to our acquisitions, we have estimated the fair values of the software license updates and product support obligations and hardware systems support obligations assumed from our acquired companies. We have estimated the fair values of the support obligations assumed using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the acquired support obligations. Substantially all of the fair value adjustments recorded for support obligations assumed reduce the software license updates and product support and hardware systems support deferred revenue balances that we record as liabilities and also reduce the resulting revenues that we recognize over the support contract term of the acquired contracts during the post-combination periods.

9. DERIVATIVE FINANCIAL INSTRUMENTS**Interest Rate Swap Agreements*****Fair Value Hedges***

In September 2009, we entered into interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with our 3.75% senior notes due July 2014 (2014 Notes) so that the interest payable on these notes effectively became variable based

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on LIBOR. The critical terms of the interest rate swap agreements and the 2014 Notes match, including the notional amounts and maturity dates. Accordingly, we have designated these swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges pursuant to ASC 815, *Derivatives and Hedging*. These transactions are characterized as fair value hedges

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2011

(Unaudited)

for financial accounting purposes because they protect us against changes in the fair value of our fixed rate borrowings due to benchmark interest rate movements. The changes in fair values of these interest rate swap agreements are recognized as interest expense in our consolidated statements of operations with the corresponding amounts included in other assets or other non-current liabilities in our consolidated balance sheets. The amount of net gain (loss) attributable to the risk being hedged is recognized as interest expense in our consolidated statement of operations with the corresponding amount included in notes payable and other non-current borrowings. The periodic interest settlements, which occur at the same interval as the 2014 Notes, are recorded as interest expense.

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

Cash Flow Hedges

In relation to the variable interest obligations associated with our floating rate senior notes that were due and repaid in May 2010 (Floating Rate Notes), we had entered into certain variable to fixed interest rate swap agreements to manage the economic effects of the variable interest obligations and designated these agreements as qualifying cash flow hedges. Upon repayment of the Floating Rate Notes in May 2010, we settled the interest rate swap agreements associated with the Floating Rate Notes and no other arrangements were outstanding as of February 28, 2011. Accordingly, in the tables below, we have only provided information from prior periods related to these cash flow hedges.

Net Investment Hedges

Periodically, we hedge net assets of certain of our international subsidiaries using foreign currency forward contracts to offset the translation and economic exposures related to our foreign currency-based investments in these subsidiaries. These contracts have been designated as net investment hedges pursuant to ASC 815. We entered into these net investment hedges for the majority of fiscal 2010. We suspended this program during our fourth quarter of fiscal 2010 and, as of February 28, 2011, we have no contracts of this nature outstanding. Accordingly, in the tables below, we have only provided information from prior periods related to these net investment hedges.

Foreign Currency Forward Contracts Not Designated as Hedges

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

We neither use these foreign currency forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to ASC 815. Accordingly, we record the fair values of these contracts as of the end of our reporting period to our consolidated balance sheet with changes in fair values recorded to our consolidated statement of operations. The balance sheet classification for the fair values of these forward

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contracts is prepaid expenses and other current assets for unrealized gains and other current liabilities for unrealized losses. The statement of operations classification for changes in fair values of these forward contracts is non-operating income (expense), net, for both realized and unrealized gains and losses.

As of February 28, 2011, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$1.7 billion, the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$202 million, and the notional amounts of the foreign currency forward contracts we held to purchase Euros in exchange for other major international currencies were 573 million (approximately \$790 million). The net unrealized losses of our outstanding foreign currency forward contracts were nominal at February 28, 2011. As of May 31, 2010, we had a nominal amount of foreign currency forward contracts outstanding.

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

Fair Value of Derivative Instruments in Condensed Consolidated Balance Sheets

| (in millions) | February 28, 2011 | | May 31, 2010 | |
|---|------------------------|------------|------------------------|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate swap agreements designated as fair value hedges | Other assets | \$ 49 | Other assets | \$ 33 |

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

| (in millions) | Amount of Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion) | | Location and Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location and Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | | | | |
|-----------------------------------|---|-------------------|--|--|-------------------|-------------------------------------|----|------|
| | Three Months Ended | Nine Months Ended | | Three Months Ended | Nine Months Ended | | | |
| | February 28, 2010 | February 28, 2010 | | February 28, 2010 | February 28, 2010 | | | |
| Cash flow hedges: | | | | | | | | |
| Interest rate swap | \$ 10 | \$ 17 | Interest expense | \$ (11) | \$ (31) | Not applicable | \$ | \$ |
| Net investment hedges: | | | | | | | | |
| Foreign currency forward contract | \$ 19 | \$ (41) | Not applicable | \$ | \$ | Non-operating income (expense), net | \$ | \$ 1 |

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2011

(Unaudited)

| (in millions) | | Location and Amount of Gain (Loss) Recognized in Income on Derivative | | Location and Amount of Gain (Loss) on Hedged Item Recognized in Income Attributable to Risk Being Hedged | | |
|---------------------------|------------------|--|----------------------|--|-------------------------|---------|
| | | Three Months | Nine Months | Three Months | Nine Months | |
| | | Ended | Ended | Ended | Ended | |
| | | February 28, 2011 | February 28, 2011 | February 28, 2011 | February 28, 2011 | |
| Fair value hedges: | | | | | | |
| Interest rate swaps | Interest expense | \$ (30) | \$ 16 | Interest expense | \$ 30 | \$ (16) |

| (in millions) | | Location and Amount of Gain (Loss) Recognized in Income on Derivative | | Location and Amount of Gain (Loss) on Hedged Item Recognized in Income Attributable to Risk Being Hedged | | |
|---------------------------|------------------|--|----------------------|--|----------------------|---------|
| | | Three Months | Nine Months | Three Months | Nine Months | |
| | | Ended | Ended | Ended | Ended | |
| | | February 28, 2010 | February 28, 2010 | February 28, 2010 | February 28, 2010 | |
| Fair value hedges: | | | | | | |
| Interest rate swaps | Interest expense | \$ (7) | \$ 20 | Interest expense | \$ 7 | \$ (20) |

| (in millions) | | Location and Amount of Gain (Loss) Recognized in Income on Derivative | | Location and Amount of Gain (Loss) Recognized in Income on Derivative | |
|--|-------------------------------------|--|----------------------|--|----------------------|
| | | Three Months | Nine Months | Three Months | Nine Months |
| | | Ended | Ended | Ended | Ended |
| | | February 28, 2011 | February 28, 2011 | February 28, 2011 | February 28, 2011 |
| Derivatives not designated as hedges: | | | | | |
| Foreign currency forward contracts | Non-operating income (expense), net | \$ (27) | \$ (32) | | |

| (in millions) | | Location and Amount of Gain (Loss) Recognized in Income on Derivative | | Location and Amount of Gain (Loss) Recognized in Income on Derivative | |
|--|-------------------------------------|--|----------------------|--|----------------------|
| | | Three Months | Nine Months | Three Months | Nine Months |
| | | Ended | Ended | Ended | Ended |
| | | February 28, 2010 | February 28, 2010 | February 28, 2010 | February 28, 2010 |
| Derivatives not designated as hedges: | | | | | |
| Foreign currency forward contracts | Non-operating income (expense), net | \$ 22 | \$ (41) | | |

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)****10. STOCKHOLDERS EQUITY****Stock Repurchases**

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On October 20, 2008, we announced that our Board of Directors approved the expansion of our repurchase program by \$8.0 billion and as of February 28, 2011, approximately \$4.5 billion was available for share repurchases pursuant to our stock repurchase program. We repurchased 28.0 million shares for \$750 million during the nine months ended February 28, 2011 (including 0.4 million shares for \$13 million that were repurchased but not settled) and 33.3 million shares for \$742 million during the nine months ended February 28, 2010 (including 0.7 million shares for \$16 million that were repurchased but not settled) under the applicable repurchase programs.

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

Dividends on Common Stock

During the first nine months of fiscal 2011, our Board of Directors declared cash dividends of \$0.15 per share of our outstanding common stock, which we paid during the same period.

In March 2011, our Board of Directors declared a quarterly cash dividend of \$0.06 per share of outstanding common stock, an increase of \$0.01 per share over the prior period dividend. The dividend is payable on May 4, 2011 to stockholders of record as of the close of business on April 13, 2011. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Amended Stock Option Plan

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

Stock-Based Compensation Expense and Valuation of Awards

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

| (in millions) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------|-------------------|-------|
| | February 28, | | February 28, | |
| | 2011 | 2010 | 2011 | 2010 |
| Sales and marketing | \$ 22 | \$ 21 | \$ 64 | \$ 57 |
| Software license updates and product support | 4 | 4 | 11 | 12 |
| Hardware systems products | 1 | 2 | 2 | 2 |
| Hardware systems support | 1 | 1 | 4 | 1 |
| Services | 5 | 4 | 13 | 10 |

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| | | | | |
|--------------------------------|--------|--------|--------|--------|
| Research and development | 58 | 46 | 171 | 122 |
| General and administrative | 37 | 34 | 110 | 96 |
| Acquisition related and other | 1 | 10 | 8 | 10 |
| Total stock-based compensation | \$ 129 | \$ 122 | \$ 383 | \$ 310 |

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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 stock options. Option valuation models, including the Black-Scholes-Merton option-pricing model, require the input of assumptions, including stock price volatility. Changes in the input assumptions can materially affect the fair value estimates and ultimately how much we recognize as stock-based compensation expense. The fair values of our stock options were estimated at the date of grant or date of acquisition for options assumed in a business combination. The weighted average input assumptions used and resulting fair values were as follows for the three and nine months ended February 28, 2011 and 2010 (the values presented for the fiscal 2010 periods in the table below include weighted average input assumptions and resulting fair values for stock options assumed from our acquisition of Sun, which generally had exercise prices that were higher than the fair market value of our stock as of the acquisition date):

| | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|---------------------------------------|------------------------------------|---------|-----------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Expected life (in years) | 4.5 | 2.7 | 5.1 | 4.7 |
| Risk-free interest rate | 1.8% | 1.1% | 1.8% | 2.1% |
| Volatility | 29% | 27% | 33% | 31% |
| Dividend yield | 0.6% | 0.8% | 0.9% | 0.9% |
| Weighted-average fair value per share | \$ 9.75 | \$ 1.45 | \$ 6.58 | \$ 5.17 |

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

11. INCOME TAXES

The effective tax rate for the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Our provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to state taxes, the U.S. research and development tax credit and earnings considered as indefinitely reinvested in foreign operations. Our effective tax rate was 24.4% and 26.3% for the three and nine months ended February 28, 2011, respectively and 24.8% and 27.0% for the three and nine months ended February 28, 2010, respectively.

Our net deferred tax assets were \$2.2 billion and \$1.9 billion as of February 28, 2011 and May 31, 2010, respectively. We believe it is more likely than not that the net deferred tax assets will be realized in the foreseeable future. Realization of our net deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences, net operating loss carryforwards, and tax credit carryforwards. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

Domestically, U.S. federal and state taxing authorities are currently examining income tax returns of Oracle and various acquired entities for years through fiscal 2010. Our U.S. federal and, with some exceptions, our state income tax returns have been examined for all years prior to fiscal 2000, and we are no longer subject to audit for those periods.

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

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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.

We previously negotiated three successive unilateral Advance Pricing Agreements with the U.S. Internal Revenue Service (IRS) that cover many of our intercompany transfer pricing issues and preclude the IRS from making a transfer pricing adjustment within the scope of these agreements. These agreements are effective for fiscal years through May 31, 2006. We have reached final agreement with the IRS for renewal of this Advance Pricing Agreement for the years ending May 31, 2007 through May 31, 2013. However, these agreements do not cover all elements of our transfer pricing and do not bind tax authorities outside the United States. We have finalized one bilateral Advance Pricing Agreement, which was effective for the years ending May 31, 2002 through May 31, 2006 and we have submitted a renewal for the years ending May 31, 2007 through May 31, 2013. There can be no guarantee that such negotiations will result in an agreement. The additional bilateral agreement covers the period from June 1, 2001 through January 25, 2008.

12. SEGMENT INFORMATION

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. We are organized geographically and by line of business. While our Chief Executive Officer evaluates results in a number of different ways, the line of business management structure is the primary basis for which the allocation of resources and financial results are assessed. As a result of our acquisition of Sun in our third quarter of fiscal 2010, we entered into a new hardware systems business with two operating segments as described further below. We have three businesses—software, hardware systems and services—which are further divided into seven operating segments. Our software business is comprised of two operating segments: (1) new software licenses and (2) software license updates and product support. Our hardware systems business is comprised of two operating segments: (1) hardware systems products and (2) hardware systems support. Our services business is comprised of three operating segments: (1) consulting, (2) On Demand and (3) education.

The new software licenses line of business is engaged in the licensing of database and middleware software as well as our applications software. Database and middleware software includes database management software, application server software, business intelligence software, identification and access management software, content management software, portal and user interaction software, Service-Oriented Architecture and business process management software, data integration software and development tools. Our database and middleware software product offerings also include Java, which is a global software development platform used in a wide range of computers, networks and devices. Applications software provides enterprise information that enables companies to manage their business cycles and provides intelligence in functional areas such as customer relationship management, financials, human resources, maintenance management, manufacturing, marketing, order fulfillment, product lifecycle management, enterprise project portfolio management, enterprise performance management, procurement, sales, services, enterprise resource planning and supply chain planning.

The software license updates and product support line of business provides customers with rights to unspecified software product upgrades and maintenance releases, internet access to technical content, as well as internet and telephone access to technical support personnel during the support period.

The hardware systems products line of business consists primarily of computer server and storage product offerings. Most of our computer servers are based on our SPARC family of microprocessors and on microprocessors from Intel Corporation. Our servers range from high performance computing servers to cost

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(Unaudited)

efficient, entry-level servers, and run with our Solaris Operating System, Linux and certain other operating systems environments. Our storage products are designed to securely manage, protect, archive and restore customers' data assets and consist of tape, disk and networking solutions for open systems and mainframe server environments. Customers that purchase our hardware systems products may also elect to purchase our hardware systems support offerings. Our hardware systems support offerings provide customers with software updates for the software components that are essential to the functionality of our hardware systems and storage products and can include product repairs, maintenance services, and technical support services.

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

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

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)**

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

| (in millions) | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|--|--|-------------|---|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| New software licenses: | | | | |
| Revenues ⁽¹⁾ | \$ 2,212 | \$ 1,725 | \$ 5,482 | \$ 4,401 |
| Sales and distribution expenses | 1,152 | 962 | 3,111 | 2,722 |
| Margin ⁽²⁾ | \$ 1,060 | \$ 763 | \$ 2,371 | \$ 1,679 |
| Software license updates and product support: | | | | |
| Revenues ⁽¹⁾ | \$ 3,756 | \$ 3,323 | \$ 10,899 | \$ 9,710 |
| Software license update and product support expenses | 274 | 245 | 829 | 696 |
| Margin ⁽²⁾ | \$ 3,482 | \$ 3,078 | \$ 10,070 | \$ 9,014 |
| Total software business: | | | | |
| Revenues ⁽¹⁾ | \$ 5,968 | \$ 5,048 | \$ 16,381 | \$ 14,111 |
| Expenses | 1,426 | 1,207 | 3,940 | 3,418 |
| Margin ⁽²⁾ | \$ 4,542 | \$ 3,841 | \$ 12,441 | \$ 10,693 |
| Hardware systems products: | | | | |
| Revenues | \$ 1,035 | \$ 260 | \$ 3,225 | \$ 260 |
| Hardware systems products expenses | 468 | 180 | 1,545 | 180 |
| Sales and distribution expenses | 240 | 71 | 703 | 71 |
| Margin ⁽²⁾ | \$ 327 | \$ 9 | \$ 977 | \$ 9 |
| Hardware systems support: | | | | |
| Revenues ⁽¹⁾ | \$ 656 | \$ 225 | \$ 2,023 | \$ 225 |
| Hardware systems support expenses | 284 | 106 | 921 | 106 |
| Margin ⁽²⁾ | \$ 372 | \$ 119 | \$ 1,102 | \$ 119 |
| Total hardware systems business: | | | | |
| Revenues ⁽¹⁾ | \$ 1,691 | \$ 485 | \$ 5,248 | \$ 485 |
| Expenses | 992 | 357 | 3,169 | 357 |
| Margin ⁽²⁾ | \$ 699 | \$ 128 | \$ 2,079 | \$ 128 |
| Consulting: | | | | |
| Revenues ⁽¹⁾ | \$ 719 | \$ 648 | \$ 2,118 | \$ 1,996 |
| Services expenses | 581 | 550 | 1,717 | 1,715 |
| Margin ⁽²⁾ | \$ 138 | \$ 98 | \$ 401 | \$ 281 |
| On Demand: | | | | |
| Revenues ⁽¹⁾ | \$ 339 | \$ 214 | \$ 1,014 | \$ 582 |
| Services expenses | 262 | 172 | 772 | 426 |
| Margin ⁽²⁾ | \$ 77 | \$ 42 | \$ 242 | \$ 156 |
| Education: | | | | |

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| | | | | |
|--------------------------|----------|----------|-----------|-----------|
| Revenues ⁽¹⁾ | \$ 90 | \$ 74 | \$ 283 | \$ 229 |
| Services expenses | 65 | 57 | 198 | 172 |
| Margin ⁽²⁾ | \$ 25 | \$ 17 | \$ 85 | \$ 57 |
| Total services business: | | | | |
| Revenues ⁽¹⁾ | \$ 1,148 | \$ 936 | \$ 3,415 | \$ 2,807 |
| Services expenses | 908 | 779 | 2,687 | 2,313 |
| Margin ⁽²⁾ | \$ 240 | \$ 157 | \$ 728 | \$ 494 |
| Totals: | | | | |
| Revenues ⁽¹⁾ | \$ 8,807 | \$ 6,469 | \$ 25,044 | \$ 17,403 |
| Expenses | 3,326 | 2,343 | 9,796 | 6,088 |
| Margin ⁽²⁾ | \$ 5,481 | \$ 4,126 | \$ 15,248 | \$ 11,315 |

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)**

(1) Operating segment revenues generally differ from the external reporting classifications due to certain software license products that are classified as service revenues for management reporting purposes. Software license updates and product support revenues for management reporting included \$16 million and \$26 million of revenues that we did not recognize in the accompanying condensed consolidated statements of operations for the three months ended February 28, 2011 and 2010, respectively, and \$64 million and \$49 million for the nine months ended February 28, 2011 and 2010, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by Sun as an independent entity, in the amounts of \$27 million and \$133 million for the three and nine months ended February 28, 2011, respectively, and \$39 million for the three and nine months ended February 28, 2010. See Note 8 for an explanation of these adjustments and the following table for a reconciliation of operating segment revenues to total revenues.

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

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

| (in millions) | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|--|------------------------------------|----------|-----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Total revenues for reportable segments | \$ 8,807 | \$ 6,469 | \$ 25,044 | \$ 17,403 |
| Software license updates and product support revenues ⁽¹⁾ | (16) | (26) | (64) | (49) |
| Hardware systems support revenues ⁽¹⁾ | (27) | (39) | (133) | (39) |
| Total revenues | \$ 8,764 | \$ 6,404 | \$ 24,847 | \$ 17,315 |
| Total margin for reportable segments | \$ 5,481 | \$ 4,126 | \$ 15,248 | \$ 11,315 |
| Software license updates and product support revenues ⁽¹⁾ | (16) | (26) | (64) | (49) |
| Hardware systems support revenues ⁽¹⁾ | (27) | (39) | (133) | (39) |
| Hardware systems products expenses ⁽²⁾ | | (24) | | (24) |
| Product development and information technology expenses | (1,196) | (874) | (3,540) | (2,336) |
| Marketing and partner program expenses | (142) | (123) | (434) | (337) |
| Corporate and general and administrative expenses | (242) | (199) | (588) | (523) |
| Amortization of intangible assets | (612) | (502) | (1,829) | (1,369) |
| Acquisition related and other | (30) | (34) | (160) | (50) |
| Restructuring | (92) | (306) | (410) | (467) |
| Stock-based compensation | (128) | (112) | (375) | (300) |
| Interest expense | (204) | (186) | (613) | (553) |
| Non-operating income (expense), net | 7 | (119) | 139 | (100) |
| Income before provision for income taxes | \$ 2,799 | \$ 1,582 | \$ 7,241 | \$ 5,168 |

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- (1) Software license updates and product support revenues for management reporting include \$16 million and \$26 million of revenues that we did not recognize in the accompanying condensed consolidated statements of operations for the three months ended February 28, 2011 and 2010, respectively, and \$64 million and \$49 million for the nine months ended February 28, 2011 and 2010, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by Sun as an independent entity, in the amounts of \$27 million and \$133 million for the three and nine months ended February 28, 2011, respectively, and \$39 million for the three and nine months ended February 28, 2010. See Note 8 for an explanation of these adjustments and this table for a reconciliation of operating segment revenues to total revenues.
- (2) Represents the effects of fair value adjustments to our inventories acquired from Sun that were sold to customers in the periods presented. Business combination accounting rules require us to account for inventories assumed from our acquisitions at their fair values. The amount included in hardware systems products expenses above is intended to adjust these expenses to the hardware systems products expenses that would have been otherwise recorded by Sun as an independent entity upon the sale of these inventories. If we assume inventories in future acquisitions, we will be required to assess their fair values, which may result in fair value adjustments to those inventories.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2011****(Unaudited)****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 options, restricted stock-based awards and shares issuable under the employee stock purchase plan using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

| (in millions, except per share data) | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|--|------------------------------------|----------|-----------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 2,116 | \$ 1,189 | \$ 5,338 | \$ 3,772 |
| Weighted average common shares outstanding | 5,057 | 5,015 | 5,042 | 5,012 |
| Dilutive effect of employee stock plans | 92 | 61 | 75 | 55 |
| Dilutive weighted average common shares outstanding | 5,149 | 5,076 | 5,117 | 5,067 |
| Basic earnings per share | \$ 0.42 | \$ 0.24 | \$ 1.06 | \$ 0.75 |
| Diluted earnings per share | \$ 0.41 | \$ 0.23 | \$ 1.04 | \$ 0.74 |
| Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation ⁽¹⁾ | 14 | 128 | 71 | 169 |

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

14. LEGAL PROCEEDINGS**EpicRealm/Parallel Networks Intellectual Property Litigation**

On June 30, 2006, we filed a declaratory judgment action against EpicRealm Licensing, LP (EpicRealm) in the United States District Court, District of Delaware, seeking a judicial declaration of noninfringement and invalidity of U.S. Patent Nos. 5,894,554 (the 554 Patent) and 6,415,335B1 (the 335 Patent). We filed the lawsuit following the resolution of an indemnification claim by one of our customers related to EpicRealm's assertion of the 554 Patent and 335 Patent against the customer in a patent infringement case in the United States District Court for the Eastern District of Texas.

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

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The parties have completed discovery and filed briefing on claim construction and summary judgment motions. A Markman hearing and oral argument on summary judgment motions were held October 3, 2008. A court-ordered mediation was held on October 8, 2008, which did not result in a settlement. On December 4, 2008, the court issued an order granting summary judgment that our Web Cache, Internet Application Server, and RAC Database do not infringe the patents. The court also denied our motion for summary judgment that the patents are invalid, and denied in part and granted in part Parallel Networks' motion for summary judgment that certain prior art references do not invalidate the patents through anticipation. Trial was scheduled to begin on January 12, 2009, on issues of invalidity and inequitable conduct. On December 23, 2008, the parties reached an agreement.

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allowing Parallel Networks to immediately appeal the court's summary judgment order and preserving Oracle's invalidity and inequitable conduct claims in the event that the matter is remanded for trial at a later time. On January 23, 2009, Parallel Networks filed a notice of appeal. A court-ordered mediation was held on June 1, 2009, which did not result in a settlement. The appellate court heard oral argument on December 10, 2009 after full briefing. On April 28, 2010, the Federal Circuit issued a decision vacating the district court's grant of summary judgment of noninfringement in Oracle's favor and remanding the case to the district court for further proceedings. On May 28, 2010, Oracle filed a Petition for Rehearing with the Federal Circuit which was denied on June 11, 2010. Trial is set for May 9, 2011. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

SAP Intellectual Property Litigation

On March 22, 2007, Oracle Corporation, Oracle USA, Inc. and Oracle International Corporation (collectively, Oracle) filed a complaint in the United States District Court for the Northern District of California against SAP AG, its wholly owned subsidiary, SAP America, Inc., and its wholly owned subsidiary, TomorrowNow, Inc., (collectively, the SAP Defendants) alleging violations of the Federal Computer Fraud and Abuse Act and the California Computer Data Access and Fraud Act, civil conspiracy, trespass, conversion, violation of the California Unfair Business Practices Act, and intentional and negligent interference with prospective economic advantage. Oracle alleged that SAP unlawfully accessed Oracle's Customer Connection support website and improperly took and used Oracle's intellectual property, including software code and knowledge management solutions.

On June 1, 2007, Oracle filed its First Amended Complaint, adding claims for infringement of the federal Copyright Act and breach of contract, and dropping the conversion and separately pled conspiracy claims. On July 2, 2007, the SAP Defendants filed their Answer and Affirmative Defenses, acknowledging that TomorrowNow had made some inappropriate downloads and otherwise denying the claims alleged in the First Amended Complaint.

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

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

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

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

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Trial commenced November 1, 2010. On November 2, 2010, the court approved a stipulation by the parties, pursuant to which SAP AG and SAP America, Inc. stipulated to liability for contributory infringement of 120 of Oracle's copyrights. The trial proceeded to determine the amount of damages the SAP Defendants should pay to Oracle. Following trial, the jury awarded Oracle the sum of \$1.3 billion. The court entered judgment for that amount and for pre-judgment interest on February 3, 2011. The amount has not been received and has not been recorded as a benefit to our results of operations. On February 23, 2011, the SAP Defendants filed a motion for judgment as a matter of law and for new trial, arguing, among other things, that the jury should not have considered the fair market value measure of damages and that Oracle's evidence was insufficient. Oracle filed a conditional motion for new trial on the same day, arguing that if the court chose to grant the SAP Defendants' motion for new trial, certain erroneous trial rulings should also be remedied. The motions are currently set to be heard on July 13, 2011.

Derivative Litigation and Related Action

On August 2, 2010, a stockholder derivative lawsuit was filed in the United States District Court for the Northern District of California. On August 19, 2010, a similar stockholder derivative lawsuit was filed in the Superior Court of the State of California, County of San Mateo. The derivative suits were brought by alleged stockholders of Oracle, purportedly on our behalf, against some of our current officers and directors. Citing the claims in a qui tam action (discussed below), plaintiffs allege that Oracle improperly overcharged the United States government by failing to provide discounts required under its contract with the General Services Administration (GSA), and that Oracle made false statements to the United States government. Plaintiffs alleged that the officer and director defendants are responsible for this alleged conduct and have exposed Oracle to reputational damage, potential monetary damages, and costs relating to the investigation, defense, and remediation of the underlying claims. Plaintiffs bring claims for breach of fiduciary duty, abuse of control, and unjust enrichment. The plaintiffs seek compensatory and other damages, restitution, disgorgement of alleged illicit proceeds, punitive damages and other relief. On September 20, 2010, Oracle removed the San Mateo action to the United States District Court for the Northern District of California. On September 30, 2010, plaintiff in the former San Mateo action brought a motion to remand that case to San Mateo Superior Court. On October 28, 2010, Oracle brought a motion to dismiss the two actions, arguing that the Delaware Chancery Court is the proper venue for both actions. On January 3, 2011, the court denied plaintiff's motion to remand, and the court also denied Oracle's motion to dismiss the actions for improper venue. Thereafter, the two cases were consolidated, and on February 10, 2011, plaintiff's filed a consolidated complaint. Defendants' response to the consolidated complaint is due on March 31, 2011. As discussed in the paragraph below, Oracle believes that the claims in the qui tam action are meritless.

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

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2011

(Unaudited)

file a new complaint. This First Amended Complaint was filed on November 16, 2010, and makes allegations similar to those in the original complaint. Oracle filed a motion to dismiss the First Amended Complaint, which was denied. Oracle answered the First Amended Complaint on February 1, 2011. The parties are currently engaged in discovery, which is scheduled to conclude on May 13, 2011 unless extended by the court. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

Other Litigation

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

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

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations with an overview of our key operating business segments and significant trends, including changes to our business as a result of our acquisition of Sun Microsystems, Inc. (Sun) in the third quarter of fiscal 2010. This overview is followed by a summary of our critical accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then provide a more detailed analysis of our results of operations and financial condition.

Business Overview

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

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

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

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

We are currently monitoring the situation in Japan caused by the recent earthquake and tsunami and evaluating the resulting potential risks of disruption to the sales of our products and services and our supply chain operations. If the situation in Japan does not improve or worsens, it could affect our ability to conduct normal business operations and adversely affect our future operating results.

Software Business

Our software business, which represented 67% of our total revenues on a trailing 4-quarter basis, is comprised of two operating segments: (1) new software licenses and (2) software license updates and product support. On a constant currency basis, we expect that our software business' total revenues generally will continue to increase in comparison to the corresponding prior year periods due to continued demand for our software products and software license updates and product support offerings, including the high percentage of customers that renew their software license updates and product support contracts, and due to our acquisitions, which should allow us to grow our profits and continue to make investments in research and development.

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New Software Licenses: We license our database and middleware as well as our applications software to businesses of many sizes, government agencies, educational institutions and resellers. As a result of our acquisition of Sun, we acquired certain software technologies, including Java, which is a global software development platform used in a wide range of computers, networks and devices.

The growth in new software license revenues that we report is affected by the strength of general economic and business conditions, governmental budgetary constraints, the competitive position of our software products, and our acquisitions and foreign currency fluctuations. The significant majority of our new software license segment is also characterized by long sales cycles. The timing of a few large software license transactions can substantially affect our quarterly new software license revenues. Since our new software license revenues in a particular quarter can be difficult to predict as a result of the timing of a few large software license transactions, we believe that analysis of new software license revenues on a trailing 4-quarter period provides additional visibility into the underlying performance of our new software license segment. New software license revenues represented 25% of our total revenues on a trailing 4-quarter basis. Our new software license segment's margins have historically trended upward over the course of the four quarters within a particular fiscal year due to the historical upward trend of our new software license revenues over those quarterly periods and because the majority of our costs for this segment are predominantly fixed in the short term. However, our new software license segment's margins have been and will continue to be affected by the amortization of intangible assets associated with companies that we have acquired.

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

Software license updates and product support revenues, which represented approximately 42% of our total revenues on a trailing 4-quarter basis, is our highest margin segment. Software license update and product support margins over the trailing 4-quarters were 86%, and accounted for 71% of our total margins over the same period. Our software license update and product support margins have been affected by fair value adjustments relating to support obligations assumed in business combinations (as described further below) and by amortization of intangible assets. However, over the longer term, we believe that software license updates and product support revenues and margins will grow for the following reasons:

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

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

our acquisitions have increased our support contract base, as well as the portfolio of products available to be licensed and supported. We record adjustments to reduce support obligations assumed in business combinations to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize software license updates and product support revenues related to support contracts that would have been otherwise recorded by the acquired businesses as independent entities in the amount of \$16 million and \$26 million for the three months ended February 28, 2011 and 2010, respectively, and \$64 million and \$49 million for the nine months ended February 28, 2011 and 2010, respectively. To the extent underlying support contracts

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are renewed with us following an acquisition, we will recognize the revenues for the full value of the support contracts over the support periods, the majority of which are one year.

Hardware Systems Business

As a result of our acquisition of Sun in January 2010, we entered into a new hardware systems business. Our hardware systems business consists of two operating segments: (1) hardware systems products and (2) hardware systems support. Our hardware business represented 20% of our total revenues on a trailing 4-quarter basis and we expect that it will continue to add a significant amount of revenues and expenses to our results of operations in comparison to our historical operating results. We expect our hardware business to have lower operating margins as a percentage of revenues than our software business due to the incremental costs we incur to produce and distribute these products and to provide support services, including direct materials and labor costs. We expect to make investments in research and development to improve existing hardware products and services or to develop new hardware products and services.

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

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

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

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

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

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

Our hardware systems products revenues, cost of hardware systems products and operating margins that we report are affected by the strength of general economic and business conditions, governmental budgetary constraints, the competitive position of our hardware systems products, and our acquisitions and foreign currency fluctuations. In addition, our operating margins for our hardware systems products segment have been and will be affected by the amortization of intangible assets associated with our acquisition of Sun and business combination accounting rules required us to record acquired inventories from Sun at fair value, which resulted in an unfavorable impact to our expenses and operating margins as we sold these inventories to customers during

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the fiscal 2010 periods presented. We have limited experience in predicting our quarterly hardware systems products revenues. The timing of customer orders and delays in our ability to timely manufacture or deliver a few large transactions could substantially affect the amount of hardware systems products revenues, expenses and operating margins that we report.

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

Our hardware systems support margins have been and will be affected by fair value adjustments relating to hardware systems support obligations assumed through, and by the amortization of intangible assets resulting from, our acquisition of Sun. As required by business combination accounting rules, we recorded adjustments to reduce our hardware systems support revenues for contracts assumed from our acquisition of Sun to their estimated fair values as of the acquisition date by an aggregate of \$27 million and \$133 million for the three and nine months ended February 28, 2011, respectively, and \$39 million for the three and nine months ended February 28, 2010. These amounts would have been recorded as hardware systems support revenues by Sun as a standalone entity. To the extent underlying hardware systems support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the hardware systems support contracts over the support periods.

Services Business

Our services business consists of consulting, On Demand and education. Our services business, which represented 13% of our total revenues on a trailing 4-quarter basis, has significantly lower margins than our software business and what we have recently achieved from our hardware business.

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

On Demand: On Demand includes our Oracle On Demand and our Advanced Customer Services offerings. As a result of our acquisition of Sun, we increased the volume and breadth of our On Demand services offerings, primarily with additional Advanced Customer Services offerings, including staff augmentation and managed services, to architect, implement and manage customer IT environments. We believe that our On Demand offerings provide our customers flexibility in how they manage their IT environments and an additional opportunity to lower their total cost of ownership and can therefore provide us with a competitive advantage. While we have grown the base of customers that purchase certain of our On Demand services through our organic growth and the acquisition of Sun, we continue to focus on managing our expenses to increase our margins and margins as a percentage of our revenues. We have made and plan to continue to make investments in our On Demand business to support current and future revenue growth, which historically has negatively impacted On Demand margins and could do so in the future.

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Education: The purpose of our education services is to further the adoption and usage of our software and hardware products by our customers and to create opportunities to grow our product revenues. Education revenues are impacted by certain of our acquisitions (including our acquisition of Sun), general economic conditions, personnel reductions in our customers' information technology departments, tighter controls over discretionary spending and greater use of outsourcing solutions.

Acquisitions

An active acquisition program is another important element of our corporate strategy. In recent years, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies including Art Technology Group, Inc. (ATG) in the third quarter of fiscal 2011, Phase Forward Incorporated (Phase Forward) in the first quarter of fiscal 2011, and Sun in the third quarter of fiscal 2010, among others. We believe our acquisition program supports our long-term strategic direction, strengthens our competitive position, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings, and increases stockholder value. We expect to continue to acquire companies, products, services and technologies in furtherance of our corporate strategy. See Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information related to our recent acquisitions.

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

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as set forth in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (Codification) and consider the various staff accounting bulletins and other applicable guidance issued by the SEC. GAAP, as set forth within the Codification, requires us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely, are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Business Combinations

Goodwill and Intangible Assets Impairment Assessments

Accounting for Income Taxes

Legal and Other Contingencies

Stock-Based Compensation

Allowances for Doubtful Accounts

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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.

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During the first nine months of fiscal 2011, there were no significant changes to our critical accounting policies and estimates. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended May 31, 2010 for a more complete discussion of our critical accounting policies and estimates.

Results of Operations

Impact of Acquisitions

The comparability of our operating results in the third quarter and first nine months of fiscal 2011 compared to the same periods of fiscal 2010 is impacted by our acquisitions, primarily the acquisition of Sun in our third quarter of fiscal 2010 and, to a lesser extent, our acquisitions of ATG during the third quarter of fiscal 2011 and Phase Forward during the first quarter of fiscal 2011.

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

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

the quantifications cannot address the substantial effects attributable to changes in business strategies, including our sales force integration efforts. We believe that if our acquired companies had operated independently and sales forces had not been integrated, the relative mix of products sold would have been different; and

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

Seasonality

Our quarterly revenues have historically been affected by a variety of seasonal factors, including the structure of our sales force incentive compensation plans, which are common in the technology industry. Our total revenues and operating margins are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. The operating margins of our businesses are affected by seasonal factors in a similar manner as our revenues (in particular, our new software licenses and hardware systems products segments) as certain expenses within our cost structure are relatively fixed in the short term.

Constant Currency Presentation

Our international operations have provided and will continue to provide a significant portion of our total revenues and expenses. As a result, total revenues and expenses will continue to be affected by changes in the U.S. Dollar against major international currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the percent change in the results from one period to another period in this Quarterly Report using constant currency

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disclosure. To present this information, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e. the rates in effect on May 31, 2010, which was the last day of our prior fiscal year) rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on February 28, 2011 and February 28, 2010, our financial statements would reflect reported revenues of \$1.38 million in the first nine months of fiscal 2011 (using 1.38 as the month-end average exchange rate for the period) and \$1.36 million in the first nine months of fiscal 2010 (using 1.36 as the month-end average exchange rate for the period). The constant currency presentation would translate the results for the three and nine months ended February 28, 2011 and 2010 using the May 31, 2010 exchange rate and indicate, in this example, no change in revenues during these periods. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

Total Revenues and Operating Expenses

| (Dollars in millions) | Three Months Ended February 28, | | | | Nine Months Ended February 28, | | | |
|-------------------------------------|---------------------------------|----------------|------------|-----------------|--------------------------------|----------------|------------|------------------|
| | 2011 | Percent Change | | 2010 | 2011 | Percent Change | | 2010 |
| | | Actual | Constant | | | Actual | Constant | |
| Total Revenues by Geography: | | | | | | | | |
| Americas | \$ 4,509 | 37% | 36% | \$ 3,284 | \$ 12,865 | 44% | 43% | \$ 8,934 |
| EMEA ⁽¹⁾ | 2,815 | 30% | 31% | 2,167 | 7,934 | 37% | 43% | 5,785 |
| Asia Pacific ⁽²⁾ | 1,440 | 51% | 41% | 953 | 4,048 | 56% | 47% | 2,596 |
| Total revenues | 8,764 | 37% | 35% | 6,404 | 24,847 | 44% | 44% | 17,315 |
| Total Operating Expenses | 5,777 | 27% | 25% | 4,561 | 17,173 | 49% | 49% | 11,553 |
| Total Operating Margin | \$ 2,987 | 62% | 61% | \$ 1,843 | \$ 7,674 | 33% | 33% | \$ 5,762 |
| Total Operating Margin % | 34% | | | 29% | 31% | | | 33% |
| % Revenues by Geography: | | | | | | | | |
| Americas | 52% | | | 51% | 52% | | | 52% |
| EMEA | 32% | | | 34% | 32% | | | 33% |
| Asia Pacific | 16% | | | 15% | 16% | | | 15% |
| Total Revenues by Business: | | | | | | | | |
| Software | \$ 5,954 | 19% | 17% | \$ 5,015 | \$ 16,333 | 16% | 16% | \$ 14,060 |
| Hardware Systems | 1,664 | 263% | 258% | 458 | 5,115 | 1,015% | 1,017% | 458 |
| Services | 1,146 | 23% | 21% | 931 | 3,399 | 22% | 21% | 2,797 |
| Total revenues | \$ 8,764 | 37% | 35% | \$ 6,404 | \$ 24,847 | 44% | 44% | \$ 17,315 |
| % Revenues by Business: | | | | | | | | |
| Software | 68% | | | 78% | 66% | | | 81% |
| Hardware Systems | 19% | | | 7% | 21% | | | 3% |
| Services | 13% | | | 15% | 13% | | | 16% |

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

(2) Asia Pacific includes Japan

Fiscal Third Quarter 2011 Compared to Fiscal Third Quarter 2010: Total revenues increased in the third quarter of fiscal 2011 due to a \$1.2 billion incremental revenue contribution from our hardware systems business, a significant increase in our software business revenues and an increase in our services revenues. Our total revenues growth across all of our businesses was favorably affected by a full fiscal quarter of revenue contributions from Sun in our fiscal 2011 operating results (due to the closing date of the Sun acquisition, Sun s

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contributions to our fiscal 2010 operating results were limited to only a portion of the comparable fiscal 2010 period). In addition, our software business revenues increased as a result of the organic growth in our new software licenses revenues and our software license updates and product support revenues. Excluding the effect of currency rate fluctuations, our revenues grew in all major geographic regions with the Americas contributing 55%, EMEA contributing 28% and Asia Pacific contributing 17% to our total revenues growth.

Excluding the effect of foreign currency rate fluctuations, the increase in total operating expenses in the third quarter of fiscal 2011 was primarily due to a full quarter of expense contributions from Sun to our fiscal 2011 operating results including increased expenses pertaining to our hardware systems products sold and related hardware systems support offerings, additional employee related expenses, and an increase in amortization of intangible assets. These expense increases were partially offset by a reduction in our restructuring expenses relating to our Sun Restructuring Plan and certain other Oracle-based restructuring plans.

On a constant currency basis, our operating margin and operating margin as a percentage of revenues increased during the third quarter of fiscal 2011 as our total revenues increased at a faster rate than our total expenses.

First Nine Months Fiscal 2011 Compared to First Nine Months Fiscal 2010: The increase in our total revenues in the first nine months of fiscal 2011 was generally consistent with the reasons noted above. Excluding the effect of currency rate fluctuations, our revenues grew in all major geographic regions with the Americas contributing 53%, EMEA contributing 30% and Asia Pacific contributing 17% to our total revenues growth.

Excluding the effect of foreign currency rate fluctuations, the increases in total operating expenses and total operating margin in the first nine months of fiscal 2011 were generally consistent with the reasons noted above and were also favorably affected by a \$120 million benefit related to the recovery of legal costs during our second quarter of fiscal 2011. However, on a constant currency basis, our operating margin as a percentage of revenues declined during the first nine months of fiscal 2011 due to the post combination contributions from our acquisition of Sun, which increased our total expenses, primarily our research and development and acquisition related and other expenses, at a faster rate than the contribution to our total revenues. The decline in operating margin as a percentage of revenues was partially offset by the aforementioned reduction in restructuring expenses during our third quarter of fiscal 2011 and the aforementioned recovery of legal costs.

Supplemental Disclosure Related to Certain Charges

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

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

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------|-------------------|----------|
| | February 28, | | February 28, | |
| | 2011 | 2010 | 2011 | 2010 |
| Software license updates and product support deferred revenues ⁽¹⁾ | \$ 16 | \$ 26 | \$ 64 | \$ 49 |
| Hardware systems support deferred revenues ⁽¹⁾ | 27 | 39 | 133 | 39 |
| Hardware systems products expenses ⁽²⁾ | | 24 | | 24 |
| Amortization of intangible assets ⁽³⁾ | 612 | 502 | 1,829 | 1,369 |
| Acquisition related and other ⁽⁴⁾⁽⁶⁾ | 30 | 34 | 160 | 50 |
| Restructuring ⁽⁵⁾ | 92 | 306 | 410 | 467 |
| Stock-based compensation ⁽⁶⁾ | 128 | 112 | 375 | 300 |
| Income tax effects ⁽⁷⁾ | (258) | (287) | (785) | (624) |
| | \$ 647 | \$ 756 | \$ 2,186 | \$ 1,674 |

(1) In connection with purchase price allocations related to our acquisitions, we have estimated the fair values of software support and hardware systems support obligations assumed. Due to our application of business combination accounting rules, we did not recognize software license updates and product support revenues related to support contracts that would have otherwise been recorded by the acquired businesses as independent entities, in the amounts of \$16 million and \$26 million for the three months ended February 28, 2011 and 2010, respectively, and \$64 million and \$49 million for the nine months ended February 28, 2011 and 2010, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by Sun as an independent entity, in the amounts of \$27 million and \$133 million for the three and nine months ended February 28, 2011, respectively, and \$39 million for the three and nine months ended February 28, 2010.

Approximately \$17 million, \$28 million and \$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 2011, fiscal 2012 and fiscal 2013, respectively, that would have otherwise been recognized by the acquired businesses as independent entities due to the application of the aforementioned business combination accounting rules. In addition, approximately \$15 million, \$35 million and \$11 million of estimated hardware systems support revenues related to hardware systems support contracts assumed will not be recognized during the remainder of fiscal 2011, fiscal 2012 and fiscal 2013, respectively, that would have otherwise been recognized by Sun as an independent entity. To the extent customers renew these support contracts, we expect to recognize revenues for the full contract values over the support renewal period.

(2) Represents the effects of fair value adjustments to our inventories acquired from Sun that were sold to customers in the periods presented. Business combination accounting rules require us to account for inventories assumed from our acquisitions at their fair values. The amounts included in the hardware systems products expenses line in the above table are intended to adjust these expenses to the hardware systems products expenses that would have been otherwise recorded by Sun as a standalone entity upon the sale of these inventories. If we assume inventories in future acquisitions, we will be required to assess their fair values, which may result in fair value adjustments to those inventories.

(3) Represents the amortization of intangible assets acquired in connection with our acquisitions. As of February 28, 2011, estimated future amortization expenses related to intangible assets were as follows (in millions):

| | |
|---|--------|
| Remainder of Fiscal 2011 | \$ 598 |
| Fiscal 2012 | 2,245 |
| Fiscal 2013 | 1,874 |
| Fiscal 2014 | 1,526 |
| Fiscal 2015 | 1,127 |
| Fiscal 2016 | 635 |
| Thereafter | 269 |
| Total intangible assets subject to amortization | 8,274 |
| In-process research and development | 50 |

Total intangible assets, net

\$ 8,324

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- (4) Acquisition related and other expenses primarily consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments after the measurement periods have ended, and certain other operating expenses, net.
- (5) Substantially all restructuring expenses incurred during the three and nine months ended February 28, 2011 relate to employee severance, facility exit costs and contract termination costs in connection with our Sun Restructuring Plan. Additional information regarding our restructuring plans is provided in Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.
- (6) Stock-based compensation is included in the following operating expense line items of our condensed consolidated statements of operations (in millions):

| | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|--|------------------------------------|--------|-----------------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Sales and marketing | \$ 22 | \$ 21 | \$ 64 | \$ 57 |
| Software license updates and product support | 4 | 4 | 11 | 12 |
| Hardware systems products | 1 | 2 | 2 | 2 |
| Hardware systems support | 1 | 1 | 4 | 1 |
| Services | 5 | 4 | 13 | 10 |
| Research and development | 58 | 46 | 171 | 122 |
| General and administrative | 37 | 34 | 110 | 96 |
| Subtotal | 128 | 112 | 375 | 300 |
| Acquisition related and other | 1 | 10 | 8 | 10 |
| Total stock-based compensation | \$ 129 | \$ 122 | \$ 383 | \$ 310 |

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

- (7) The income tax effects presented were calculated as if the above described charges were not included in our results of operations for each of the respective periods presented. Income tax effects were calculated based on the applicable jurisdictional tax rates applied to the items within the table above and resulted in an effective tax rate of 25.4% and 25.9% for the third quarter of fiscal 2011 and 2010, respectively, and 26.3% and 27.1% for the first nine months of fiscal 2011 and 2010, respectively. For the third quarter of fiscal 2011, the difference between our tax rate used in the above table and the tax rate derived per our condensed consolidated statement of operations was primarily due to the income tax effects related to our acquired tax exposures and the disproportionate tax rate impact of the retroactive extension of U.S. research and development tax credits. The differences between our tax rates used in the above table and the tax rates derived per our condensed consolidated statements of operations in the third quarter and the first nine months of fiscal 2010 were primarily due to differences in jurisdictional tax rates and the related tax benefits attributable to our restructuring expenses.

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

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

| (Dollars in millions) | Three Months Ended February 28, | | | | Nine Months Ended February 28, | | | |
|--|---------------------------------|----------------|------------|---------------|--------------------------------|----------------|-------------|---------------|
| | 2011 | Percent Change | | 2010 | 2011 | Percent Change | | 2010 |
| | | Actual | Constant | | | Actual | Constant | |
| New Software License Revenues: | | | | | | | | |
| Americas | \$ 1,110 | 35% | 34% | \$ 823 | \$ 2,797 | 33% | 33% | \$ 2,096 |
| EMEA | 702 | 19% | 20% | 590 | 1,628 | 12% | 17% | 1,452 |
| Asia Pacific | 402 | 32% | 23% | 305 | 1,073 | 26% | 19% | 851 |
| Total revenues | 2,214 | 29% | 27% | 1,718 | 5,498 | 25% | 25% | 4,399 |
| Expenses: | | | | | | | | |
| Sales and marketing ⁽¹⁾ | 1,335 | 17% | 15% | 1,145 | 3,661 | 14% | 15% | 3,203 |
| Stock-based compensation | 22 | 6% | 6% | 21 | 61 | 8% | 8% | 57 |
| Amortization of intangible assets ⁽²⁾ | 204 | 4% | 4% | 196 | 618 | 1% | 1% | 610 |
| Total expenses | 1,561 | 15% | 14% | 1,362 | 4,340 | 12% | 12% | 3,870 |
| Total Margin | \$ 653 | 83% | 80% | \$ 356 | \$ 1,158 | 118% | 123% | \$ 529 |
| Total Margin % | 30% | | | 21% | 21% | | | 12% |
| % Revenues by Geography: | | | | | | | | |
| Americas | 50% | | | 48% | 51% | | | 48% |
| EMEA | 32% | | | 34% | 30% | | | 33% |
| Asia Pacific | 18% | | | 18% | 19% | | | 19% |
| Revenues by Product: | | | | | | | | |
| Database and middleware | \$ 1,575 | 27% | 26% | \$ 1,241 | \$ 3,931 | 26% | 26% | \$ 3,127 |
| Applications | 639 | 34% | 31% | 477 | 1,567 | 23% | 22% | 1,272 |
| Total new software license revenues | \$ 2,214 | 29% | 27% | \$ 1,718 | \$ 5,498 | 25% | 25% | \$ 4,399 |
| % Revenues by Product: | | | | | | | | |
| Database and middleware | 71% | | | 72% | 71% | | | 71% |
| Applications | 29% | | | 28% | 29% | | | 29% |

⁽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 2011 Compared to Fiscal Third Quarter 2010: New software license revenues were favorably affected by foreign currency rate fluctuations of 2 percentage points in the third quarter of fiscal 2011. Excluding the effect of currency rate fluctuations, total new software license revenues increased by 27% in the third quarter of fiscal 2011 due to growth across all major regions and product types and incremental revenues from our acquisitions. On a constant currency basis, the Americas contributed 61%, EMEA contributed 24% and Asia Pacific contributed 15% to our new software license revenues growth during the third quarter of fiscal 2011.

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Excluding the effect of currency fluctuations, database and middleware revenues and applications revenues increased by 26% and 31%, respectively, in the third quarter of fiscal 2011, and 24% and 17%, respectively, over the trailing 4-quarters, primarily due to improved customer demand for our products, improved execution by our sales force and incremental revenues from our acquisitions. In reported currency, Sun contributed \$114 million to the growth in our database and middleware revenues during the third quarter of fiscal 2011. In reported currency, our recent acquisitions contributed \$56 million to the growth in our applications revenues.

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In reported currency, new software license revenues earned from transactions over \$0.5 million increased by 45% in the third quarter of fiscal 2011 and represented 53% of our new software license revenues in the third quarter of fiscal 2011 in comparison to 47% in the third quarter of fiscal 2010.

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

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

First Nine Months Fiscal 2011 Compared to First Nine Months Fiscal 2010: Excluding the effect of foreign currency rate fluctuations, total new software license revenues increased by 25% in the first nine months of fiscal 2011 for similar reasons as noted above. In reported currency, products acquired from Sun contributed \$398 million and products from our other recent acquisitions contributed \$34 million to the growth in our database and middleware revenues during the first nine months of fiscal 2011. Products from our recent acquisitions contributed \$117 million to the growth in our applications revenues during the first nine months of fiscal 2011. In reported currency, new software license revenues earned from transactions over \$0.5 million increased by 26% in the first nine months of fiscal 2011 and represented 48% of new software license revenues in both the first nine months of fiscal 2011 and fiscal 2010.

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

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

| (Dollars in millions) | Three Months Ended February 28, | | | | Nine Months Ended February 28, | | | |
|---|---------------------------------|------------|------------|-----------------|--------------------------------|------------|------------|-----------------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Software License Updates and Product Support Revenues: | | | | | | | | |
| Americas | \$ 2,036 | 13% | 12% | \$ 1,801 | \$ 5,880 | 12% | 12% | \$ 5,230 |
| EMEA | 1,185 | 11% | 12% | 1,069 | 3,473 | 9% | 14% | 3,189 |
| Asia Pacific | 519 | 21% | 13% | 427 | 1,482 | 19% | 12% | 1,242 |
| Total revenues | 3,740 | 13% | 12% | 3,297 | 10,835 | 12% | 12% | 9,661 |
| Expenses: | | | | | | | | |
| Software license updates and product support ⁽¹⁾ | 295 | 7% | 5% | 277 | 903 | 19% | 19% | 759 |
| Stock-based compensation | 4 | -21% | -21% | 4 | 11 | -14% | -14% | 12 |
| Amortization of intangible assets ⁽²⁾ | 208 | 1% | 1% | 207 | 623 | -2% | -2% | 634 |
| Total expenses | 507 | 4% | 3% | 488 | 1,537 | 9% | 9% | 1,405 |
| Total Margin | \$ 3,233 | 15% | 14% | \$ 2,809 | \$ 9,298 | 13% | 13% | \$ 8,256 |
| Total Margin % | 86% | | | 85% | 86% | | | 85% |
| % Revenues by Geography: | | | | | | | | |
| Americas | 54% | | | 55% | 54% | | | 54% |
| EMEA | 32% | | | 32% | 32% | | | 33% |
| Asia Pacific | 14% | | | 13% | 14% | | | 13% |

⁽¹⁾ Excluding stock-based compensation

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

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Fiscal Third Quarter 2011 Compared to Fiscal Third Quarter 2010: Excluding the effect of currency rate fluctuations, software license updates and product support revenues increased in the third quarter of fiscal 2011 as a result of new software licenses sold (with substantially all customers electing to purchase support contracts) during the trailing 4-quarter period, the renewal of substantially all of the customer base eligible for renewal in the current fiscal quarter and incremental revenues from recent acquisitions. Excluding the effect of currency rate fluctuations, the Americas contributed 56%, EMEA contributed 30% and Asia Pacific contributed 14% to the increase in software license updates and product support revenues.

In reported currency, software license updates and product support revenues in the third quarter of fiscal 2011 included incremental revenues of \$73 million from Sun and \$17 million from our other recent acquisitions. As a result of our acquisitions, we recorded adjustments to reduce assumed software license updates and product support obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, software license updates and product support revenues related to support contracts in the amounts of \$16 million and \$26 million that would have been otherwise recorded by our acquired businesses as independent entities, were not recognized in the third quarter of fiscal 2011 and fiscal 2010, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their software support contracts when such contracts are eligible for renewal. To the extent these underlying software support contracts are renewed, we will recognize the revenues for the full value of these contracts over the support periods, the substantial majority of which are one year in duration.

On a constant currency basis, total software license updates and product support expenses increased primarily due to an increase in salaries and benefits expenses that were primarily related to a full quarter's contribution from Sun and certain other headcount increases, which were partially offset by a reduction in non-income-based taxes.

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

First Nine Months Fiscal 2011 Compared to First Nine Months Fiscal 2010: On a constant currency basis, the growth in our software license updates and product support revenues and expenses is primarily attributable to the same reasons as noted above. On a constant currency basis, the Americas contributed 53%, EMEA contributed 35% and Asia Pacific contributed 12% to the increase in software license updates and product support revenues. In reported currency, software license updates and product support revenues in the first nine months of fiscal 2011 included incremental contributions of \$240 million from Sun and \$58 million from our other recent acquisitions. Software license updates and product support revenues related to support contracts in the amounts of \$64 million and \$49 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the first nine months of fiscal 2011 and 2010, respectively, due to business combination accounting rules.

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

Hardware Systems Business

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

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

| (Dollars in millions) | Three Months Ended February 28, | | | | Nine Months Ended February 28, | | | |
|--|---------------------------------|----------------|-------------|----------------|--------------------------------|----------------|---------------|----------------|
| | 2011 | Percent Change | | 2010 | 2011 | Percent Change | | 2010 |
| | Actual | Constant | | Actual | Constant | | | |
| Hardware Systems Products Revenues: | | | | | | | | |
| Americas | \$ 506 | 287% | 285% | \$ 131 | \$ 1,650 | 1,163% | 1,158% | \$ 131 |
| EMEA | 330 | 246% | 246% | 95 | 997 | 945% | 987% | 95 |
| Asia Pacific | 199 | 325% | 295% | 47 | 578 | 1,133% | 1,072% | 47 |
| Total revenues | 1,035 | 279% | 274% | 273 | 3,225 | 1,082% | 1,087% | 273 |
| Expenses: | | | | | | | | |
| Hardware systems products ⁽¹⁾ | 464 | 126% | 115% | 204 | 1,545 | 651% | 632% | 204 |
| Sales and marketing ⁽¹⁾ | 261 | 251% | 245% | 75 | 757 | 919% | 914% | 75 |
| Stock-based compensation | 1 | -85% | -85% | 2 | 5 | 113% | 113% | 2 |
| Amortization of intangible assets ⁽²⁾ | 109 | 81% | 81% | 60 | 313 | 419% | 419% | 60 |
| Total expenses | 835 | 143% | 135% | 341 | 2,620 | 664% | 650% | 341 |
| Total Margin | \$ 200 | 388% | 329% | \$ (68) | \$ 605 | 967% | 810% | \$ (68) |
| Total Margin % | 19% | | | -25% | 19% | | | -25% |
| % Revenues by Geography: | | | | | | | | |
| Americas | 49% | | | 48% | 51% | | | 48% |
| EMEA | 32% | | | 35% | 31% | | | 35% |
| Asia Pacific | 19% | | | 17% | 18% | | | 17% |

⁽¹⁾ Excluding stock-based compensation

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

The increases in hardware systems products revenues, expenses and total margin for the fiscal 2011 periods presented, as compared to the comparable fiscal 2010 periods, were primarily attributable to the impact of Sun's contributions to our operating results for the full fiscal 2011 periods presented (due to the closing date of the Sun acquisition, Sun's contributions to our fiscal 2010 operating results were limited to only a portion of the comparable fiscal 2010 periods). For the fiscal 2010 periods presented, our hardware systems products expenses and total margin were unfavorably impacted by \$24 million of fair value adjustments made pursuant to business combination accounting rules for inventories we assumed from Sun and sold to customers in the post-combination period.

Excluding the effect of currency rate fluctuations, total hardware systems products margin and margin as a percentage of total revenues increased as our total revenues increased at a faster rate than our total expenses.

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

| (Dollars in millions) | Three Months Ended February 28, | | | | Nine Months Ended February 28, | | | |
|--|---------------------------------|----------------|-------------|--------------|--------------------------------|----------------|---------------|--------------|
| | 2011 | Percent Change | | 2010 | 2011 | Percent Change | | 2010 |
| | | Actual | Constant | | | Actual | Constant | |
| Hardware Systems Support Revenues: | | | | | | | | |
| Americas | \$ 283 | 328% | 323% | \$ 66 | \$ 795 | 1,102% | 1,091% | \$ 66 |
| EMEA | 235 | 174% | 172% | 85 | 758 | 784% | 794% | 85 |
| Asia Pacific | 111 | 228% | 203% | 34 | 337 | 894% | 845% | 34 |
| Total revenues | 629 | 239% | 234% | 185 | 1,890 | 917% | 914% | 185 |
| Expenses: | | | | | | | | |
| Hardware systems support ⁽¹⁾ | 293 | 154% | 145% | 115 | 946 | 720% | 709% | 115 |
| Stock-based compensation | 1 | 60% | 60% | 1 | 4 | 422% | 422% | 1 |
| Amortization of intangible assets ⁽²⁾ | 75 | 208% | 208% | 24 | 223 | 824% | 824% | 24 |
| Total expenses | 369 | 163% | 156% | 140 | 1,173 | 737% | 728% | 140 |
| Total Margin | \$ 260 | 472% | 498% | \$ 45 | \$ 717 | 1,474% | 1,544% | \$ 45 |
| Total Margin % | 41% | | | 24% | 38% | | | 24% |
| % Revenues by Geography: | | | | | | | | |
| Americas | 45% | | | 36% | 42% | | | 36% |
| EMEA | 37% | | | 46% | 40% | | | 46% |
| Asia Pacific | 18% | | | 18% | 18% | | | 18% |

⁽¹⁾ Excluding stock-based compensation

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

The increases in hardware systems support revenues and expenses for the fiscal 2011 periods presented, as compared to the comparable fiscal 2010 periods, were primarily attributable to the impact of Sun's contributions to our operating results for the full fiscal 2011 periods presented. As a result of our acquisition of Sun, we recorded adjustments to reduce assumed hardware systems support obligations to their estimated fair values at the acquisition date. Due to our application of business combination accounting rules, hardware systems support revenues related to support contracts that would have been otherwise recorded by Sun as an independent entity were not recognized in the amounts of \$27 million and \$133 million for the three and nine months ended February 28, 2011, respectively, and \$39 million for the three and nine months ended February 28, 2010. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full value of these contracts over the future support periods.

Excluding the effect of currency rate fluctuations, total hardware systems support margin and margin as a percentage of total revenues increased as our total revenues increased at a faster rate than our total expenses.

Table of Contents**Services**

Services consist of consulting, On Demand and education.

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

| (Dollars in millions) | Three Months Ended February 28, | | | | Nine Months Ended February 28, | | | |
|--|---------------------------------|----------------|------------|--------------|--------------------------------|----------------|------------|---------------|
| | 2011 | Percent Change | | 2010 | 2011 | Percent Change | | 2010 |
| | | Actual | Constant | | | Actual | Constant | |
| Consulting Revenues: | | | | | | | | |
| Americas | \$ 368 | 14% | 13% | \$ 323 | \$ 1,130 | 11% | 11% | \$ 1,018 |
| EMEA | 212 | -10% | -10% | 236 | 624 | -12% | -9% | 708 |
| Asia Pacific | 142 | 54% | 45% | 92 | 373 | 33% | 26% | 280 |
| Total revenues | 722 | 11% | 10% | 651 | 2,127 | 6% | 6% | 2,006 |
| Expenses: | | | | | | | | |
| Services ⁽¹⁾ | 607 | 5% | 4% | 576 | 1,798 | 0% | 1% | 1,798 |
| Stock-based compensation | 3 | 66% | 66% | 2 | 7 | 19% | 19% | 5 |
| Amortization of intangible assets ⁽²⁾ | 9 | -2% | -2% | 10 | 29 | 2% | 2% | 29 |
| Total expenses | 619 | 5% | 4% | 588 | 1,834 | 0% | 1% | 1,832 |
| Total Margin | \$ 103 | 63% | 57% | \$ 63 | \$ 293 | 68% | 61% | \$ 174 |
| Total Margin % | 14% | | | 10% | 14% | | | 9% |
| % Revenues by Geography: | | | | | | | | |
| Americas | 51% | | | 50% | 53% | | | 51% |
| EMEA | 29% | | | 36% | 29% | | | 35% |
| Asia Pacific | 20% | | | 14% | 18% | | | 14% |

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

Excluding the effect of currency rate fluctuations, consulting expenses increased in the third quarter of fiscal 2011 due to an increase in external contractor costs to support our increase in revenues.

On a constant currency basis, consulting margin and margin as a percentage of revenues increased in the third quarter of fiscal 2011 as our total revenues increased at a faster rate than our total expenses.

First Nine Months Fiscal 2011 Compared to First Nine Months Fiscal 2010: Excluding the effect of currency rate fluctuations, the increase in consulting revenues in the first nine months of fiscal 2011 was generally due to similar reasons as those presented above. On a constant currency basis, the increase in our expenses during the first nine months of fiscal 2011 was primarily due to increases in external contractor expenses and variable compensation expenses, partially offset by a reduction in salary and related expenses from reduced headcount. On a constant currency basis, total margin and total margin as a percentage of revenues increased during the first nine months of fiscal 2011 as our total revenues increased at a faster rate than our total expenses.

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On Demand: On Demand includes our Oracle On Demand and Advanced Customer Services offerings. Oracle On Demand provides multi-featured software and hardware management and maintenance services for customers that are delivered either at our data center facilities, at select partner data centers, or physically on-site at customer facilities. Advanced Customer Services consists of solution lifecycle management services, database

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and application management services, industry-specific solution support centers and remote and on-site expert services. As a result of our acquisition of Sun in the third quarter of fiscal 2010, we increased the volume and breadth of our Advanced Customer Services offerings, including onsite and remote operations management, hardware systems expert services, and packaged offerings that support the installation and optimization of Sun systems. The cost of providing On Demand services consists primarily of personnel related expenditures, technology infrastructure expenditures and facilities costs.

| (Dollars in millions) | Three Months Ended February 28, | | | | Nine Months Ended February 28, | | | |
|--|---------------------------------|----------------|------------|--------------|--------------------------------|----------------|------------|---------------|
| | 2011 | Percent Change | | 2010 | 2011 | Percent Change | | 2010 |
| | | Actual | Constant | | | Actual | Constant | |
| On Demand Revenues: | | | | | | | | |
| Americas | \$ 173 | 55% | 53% | \$ 112 | \$ 505 | 67% | 65% | \$ 302 |
| EMEA | 121 | 80% | 80% | 67 | 365 | 100% | 109% | 183 |
| Asia Pacific | 47 | 45% | 34% | 32 | 142 | 50% | 41% | 94 |
| Total revenues | 341 | 61% | 58% | 211 | 1,012 | 75% | 74% | 579 |
| Expenses: | | | | | | | | |
| Services ⁽¹⁾ | 273 | 56% | 53% | 176 | 800 | 81% | 80% | 441 |
| Stock-based compensation | 2 | 34% | 34% | 1 | 6 | 36% | 36% | 4 |
| Amortization of intangible assets ⁽²⁾ | 7 | 32% | 32% | 5 | 23 | 87% | 87% | 12 |
| Total expenses | 282 | 55% | 52% | 182 | 829 | 81% | 80% | 457 |
| Total Margin | \$ 59 | 104% | 95% | \$ 29 | \$ 183 | 50% | 49% | \$ 122 |
| Total Margin % | 17% | | | 14% | 18% | | | 21% |
| % Revenues by Geography: | | | | | | | | |
| Americas | 51% | | | 53% | 50% | | | 52% |
| EMEA | 35% | | | 32% | 36% | | | 32% |
| Asia Pacific | 14% | | | 15% | 14% | | | 16% |

⁽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 2011 Compared to Fiscal Third Quarter 2010: Excluding the effect of favorable currency rate fluctuations of 3 percentage points, the increase in our On Demand revenues during the third quarter of fiscal 2011 was primarily due to a full quarter's revenue contributions from Sun and, to a lesser extent, increased revenues from our legacy Advanced Customer Services and legacy Oracle On Demand offerings. Excluding the effect of currency rate fluctuations, the Americas contributed 50%, EMEA contributed 41% and Asia Pacific contributed 9% to the increases in On Demand revenues during the third quarter of fiscal 2011.

Excluding the effect of unfavorable currency rate fluctuations of 3 percentage points, On Demand expenses increased during the third quarter of fiscal 2011 primarily due to additional employee related expenses associated with a full quarter of expense contributions from Sun and higher third-party contractor expenses that supported the increases in our revenues.

On a constant currency basis, both On Demand margin and margin as a percentage of revenues increased during the third quarter of fiscal 2011 as our total revenues increased at a faster rate than our total expenses.

First Nine Months Fiscal 2011 Compared to First Nine Months Fiscal 2010: Excluding the effect of foreign currency rate fluctuations, our On Demand revenues and expenses increased in the first nine months of fiscal 2011 for similar reasons as noted above. On a constant currency basis, On Demand margin increased and margin as a percentage of revenues declined during the first nine months of fiscal 2011 due to the post-combination contributions from our acquisition of Sun, which increased our total margin but also increased our total expenses at a faster rate than our total revenues.

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

| (Dollars in millions) | Three Months Ended February 28, Percent Change | | | | Nine Months Ended February 28, Percent Change | | | |
|---------------------------------|---|------------|------------|-------------|--|------------|------------|--------------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Education Revenues: | | | | | | | | |
| Americas | \$ 33 | 17% | 16% | \$ 28 | \$ 108 | 20% | 20% | \$ 91 |
| EMEA | 30 | 19% | 20% | 25 | 89 | 22% | 27% | 73 |
| Asia Pacific | 20 | 29% | 21% | 16 | 63 | 30% | 23% | 48 |
| Total revenues | 83 | 20% | 19% | 69 | 260 | 23% | 23% | 212 |
| Expenses: | | | | | | | | |
| Services | 69 | 14% | 13% | 61 | 207 | 15% | 15% | 181 |
| Total Expenses | 69 | 14% | 13% | 61 | 207 | 15% | 15% | 181 |
| Total Margin | \$ 14 | 60% | 51% | \$ 8 | \$ 53 | 75% | 70% | \$ 31 |
| Total Margin % | 17% | | | 12% | | 20% | | 15% |
| % Revenues by Geography: | | | | | | | | |
| Americas | 39% | | | 41% | | 42% | | 43% |
| EMEA | 36% | | | 36% | | 34% | | 34% |
| Asia Pacific | 25% | | | 23% | | 24% | | 23% |

On a constant currency basis, the increases in education revenues, expenses and total margin for the fiscal 2011 periods presented, as compared to the comparable fiscal 2010 periods, were primarily attributable to the impact of Sun's contributions to our operating results for the full fiscal 2011 periods presented. Excluding the effect of currency rate fluctuations, the Americas contributed 36% and 38%, EMEA contributed 37% and 38%, and Asia Pacific contributed 27% and 24% to the increases in our education revenues during the third quarter and first nine months of fiscal 2011, respectively. On a constant currency basis, education margin and margin as a percentage of revenues increased during the fiscal 2011 periods as a result of our total revenues increasing at a faster rate than our total expenses.

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

| (Dollars in millions) | Three Months Ended February 28, Percent Change | | | | Nine Months Ended February 28, Percent Change | | | |
|---|---|--------|----------|--------|--|--------|----------|----------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Research and development ⁽¹⁾ | \$ 1,069 | 38% | 37% | \$ 777 | \$ 3,178 | 54% | 53% | \$ 2,069 |
| Stock-based compensation | 58 | 26% | 26% | 46 | 171 | 41% | 41% | 122 |
| Total expenses | \$ 1,127 | 37% | 36% | \$ 823 | \$ 3,349 | 53% | 53% | \$ 2,191 |
| % of Total Revenues | 13% | | | 13% | | 13% | | 12% |

⁽¹⁾ Excluding stock-based compensation

On a constant currency basis, total research and development expenses increased during the fiscal 2011 periods presented, as compared to the comparable fiscal 2010 periods, due to the impact of Sun's contributions to our expenses for the full fiscal 2011 periods presented, including additional employee related expenses such as salaries, variable compensation, benefits and stock-based compensation from increased headcount, and to a lesser extent, increased expenses related to facilities, and other infrastructure costs.

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

| (Dollars in millions) | Three Months Ended February 28, Percent Change | | | | Nine Months Ended February 28, Percent Change | | | |
|---|---|------------|------------|---------------|--|------------|------------|---------------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| General and administrative ⁽¹⁾ | \$ 249 | 24% | 22% | \$ 202 | \$ 604 | 15% | 14% | \$ 523 |
| Stock-based compensation | 37 | 8% | 8% | 34 | 110 | 15% | 15% | 96 |
| Total expenses | \$ 286 | 21% | 20% | \$ 236 | \$ 714 | 15% | 14% | \$ 619 |
| % of Total Revenues | 3% | | | 4% | 3% | | | 4% |

⁽¹⁾ Excluding stock-based compensation

On a constant currency basis, total general and administrative expenses increased during the fiscal 2011 periods presented, as compared to the comparable fiscal 2010 periods, due to the impact of Sun's contributions to our expenses for the full fiscal 2011 periods presented, primarily additional employee related expenses. For the nine months ended February 28, 2011, these expense increases were partially offset by a \$120 million benefit related to the recovery of legal costs.

Amortization of Intangible Assets:

| (Dollars in millions) | Three Months Ended February 28, Percent Change | | | | Nine Months Ended February 28, Percent Change | | | |
|---|---|------------|------------|---------------|--|------------|------------|-----------------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Software support agreements and related relationships | \$ 144 | 2% | 2% | \$ 141 | \$ 426 | 1% | 1% | \$ 421 |
| Hardware systems support agreements and related relationships | 29 | 142% | 142% | 12 | 88 | 633% | 633% | 12 |
| Developed technology | 257 | 23% | 23% | 209 | 747 | 32% | 32% | 568 |
| Core technology | 77 | 15% | 15% | 67 | 235 | 19% | 19% | 197 |
| Customer relationships | 88 | 44% | 44% | 61 | 282 | 101% | 101% | 140 |
| Trademarks | 17 | 42% | 42% | 12 | 51 | 65% | 65% | 31 |
| Total amortization of intangible assets | \$ 612 | 22% | 22% | \$ 502 | \$ 1,829 | 34% | 34% | \$ 1,369 |

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

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Acquisition Related and Other Expenses: Acquisition related and other expenses consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments after the measurement periods have ended, and certain other operating expenses, net. Stock-based compensation expenses included in acquisition related and other expenses resulted from unvested stock options and restricted stock-based awards assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those stock options and restricted stock-based awards.

| (Dollars in millions) | Three Months Ended February 28, | | | Nine Months Ended February 28, | | | | |
|---|---------------------------------|-------------|-------------|--------------------------------|---------------|-------------|-------------|--------------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Transitional and other employee related costs | \$ 16 | 239% | 241% | \$ 5 | \$ 93 | 827% | 838% | \$ 10 |
| Stock-based compensation | 1 | -89% | -89% | 10 | 8 | -22% | -22% | 10 |
| Professional fees and other, net | 14 | -29% | -32% | 19 | 72 | 163% | 138% | 25 |
| Business combination adjustments, net | (1) | * | * | | (13) | -486% | -427% | 5 |
| Total acquisition related and other expenses | \$ 30 | -12% | -16% | \$ 34 | \$ 160 | 218% | 191% | \$ 50 |

* Not meaningful

Fiscal Third Quarter 2011 Compared to Fiscal Third Quarter 2010: Excluding the effect of currency rate fluctuations, the decrease in acquisition related and other expenses during the third quarter of fiscal 2011 was primarily due to a decrease in Sun-related stock-based compensation expenses and professional fees, and was partially offset by the full fiscal 2011 period's impact of higher Sun-related transitional employee expenses.

First Nine Months Fiscal 2011 Compared to First Nine Months Fiscal 2010: On a constant currency basis, acquisition related and other expenses increased in the first nine months of fiscal 2011 primarily due to the full fiscal 2011 period's impact of Sun's expense contributions including higher transitional employee related expenses and higher professional fees, which were partially offset by certain business combination adjustments incurred after the measurement periods had ended.

Restructuring expenses: Restructuring expenses consist of employee severance costs and may also include charges for duplicate facilities and other costs to improve our cost structure prospectively. For additional information regarding our Oracle-based and acquired company restructuring plans, see Note 7 of Notes to Condensed Consolidated Financial Statements.

| (Dollars in millions) | Three Months Ended February 28, | | | Nine Months Ended February 28, | | | | |
|------------------------|---------------------------------|--------|----------|--------------------------------|--------|--------|----------|--------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Restructuring expenses | \$ 92 | -70% | -73% | \$ 306 | \$ 410 | -12% | -12% | \$ 467 |

Restructuring expenses in the periods presented primarily related to our Sun Restructuring Plan, which our management approved, committed to and initiated in order to better align our cost structure as a result of our acquisition of Sun. To a lesser extent, we also incurred expenses associated with other Oracle-based plans which our management approved, committed to and initiated in order to restructure and further improve efficiencies in our Oracle-based operations. In the third quarter and first nine months of fiscal 2011, we incurred restructuring expenses of \$96 million and \$366 million, respectively, and in the fiscal 2010 periods we incurred restructuring expenses of \$235 million in connection with the Sun Restructuring Plan. The total estimated remaining restructuring costs associated with the Sun Restructuring Plan were approximately \$389 million as of February 28, 2011 and will be recorded to the restructuring expense line item within our consolidated statements of operations as the costs are incurred. Our estimated costs may be subject to change in future periods.

Table of Contents**Interest Expense:**

| (Dollars in millions) | Three Months Ended February 28, Percent Change | | | | Nine Months Ended February 28, Percent Change | | | |
|-----------------------|---|--------|----------|--------|--|--------|----------|--------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Interest expense | \$ 204 | 10% | 10% | \$ 186 | \$ 613 | 11% | 11% | \$ 553 |

Interest expense increased in the fiscal 2011 periods presented due to higher average borrowings resulting from our issuance of \$3.25 billion of senior notes in July 2010, and was partially offset by a reduction in interest expense associated with the maturity and repayment of other borrowings, primarily \$2.25 billion of senior notes in January 2011 and \$1.0 billion of floating rate notes in May 2010.

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

| (Dollars in millions) | Three Months Ended February 28, Percent Change | | | | Nine Months Ended February 28, Percent Change | | | |
|---|---|--------|----------|---------|--|--------|----------|---------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Interest income | \$ 44 | 65% | 61% | \$ 27 | \$ 118 | 29% | 28% | \$ 91 |
| Foreign currency (losses) gains, net | (30) | 67% | 69% | (88) | 52 | 148% | 152% | (109) |
| Noncontrolling interests in income | (26) | -10% | -9% | (24) | (73) | -15% | -15% | (63) |
| Other income, net | 28 | 146% | 141% | 10 | 83 | 105% | 101% | 40 |
| Total non-operating income (expense), net | \$ 16 | 121% | 120% | \$ (75) | \$ 180 | 538% | 510% | \$ (41) |

We recorded non-operating income, net during the fiscal 2011 periods presented in comparison to non-operating expense, net in the fiscal 2010 periods presented primarily due to net foreign currency transaction losses incurred in the fiscal 2010 periods presented, which included a foreign currency remeasurement loss of \$70 million resulting from the designation of our Venezuelan subsidiary as highly inflationary in accordance with the FASB's ASC 830, *Foreign Currency Matters*, and the subsequent devaluation of the Venezuelan currency by the Venezuelan government. In addition, our interest income increased in the fiscal 2011 periods due to larger average cash, cash equivalents and marketable securities balances and we also recorded gains in the fiscal 2011 periods presented due to favorable changes in the values of our marketable securities (included in other income, net) that we classify as trading that are held to support our deferred compensation plan obligations.

Provision for Income Taxes: Our 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.

| (Dollars in millions) | Three Months Ended February 28, Percent Change | | | | Nine Months Ended February 28, Percent Change | | | |
|----------------------------|---|--------|----------|--------|--|--------|----------|----------|
| | 2011 | Actual | Constant | 2010 | 2011 | Actual | Constant | 2010 |
| Provision for income taxes | \$ 683 | 74% | 74% | \$ 393 | \$ 1,903 | 36% | 37% | \$ 1,396 |

Effective tax rate 24.4% 24.8% 26.3% 27.0%

Provision for income taxes increased during the fiscal 2011 periods presented due substantially to higher income before tax, partially offset by the retroactive extension of the U.S. research and development tax credit.

Table of Contents**Liquidity and Capital Resources**

| (Dollars in millions) | February 28, 2011 | Change | May 31, 2010 |
|--|----------------------|--------|-----------------|
| Working capital | \$ 21,177 | 72% | \$ 12,313 |
| Cash, cash equivalents and marketable securities | \$ 24,355 | 32% | \$ 18,469 |

Working capital: The increase in working capital as of February 28, 2011 in comparison to May 31, 2010 was primarily due to our issuance of \$3.25 billion of long-term, senior notes in July 2010 and the favorable impact to our net current assets resulting from our net income during the first nine months of fiscal 2011, partially offset by cash used for acquisitions, repurchases of our common stock and cash used to pay dividends to our stockholders. Our working capital may be impacted by some of the aforementioned factors in future periods, certain amounts and timing of which are variable.

Cash, cash equivalents and marketable securities: Cash and cash equivalents primarily 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 primarily consist of time deposits held at major banks, Tier-1 commercial paper, corporate notes, U.S. Treasury obligations, U.S. government agency and government sponsored enterprise obligations and certain other securities. The increase in cash, cash equivalents and marketable securities at February 28, 2011 in comparison to May 31, 2010 was primarily due to our issuance of \$3.25 billion of senior notes in July 2010 and an increase in cash generated from our operating activities. Cash, cash equivalents and marketable securities included \$21.9 billion held by our foreign subsidiaries as of February 28, 2011. The amount of cash, cash equivalents and marketable securities that we report in U.S. Dollars for a significant portion of the cash held by these subsidiaries is subject to translation adjustments caused by changes in foreign currency exchange rates as of the end of each respective reporting period (the offset to which is recorded to accumulated other comprehensive income on our consolidated balance sheet). As the U.S. Dollar generally weakened against most major international currencies during the first nine months of fiscal 2011, the amount of cash, cash equivalents and marketable securities that we reported in U.S. Dollars for these subsidiaries increased as of February 28, 2011 relative to what we would have reported using constant currency rates as of May 31, 2010. The increase in our cash, cash equivalents and marketable securities balances during the first nine months of fiscal 2011 was partially offset by the repayment of \$2.25 billion of our senior notes which matured in January 2011, the repayment of \$881 million of commercial paper notes, \$1.6 billion of net cash used for our fiscal 2011 acquisitions, the repurchases of our common stock, and the payment of cash dividends to our stockholders.

Days sales outstanding, which is calculated by dividing period end accounts receivable by average daily sales for the quarter, was 46 days at February 28, 2011 compared with 53 days at May 31, 2010. The days sales outstanding calculation excludes the adjustment to our total revenues that reduces our acquired software license updates and product support obligations and hardware systems support obligations to fair value. Our decline in days sales outstanding is primarily due to the collection, in our first nine months of fiscal 2011, of large software license balances and, to a lesser extent, hardware systems products balances outstanding as of May 31, 2010.

| (Dollars in millions) | Nine Months Ended February 28, | | |
|--|--------------------------------|--------|------------|
| | 2011 | Change | 2010 |
| Cash provided by operating activities | \$ 7,437 | 21% | \$ 6,170 |
| Cash used for investing activities | \$ (5,662) | -42% | \$ (9,769) |
| Cash (used for) provided by financing activities | \$ (343) | 109% | \$ 3,835 |

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 these support agreements are generally received near the beginning of the contracts terms, which are generally one year in length. We also generate significant cash from new software license sales, sales of hardware systems products and hardware systems support arrangements and, to a lesser extent, services. Our primary uses of cash from operating activities are for personnel related expenditures, material and manufacturing costs related to the production of our hardware systems products, taxes and leased facilities.

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Net cash provided by operating activities increased in the first nine months of fiscal 2011 primarily due to the cash favorable impact of our increased net income, adjusted for depreciation and amortization, which was partially offset by certain other unfavorable changes in working capital in comparison to the first nine months of fiscal 2010.

Cash flows from investing activities: The changes in cash flows from investing activities primarily relates to acquisitions and the timing of purchases, maturities and sales of our investments in marketable debt 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 2011 due to a decrease in cash used for acquisitions, net of cash acquired (refer to Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information regarding our acquisitions), a decrease in cash used to purchase marketable securities (net of proceeds received from sales and maturities), partially offset by an increase in net capital expenditures.

Cash flows from financing activities: The changes in cash flows from financing activities primarily relate to borrowings and payments of debt as well as stock repurchases, dividend payments and proceeds from stock option exercises.

Net cash used for financing activities in the first nine months of fiscal 2011 increased in comparison to cash provided by financing activities in the first nine months of fiscal 2010 primarily due to a reduction in the amount of debt that we issued in fiscal 2011 (\$3.25 billion of long-term senior notes issued) in comparison to the prior year period (\$4.5 billion of long-term senior notes and \$2.0 billion of commercial paper notes issued) and an increase in the repayments of debt during fiscal 2011 (repayments of \$2.25 billion of senior notes in January 2011 and \$881 million of commercial paper notes) in comparison to the prior year period (\$1.0 billion of commercial paper notes and \$700 million of Sun s legacy convertible notes were repaid shortly after the closing of the acquisition). These net cash decreases in fiscal 2011 were partially offset by an increase in proceeds from stock option exercises.

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 flows 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 28, | | |
|---|--|--------|----------|
| | 2011 | Change | 2010 |
| Cash provided by operating activities | \$ 9,948 | 22% | \$ 8,178 |
| Capital expenditures ⁽¹⁾ | (441) | 122% | (199) |
| Free cash flow | \$ 9,507 | 19% | \$ 7,979 |
| Net income | \$ 7,701 | | \$ 5,663 |
| Free cash flow as a percent of net income | 123% | | 141% |

⁽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 certain of our customers the option to acquire our software products, hardware systems products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed on a non-recourse basis to financial institutions within 90 days of the contracts' dates of execution. 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. We financed \$686 million and \$527 million, respectively, or approximately 12% of our new software license revenues during each of the first nine months of fiscal 2011 and 2010, and \$78 million, or approximately 2%, of our hardware systems products revenues during the first nine months of fiscal 2011.

Table of Contents**Recent Financing Activities**

Revolving Credit Agreement: On March 14, 2011, our \$3.0 billion, five-year Revolving Credit Agreement dated March 15, 2006, among Oracle; the lenders named therein; Wells Fargo Bank, National Association, as administrative agent; Bank of America N.A. as syndication agent; the documentation agents named therein; and Wells Fargo Securities, LLC, and Banc of America Securities LLC, as joint lead arrangers and joint bookrunners (the 2006 Credit Agreement), expired pursuant to its terms. No debt was outstanding pursuant to the 2006 Credit Agreement as of February 28, 2011, or as of its date of expiration.

Senior Notes: In January 2011, our 5.00% fixed rate senior notes for \$2.25 billion matured and were repaid.

In July 2010, we issued \$3.25 billion of fixed rate senior notes comprised of \$1.0 billion of 3.875% notes due July 2020 and \$2.25 billion of 5.375% notes due July 2040. We issued these senior notes in order to repay indebtedness, including the repayment of our \$2.25 billion of senior notes that matured in January 2011, for general corporate purposes, for future acquisitions and in order to replenish cash used to repay \$1.0 billion of the floating rate senior notes that matured in May 2010. Additional details regarding these senior notes are included in Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Commercial Paper Notes: During the first nine months of fiscal 2011, we repaid \$881 million of commercial paper notes that were issued in fiscal 2010 pursuant to our commercial paper program, which allows us to issue and sell unsecured short term promissory notes pursuant to a private placement exemption from the registration requirements under federal and state securities laws. As of February 28, 2011, we had no commercial paper notes outstanding (\$881 million outstanding as of May 31, 2010).

Our ability to issue commercial paper notes in the future is highly dependent upon our ability to provide a back-stop by means of a revolving credit facility for amounts equal to or greater than the amounts of commercial paper notes we intend to issue. While presently we have no such facilities in place, we currently believe that, if needed, we could put in place one or more new revolving credit facilities in a timely manner and on commercially reasonable terms.

Additional details of our various debt facilities and obligations are included in the **Contractual Obligations** section below, in Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report and in Note 8 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2010.

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 preparing this information within the context of our consolidated financial position, results of operations and cash flows. The following is a summary of our contractual obligations as of February 28, 2011:

| (Dollars in millions) | Total | 2011 | 2012 | Year Ending May 31, | | | | |
|---|-----------|--------|----------|---------------------|--------|----------|----------|------------|
| | | | | 2013 | 2014 | 2015 | 2016 | Thereafter |
| Principal payments on long-term debt ⁽¹⁾ | \$ 14,750 | \$ | \$ | \$ 1,250 | \$ | \$ 1,500 | \$ 2,000 | \$ 10,000 |
| Capital leases ⁽²⁾ | 2 | | 2 | | | | | |
| Interest payments on long-term debt ⁽¹⁾ | 10,945 | 146 | 738 | 738 | 676 | 665 | 655 | 7,327 |
| Operating leases ⁽³⁾ | 1,623 | 136 | 438 | 320 | 207 | 150 | 116 | 256 |
| Purchase obligations and other ⁽⁴⁾ | 681 | 577 | 78 | 13 | 7 | 3 | 3 | |
| Total contractual obligations | \$ 28,001 | \$ 859 | \$ 1,256 | \$ 2,321 | \$ 890 | \$ 2,318 | \$ 2,774 | \$ 17,583 |

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- (1) Our borrowings (excluding capital leases) consist of the following as of February 28, 2011:

| | Principal Balance |
|---|--------------------------|
| 4.95% senior notes due April 2013 | \$ 1,250 |
| 3.75% senior notes due July 2014, including fair value adjustment of \$49 | 1,549 |
| 5.25% senior notes due January 2016, net of discount of \$6 | 1,994 |
| 5.75% senior notes due April 2018, net of discount of \$1 | 2,499 |
| 5.00% senior notes due July 2019, net of discount of \$5 | 1,745 |
| 3.875% senior notes due July 2020, net of discount of \$2 | 998 |
| 6.50% senior notes due April 2038, net of discount of \$2 | 1,248 |
| 6.125% senior notes due July 2039, net of discount of \$8 | 1,242 |
| 5.375% senior notes due July 2040, net of discount of \$25 | 2,225 |
| | |
| Total borrowings | \$ 14,750 |

We have entered into interest rate swap agreements related to our July 2014 senior notes that have the economic effect of modifying the fixed interest obligations associated with these senior notes so that the interest obligations effectively became variable pursuant to a LIBOR-based index. Interest payments on borrowings presented in the contractual obligations table above have been estimated using an interest rate of 1.41%, which represented our effective interest rate as of February 28, 2011 after consideration of these fixed to variable interest rate swap agreements, and are subject to change in future periods. The changes in fair value of our debt associated with the interest rate risk that we are hedging pursuant to these agreements are included in notes payable and other non-current borrowings in our consolidated balance sheet and have been included in the above table of borrowings.

- (2) Represents remaining payments under capital leases, substantially all of which were assumed from our 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 \$342 million in facility obligations, net of estimated sublease income, in accrued restructuring for these locations in our condensed consolidated balance sheet at February 28, 2011.
- (4) Represents amounts associated with agreements that are enforceable, legally binding and specify terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the payment. We utilize several external manufacturers to manufacture sub-assemblies for our hardware products and to perform final assembly and testing of finished hardware products. We also obtain individual components for our hardware products from a variety of individual suppliers based on projected demand information. Such purchase commitments are based on our forecasted component and manufacturing requirements and typically provide for fulfillment within agreed upon lead-times and/or commercially standard lead-times for the particular part or product and have been included in the amount presented in the above contractual obligations table. Routine arrangements for other materials and goods that are not related to our external manufacturers and certain other suppliers and that are entered into in the ordinary course of business are not included in this amount as they are generally entered into in order to secure pricing or other negotiated terms and are difficult to quantify in a meaningful way.

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As of February 28, 2011, we have \$3.1 billion of unrecognized tax benefits, including related interest and penalties, recorded on our condensed consolidated balance sheet and all such obligations have been excluded from the table above due to the uncertainty as to when they might be settled. We have reached certain settlement agreements with relevant taxing authorities to pay approximately \$120 million of these liabilities. Although it remains unclear as to when payments pursuant to these agreements will be made, some or all may be made in the last quarter of fiscal 2011. We cannot make a reasonably reliable estimate of the period in which the remainder of our unrecognized tax benefits will be settled or released with the relevant tax authorities, although we believe it is reasonably possible that certain of these liabilities could be settled or released during the last quarter of fiscal 2011.

In the third quarter of fiscal 2011, we agreed to acquire certain technology development assets for amounts that are not material to our business, and we expect to close such acquisitions within the next twelve months.

We believe that our current cash, cash equivalents and marketable securities and cash generated from operations will be sufficient to meet our working capital, capital expenditure and contractual obligation requirements. In addition, we believe we could fund any future acquisitions, dividend payments and repurchases of common stock or debt with our internally available cash, cash equivalents and marketable securities, cash generated from operations, 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 are material to investors.

Stock Options and Restricted Stock-Based Awards

Our stock-based compensation program is a key component of the compensation package we provide to attract and retain certain of our talented employees and align their interests with the interests of existing stockholders. In the second quarter of fiscal 2011, our stockholders approved amendments to the Amended and Restated Oracle Corporation 2000 Long-Term Equity Incentive Plan, including an amendment to increase the number of shares available under the plan by 388,313,015 shares. We historically have granted only stock options to our employees. The restricted stock-based awards included in the table presented below were assumed as a result of our acquisitions.

We recognize that options and restricted stock-based awards dilute existing stockholders and have sought to control the number of options and restricted stock-based awards granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution since June 1, 2007 has been a weighted average annualized rate of 1.1% per year. The potential dilution percentage is calculated as the average annualized new options or restricted stock-based awards granted and assumed, net of options and restricted stock-based awards 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 outstanding options are exercised and restricted stock-based awards vest. Some of the outstanding options, which generally have a 10 year exercise period, have exercise prices higher than the current market price of our common stock. At February 28, 2011, 2.9% 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. In recent years, our stock repurchase program has more than offset the dilutive effect of our stock-based compensation program; however, we may reduce the level of our stock repurchases in the future as we may use our available cash for acquisitions, to pay dividends, to repay or repurchase indebtedness or for other purposes. At February 28, 2011, the maximum potential dilution from all outstanding and unexercised stock option and restricted stock-based 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 7.5%.

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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 of up to 100,000 shares to non-executive officers and employees. Stock option and restricted stock-based award activity from June 1, 2007 through February 28, 2011 is summarized as follows (shares in millions):

| | |
|---|-------|
| Options and restricted stock-based awards outstanding at May 31, 2007 | 434 |
| Options granted | 310 |
| Options and restricted stock-based awards assumed | 69 |
| Options exercised and restricted stock-based awards vested | (336) |
| Forfeitures, cancellations and other, net | (98) |
| Options and restricted stock-based awards outstanding at February 28, 2011 | 379 |
| Average annualized options and restricted stock-based awards granted and assumed, net of forfeitures | 58 |
| Average annualized stock repurchases | (99) |
| Shares outstanding at February 28, 2011 | 5,061 |
| Basic weighted average shares outstanding from June 1, 2007 through February 28, 2011 | 5,066 |
| Options and restricted stock-based awards outstanding as a percent of shares outstanding at February 28, 2011 | 7.5% |
| In the money options and total restricted stock-based awards outstanding (based on the closing price of our common stock on the last trading day of our fiscal period presented) as a percent of shares outstanding at February 28, 2011 | 7.3% |
| Weighted average annualized options and restricted stock-based awards granted and assumed, net of forfeitures and before stock repurchases, as a percent of weighted average shares outstanding from June 1, 2007 through February 28, 2011 | 1.1% |
| Weighted average annualized options and restricted stock-based awards granted and assumed, net of forfeitures and after stock repurchases, as a percent of weighted average shares outstanding from June 1, 2007 through February 28, 2011 | -0.8% |

Our Compensation Committee approves the annual organization-wide option grants to employees. These annual option grants are made during the ten business day period following the second trading day after the announcement of our fiscal fourth quarter earnings report. During the first nine months of fiscal 2011, we made our annual grant of stock options and certain other stock option grants and we assumed certain stock options and restricted stock-based awards totaling 111 million shares, which were partially offset by forfeitures of 26 million shares.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 1 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk**Foreign Currency Risk***Foreign Currency Transaction Risk*

We transact business in various foreign currencies and are subject to risks associated with the effects of certain foreign currency exposures. We have a program that primarily utilizes foreign currency forward contracts to offset these risks. We may suspend this program from time to time and did so during the fourth quarter of fiscal 2011 until resuming the program in the second quarter of fiscal 2011. Increases or decreases in our foreign

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currency exposures are offset by gains or losses on foreign currency forward contracts that we enter into in order to mitigate the risks and volatility associated with our foreign currency transactions. Our foreign currency exposures typically arise from intercompany sublicense fees, intercompany loans and other intercompany transactions that are generally expected to be cash settled in the near term. Our foreign currency forward contracts are generally short term in duration.

We neither use these foreign currency forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to the Financial Accounting Standards Board's Accounting Standards Codification 815, *Derivatives and Hedging*. Accordingly, we record the fair values of these contracts as of the end of our reporting period to our consolidated balance sheet with changes in fair values recorded to our consolidated statement of operations. The balance sheet classification for the fair values of these forward contracts is prepaid expenses and other current assets for unrealized gains and other current liabilities for unrealized losses. The statement of operations classification for changes in fair values and cash settlement of these forward contracts is non-operating income (expense), net.

Although we have resumed our foreign currency forward contract program, we expect that we will continue to realize gains or losses with respect to our foreign currency exposures, net of gains or losses from our foreign currency forward contracts. Our ultimate realized gain or loss with respect to foreign currency exposures will generally depend on the size and type of cross-currency transactions that we enter into, the currency exchange rates associated with these exposures and changes in those rates, the net realized gain or loss on our foreign currency forward contracts and other factors. As of February 28, 2011, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$1.7 billion, the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$202 million, and the notional amounts of the foreign currency forward contracts we held to purchase Euros in exchange for other major international currencies were 573 million (approximately \$790 million). The net unrealized gains of our outstanding foreign currency forward contracts were nominal at February 28, 2011. Net foreign exchange transaction (losses) gains included in non-operating income (expense), net in the accompanying condensed consolidated statements of operations were \$(30) million and \$52 million for the three and nine months ended February 28, 2011, respectively and \$(88) million and \$(109) million for the three and nine months ended February 28, 2010, respectively.

There were no other significant changes to our quantitative and qualitative disclosures about market risk during the first nine months of fiscal 2011. Please refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our Annual Report on Form 10-K for our fiscal year ended May 31, 2010 for a more complete discussion of the other market risks we encounter.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: Based on our management's evaluation (with the participation of our Chief Executive Officer and our Chief Financial Officer), as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) were effective to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management (including our Chief Executive Officer and our Chief Financial Officer) as appropriate to allow timely decisions regarding required disclosure.

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 designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and

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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. 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.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The material set forth in Note 14 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly 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, 2010. 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 insignificant also may materially and adversely affect our business, financial condition or operating results in the future.

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

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On October 20, 2008, we announced that our Board of Directors had approved the expansion of our repurchase program by \$8.0 billion and as of February 28, 2011, approximately \$4.5 billion was available for share repurchases pursuant to our stock repurchase program.

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

The following table summarizes the stock repurchase activity for the three months ended February 28, 2011 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

| (in millions, except per share amounts) | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs |
|---|--|---------------------------------------|---|---|
| December 1, 2010 - December 31, 2010 | 2.9 | \$ 30.30 | 2.9 | \$ 4,670.6 |
| January 1, 2011 - January 31, 2011 | 2.6 | \$ 31.68 | 2.6 | \$ 4,588.5 |
| February 1, 2011 - February 28, 2011 | 2.4 | \$ 32.95 | 2.4 | \$ 4,509.3 |
| Total | 7.9 | \$ 31.55 | 7.9 | |

Table of Contents**Item 6. Exhibits**

| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | Filed Herewith |
|-------------|--|---------------------------|----------|---------|-------------|----------------|
| | | Form | File No. | Exhibit | Filing Date | |
| 31.01 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Lawrence J. Ellison | | | | | X |
| 31.02 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Jeff Epstein | | | | | X |
| 32.01 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act | | | | | X |
| 101 | Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of February 28, 2011 and May 31, 2010, (ii) Condensed Consolidated Statements of Operations for the Three and Nine Months ended February 28, 2011 and 2010, (iii) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended February 28, 2011 and 2010 and (iv) Notes to Condensed Consolidated Financial Statements | | | | | X |

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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: March 29, 2011

By: /s/ JEFF EPSTEIN
Jeff Epstein
Executive Vice President and

Chief Financial Officer

Date: March 29, 2011

By: /s/ WILLIAM COREY WEST
William Corey West
Senior Vice President, Corporate Controller and

Chief Accounting Officer