ORACLE CORP
Form 10-K
July 02, 2008

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

FORM 10-K

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

For the Fiscal Year Ended May 31, 2008
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-51788

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

Delaware	**54-2185193**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

500 Oracle Parkway
Redwood City, California 94065
(Address of principal executive offices, including zip code)

(650) 506-7000
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was $80,698,061,000 based on the number of shares held by non-affiliates of the registrant as of May 31, 2008, and based on the closing sale price of common stock as reported by the NASDAQ Global Select Market on November 30, 2007, which is the last business day of the registrant s most recently completed second fiscal quarter. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Number of shares of common stock outstanding as of June 27, 2008: 5,155,842,000

Documents Incorporated by Reference:

Part III Portions of the registrant s definitive proxy statement to be issued in conjunction with registrant s annual stockholders meeting to be held on October 10, 2008.

ORACLE CORPORATION

FISCAL YEAR 2008
FORM 10-K
ANNUAL REPORT

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Forward-Looking Statements

For purposes of this Annual Report, the terms Oracle, we, us and our refer to Oracle Corporation and its consolidat subsidiaries. In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 1A. Risk Factors. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates and simi expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Annual Report. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document. You should carefully review the risk factors described in other documents we file from time to time with the U.S. Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in our 2009 fiscal year, which runs from June 1, 2008 to May 31, 2009.

PART I

Item 1. Business

General

We are the world s largest enterprise software company. We develop, manufacture, market, distribute and service database and middleware software as well as applications software designed to help our customers manage and grow their business operations.

Our goal is to offer customers scalable, reliable, secure and integrated software solutions that improve transactional efficiencies, adapt to an organization s unique needs and allow better ways to access and manage information 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 core database, middleware and applications technologies provide the foundation for our long-term strategic plan. In fiscal 2008, we invested $2.7 billion on research and development to enhance our existing portfolio of products and services and to develop new products, features and services.

An active acquisition program is another important element of our corporate strategy. Over the last four fiscal years, we have invested billions of dollars, including $9.4 billion in fiscal 2008, to acquire a number of complementary companies, products, services and technologies such as BEA Systems, Inc. in fiscal 2008, Hyperion Solutions Corporation in fiscal 2007, Siebel Systems, Inc. in fiscal 2006 and PeopleSoft, Inc. in fiscal 2005. 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.

Oracle Corporation was incorporated in 2005 as a Delaware corporation and is the successor to operations originally begun in June 1977.

Software and Services

We are organized into two businesses, software and services, which are further divided into five operating segments. Our software business is comprised of two operating segments: (1) new software licenses and (2) software license

updates and product support. Our services business is comprised of three operating segments: (1) consulting, (2) On Demand and (3) education. Our software and services businesses represented 80% and 20% of our total revenues, respectively, in both fiscal 2008 and 2006, and 79% and 21% of our total revenues, respectively, in fiscal 2007. See Note 13 of Notes to Consolidated Financial Statements for additional information related to our operating segments.

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Software Business

New Software Licenses

New software licenses include the licensing of database and middleware software, which consists of Oracle Databases and Oracle Fusion Middleware, as well as applications software. Our technology and business solutions are based on an internet model comprised of interconnected databases, application servers, as well as mobile devices. This architecture enables users to access business data and applications through a web browser interface, while providing customers the most efficient and cost effective method of managing business information and applications.

In an internet model, database servers manage and protect the underlying business information, while application servers run the business applications that automate a myriad of business functions. We have focused on concepts such as global single instance application deployment that involve fewer, high quality databases of important business information. Our architecture provides high quality business information and can be adapted to the specific needs of any industry or application. Oracle technology operates on both single server and clustered server configurations, which we refer to as grid software, and supports a choice of operating systems including Linux, Windows and UNIX.

New software license revenues include fees earned from granting customers licenses to use our software products and exclude revenues derived from software license updates and product support. The standard end user software license agreement for our products provides for an initial fee to use the product in perpetuity based on a maximum number of processors, named users or other metrics. We also have other types of software license agreements restricted by the number of employees or the license term. New software license revenues represented 34%, 33% and 34% of total revenues in fiscal 2008, 2007 and 2006, respectively.

Database and Middleware Software

Our database and middleware software provides a cost-effective, high-performance platform for running and managing business applications for mid-size businesses and large global enterprises. With an increasing focus by enterprises on reducing their total cost of information technology (IT) infrastructure, our software is designed to accommodate demanding, non-stop business environments, using clusters of low cost servers and storage that can incrementally scale as required. The ability to assign computing resources as required simplifies our customers computing capacity, planning and procurement in order to support all of their business applications. With an Oracle grid infrastructure, our customers can lower their investment in IT hardware, reduce their risk of IT infrastructure downtime and more easily cope with sudden increases in demand on their IT environments during high traffic periods. New software license revenues from database and middleware products represented 68%, 71% and 73% of our new software license revenues in fiscal 2008, 2007 and 2006, respectively.

Databases

As the world s most popular database, Oracle Database enables the secure storage, retrieval and manipulation of all forms of data, including business application and analytics data, and unstructured data in the form of XML files, office documents, images, video and spatial data. Designed for enterprise grid computing, the Oracle Database is available in four editions: Express Edition, Standard Edition One, Standard Edition and Enterprise Edition. All editions are built using the same underlying code, which means that our database software can easily scale from small, single processor servers to clusters of multi-processor servers.

Options to Oracle Database Enterprise Edition are available to meet specific requirements in the areas of performance and scalability, high availability, data security and compliance, data warehousing, unstructured data integration and systems management. Examples of these options include:

Oracle Real Application Clusters, which consolidates a single, scalable and fault tolerant database that is shared across interconnected clusters of servers;

Oracle Partitioning, which breaks down large transaction processing and business intelligence database tables into smaller segments for faster query performance and easier management of data throughout its lifecycle;

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Oracle Warehouse Builder Enterprise and Data Quality Options, which help customers design, build and populate data warehouses with reliable, quality information from a variety of legacy repositories; and

Oracle In-Memory Database Cache, a new option that improves application performance by caching or storing performance critical parts of Oracle Database in the main memory of the application tier.

In addition to the four editions of Oracle Database, Oracle also offers a selection of specialized databases:

Oracle TimesTen In-Memory Database, which is a memory-optimized relational database that delivers low latency and high throughput for applications requiring real-time performance;

Oracle Berkeley DB, which is a family of open source, embeddable, non-relational databases that allows developers to incorporate a fast, scalable and reliable database engine within their applications; and

Oracle Database Lite, which is a comprehensive solution for developing, deploying and managing applications for mobile and embedded environments. It consists of a small footprint relational database that runs on many devices and platforms, a mobile server that synchronizes data between the mobile devices and Oracle Database, and mobile application development tools.

We also offer products that are complementary to our database product offerings, including Oracle Enterprise Manager and Oracle Audit Vault.

Enterprise Manager

Oracle Enterprise Manager is designed to deliver top-down applications and software infrastructure management. Our customers use Oracle Enterprise Manager to monitor and manage their applications and underlying software infrastructure, including both Oracle and non-Oracle infrastructure products. Oracle Enterprise Manager can be used to manage packaged applications, such as Siebel, PeopleSoft, Oracle E-Business Suite or custom applications including Service-Oriented Architecture applications. In addition to managing Oracle software infrastructure products including the Oracle Database and Oracle Fusion Middleware, Oracle Enterprise Manager also supports our recently acquired BEA Web Logic Server middleware product and other third-party infrastructure products.

Oracle Enterprise Manager is designed to monitor service levels and performance, automate tasks, manage configuration information, and provide change management in a unified way across groups of computers or grids. Oracle Enterprise Manager s provisioning automates the discovery, tracking and scheduling of software patches and allows IT administrators to apply patches without taking their system down. Additionally, IT administrators can manage systems from anywhere through an HTML browser or through wireless PDAs.

Audit Vault

Oracle Audit Vault reduces the cost and complexity of compliance reporting and of detection of unauthorized activities by automating the collection and consolidation of enterprise audit data. Oracle Database provides one of the most advanced auditing capabilities of any database management system. With Audit Vault, security and database administrators can manage audit policies across their enterprise and automatically collect audit data into a centralized, tamper resistant repository. This secure repository is built on Oracle s scalable architecture to allow retention and aggregation of terabytes of audit data for analysis and reporting. Audit Vault analyzes audit data in real-time based upon enterprise defined policies, issues alerts for unauthorized activities, and provides built-in reports for demonstrating the IT controls required to comply with internal control assessments, including provisions of the

U.S. Sarbanes-Oxley Act and other data privacy and protection regulations.

Middleware

Oracle Fusion Middleware is a broad product family that forms a reliable and scalable foundation on which customers can build, deploy and integrate business applications and automate their business processes. Oracle Fusion Middleware includes:

- Oracle Application Server;
- Oracle Business Intelligence Suite;
- Oracle Identity and Access Management Suite;

Oracle Enterprise Content Management Suite;

Oracle WebCenter;

Oracle JDeveloper and Oracle Service-Oriented Architecture Suite; and

Oracle Data Integration Suite.

Oracle Fusion Middleware is designed to protect customers IT investments and work with both Oracle and non-Oracle database, middleware and applications products through its hot-pluggable architecture (which enables customers to easily install and use Oracle Fusion Middleware products within their existing IT environments) and adherence to industry standards such as J2EE and Business Process Execution Language (BPEL).

By using Oracle Fusion Middleware, our customers increase their capacity to adapt to business changes rapidly, reduce their risks related to security and compliance, increase user productivity and drive better business decisions. Specifically, Oracle Fusion Middleware enables customers to easily integrate heterogeneous business applications, automate business processes, simplify security and compliance, manage lifecycles of documents and get actionable, targeted business intelligence, while continuing to utilize their existing IT systems. In addition, Oracle Fusion Middleware supports multiple development languages and tools, which allows developers to build and deploy web services, web sites, portals and web-based applications. Oracle s Fusion Middleware is used to support Oracle applications, as well as other enterprise applications and independent software vendors that build their own custom applications.

On April 29, 2008, we acquired BEA, a leading provider of enterprise application and service infrastructure software solutions. Our acquisition of BEA further strengthened our leading technology in certain product areas within Oracle Fusion Middleware such as Java application server (WebLogic Server), transaction processing (Tuxedo), portal and Enterprise 2.0 capabilities, Service-Oriented Architecture, IT governance and business process management. Our acquisition of BEA also increased the number of Java developers building applications for our middleware products. Additionally, BEA s business is complementary to other product areas within Oracle Fusion Middleware such as identity management, business intelligence and enterprise content management.

Application Server

The foundation of Oracle Fusion Middleware is Oracle Application Server. Designed for grid computing, Oracle Application Server incorporates clustering and caching technology, which increases application reliability, performance, security and scalability. Oracle Application Server also provides a complete integration platform that is designed to simplify and accelerate business, application and data integration projects. Our recent acquisition of BEA enables us to provide our customers with additional open-standards Java-based application infrastructure products such as WebLogic Server and scalable messaging and transaction processing platform products such as Tuxedo.

Business Intelligence

Oracle Business Intelligence (BI) provides visibility into how customers businesses are performing and helps them plan and model to improve that performance. BI is a portfolio of technology and applications that provides an integrated end-to-end system called Enterprise Performance Management (EPM) that unites our BI foundation and data warehousing products with our BI and EPM applications (described further below) to offer our customers an enterprise-wide business intelligence platform.

Our BI foundation products include Oracle BI Suite Enterprise Edition Plus, Oracle BI Standard Edition One, Hyperion Essbase and Oracle BI Publisher. Our BI foundation products deliver customers a comprehensive set of business intelligence tools, including interactive dashboards, ad hoc query and analysis, proactive detection and alerts, advanced reporting and publishing, real-time predictive intelligence, mobile analytics and desktop gadgets.

Our data warehousing products enable the extraction, transformation and loading of quality data in order for that data to be accurately searched and analyzed.

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Identity and Access Management Suite

The Oracle Identity and Access Management suite makes it easier for our customers to manage multiple user identities, provision users in multiple enterprise applications and systems and manage access privileges for customers, employees and partners. Our customers use Oracle Identity and Access Management Suite to secure their information from potential threats. In addition, our customers also use Oracle Identity and Access Management Suite to increase compliance levels, while lowering the total cost of their compliance efforts.

Enterprise Content Management Suite

Unstructured information, which is data that is not easily readable or has not been stored so that it can be used efficiently, makes up a large portion of all the information residing in most businesses and public sector entities. Oracle Enterprise Content Management Suite provides a comprehensive set of capabilities to create, capture, publish, share and collaborate on, archive, retain, manage business process flows and manage information access rights to documents and other unstructured content file types. Oracle Enterprise Content Management Suite supports an extensive set of document and image formats. Our Web Content Management product s capabilities also enable customers to use external facing websites as strategic marketing assets and rapid communications channels.

WebCenter

Oracle WebCenter enables personalized, task-oriented web applications and portal sites to be rapidly developed and deployed, all with single sign-on access and security. Our customers can assemble portal sites using page regions or portlets, which are reusable interface components that provide access to web-based resources such as applications, business intelligence reports, syndicated content feeds and outsourced software services. Oracle WebCenter also includes integrated Enterprise 2.0 capabilities, which enable customers to work together in teams via the internet and capitalize on collective intelligence within their enterprise and with their partners and customers.

JDeveloper

Oracle JDeveloper is an integrated software development environment designed to facilitate rapid development of Java applications, portlets, web services, process models and Rich Internet Applications (RIA) such as Flash and AJAX, among others. Oracle JDeveloper provides a comprehensive Java development environment for modeling, building, debugging and testing enterprise-class J2EE applications and web services. It is also integrated with the Oracle Application Development Framework, which provides a framework for building applications, including a set of components that enable developers to build RIA based on Java user interface standards and deploy the applications to take advantage of modern RIA technologies.

Service-Oriented Architecture Suite

Service-Oriented Architecture (SOA) is an information technology strategy which allows users to interface with Internet-based portals and composite applications, which in turn interface with several enterprise applications. Oracle SOA Suite is a complete set of service infrastructure components for creating, deploying, and managing SOAs, including Oracle JDeveloper, Oracle BPEL Process Manager, Oracle Web Services Manager, Oracle Business Rules, Oracle Business Activity Monitoring, and Oracle Enterprise Service Bus. Oracle SOA Suite enables services to be created, managed and orchestrated into composite applications and reconfigurable business processes, reducing development time and costs and increasing flexibility and response time. Oracle SOA Suite is hot-pluggable , enabling customers to easily extend and evolve their architectures instead of replacing existing investments.

Data Integration Suite

Through Oracle Data Integration Suite, we offer best-of-breed and unified data integration technologies that enable customers to build, deploy and manage enterprise business data. Our Data Integration foundation allows enterprise data architects to unify, manage, replicate, migrate and distribute data into enterprise applications and orchestrated business processes. With our open and hot-pluggable data integration components, organizations can continue to

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use and evolve their IT infrastructure instead of replacing it. The Data Integration Suite can extract data from one system and load it into another (such as a data warehouse) and then rapidly transform the data into a new format. It also includes technology to address data quality and data profiling.

Applications Software

Our applications software strategy is designed to provide customers with complete, integrated and open solutions for industry business process automation, supported by a robust, standards-based technology platform. Central to that strategy is our commitment to offer customers that purchase software license updates and product support contracts a choice as to when they wish to upgrade to the next generation of the products they own. Until our customers reach a decision to upgrade to the next generation of the products they own, we protect their investments in their applications by offering them the ability to purchase software license updates and product support contracts for their existing products. New technologies such as Oracle Fusion Middleware, Oracle Business Intelligence Suite, and Oracle WebCenter are designed to help customers extend the benefits of their IT investments in our applications, to reduce their investment risk, and to support their evolution to the next generation of enterprise software that best fits their needs.

Our applications software products combine business functionality with innovative technologies such as role-based analytics, secure search, identity management, self-service and workflow to deliver adaptive industry processes, business intelligence and insights, and optimal end-user productivity. Our applications software products enable efficient management of all core business functions, including:

- Customer relationship management (CRM)
- Enterprise performance management (EPM)
- Enterprise resource planning (ERP)
- Product lifecycle management (PLM), and
- Industry-specific applications.

Our applications software products are offered as integrated suites or available on a component basis, and all are built on open architectures that are designed for flexible configuration and open, multi-vendor integration. Our applications are available in multiple languages, and support a broad range of location specific requirements, enabling companies to support both global and local business practices and legal requirements.

Oracle Application Integration Architecture provides an open, standards-based framework for creating adaptable, cross-application business processes. For customers looking to quickly deploy integrations between Oracle applications, Oracle Application Integration Architecture also offers packaged integrations, allowing for rapid implementation of mission-critical business applications.

Customer Relationship Management (CRM)

We offer a complete set of CRM applications that manage all of the business processes and associated systems that touch a customer, including:

- Billing and delivery;

Sales solutions that provide a single repository for customer and supply chain information; and

Service solutions that increase customer satisfaction by providing visibility into customer billing and order information.

Enterprise Performance Management (EPM)

We offer a full spectrum of EPM applications that are open, industry-specific analytic applications with capabilities such as interactive dashboarding and embedded analytic functionality for delivering insight across the enterprise. Our business analytics solution is tailored to 20 industries, giving customers the ability to monitor, analyze and act upon business intelligence while providing end-to-end visibility into a customer s operations and financial performance. With our acquisition of Hyperion in fiscal 2007, we added complementary products to our business

intelligence offerings, including a leading open enterprise planning system, financial consolidation products, and a multi-source OLAP server. Our acquisition of Hyperion combined with our BI analytics, BI foundation and data warehousing products enable us to offer our customers an integrated, end-to-end EPM system that spans planning, consolidation, operational analytic applications, business intelligence tools, reporting and data integration, all on a unified business intelligence platform.

Enterprise Resource Planning (ERP)

Companies use our ERP applications to automate and integrate a variety of their key global business processes, including: manufacturing, order entry, accounts receivable and payable, general ledger, purchasing, warehousing, transportation and human resources. Our ERP applications combine business functionality with innovative technologies such as workflow and self-service applications in order to enable companies to lower the cost of their business operations by providing their customers, suppliers and employees with self-service internet access to both transaction processing and critical business information. Our ERP applications are available in multiple languages and currencies, enabling companies to support both global and local business practices and legal requirements.

Product Lifecycle Management (PLM)

With our acquisition of Agile Software Corporation in the first quarter of fiscal 2008, we added PLM software solutions. Our PLM solutions manage the product innovation and introduction process in a variety of industries, including high technology, life sciences, industrial manufacturing and consumer packaged goods. Our PLM solutions help customers make better product portfolio decisions, collaborate across design and supply chain partners, accelerate new product introduction and manage compliance.

Industry Applications

Our applications can be tailored to offer customers a variety of industry-specific solutions. As a part of our strategy, we strive to ensure that our applications portfolio addresses the major industry-influenced technology challenges of customers in key industries. With our acquisition of Siebel, we gained expertise in the vertical markets in which Siebel offered industry solutions. We have also expanded our offerings in a number of other key industries we view as strategic to our future growth:

- Retail, with our acquisitions of Retek, Inc., ProfitLogic, Inc. and several other companies;
- Banking and financial services, with our acquisition of i-flex solutions limited;
- Communications, with our acquisitions of Portal Software, Inc. and MetaSolv, Inc.; and
- Utilities, with our acquisition of Lodestar Corporation and SPL WorldGroup, Inc.

These acquired industry applications are in addition to industry applications we developed for health sciences, insurance, manufacturing, education, professional services and the public sector.

We are currently building Oracle Fusion Applications, which are being designed to unify best-of-business capabilities from all Oracle applications in a complete suite. We believe this suite of applications will deliver a superior ownership experience through improved usability, adaptive business process automation, built-in business intelligence and industry-specific capabilities.

New software license revenues from applications software represented 32%, 29% and 27% of new software license revenues in fiscal 2008, 2007 and 2006, respectively.

Software License Updates and Product Support

We seek to protect and enhance our customers current investments in Oracle technology and applications by offering lifetime support, product enhancements and upgrades. Software license updates provide customers with rights to unspecified software product upgrades and maintenance releases and patches released during the term of the support period. Product support includes internet and telephone access to technical support personnel located in our global support centers, as well as internet access to technical content. Software license updates and product

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support are generally priced as a percentage of the new software license fees. Substantially all of our customers purchase software license updates and product support when they acquire new software licenses. In addition, substantially all of our customers renew their software license updates and product support contracts annually. We also offer Oracle Unbreakable Linux Support, which provides enterprise level support for the Linux operating system and, in fiscal 2008, we introduced support for Oracle VM server virtualization software.

Our software license updates and product support revenues represented 46% of total revenues in fiscal 2008, 2007 and 2006.

Services Business

Consulting

Oracle Consulting assists our customers in successfully deploying our applications and technology products. Our consulting services include business strategy and analysis; business process optimization; product implementation, enhancements, and upgrades; and ongoing managed services. These services help our customers achieve measurable business results, manage their total cost of ownership and reduce their deployment risk.

Oracle Consulting deploys professionals globally utilizing our blended delivery capabilities, including use of onsite consultants and personnel from our global delivery centers and applications solutions centers to leverage economies of scale for our customers. Consulting revenues represented 15%, 16% and 15% of total revenues in fiscal 2008, 2007 and 2006, respectively.

On Demand

On Demand includes Oracle On Demand, CRM On Demand and Advanced Customer Services. Oracle On Demand provides multi-featured software and hardware management, and maintenance services for customers that deploy over the internet our database, middleware and applications software delivered either at our data center facilities, at select partner data centers or at customer facilities. CRM On Demand is a service offering that provides our customers with our CRM software functionality delivered via a hosted, web-based solution that we manage. Advanced Customer Services consists of solution support centers, business critical assistance, technical account management, expert services, configuration and performance analysis, personalized support and annual on-site technical services. On Demand revenues represented 3% of total revenues in fiscal 2008, 2007 and 2006.

Education

We provide training to customers, partners and employees as a part of our mission of accelerating the adoption of our technology around the world. We currently offer thousands of courses covering all of our product offerings. Our training is provided primarily through public and private instructor-led classroom events, but is also made available through a variety of online courses and self paced media training on CD-ROMs. In addition, we also offer a certification program certifying database administrators, developers and implementers. Oracle University also offers user adoption services designed to provide comprehensive training services to help customers get the most out of their investment in Oracle. Our acquisition of BEA further enhanced our educational offerings in middleware. Education revenues represented 2% of total revenues in fiscal 2008, 2007 and 2006.

Marketing and Sales

Sales Distribution Channels

We directly market and sell our products and services primarily through our subsidiary sales and service organizations. In the United States our sales and service employees are based in our headquarters and in field offices throughout the United States. Outside the United States, our international subsidiaries license and support our products in their local countries as well as within other foreign countries where we do not operate through a direct sales subsidiary.

We also market our products worldwide through indirect channels. The companies that comprise our indirect channel network are members of the Oracle PartnerNetwork. The Oracle PartnerNetwork is a global program that

manages our business relationships with a large, broad-based network of companies, including independent software vendors, system integrators and resellers who deliver innovative solutions and services based upon our products. By offering our partners access to our premier products, educational information, technical services, marketing and sales support, the Oracle PartnerNetwork program extends our market reach by providing our partners with the resources they need to be successful in delivering solutions to customers globally.

International Markets

We sell our products and provide services globally. Our geographic coverage allows us to draw on business and technical expertise from a global workforce, provides stability to our operations and revenue streams to offset geography-specific economic trends and offers us an opportunity to take advantage of new markets for our products. A summary of our domestic and international revenues and long-lived assets is set forth in Note 13 of Notes to Consolidated Financial Statements.

Seasonality and Cyclicality

Our quarterly results reflect distinct seasonality in the sale of our products and services, as our revenues are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. General economic conditions also have an impact on our business and financial results. The markets in which we sell our products and services have, at times, experienced weak economic conditions that have negatively affected our revenues. See Selected Quarterly Financial Data in Item 7 of this Annual Report for a more complete description of the seasonality and cyclicality of our revenues and expenses.

Customers

Our customer base consists of a significant number of businesses of many sizes and industries, government agencies, educational institutions and resellers. No single customer accounted for 10% or more of revenues in fiscal 2008, 2007 or 2006.

Competition

The enterprise software industry is highly fragmented, intensely competitive and evolving rapidly. We compete in various segments of this industry including, but not limited to:

- database software;
- middleware (including application server, business intelligence, application integration, content management, portal server and identity management);
- collaboration;
- development tools;
- enterprise applications;
- software as a service;
- hosted and On Demand solutions;

operating systems;

virtualization software; and

consulting/systems integration.

Total cost of ownership, performance, scalability, functionality, ease of use, open standards-compliance, product reliability, Service-Oriented Architecture, security and quality of technical support are key competitive factors in each of the areas in which we compete. Our customers are also demanding less complexity and lower cost in the implementation, sourcing, integration and ongoing maintenance of their enterprise software, which has led increasingly to our product offerings (database, middleware and applications) being viewed as a stack of software designed to work together.

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Our product sales (and the relative strength of our products versus our competitors   products) are also affected by the broader   platform   competition between industry standard Java (J2EE) by Sun Microsystems, Inc. (Sun Microsystems) and Microsoft Corporation s .NET programming environments and by operating system competition among Microsoft s Windows Server, Unix (Sun Microsystem s Solaris, Hewlett Packard Company s (HP)-UX and International Business Machines Corporation s (IBM)-AIX) and Linux. Open source alternatives to commercial software are also impacting the competitive environment. These products are typically offered free of charge and are readily available over the internet. Finally, software-as-a-service (SaaS) offerings continue to alter the competitive landscape.

The following lists of competitors are necessarily incomplete due to the nature of the enterprise software industry. The competitive landscape is constantly evolving as firms emerge, expand, are acquired and otherwise change.

In the sale of database software, scalability, reliability, availability and security are key competitive differentiators for us. Our competitors include IBM, Microsoft, Sybase, Inc., NCR Corporation s Teradata division, SAS Institute, Inc., Informatica Corporation, and the open source databases such as MySQL (recently acquired by Sun Microsystems) and PostgreSQL, among others. Our ability to continually innovate and differentiate our database product offerings has enabled us to maintain our leading position in database software over our competitors.

In the sale of middleware products, our offerings include application server, business intelligence, application integration, business process management, Service-Oriented Architecture, collaboration and content management, portal, and identity management software. Our ability to offer a full range of rich functionality in a standards-based, open architecture has been a key competitive differentiator. Our competitors include IBM, Microsoft, SAP AG, Sun Microsystems, Progress Software, Fujitsu Software Corporation, Hitachi Software Engineering Co., Ltd., open source vendors such as Red Hat, Inc. (JBoss), Apache Geronimo, and Netezza Corporation, as well as several other competitors in each element of our packaged functions such as TIBCO Software, Inc., Software AG, Savvion, Inc., Microstrategy, Inc., CA, Inc., Informatica, Novell, Inc., Lombardi Software, Inc. and Pegasystems, Inc., among others. Our middleware solutions have experienced rapid growth in recent years relative to our competitors.

In the sale of collaboration and content management products, we compete with Microsoft, IBM (Domino/Notes/FileNet), EMC Corporation (Documentum), Open Text Corporation, Interwoven, Inc., HP (Tower Software) and Vignette Corporation, among others.

In the sale of development tools, ease of use, standards-compliance and the level of abstraction (automated code generation) are key competitive differentiators. We compete against IBM (WebSphere Studio), Microsoft (VisualStudio.NET), Sun Microsystems (Sun Studio), Sybase (PowerBuilder) and others, including Eclipse Foundation, Inc. (Eclipse), an open source vendor. The success of our development tools is closely related to the relative popularity of our platform (database and middleware) compared to our competitors as well as the larger competition between Java and Microsoft s .NET.

The sale of applications software, in particular, is changing rapidly due to the development and deployment of Service-Oriented Architectures and web services, application integration middleware as well as software as a service offerings. As a result of our acquisitions of PeopleSoft and Siebel, we currently offer several product lines that are suited for different needs of customers in different industries. One of the main competitive differentiators in applications software is our ability to combine best-of-breed software, Suite software and our Application Integration Architecture, while shielding the end user from complexities. We compete against SAP AG, Lawson Software, Inc., Infor Global Solutions GmbH (SSA Global Technologies, Extensity), Microsoft Dynamics (Dynamics GP, Dynamics NAV, Dynamics CRM, Dynamics Snap, Dynamics SL), Sage, Inc., and IBM (Maximo, MOR Software, Ascential Software) as well as many other application providers and point solution providers.

We also provide applications specific to operations in particular industry verticals, such as retailing, financial services, communications, tax and utilities, health sciences, public sector and others. These applications are distinguished from enterprise resource planning (ERP) or customer relationship management (CRM) in that these industry-specific applications are focused on and limited to particular industry segments, as opposed to being designed for broad distribution across several industries. We typically compete with commercial software vendors pre-packaged applications, applications developed in-house by customers, applications which were custom developed by other software vendors and applications consisting of discrete pieces of functionality from multiple

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providers which have been customized and implemented by systems integrators. In some of these industries, complete industry solutions either do not exist or are addressed by dozens of software participants.

With service-oriented architecture, our packaged applications also compete with custom solutions developed either in-house or by large systems integrators such as Accenture Ltd. or IBM Global Services.

Our applications also compete against business process outsourcers including Automatic Data Processing, Inc., Fidelity Investments, Ceridian Corporation, Hewitt-Cyborg Limited and others.

In the sale of operating systems, we introduced a support and service offering for Red Hat s open source Linux operating system in fiscal 2007. This placed us in competition with others who offer support for the Linux operating system, including Red Hat, Novell and Canonical Ltd. (Ubuntu); with IBM, Sun Microsystems, HP and others in the sale of Unix operating systems; and with Microsoft in the sale of Windows Server operating systems.

In the sale of virtualization products, we compete with VMware, Inc., IBM, Microsoft, Sun Microsystems and Citrix Systems, Inc., among others, including other vendors of open source virtualization products.

In the sale of consulting and systems integration services, we both partner with and compete against Accenture, Electronic Data Systems Corporation (to be acquired by HP), IBM Global Services, Bearing Point, Inc., CapGemini Group, and many others (both large and small).

In the sale of many of our products, we also compete with products and features developed internally by customers and their IT staff.

Research and Development

We develop the substantial majority of our products internally. In addition, we have acquired technology through business acquisitions. We also purchase or license intellectual property rights in certain circumstances. Internal development allows us to maintain technical control over the design and development of our products. We have a number of United States and foreign patents and pending applications that relate to various aspects of our products and technology. While we believe that our patents have value, no single patent is essential to us or to any of our principal business segments.

Research and development expenditures were $2.7 billion, $2.2 billion and $1.9 billion, or 12%, 12% and 13% of total revenues, in fiscal 2008, 2007 and 2006, respectively. As a percentage of new software license revenues, research and development expenditures were 36%, 37% and 38% in fiscal 2008, 2007 and 2006, respectively. Rapid technological advances in hardware and software development, evolving standards in computer hardware and software technology, changing customer needs and frequent new product introductions and enhancements characterize the software markets in which we compete. We plan on continuing to dedicate a significant amount of resources to research and development efforts to maintain and improve our current product offerings including our database, middleware and applications software products.

Employees

As of May 31, 2008, we employed 84,233 full-time employees, including 19,465 in sales and marketing, 7,642 in software license updates and product support, 28,215 in services, 20,607 in research and development and 8,304 in general and administrative positions. Of these employees, 28,079 were located in the United States and 56,154 were employed internationally. None of our employees in the United States is represented by a labor union; however, in certain international subsidiaries workers councils represent our employees.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, on our Investor Relations web site at www.oracle.com/investor as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. The information posted on our web site is not incorporated into this Annual Report.

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Executive Officers of the Registrant

Our executive officers are listed below.

Name	Office(s)
Lawrence J. Ellison	Chief Executive Officer and Director
Jeffrey O. Henley	Chairman of the Board of Directors
Safra A. Catz	President, Chief Financial Officer and Director
Charles E. Phillips, Jr.	President and Director
Keith G. Block	Executive Vice President, North America Sales and Consulting
Sergio Giacoletto	Executive Vice President, Europe, Middle East and Africa Sales and Consulting
Juergen Rottler	Executive Vice President, Oracle Customer Services
Charles A. Rozwat	Executive Vice President, Product Development
Derek H. Williams	Executive Vice President, Japan Sales and Consulting
Dorian E. Daley	Senior Vice President, General Counsel and Secretary
William Corey West	Senior Vice President, Corporate Controller and Chief Accounting Officer

Mr. Ellison, 63, has been Chief Executive Officer and a Director since he founded Oracle in June 1977. He served as Chairman of the Board from May 1995 to January 2004.

Mr. Henley, 63, has served as the Chairman of the Board since January 2004 and as a director since June 1995. He served as an Executive Vice President and Chief Financial Officer from March 1991 to July 2004. He also serves as a director of Callwave, Inc.

Ms. Catz, 46, has been Chief Financial Officer since November 2005 and a President since January 2004. She has served as a Director since October 2001. She was Interim Chief Financial Officer from April 2005 until July 2005. She served as an Executive Vice President from November 1999 to January 2004 and Senior Vice President from April 1999 to October 1999. She also serves as a director of HSBC Holdings plc.

Mr. Phillips, 49, has been a President and has served as a Director since January 2004. He served as Executive Vice President, Strategy, Partnerships, and Business Development, from May 2003 to January 2004. He also serves as a director of Morgan Stanley and Viacom, Inc.

Mr. Block, 47, has been Executive Vice President, North America Sales and Consulting since September 2002 and Executive Vice President, North America Consulting since February 2002. He served as Senior Vice President of North America Commercial Consulting and Global Service Lines from June 1999 until January 2002. He served as Senior Vice President of the Commercial Consulting Practice from April 1999 until May 1999. Mr. Block was Group Vice President, East Consulting from June 1997 until March 1999.

Mr. Giacoletto, 58, has been Executive Vice President, Europe, Middle East and Africa Sales and Consulting since June 2000 and served as Senior Vice President, Business Solutions from November 1998 to June 2000. He was Vice President, Alliances and Technology from March 1997 to November 1998. Before joining us, he had been President of AT&T Solutions for Europe since August 1994.

Mr. Rottler, 41, has been Executive Vice President, Oracle Customer Services since September 2006. He was Executive Vice President, Oracle Support and Oracle On Demand, from January 2005 to September 2006 and was

Executive Vice President, Oracle On Demand, from September 2004 to January 2005. Prior to joining us, he served as Senior Vice President, Public Sector, Customer Solutions Group at Hewlett-Packard Company (HP), from December 2003 to September 2004, where he was responsible for HP s worldwide Public Sector, Health and Education business. He also held various other global and regional executive positions in HP s Services and Software business units since 1997.

Mr. Rozwat, 60, has been Executive Vice President, Product Development, since October 2007. He served as Executive Vice President, Server Technologies from November 1999 to October 2007 and served as Senior Vice President, Database Server from December 1996 to October 1999. He served as Vice President of Development from December 1994 to November 1996.

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Mr. Williams, 63, has been Executive Vice President, Japan Sales and Consulting since June 2008 and was Executive Vice President, Asia Pacific Sales and Consulting from October 2000 to May 2008. He served as Senior Vice President, Asia Pacific from July 1993 to October 2000 and as Vice President, Asia Pacific from April 1991 to July 1993. He joined Oracle United Kingdom in October 1988 and served as Regional Director, Strategic Accounts from October 1988 to April 1991.

Ms. Daley, 49, has been Senior Vice President, General Counsel and Secretary since October 2007. She served as Vice President, Legal, Associate General Counsel and Assistant Secretary from June 2004 to October 2007, as Associate General Counsel and Assistant Secretary from October 2001 to June 2004, and as Associate General Counsel from February 2001 to October 2001. She joined Oracle s Legal Department in 1992.

Mr. West, 46, has been Senior Vice President, Corporate Controller and Chief Accounting Officer since February 2008 and was Vice President, Corporate Controller and Chief Accounting Officer from April 2007 to February 2008. Prior to joining us, he served as Intuit Inc. s Director of Accounting from August 2005 to March 2007, as The Gap, Inc. s Assistant Controller from April 2005 to August 2005, and as Vice President, Finance, at Cadence Design Systems, Inc. s product business from June 2001 to April 2005. He also spent 14 years with Arthur Andersen LLP, most recently as a partner.

Item 1A. Risk Factors

We operate in a rapidly changing economic and technological environment that presents numerous risks, many of which are driven by factors that we cannot control or predict. The following discussion, as well as our Critical Accounting Policies and Estimates discussion in Item 7, highlights some of these risks.

Economic, political and market conditions can adversely affect our revenue growth and profitability. Our business is influenced by a range of factors that are beyond our control and that we have no comparative advantage in forecasting. These include:

- general economic and business conditions;
- the overall demand for enterprise software and services;
- governmental budgetary constraints or shifts in government spending priorities; and
- general political developments.

A general weakening of, or declining corporate confidence in, the global economy, or a curtailment in government or corporate spending could delay or decrease customer purchases. In addition, the war on terrorism, the war in Iraq and the potential for other hostilities in various parts of the world, potential public health crises and natural disasters continue to contribute to a climate of economic and political uncertainty that could adversely affect our revenue growth and results of operations. These factors generally have the strongest effect on our sales of software licenses and related services and, to a lesser extent, also affect our renewal rates for software license updates and product support.

We may fail to achieve our financial forecasts due to inaccurate sales forecasts or other factors. Our revenues, and particularly our new software license revenues, are difficult to forecast, and, as a result, our quarterly operating results can fluctuate substantially. We use a pipeline system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all proposals and estimate when a customer will make a purchase decision and the dollar amount of the sale. These estimates are aggregated periodically to generate a sales pipeline.

Our pipeline estimates can prove to be unreliable both in a particular quarter and over a longer period of time, in part because the conversion rate of the pipeline into contracts can be very difficult to estimate. A contraction in the conversion rate, or in the pipeline itself, could cause us to plan or budget incorrectly and adversely affect our business or results of operations. In particular, a slowdown in IT spending or economic conditions generally can reduce the conversion rate in particular periods as purchasing decisions are delayed, reduced in amount or cancelled. The conversion rate can also be affected by the tendency of some of our customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms, which can also impede our ability to negotiate and execute these contracts in a timely manner. In addition, for newly acquired companies, we have limited ability to predict how their pipelines will convert into sales or revenues for one or two quarters following the acquisition, and their conversion rate post-acquisition may be quite different from their historical conversion rate.

A substantial portion of our new software license revenue contracts is completed in the latter part of a quarter and a significant percentage of these are large orders. Because our cost structure is largely fixed in the short term, revenue shortfalls tend to have a disproportionately negative impact on our profitability. The number of large new software license transactions also increases the risk of fluctuation in our quarterly results because a delay in even a small number of these transactions could cause our quarterly new software licenses revenues to fall significantly short of our predictions.

Our success depends upon our ability to develop new products and services, integrate acquired products and services and enhance our existing products and services. Rapid technological advances and evolving standards in computer hardware, software development and communications infrastructure, changing and increasingly sophisticated customer needs and frequent new product introductions and enhancements characterize the enterprise software market in which we compete. If we are unable to develop new 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 renew software license updates and product support. In addition, IT standards from both consortia and formal standards-setting forums as well as de facto marketplace standards are rapidly evolving. We cannot provide any assurance that the standards on which we choose to develop new products will allow us to compete effectively for business opportunities in emerging areas.

We are developing a next generation applications platform called Oracle Fusion Applications that is planned to combine the best features, flows and usability traits of our existing and acquired applications. We have also announced that we intend to extend the life of many of our acquired applications and will continue to provide long-term support for our acquired products, both of which require us to dedicate resources. If we do not develop and release these new or enhanced products and services within the anticipated time frames, if there is a delay in market acceptance of a new, enhanced or acquired product line or service, if we do not timely optimize complementary product lines and services or if we fail to adequately integrate, support or enhance acquired application lines or services, our business may be adversely affected.

Acquisitions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction. In the past four fiscal years, we have invested billions of dollars, including $9.4 billion in fiscal 2008, to acquire a number of companies, products, services and technologies. An active acquisition program is an important element of our overall corporate strategy and we expect to continue to make similar acquisitions in the future. Risks we may face in connection with our acquisition program include:

- our ongoing business may be disrupted and our management s attention may be diverted by acquisition, transition or integration activities;

- an acquisition may not further our business strategy as we expected, or we may pay more than the acquired company or assets are worth;

- our due diligence process may fail to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company or technology, including issues with the company s intellectual property, product quality or product architecture, revenue recognition or other accounting practices or employee, customer or partner issues;

- we may have legal and tax exposures or lose anticipated tax benefits as a result of unforeseen difficulties in our integration activities;

- we may not realize the anticipated increase in our revenues if a larger than predicted number of customers decline to renew software license updates and product support, if we are unable to sell the acquired products to

our customer base or if contract models of an acquired company do not allow us to recognize revenues on a timely basis;

we may assume pre-existing contractual relationships of acquired companies that we would not have otherwise entered into, and exiting or modifying such relationships may be costly to us or disruptive to customers;

we may face litigation or other claims in connection with, or may inherit claims or litigation risk as a result of, an acquisition, including claims from terminated employees, customers, former stockholders or other third parties;

our relationship with current and new employees, customers, partners and distributors could be impaired;

we may have difficulty incorporating acquired technologies or products with our existing product lines and maintaining uniform standards, controls, procedures and policies;

we may have multiple and overlapping product lines as a result of our acquisitions that are offered, priced and supported differently, which could cause customer confusion and delays;

we may have higher than anticipated costs in continuing support and development of acquired products;

we may assume pre-existing liabilities, whether known or unknown, of acquired companies which could be material;

we may be unable to obtain required approvals from governmental authorities under competition and antitrust laws on a timely basis, if it all, which could, among other things, prevent us from completing a transaction;

we may have to delay or not proceed with a substantial acquisition if we cannot obtain the necessary funding to complete the acquisition in a timely manner;

our use of cash to pay for acquisitions may limit other potential uses of our cash, including stock repurchases and retirement of outstanding indebtedness;

we may significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition;

we may be unable to obtain timely approvals from, or may otherwise have certain limitations, restrictions, penalties or other sanctions imposed on us by, worker councils or similar bodies under applicable employment laws as a result of an acquisition, which could adversely affect our integration plans in certain jurisdictions; and

to the extent that we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease.

The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions.

We may not be able to protect our intellectual property rights. We rely on copyright, trademark, patent and trade secret laws, confidentiality procedures, controls and contractual commitments to protect our intellectual property rights. Despite our efforts, these protections may be limited. Unauthorized third parties may try to copy or reverse engineer portions of our products or otherwise obtain and use our intellectual property. Any patents owned by us may be invalidated, circumvented or challenged. Any of our pending or future patent applications, whether or not being currently challenged, may not be issued with the scope of the claims we seek, if at all. In addition, the laws of some countries do not provide the same level of protection of our intellectual property rights as do the laws and courts of the United States. If we cannot protect our intellectual property rights against unauthorized copying or use, or other misappropriation, we may not remain competitive.

Third parties have claimed and, in the future, may claim infringement or misuse of intellectual property rights and/or breach of license agreement provisions. We periodically receive notices from, or have lawsuits filed against us by, others claiming infringement, or other misuse of their intellectual property rights and/or breach of our

agreements with them. We expect the number of such claims will increase as:

- we continue to acquire companies;
- the number of products and competitors in our industry segments grows;
- the functionality of products overlap;
- the use and support of third-party code (including open source code) becomes more prevalent in the software industry; and
- the volume of issued software patents continues to increase.

Responding to any such claim, regardless of its validity, could:

- be time-consuming, costly and/or result in litigation;

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- divert management s time and attention from developing our business;
- require us to pay monetary damages or enter into royalty and licensing agreements that we would not normally find acceptable;
- require us to stop selling or to redesign certain of our products;
- require us to release source code to third parties, possibly under open source license terms;
- require us to satisfy indemnification obligations to our customers; or
- otherwise adversely affect our business, results of operations, financial condition or cash flows.

Specific patent infringement cases are discussed under Note 15 in Notes to Consolidated Financial Statements.

We may need to change our pricing models to compete successfully. The intense competition we face in the sales of our products and services and general economic and business conditions can put pressure on us to change our prices. If our competitors offer deep discounts on certain products or services, we may need to lower prices or offer other favorable terms in order to compete successfully. Any such changes may reduce margins and could adversely affect operating results. Our software license updates and product support fees are generally priced as a percentage of our net new software license fees. Our competitors may offer lower percentage pricing on product updates and support, which could put pressure on us to further discount our new license prices.

Any broad-based change to our prices and pricing policies could cause new software license and services revenues to decline or be delayed as our sales force implements and our customers adjust to the new pricing policies. Some of our competitors may bundle software products for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, significantly constrain the prices that we can charge for certain of our products. If we do not adapt our pricing models to reflect changes in customer use of our products or changes in customer demand, our new software license revenues could decrease. Additionally, increased distribution of applications through application service providers, including software-as-a-service (SaaS) providers, may reduce the average price for our products or adversely affect other sales of our products, reducing new software license revenues unless we can offset price reductions with volume increases or lower spending. The increase in open source software distribution may also cause us to change our pricing models.

We may be unable to compete effectively within the highly competitive software industry. Many vendors develop and market databases, internet application server products, application development tools, business applications, collaboration products and business intelligence products that compete with our offerings. In addition, several companies offer business process outsourcing (BPO) as a competitive alternative to buying software and customer interest in BPO solutions is increasing. Some of these competitors have greater financial or technical resources than we do. Our competitors that offer business applications and middleware products may influence a customer s purchasing decision for the underlying database in an effort to persuade potential customers not to acquire our products. We could lose customers if our competitors introduce new competitive products, add new functionality, acquire competitive products, reduce prices or form strategic alliances with other companies. Vendors that offer BPO solutions may persuade our customers not to purchase our products. We may also face increasing competition from open source software initiatives, in which competitors may provide software and intellectual property for free. Existing or new competitors could gain sales opportunities or customers at our expense.

Disruptions of our indirect sales channel could affect our future operating results. Our indirect channel network is comprised primarily of resellers, system integrators/implementers, consultants, education providers, internet service providers, network integrators and independent software vendors. Our relationships with these channel participants are important elements of our marketing and sales efforts. Our financial results could be adversely affected if our contracts with channel participants were terminated, if our relationships with channel participants were to deteriorate, if any of our competitors enter into strategic relationships with or acquire a significant channel participant or if the financial condition of our channel participants were to weaken. There can be no assurance that we will be successful in maintaining, expanding or developing our relationships with channel participants. If we are not successful, we may lose sales opportunities, customers and revenues.

Charges to earnings resulting from past acquisitions may adversely affect our operating results. Under business combination accounting standards, we allocate the total purchase price to an acquired company s net tangible assets, intangible assets and in-process research and development based on their values as of the date of the

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acquisition (including certain assets and liabilities that are recorded at fair value) and record the excess of the purchase price over those values as goodwill. Management s estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain. After we complete an acquisition, the following factors could result in material charges that would adversely affect our operating results and may adversely affect our cash flows:

- impairment of goodwill or intangible assets;
- a reduction in the useful lives of intangible assets acquired;
- identification of assumed contingent liabilities after we finalize the purchase price allocation period;
- charges to our operating results to eliminate certain Oracle pre-merger activities that duplicate those of the acquired company or to reduce our cost structure; and
- charges to our operating results resulting from revised estimates to restructure an acquired company s operations after we finalize the purchase price allocation period.

Routine charges to our operating results associated with acquisitions include amortization of intangible assets, in-process research and development as well as other acquisition related charges, restructuring and stock-based compensation associated with assumed stock awards. Charges to our operating results in any given period could differ substantially from other periods based on the timing and size of our future acquisitions and the extent of integration activities. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Supplemental Disclosure Related to Certain Charges and Gains for additional information about charges to earnings associated with our recent acquisitions.

We expect to continue to incur additional costs associated with combining the operations of our acquired companies, which may be substantial. Additional costs may include costs of employee redeployment, relocation and retention, including salary increases or bonuses, accelerated stock-based compensation expenses and severance payments, reorganization or closure of facilities, taxes, and termination of contracts that provide redundant or conflicting services. Some of these costs may have to be accounted for as expenses that would decrease our net income and earnings per share for the periods in which those adjustments are made.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 141 (revised 2007), *Business Combinations* (see Note 1 of Notes to Consolidated Financial Statements for a summary of Statement 141(R)). Statement 141(R) is effective for us beginning in fiscal 2010. We are in the process of evaluating the impact of the pending adoption of Statement 141(R) on our consolidated financial statements. We currently believe that the adoption of Statement 141(R) will result in the recognition of certain types of expenses in our results of operations that we currently capitalize pursuant to existing accounting standards and may also impact our financial statements in other ways.

We may be unable to hire enough qualified employees or we may lose key employees. We rely on the continued service of our senior management, including our Chief Executive Officer, members of our executive team and other key employees and the hiring of new qualified employees. In the software industry, there is substantial and continuous competition for highly skilled business, product development, technical and other personnel. In addition, acquisitions could cause us to lose key personnel of the acquired companies or at Oracle. We may also experience increased compensation costs that are not offset by either improved productivity or higher prices. We may not be successful in recruiting new personnel and in retaining and motivating existing personnel. With rare exceptions, we do not have long-term employment or non-competition agreements with our employees. Members of our senior management team have left Oracle over the years for a variety of reasons, and we cannot assure you that there will not be additional

departures, which may be disruptive to our operations.

We continually focus on improving our cost structure by hiring personnel in countries where advanced technical expertise is available at lower costs. When we make adjustments to our workforce, we may incur expenses associated with workforce reductions that delay the benefit of a more efficient workforce structure. We may also experience increased competition for employees in these countries as the trend toward globalization continues which may affect our employee retention efforts and/or increase our expenses in an effort to offer a competitive compensation program.

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Part of our total compensation program includes stock options. Stock options are an important tool in attracting and retaining employees in our industry. If our stock price performs poorly, it may adversely affect our ability to retain or attract employees. In addition, because we expense all stock-based compensation, we may in the future change our stock-based and other compensation practices. Some of the changes we consider from time to time include the reduction in the number of employees granted options, a reduction in the number of options granted per employee and a change to alternative forms of stock-based compensation. Any changes in our compensation practices or changes made by competitors could affect our ability to retain and motivate existing personnel and recruit new personnel.

Our international sales and operations subject us to additional risks that can adversely affect our operating results. We derive a substantial portion of our revenues, and have significant operations, outside of the United States. Our international operations include software development, sales, customer support, consulting, On Demand and shared administrative service centers. We are subject to a variety of risks and challenges in managing an organization operating in various countries, including those related to:

- general economic conditions in each country or region;
- regulatory changes;
- political unrest, terrorism and the potential for other hostilities;
- public health risks, particularly in areas in which we have significant operations;
- longer payment cycles and difficulties in collecting accounts receivable;
- overlapping tax regimes;
- fluctuations in currency exchange rates;
- difficulties in transferring funds from certain countries; and
- reduced protection for intellectual property rights in some countries.

In addition, compliance with international and U.S. laws and regulations that apply to our international operations increases our cost of doing business in foreign jurisdictions. These laws and regulations include data privacy requirements, labor relations laws, tax laws, anti-competition regulations, import and trade restrictions, export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws which also prohibit corrupt payments to governmental officials. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to offer our products and services in one or more countries, could delay or prevent potential acquisitions, and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties.

As the majority shareholder of i-flex solutions limited, a publicly traded Indian software company focused on the banking industry, we are faced with several additional risks, including being subject to local securities regulations and being unable to exert full control or obtain financial and other information on a timely basis.

We may experience foreign currency gains and losses. We conduct a significant number of transactions in currencies other than the U.S. Dollar. Our revenues and operating results are adversely affected when the dollar

strengthens relative to other currencies and are positively affected when the dollar weakens. Our revenues and operating results have recently been favorably affected by the weakening U.S. Dollar relative to other major foreign currencies. Changes in the value of major foreign currencies, particularly the Euro, Japanese Yen and British Pound relative to the U.S. Dollar can significantly affect revenues and our operating results.

Our foreign currency transaction gains and losses, primarily related to sublicense fees and other agreements among us and our subsidiaries and distributors, are charged against earnings in the period incurred. We enter into foreign exchange forward contracts to hedge certain transaction and translation exposures in major currencies, but we will continue to experience foreign currency gains and losses in certain instances where it is not possible or cost effective to hedge foreign currencies.

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Our periodic workforce restructurings can be disruptive. We have in the past restructured or made other adjustments to our workforce, including our direct sales force on which we continue to rely heavily, in response to management changes, product changes, performance issues, acquisitions and other internal and external considerations. In the past, sales force and other restructurings have generally resulted in a temporary lack of focus and reduced productivity. These effects could recur in connection with future acquisitions and other restructurings and our revenues could be negatively affected.

Oracle On Demand and CRM On Demand may not be successful. We offer Oracle On Demand outsourcing services for our applications and database technology, delivered either at our data center facilities, at select partner data centers or at customer facilities. We also offer CRM On Demand, which is a subscription service offering that provides our customers with our CRM software functionality delivered via a hosted, web-based solution that we manage. These business models continue to evolve and we may not be able to compete effectively, generate significant revenues or develop them into profitable businesses. We incur expenses associated with the infrastructures and marketing of our Oracle On Demand and CRM On Demand businesses in advance of our ability to recognize the revenues associated with these offerings. These businesses are subject to a variety of risks including:

- demand for these services may not meet our expectations;
- we may not be able to operate these businesses at an acceptable profit level;
- we manage critical customer applications, data and other confidential information through Oracle On Demand and CRM On Demand; accordingly, we face increased exposure to significant damage claims and risk to future business prospects in the event of system failures, inadequate disaster recovery or loss or misappropriation of customer confidential information;
- we may face regulatory exposure in certain areas such as data privacy, data security and export compliance, as well as workforce reduction claims as a result of customers transferring their IT functions to us;
- the laws and regulations applicable to hosted service providers are unsettled, particularly in the areas of privacy and security and use of global resources; changes in these laws could affect our ability to provide services from or to some locations and could increase both the costs and risks associated with providing the services;
- demand for these services may be affected by customer and media concerns about security risks, international transfers of data, government or other third-party access to data, and/or use of outsourced services providers more generally; and
- our offerings may require large fixed costs such as for data centers, computers, network infrastructure and security and we may not be able to generate sufficient revenues to offset these costs and generate acceptable operating margins from these offerings.

We might experience significant errors or security flaws in our products and services. Despite testing prior to their release, software products frequently contain errors or security flaws, especially when first introduced or when new versions are released. The detection and correction of any security flaws can be time consuming and costly. Errors in our software products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. If we experience errors or delays in releasing new products or new versions of products, we could lose revenues. In addition, we run our own business operations, Oracle On Demand, CRM On Demand and other outsourcing services, support and consulting services, on our products and networks and any security flaws, if exploited, could affect our ability to conduct internal business operations. End users, who rely on our products and

services for applications that are critical to their businesses, may have a greater sensitivity to product errors and security vulnerabilities than customers for software products generally. Software product errors and security flaws in our products or services could expose us to product liability, performance and/or warranty claims as well as harm our reputation, which could impact our future sales of products and services. In addition, we may be legally required to publicly report security breaches of our services, which could adversely impact future business prospects for those services.

We may not receive significant revenues from our current research and development efforts for several years, if at all. Developing and localizing software is expensive and the investment in product development often involves

a long return on investment cycle. We have made and expect to continue to make significant investments in software research and development and related product opportunities. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect our operating results if not offset by revenue increases. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, we do not expect to receive significant revenues from these investments for several years if at all.

Our sales to government clients subject us to risks including early termination, audits, investigations, sanctions and penalties. We derive revenues from contracts with the United States government, state and local governments and their respective agencies, which may terminate most of these contracts at any time, without cause.

There is increased pressure for governments and their agencies, both domestically and internationally, to reduce spending. Our federal government contracts are subject to the approval of appropriations being made by the United States Congress to fund the expenditures under these contracts. Similarly, our contracts at the state and local levels are subject to government funding authorizations.

Additionally, government contracts are generally subject to audits and investigations which could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

Business disruptions could affect our operating results. A significant portion of our research and development activities and certain other critical business operations is concentrated in a few geographic areas. We are a highly automated business and a disruption or failure of our systems could cause delays in completing sales and providing services, including some of our On Demand offerings. A major earthquake, fire or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be materially and adversely affected.

There are risks associated with our outstanding indebtedness. As of May 31, 2008, we had an aggregate of $11.2 billion of outstanding indebtedness that will mature between 2009 and 2038, and we may incur additional indebtedness in the future. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

We may also need to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of our existing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. In addition, changes by any rating agency to our outlook or credit rating could negatively affect the value of both our debt and equity securities. These risks could adversely affect our financial condition and results of operations.

Adverse litigation results could affect our business. We are subject to various legal proceedings. Litigation can be lengthy, expensive and disruptive to our operations, and results cannot be predicted with certainty. An adverse decision could result in monetary damages or injunctive relief that could affect our business, operating results or financial condition. Additional information regarding certain of the lawsuits we are involved in is discussed under Note 15 in Notes to Consolidated Financial Statements.

We may have exposure to additional tax liabilities. As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities.

In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Our intercompany transfer pricing is currently being reviewed by the IRS and by foreign tax jurisdictions and will likely be subject to additional audits in the future. We previously negotiated three unilateral Advance Pricing Agreements with the IRS

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

Although we believe that our tax estimates are reasonable, there is no assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals.

We are also subject to non-income based taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the United States and various foreign jurisdictions. We are regularly under audit by tax authorities with respect to these non-income based taxes and may have exposure to additional non-income based tax liabilities. Our acquisition activities have increased our non-income based tax exposures.

PeopleSoft s Customer Assurance Program may expose us to substantial liabilities if triggered. In June 2003, in response to our tender offer, PeopleSoft implemented what it referred to as the customer assurance program or CAP . The CAP incorporated a provision in PeopleSoft s standard licensing arrangement that purports to contractually burden us, as a result of our acquisition of PeopleSoft, with a contingent obligation to make payments to PeopleSoft customers should we fail to take certain business actions for a fixed period of time after this acquisition. The payment obligation, which typically expires four years from the date of the contract, is fixed at an amount generally between two and five times the license and first year support fees paid to PeopleSoft in the applicable license transaction. We concluded that, as of the date of the PeopleSoft acquisition, the penalty provisions under the CAP represented a contingent liability of ours. The aggregate potential CAP obligation as of May 31, 2008 was $1.9 billion. Some of the CAP provisions have expired or have been removed from these license arrangements. We expect the significant majority of the remaining CAP provisions to expire by the end of calendar 2008. While we have taken extensive steps to assure customers that we intend to continue developing and supporting the PeopleSoft and JD Edwards product lines and, as of May 31, 2008, we have not received any claims for CAP payments, PeopleSoft customers may assert claims for CAP payments.

Our stock price could become more volatile and your investment could lose value. All of the factors discussed in this section could affect our stock price. The timing of announcements in the public market regarding new products, product enhancements or technological advances by our competitors or us, and any announcements by us of acquisitions, major transactions, or management changes could also affect our stock price. Our stock price is subject to speculation in the press and the analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors or analysts valuation measures for our stock, our credit ratings and market trends unrelated to our performance. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management s attention and resources, which could adversely affect our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our properties consist of owned and leased office facilities for sales, support, research and development, consulting and administrative personnel. Our headquarters facility consists of approximately 2.0 million square feet in Redwood City, California. We also own or lease office facilities for current use consisting of approximately 17.9 million square feet in various other locations in the United States and abroad. Due to our restructuring and merger integration activities over the past three fiscal years, we have vacated approximately 3.8 million square feet

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or 19% of total owned and leased space. This vacated space is sublet or is being actively marketed for sublease or disposition.

Item 3. Legal Proceedings

The material set forth in Note 15 of Notes to Consolidated Financial Statements in Item 15 of this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market under the symbol ORCL and has been traded on NASDAQ since our initial public offering in 1986. According to the records of our transfer agent, we had 20,505 stockholders of record as of May 31, 2008. The following table sets forth the low and high sale price of our common stock, based on the last daily sale, in each of our last eight fiscal quarters.

	Fiscal 2008		Fiscal 2007	
	Low Sale Price	High Sale Price	Low Sale Price	High Sale Price
Fourth Quarter	$ 18.44	$ 22.84	$ 16.37	$ 19.42
Third Quarter	$ 18.80	$ 23.11	$ 16.29	$ 19.28
Second Quarter	$ 19.36	$ 22.92	$ 15.50	$ 19.66
First Quarter	$ 18.73	$ 20.78	$ 13.15	$ 15.81

Our policy has been to reinvest earnings to fund future growth, acquisitions and to repurchase our common stock pursuant to a program approved by our Board of Directors. Accordingly, we have not paid cash dividends and do not anticipate declaring cash dividends on our common stock in the foreseeable future, although our Board of Directors reviews this matter from time to time.

For equity compensation plan information, please refer to Item 12 in Part III of this Annual Report.

Stock Repurchase Programs

Our Board of Directors has approved a program to repurchase shares of our common stock to reduce the dilutive effect of our stock option and stock purchase plans. In April 2007, our Board of Directors expanded our repurchase program by $4.0 billion and, as of May 31, 2008, $2.2 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, our debt repayment obligations, our stock price, and economic and market conditions. Our stock repurchases may be effected from time to time through open market purchases or pursuant to a Rule 10b5-1 plan. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

The following table summarizes the stock repurchase activity for the three months ending May 31, 2008 and the approximate dollar value of shares that may yet be purchased pursuant to our share repurchase programs:

	Total Number of Shares	Average	Total Number of Shares Purchased as Part of Publicly	Approximate Dollar Value of Shares that

(in millions, except per share amounts)	Purchased	Price Paid per Share	Announced Programs	May Yet Be Purchased Under the Programs
March 1, 2008 March 31, 2008	8.1	$ 19.63	8.1	$ 2,550.8
April 1, 2008 April 30, 2008	8.4	$ 20.87	8.4	$ 2,376.1
May 1, 2008 May 31, 2008	7.6	$ 21.89	7.6	$ 2,209.4
Total	24.1	$ 20.76	24.1	

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Stock Performance Graph and Cumulative Total Return

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the S&P s 500 Index and the Dow Jones U.S. Software Index for each of the last five fiscal years ended May 31, 2008, assuming an investment of $100 at the beginning of such period and the reinvestment of any dividends. The comparisons in the graphs below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN*
AMONG ORACLE CORPORATION, THE S&P 500 INDEX
AND THE DOW JONES U.S. SOFTWARE INDEX

* $100 INVESTED ON MAY 31, 2003 IN STOCK OR
INDEX-INCLUDING REINVESTMENT OF DIVIDENDS.

	5/03	**5/04**	**5/05**	**5/06**	**5/07**	**5/08**
Oracle Corporation	100.00	87.62	98.39	109.30	148.96	175.56
S&P 500 Index	100.00	118.32	128.07	139.13	170.84	159.40
Dow Jones U.S. Software Index	100.00	109.22	119.48	113.63	151.06	149.95

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Item 6. Selected Financial Data

The following table sets forth selected financial data as of and for the last five fiscal years. This selected financial data should be read in conjunction with the consolidated financial statements and related notes included in Item 15 of this Form 10-K. Over the last four fiscal years, we have invested billions of dollars, including $9.4 billion in fiscal 2008, for our acquisitions of a number of companies including PeopleSoft, BEA, Siebel and Hyperion. The results of our acquired companies have been included in our consolidated financial statements since their respective dates of acquisition and have contributed to our growth in revenues, income and earnings per share.

	As of and For The Year Ended May 31,				
(in millions, except per share amounts)	2008	2007	2006	2005	2004
Consolidated Statements of Operations Data:					
Total revenues	$ 22,430	$ 17,996	$ 14,380	$ 11,799	$ 10,156
Operating income	$ 7,844	$ 5,974	$ 4,736	$ 4,022	$ 3,864
Net income	$ 5,521	$ 4,274	$ 3,381	$ 2,886	$ 2,681
Earnings per share basic	$ 1.08	$ 0.83	$ 0.65	$ 0.56	$ 0.51
Earnings per share diluted	$ 1.06	$ 0.81	$ 0.64	$ 0.55	$ 0.50
Basic weighted average common shares outstanding	5,133	5,170	5,196	5,136	5,215
Diluted weighted average common shares outstanding	5,229	5,269	5,287	5,231	5,326
Consolidated Balance Sheets Data:					
Working capital	$ 8,074	$ 3,496	$ 5,044(1)	$ 385(2)	$ 7,064
Total assets	$ 47,268(3)	$ 34,572(3)	$ 29,029(3)	$ 20,687(3)	$ 12,763
Notes payable, current and other current borrowings	$ 1,001(4)	$ 1,358(4)	$ 159	$ 2,693(4)	$ 9
Notes payable and other non-current borrowings	$ 10,235(5)	$ 6,235(5)	$ 5,735(5)	$ 159	$ 163
Stockholders equity	$ 23,025	$ 16,919	$ 15,012	$ 10,837	$ 7,995

(1) Total working capital increased as of May 31, 2006 primarily due to the issuance of $5.75 billion in long-term senior notes and increased cash flows from operations.

(2) Total working capital decreased as of May 31, 2005 primarily due to cash paid to acquire PeopleSoft.

(3) Total assets increased as of May 31, 2008, 2007, 2006 and 2005 primarily due to goodwill and intangible assets arising from the acquisitions of BEA in fiscal 2008, Hyperion in fiscal 2007, Siebel in fiscal 2006 and PeopleSoft in fiscal 2005, as well as our profitability in all periods presented. See Note 2 of Notes to Consolidated Financial Statements for additional information on our acquisitions.

(4) Notes payable, current and other current borrowings decreased in fiscal 2008 due to repayments of amounts borrowed under our commercial paper program during fiscal 2007 partially offset by the reclassification of $1.0 billion of senior notes that mature in 2009. Notes payable, current and other current borrowings increased in fiscal 2005 due to amounts borrowed under our commercial paper program and amounts borrowed by Oracle Technology Company, a wholly-owned subsidiary. We repaid these fiscal 2005 borrowings in fiscal 2006.

(5) Notes payable and other non-current borrowings increased between fiscal 2006 and fiscal 2008 due to the issuances of $5.0 billion of long-term senior notes in fiscal 2008, $2.0 billion of long-term senior notes in fiscal 2007 and $5.75 billion of long-term senior notes in fiscal 2006, partially offset by redemptions of $1.5 billion in fiscal 2007. See Note 6 of Notes to Consolidated Financial Statements for additional information on our borrowings.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

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

Software Business

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

New Software Licenses: We license our database and middleware as well as our applications software to businesses of many sizes, government agencies, educational institutions and resellers. The growth in new software license revenues is affected by the strength of general economic and business conditions, governmental budgetary constraints, the competitive position of our software products and acquisitions. Our new software license business is also characterized by long sales cycles. The timing of a few large software license transactions can substantially affect our quarterly new software license revenues. Since our new software license revenues in a particular quarter can be difficult to predict as a result of the timing of a few large software license transactions, we believe that analysis of new software license revenues on a trailing 4-quarter period (as provided in our quarterly reports on Form 10-Q) provides additional visibility into the underlying performance of our new software license business. New software license revenues represented 34%, 33% and 34% of our total revenues in fiscal 2008, 2007 and 2006, respectively. Our new software license margins have been and will continue to be affected by the amortization of intangible assets associated with companies we have acquired.

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

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

Software license updates and product support revenues, which represented 46% of our total revenues in fiscal 2008, 2007 and 2006, is our highest margin business unit. Support margins during fiscal 2008 were 85%, and accounted for 76% of our total margins over the same period. We believe that software license updates and product support revenues and margins will continue to grow for the following reasons:

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

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

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

We record adjustments to reduce support obligations assumed in business acquisitions to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize software license updates and product support revenues related to support contracts that would have been otherwise recorded by the acquired businesses as independent entities in the amount of $179 million, $212 million and $391 million in fiscal 2008, 2007 and 2006, respectively. To the extent underlying support contracts are renewed with us following an acquisition, we will recognize the revenues for the full value of the support contracts over the support periods, the majority of which are one year.

Services Business

Our services business consists of consulting, On Demand and education. Our services business, which represented 20%, 21% and 20% of our total revenues in fiscal 2008, 2007 and 2006, respectively, has significantly lower margins than our software business.

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

On Demand: On Demand includes Oracle On Demand, CRM on Demand, as well as Advanced Customer Services offerings. We believe that our On Demand offerings provide our customers flexibility in how they manage their IT environments and an additional opportunity to lower their total cost of ownership and can therefore provide us with a competitive advantage. We have made and plan to continue to make investments in our On Demand business to support current and future revenue growth, which has negatively impacted On Demand margins and may continue to do so in the future.

Education: The purpose of our education services is to further the adoption and usage of our software products by our customers and to create opportunities to grow our software revenues. Education revenues have been impacted by personnel reductions in our customers information technology departments, tighter controls over discretionary spending and greater use of outsourcing solutions. However, education revenues and expenses have increased in recent periods in comparison to the corresponding periods of the prior year as a result of additional education offerings related to our acquired products.

Acquisitions

An active acquisition program is another important element of our corporate strategy. Over the last four fiscal years, we have invested billions of dollars, including $9.4 billion in fiscal 2008, to acquire a number of complementary companies, products, services and technologies such as BEA Systems, Inc. in fiscal 2008, Hyperion Solutions Corporation in fiscal 2007, Siebel Systems, Inc. in fiscal 2006 and PeopleSoft, Inc. in fiscal 2005. We believe our acquisition program supports our long-term strategic direction, strengthens our competitive position, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings, and increases stockholder value. We expect to continue to acquire companies, products, services and technologies. See Note 2 of Notes to Consolidated Financial Statements for additional information related to our recent acquisitions.

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

Critical Accounting Policies and Estimates

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

- Revenue Recognition
- Business Combinations
- Goodwill and Intangible Assets Impairment Assessments
- Accounting for Income Taxes
- Legal and Other Contingencies
- Stock-Based Compensation
- Allowances for Doubtful Accounts

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

Revenue Recognition

We derive revenues from the following sources: (1) software, which includes new software license and software license updates and product support revenues, and (2) services, which include consulting, On Demand and education revenues.

New software license revenues represent fees earned from granting customers licenses to use our database, middleware and applications software, and exclude revenues derived from software license updates, which are included in software license updates and product support. While the basis for software license revenue recognition is substantially governed by the provisions of Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, issued by the American Institute of Certified Public Accountants, we exercise judgment and use estimates in connection with the determination of the amount of software and services revenues to be recognized in each accounting period.

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize new software license revenue when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) customer payment is deemed fixed or

determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Substantially all of our new software license revenues are recognized in this manner.

The vast majority of our software license arrangements include software license updates and product support, which are recognized ratably over the term of the arrangement, typically one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period. Product support includes internet access to technical content, as well as internet and telephone access to technical support personnel located in our global support centers. Software license updates and product support are generally priced as a percentage of the net new software license fees. Substantially all of our customers purchase both software license updates and product support when they acquire new software licenses. In addition, substantially all of our customers renew their software license updates and product support contracts annually.

Many of our software arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenues from these arrangements are generally accounted for separately from new software license revenues because the arrangements qualify as service transactions as defined in SOP 97-2. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments and impact of milestones or acceptance criteria on the realizability of the software license fee. Revenues for consulting services are generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenues are deferred until the uncertainty is sufficiently resolved. We estimate the proportional performance on contracts with fixed or not to exceed fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If we do not have a sufficient basis to measure progress towards completion, revenue is recognized when we receive final acceptance from the customer. When total cost estimates exceed revenues, we accrue for the estimated losses immediately using cost estimates that are based upon an average fully burdened daily rate applicable to the consulting organization delivering the services. The complexity of the estimation process and factors relating to the assumptions, risks and uncertainties inherent with the application of the proportional performance method of accounting affects the amounts of revenues and related expenses reported in our consolidated financial statements. A number of internal and external factors can affect our estimates, including labor rates, utilization and efficiency variances and specification and testing requirement changes.

If an arrangement does not qualify for separate accounting of the software license and consulting transactions, then new software license revenues are generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method. Contract accounting is applied to any arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license fees; (2) where services include significant modification or customization of the software; (3) where significant consulting services are provided for in the software license contract without additional charge or are substantially discounted; or (4) where the software license payment is tied to the performance of consulting services.

On Demand is comprised of Oracle On Demand, CRM On Demand and Advanced Customer Services. Oracle On Demand provides multi-featured software and hardware management and maintenance services for our database, middleware and applications software delivered either at our data center facilities, at select partner data centers or at customer facilities. CRM On Demand is a service offering that provides our customers with our Siebel CRM software functionality delivered via a hosted solution that we manage. Advanced Customer Services are earned by providing customers configuration and performance analysis, personalized support and annual on-site technical services. Revenue from On Demand services is recognized over the term of the service period, which is generally one year.

Education revenues include instructor-led, media-based and internet-based training in the use of our products. Education revenues are recognized as the classes or other education offerings are delivered.

For arrangements with multiple elements, we allocate revenue to each element of a transaction based upon its fair value as determined by vendor specific objective evidence. Vendor specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately, and for software license updates and product support services is also measured by the renewal rate offered to the customer. We may modify our pricing practices in the future, which could result in changes in our vendor specific objective evidence of fair value for these undelivered elements. As a result, our future revenue recognition for multiple element arrangements could differ significantly from our historical results.

We defer revenues for any undelivered elements, and recognize revenues when the product is delivered or over the period in which the service is performed, in accordance with our revenue recognition policy for each such element. If we cannot objectively determine the fair value of any undelivered element included in bundled software and service

arrangements, we defer revenues until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, we use the residual method to record revenue if the fair value of all undelivered

elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Substantially all of our software license arrangements do not include acceptance provisions. However, if acceptance provisions exist as part of public policy, for example in agreements with government entities when acceptance periods are required by law, or within previously executed terms and conditions that are referenced in the current agreement and are short-term in nature, we generally recognize revenues upon delivery provided the acceptance terms are perfunctory and all other revenue recognition criteria have been met. If acceptance provisions are not perfunctory (for example, acceptance provisions that are long-term in nature or are not included as standard terms of an arrangement), revenues are recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

We also evaluate arrangements with governmental entities containing fiscal funding or termination for convenience provisions, when such provisions are required by law, to determine the probability of possible cancellation. We consider multiple factors, including the history with the customer in similar transactions, the essential use of the software licenses and the planning, budgeting and approval processes undertaken by the governmental entity. If we determine upon execution of these arrangements that the likelihood of cancellation is remote, we then recognize revenues once all of the criteria described above have been met. If such a determination cannot be made, revenues are recognized upon the earlier of cash receipt or approval of the applicable funding provision by the governmental entity.

We assess whether fees are fixed or determinable at the time of sale and recognize revenues if all other revenue recognition requirements are met. Our standard payment terms are net 30 days. However, payment terms may vary based on the country in which the agreement is executed. Payments that are due within six months are generally deemed to be fixed or determinable based on our successful collection history on such arrangements, and thereby satisfy the required criteria for revenue recognition.

While most of our arrangements include short-term payment terms, we have a standard practice of providing long-term financing to credit worthy customers through our financing division. Since fiscal 1989, when our financing division was formed, we have established a history of collection, without concessions, on these receivables with payment terms that generally extend up to five years from the contract date. Provided all other revenue recognition criteria have been met, we recognize new software license revenues for these arrangements upon delivery, net of any payment discounts from financing transactions. We have generally sold receivables financed through our financing division on a non-recourse basis to third party financing institutions. We account for the sale of these receivables as true sales as defined in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Our customers include several of our suppliers and on rare occasion, we have purchased goods or services for our operations from these vendors at or about the same time that we have licensed our software to these same companies (Concurrent Transaction). Software license agreements that occur within a three-month time period from the date we have purchased goods or services from that same customer are reviewed for appropriate accounting treatment and disclosure. When we acquire goods or services from a customer, we negotiate the purchase separately from any software license transaction, at terms we consider to be at arm s length, and settle the purchase in cash. We recognize new software license revenues from Concurrent Transactions if all of our revenue recognition criteria are met and the goods and services acquired are necessary for our current operations.

Business Combinations

In accordance with Financial Accounting Standards Board (FASB) Statement No. 141, *Business Combinations*, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed

as well as to in-process research and development based upon their estimated fair values at the acquisition date. The purchase price allocation process requires management to make significant estimates and assumptions, especially at acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities and pre-acquisition contingencies.

Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents;
- expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed;
- the acquired company s brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company s product portfolio; and
- discount rates.

Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

In connection with the purchase price allocations for our acquisitions, we estimate the fair value of the support obligations assumed. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical direct costs related to providing the support services and to correct any errors in the software products acquired. The sum of these costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation. We do not include any costs associated with selling efforts or research and development or the related fulfillment margins on these costs. Profit associated with any selling efforts is excluded because the acquired entities would have concluded those selling efforts on the support contracts prior to the acquisition date. We also do not include the estimated research and development costs in our fair value determinations, as these costs are not deemed to represent a legal obligation at the time of acquisition.

As a result, we did not recognize software license updates and product support revenues related to support contracts in the amounts of $179 million, $212 million and $391 million that would have been otherwise recorded by the acquired businesses as independent entities in fiscal 2008, 2007 and 2006, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their contracts when the contracts are eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full value of the support contracts over the support periods, the substantial majority of which are one year.

Had we included costs for our estimated selling and research and development activities and the associated margin for unspecified product upgrades and enhancements to be provided under our assumed support arrangements, the fair values of the support obligations would have been significantly higher than what we had recorded and we would have recorded a higher amount of software license updates and product support revenues both historically and in future periods related to these assumed support arrangements.

Other significant estimates associated with the accounting for business combinations include restructuring costs. Restructuring costs are typically comprised of severance costs, costs of consolidating duplicate facilities and contract termination costs. Restructuring expenses are based upon plans that have been committed to by management, but are generally subject to refinement during the purchase price allocation period (generally within one year of the acquisition date). To estimate restructuring expenses, management utilizes assumptions of the number of employees

that would be involuntarily terminated and of future costs to operate and eventually vacate duplicate facilities. Estimated restructuring expenses may change as management executes the approved plan. Decreases to the cost estimates of executing the currently approved plans associated with pre-merger activities of the companies we acquire are recorded as an adjustment to goodwill indefinitely, whereas increases to the estimates are recorded as an adjustment to goodwill during the purchase price allocation period and as operating expenses thereafter.

For a given acquisition, we may identify certain pre-acquisition contingencies. If, during the purchase price allocation period, we are able to determine the fair value of a pre-acquisition contingency, we will include that amount in the purchase price allocation. If, as of the end of the purchase price allocation period, we are unable to

determine the fair value of a pre-acquisition contingency, we will evaluate whether to include an amount in the purchase price allocation based on whether it is probable a liability had been incurred and whether an amount can be reasonably estimated. With the exception of unresolved income tax matters, after the end of the purchase price allocation period, any adjustment to amounts recorded for a pre-acquisition contingency will be included in our operating results in the period in which the adjustment is determined.

In fiscal 2010, we will adopt FASB Statement No. 141 (revised 2007), *Business Combinations*. Refer to Note 1 of Notes to Consolidated Financial Statements for additional information.

Goodwill and Intangible Assets Impairment Assessments

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The provisions of Statement 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are consistent with the reportable segments identified in Note 13 of Notes to Consolidated Financial Statements. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. Our most recent annual goodwill impairment analysis, which was performed during the fourth quarter of fiscal 2008, did not result in an impairment charge.

We make judgments about the recoverability of purchased intangible assets whenever events or changes in circumstances indicate that an other than temporary impairment may exist. Each period we evaluate the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Assumptions and estimates about future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the historical assumptions and estimates we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. We did not recognize any intangible asset impairment charges in fiscal 2008, 2007 or 2006.

Accounting for Income Taxes

Significant judgment is required in determining our worldwide income tax provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and cost reimbursement arrangements among related entities, the process of identifying items of revenues and expenses that qualify for preferential tax treatment, and segregation of foreign and domestic earnings and expenses to avoid double taxation. Although we believe that our estimates are reasonable, the final tax outcome of these matters could be different from that which is reflected in our

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historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision and net income in the period in which such determination is made.

Our effective tax rate includes the impact of certain undistributed foreign earnings for which no U.S. taxes have been provided because such earnings are planned to be indefinitely reinvested outside the United States. Remittances of foreign earnings to the U.S. are planned based on projected cash flow, working capital and investment needs of our foreign and domestic operations. Based on these assumptions, we estimate the amount that will be distributed to the U.S. and provide U.S. federal taxes on these amounts. Material changes in our estimates could impact our effective tax rate.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income in those jurisdictions where the deferred tax assets are located. We consider future growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such a determination. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the global tax implications are known, which can materially impact our effective tax rate.

The amount of income tax we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statutes of limitation on potential assessments expire. Additionally, the jurisdictions in which our earnings or deductions are realized may differ from our current estimates. As a result, our effective tax rate may fluctuate significantly on a quarterly basis.

As part of our accounting for business combinations, some of the purchase price is allocated to goodwill and intangible assets. Impairment charges associated with goodwill are generally not tax deductible and will result in an increased effective income tax rate in the quarter any impairment is recorded. Amortization expenses associated with acquired intangible assets are generally not tax deductible pursuant to our existing tax structure; however, deferred taxes have been recorded for non-deductible amortization expenses as a part of the purchase price allocation process. We have taken into account the allocation of these identified intangibles among different taxing jurisdictions, including those with nominal or zero percent tax rates, in establishing the related deferred tax liabilities. Income tax contingencies existing as of the acquisition dates of the acquired companies are evaluated quarterly and any adjustments are recorded as adjustments to goodwill.

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

uncertain tax positions, no assurance can be given with respect to the final outcome of these matters. We adjust reserves for our uncertain tax positions due to changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will impact our provision for income taxes in the period in which such a determination is made. Our provisions for income taxes include the impact of reserve provisions and changes to reserves that are considered appropriate and also include the related interest and penalties.

Legal and Other Contingencies

We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

As a result of our acquisition of PeopleSoft in fiscal 2005, we inherited contingent liabilities resulting from a program PeopleSoft had implemented prior to the consummation of our acquisition of PeopleSoft (referred to as the customer assurance program or CAP). See Note 9 of Notes to Consolidated Financial Statements for further information.

Stock-Based Compensation

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

We are required to estimate the stock awards that we ultimately expect to vest and to reduce stock-based compensation expense for the effects of estimated forfeitures of awards over the expense recognition period. Although we estimate forfeitures based on historical experience, actual forfeitures in the future may differ. In addition, to the extent our actual forfeitures are different than our estimates, we record a true-up for the difference in the period that the awards vest, and such true-ups could materially affect our operating results.

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

We estimate the fair value of employee stock options using a Black-Scholes valuation model. The fair value of an award is affected by our stock price on the date of grant as well as other assumptions including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption we use is based upon United States treasury interest rates appropriate for the expected life of the awards. We use the implied volatility of our publicly traded, longest-term options in order to estimate future stock price trends as we believe that implied volatility is more representative of future stock price trends than historical volatility. In order to determine the estimated period of time that we expect employees to hold their stock options, we have used historical rates of employee groups by job classification. Our expected dividend rate is zero since we do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The aforementioned inputs entered into the option valuation model we

use to fair value our stock awards are subjective estimates and changes to these estimates will cause the fair value of our stock awards and related stock-based compensation expense we record to vary.

We record deferred tax assets for stock-based awards that result in deductions on our income tax returns, based on the amount of stock-based compensation recognized and the statutory tax rate in the jurisdiction in which we will

receive a tax deduction. Because the deferred tax assets we record are based upon the stock-based compensation expenses in a particular jurisdiction, the aforementioned inputs that affect the fair value of our stock awards also indirectly affect our income tax expense. In addition, differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on our income tax returns are recorded in additional paid-in capital. If the tax deduction is less than the deferred tax asset, such shortfalls reduce our pool of excess tax benefits. If the pool of excess tax benefits is reduced to zero, then subsequent shortfalls would increase our income tax expense. Our pool of excess tax benefits is computed in accordance with the alternative transition method as prescribed under FASB Staff Position FAS 123R-3, *Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards*.

To the extent we change the terms of our employee stock-based compensation programs or refine different assumptions in future periods such as forfeiture rates that differ from our estimates, the stock-based compensation expense that we record in future periods and the tax benefits that we realize may differ significantly from what we have recorded in previous reporting periods.

Allowances for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable, the collection history associated with the geographic region that the receivable was recorded and current economic trends. If the historical data we use to calculate the allowances for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and our future results of operations could be materially affected.

Results of Operations

The comparability of our operating results in fiscal 2008 compared to fiscal 2007 is primarily impacted by our acquisition of Hyperion in our fourth quarter of fiscal 2007, our acquisition of Agile Software, Inc. in our first quarter of fiscal 2008 and our acquisition of BEA in our fourth quarter of fiscal 2008.

The comparability of our operating results in fiscal 2007 in comparison to fiscal 2006 is impacted by our acquisition of Siebel in our third quarter of fiscal 2006, the consolidation of i-flex solutions limited at the beginning of fiscal 2007 and, to a lesser extent, our acquisition of Hyperion in our fourth quarter of fiscal 2007.

In our discussion of changes in our results of operations from fiscal 2008 compared to fiscal 2007, and fiscal 2007 compared to fiscal 2006, we quantify the contribution of our acquired products to the growth in new software license revenues, the amount of revenues associated with software license updates and product support, as well as On Demand services (in the fiscal 2007 to fiscal 2006 comparison), and present supplemental disclosure related to certain charges and gains (including acquisition accounting and stock-based compensation), where applicable. Although certain revenue contributions from our acquisitions are quantifiable, we are unable to identify the following:

> The contribution of the significant majority of consulting and education services revenues from acquired companies in fiscal 2008, 2007 and 2006 (with the exception of the impact of BEA consulting and education revenues in fiscal 2008 in comparison to fiscal 2007, and i-flex and Hyperion consulting revenues and Hyperion education revenues for which we disclose the impact in fiscal 2007 in comparison to fiscal 2006) as the significant majority of these services have been fully integrated into our existing operations.

The contribution of expenses associated with acquired products and services in fiscal 2008, 2007 and 2006 (with the exception of the impact of certain BEA operating expenses in fiscal 2008 in comparison to fiscal 2007 and the impact of certain i-flex and Hyperion operating expenses for which we disclose the impact in fiscal 2007 in comparison to fiscal 2006) as the significant majority of these services have been fully integrated into our existing operations.

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

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

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

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

Constant Currency Presentation

We compare the percent change in the results from one period to another period in this annual report using constant currency disclosure. We present constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at the exchange rate in effect on May 31, 2007, which was the last day of our prior fiscal year, rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on May 31, 2008 and May 31, 2007, our financial statements would reflect revenues of $1.57 million in fiscal 2008 (using 1.57 as the exchange rate) and $1.35 million in fiscal 2007 (using 1.35 as the exchange rate). The constant currency presentation would translate the fiscal 2008 results using the fiscal 2007 exchange rate and indicate, in this example, no change in revenues during the period. In each of the tables below, we present the percent change based on actual results as reported and based on constant currency.

Total Revenues and Operating Expenses

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	**2008**	**Actual**	**Constant**	**2007**	**Actual**	**Constant**	**2006**
Total Revenues by Geography:							
Americas	$ 11,330	20%	18%	$ 9,460	24%	23%	$ 7,652
EMEA[(1)]	7,945	32%	20%	6,037	28%	20%	4,708
Asia Pacific	3,155	26%	18%	2,499	24%	21%	2,020
Total revenues	22,430	25%	19%	17,996	25%	22%	14,380
Total Operating Expenses	14,586	21%	17%	12,022	25%	22%	9,644
Total Operating Margin	$ 7,844	31%	22%	$ 5,974	26%	21%	$ 4,736

Total Operating Margin %		35%				33%			33%
% Revenues by Geography:									
Americas		51%				53%			53%
EMEA[(1)]		35%				34%			33%
Asia Pacific		14%				13%			14%
Total Revenues by Business:									
Software	$	17,843	26%	19%	$	14,211	23%	20%	$ 11,541
Services		4,587	21%	15%		3,785	33%	29%	2,839
Total revenues	$	22,430	25%	19%	$	17,996	25%	22%	$ 14,380
% Revenues by Business:									
Software		80%				79%			80%
Services		20%				21%			20%

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

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Fiscal 2008 Compared to Fiscal 2007: Total revenues increased in fiscal 2008 due to increased demand for our products and services offerings and incremental revenues from our acquisitions. The growth in our total revenues was positively affected by foreign currency rate fluctuations of 6 percentage points in fiscal 2008 due to the weakening of the U.S. Dollar relative to other major international currencies. Excluding the effect of currency rate fluctuations, new software license revenues contributed 38% to the growth in total revenues, software license updates and product support revenues contributed 45% and services revenues contributed 17%. Excluding the effect of currency rate fluctuations, the Americas contributed 50% to the increase in total revenues, EMEA contributed 37% and Asia Pacific contributed 13%.

Total operating expenses were adversely affected by foreign currency rate fluctuations of 4 percentage points. Excluding the effect of currency rate fluctuations, the increase in operating expenses is primarily due to higher salary and employee benefits associated with increased headcount levels (primarily resulting from our fiscal 2007 acquisitions, Agile in the first quarter of fiscal 2008 and, to a lesser extent, BEA in the fourth quarter of fiscal 2008), as well as higher commissions and bonuses associated with increased revenues, earnings and headcount levels. In addition, operating expenses also increased in fiscal 2008 due to higher expenses from the amortization of intangible assets and additional stock-based compensation resulting from a higher fair value of grants issued in fiscal 2008 (caused primarily by our higher stock price) and the acceleration of vesting of certain acquired stock awards upon employee terminations pursuant to the original terms of those awards. Total operating expenses in fiscal 2007 were also reduced by a $52 million benefit as a result of a settlement of an acquired legal contingency from PeopleSoft for less than the amount accrued as of the end of the purchase price allocation period. The increases in operating expenses during fiscal 2008 were partially offset by a $57 million gain on property sale and a $127 million reduction of in-process research and development from our fiscal 2008 acquisitions in comparison to our fiscal 2007 acquisitions.

Total operating margin as a percentage of total revenues increased during fiscal 2008. The growth in our operating margin in fiscal 2008 was the result of our revenue growth, both organic and from acquisitions, and the relatively fixed nature of our cost structure in the short term. In addition, our operating margin growth was favorably affected by foreign currency rate fluctuations of 9 percentage points.

International operations will continue to provide a significant portion of our total revenues and expenses. As a result, total revenues and expenses will continue to be affected by changes in the relative strength of the U.S. Dollar against certain major international currencies.

Fiscal 2007 Compared to Fiscal 2006: Total revenues increased in fiscal 2007 due to increased demand for our products and services offerings and incremental revenues from our acquisitions. Total revenues were positively affected by foreign currency rate fluctuations of 3 percentage points in fiscal 2007 due to the weakening of the U.S. Dollar relative to other major international currencies. Excluding the effects of currency rate fluctuations, new software license revenues contributed 27% to the growth in total revenues, software license updates and product support revenues contributed 47% and services revenues contributed 26%. Excluding the effect of currency rate fluctuations, the Americas contributed 56% to the increase in total revenues, EMEA contributed 30% and Asia Pacific contributed 14%.

Operating expenses were adversely affected by foreign currency rate fluctuations of 3 percentage points. Excluding the effect of currency rate fluctuations, the increase in total operating expenses was primarily due to higher salary and employee benefits associated with increased headcount levels (primarily resulting from our acquisitions), as well as higher commissions and travel and entertainment expenses associated with both increased revenues and headcount levels. In addition, operating expenses also increased in fiscal 2007 due to higher amortization costs of intangible assets and stock-based compensation expenses related to our adoption of Statement 123(R) at the beginning of fiscal 2007. The aforementioned increases in operating expenses were partially offset by lower restructuring expenses and

the settlement of a PeopleSoft contingency that provided a $52 million benefit to our operating expenses (see Acquisition Related and Other Expenses discussion below).

Operating margins as a percentage of total revenues were flat in fiscal 2007 in comparison to fiscal 2006 and were favorably affected by foreign currency rate fluctuations of 5 percentage points. Our revenues grew at a faster rate than our operating expenses, excluding the impact of amortization costs of intangible assets and stock-based compensation expenses. The increases in those cost categories offset the slower growth in our other operating expenses.

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Supplemental Disclosure Related to Certain Charges and Gains

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

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

	Year Ended May 31,		
(in millions)	**2008**	**2007**	**2006**
Support deferred revenues[1]	$ 179	$ 212	$ 391
Amortization of intangible assets[2]	1,212	878	583
Acquisition related and other[3][5]	124	140	137
Restructuring[4]	41	19	85
Stock-based compensation[5]	257	198	31
Income tax effect[6]	(535)	(414)	(362)
	$ 1,278	$ 1,033	$ 865

(1) In connection with purchase price allocations related to our acquisitions, we have estimated the fair values of the support obligations assumed. Due to our application of business combination accounting rules, we did not recognize software license updates and product support revenues related to support contracts that would have otherwise been recorded by the acquired businesses as independent entities, in the amounts of $179 million, $212 million and $391 million in fiscal 2008, fiscal 2007 and fiscal 2006, respectively. Approximately $205 million of estimated software license updates and product support revenues related to support contracts assumed will not be recognized in fiscal 2009 that would have otherwise been recognized by the acquired businesses as independent entities, due to the application of business combination accounting rules. To the extent customers renew these support contracts, we expect to recognize revenues for the full contract value over the support renewal period.

(2) Represents the amortization of intangible assets acquired in connection with acquisitions, primarily PeopleSoft, BEA, Siebel, Hyperion and i-flex. As of May 31, 2008, estimated future amortization expenses related to intangible assets are as follows (in millions):

Fiscal 2009	$ 1,660
Fiscal 2010	1,550
Fiscal 2011	1,266
Fiscal 2012	1,126
Fiscal 2013	962
Thereafter	1,831
Total	$ 8,395

[3] Acquisition related and other expenses primarily consist of in-process research and development expenses, stock-based compensation expenses, integration related professional services, personnel related costs for transitional employees, certain business combination contingency adjustments after the purchase price allocation period has ended, and certain other operating expenses (income), net. For fiscal 2008, acquisition related and other expenses include a gain on property sale of $57 million and, for fiscal 2007, acquisition related and other expenses include a benefit of $52 million related to the settlement of a pre-acquisition lawsuit against PeopleSoft (see Note 1 of Notes to Consolidated Financial Statements for further information).

[4] Restructuring expenses during fiscal 2008 relate to Oracle employee severance in connection with restructuring plans initiated in the second quarter, and amended in the fourth quarter, of fiscal 2008. Restructuring costs during fiscal 2007 relate to an Oracle-based restructuring plan initiated in the third quarter of fiscal 2006 for which additional expenses were recorded during fiscal 2007.

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

	Year Ended May 31,		
	2008	**2007**	**2006**
Sales and marketing	$ 51	$ 38	$ 8
Software license updates and product support	10	11	3
Cost of services	13	15	7
Research and development	114	85	13
General and administrative	69	49	
Subtotal	257	198	31
Acquisition related and other	112	9	18
Total	$ 369	$ 207	$ 49

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

At the beginning of fiscal 2007, we adopted Statement 123(R) under the modified prospective method. Statement 123(R) requires us to record non-cash operating expenses associated with stock awards at their estimated fair values. Prior to our Statement 123(R) adoption, we were required to record stock-based compensation expenses at intrinsic values and substantially all of our stock-based compensation expense related to options assumed from acquisitions. In accordance with the modified prospective method, our financial statements for prior periods (i.e. fiscal 2006) have not been restated to reflect, and do not include, the changes in methodology to expense options at fair values in accordance with Statement 123(R).

[6] The income tax effects on the above presented charges and gains were calculated based on our effective tax rates of 29.5%, 28.6% and 29.7% in fiscal 2008, 2007 and 2006, respectively.

Software

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

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

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	**2008**	**Actual**	**Constant**	**2007**	**Actual**	**Constant**	**2006**
New Software License Revenues:							
Americas	$ 3,467	26%	24%	$ 2,751	18%	18%	$ 2,323
EMEA	2,766	35%	24%	2,043	24%	16%	1,650
Asia Pacific	1,282	18%	11%	1,088	17%	15%	932
Total revenues	7,515	28%	21%	5,882	20%	17%	4,905
Expenses:							
Sales and marketing[1]	4,628	20%	14%	3,869	22%	18%	3,169
Stock-based compensation	51	32%	32%	38	388%	388%	8
Amortization of intangible assets[2]	560	58%	58%	354	70%	70%	208
Total expenses	5,239	23%	18%	4,261	26%	23%	3,385
Total Margin	$ 2,276	40%	31%	$ 1,621	7%	3%	$ 1,520
Total Margin %	30%			28%			31%
% Revenues by Geography:							
Americas	46%			47%			47%
EMEA	37%			35%			34%
Asia Pacific	17%			18%			19%
Revenues by Product:							
Database and middleware	$ 5,090	24%	17%	$ 4,119	15%	12%	$ 3,566
Applications	2,369	38%	33%	1,716	32%	29%	1,303
Total revenues by product	7,459	28%	21%	5,835	20%	17%	4,869
Other revenues	56	19%	15%	47	31%	29%	36
Total new software license revenues	$ 7,515	28%	21%	$ 5,882	20%	17%	$ 4,905
% Revenues by Product:							
Database and middleware	68%			71%			73%
Applications	32%			29%			27%

(1) Excluding stock-based compensation

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

Fiscal 2008 Compared to Fiscal 2007: New software license revenues growth was positively affected by foreign currency rate fluctuations of 7 percentage points in fiscal 2008. Excluding the effect of currency rate fluctuations, new software license revenues grew in all major product lines and across all geographies, with database and middleware revenues contributing 55% to the increase in new software license revenues and applications revenues contributing 45%. Excluding the effect of currency rate fluctuations, the Americas contributed 52%, EMEA contributed 39% and Asia Pacific contributed 9% to the increase in new software license revenues.

Excluding the effect of currency rate fluctuations, database and middleware revenues grew 17% in fiscal 2008 as a result of increased demand for our database and middleware products as well as incremental revenues from acquired

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companies. Hyperion products contributed $103 million, BEA products contributed $93 million, Stellent products contributed $37 million, Tangosol products contributed $18 million and other recently acquired products contributed $2 million to the total database and middleware revenues growth in fiscal 2008.

On a constant currency basis, applications revenues increased 33% in fiscal 2008 due to continued strengthening of our competitive position in the applications software segment of the software industry as a result of our broad portfolio of product offerings to a diverse customer base and incremental revenues from acquired companies. Hyperion products contributed $199 million, Agile products contributed $58 million, Metasolv products contributed $14 million, and other recently acquired products contributed $42 million to the total applications revenue growth in fiscal 2008.

New software license revenues earned from transactions over $0.5 million grew by 42% in fiscal 2008 and increased from 46% of new software license revenues in fiscal 2007 to 51% in fiscal 2008.

Sales and marketing expenses were adversely impacted by 5 percentage points of unfavorable currency variations during fiscal 2008. Excluding the effect of currency rate fluctuations, sales and marketing expenses increased in fiscal 2008 primarily due to higher salaries, benefits and travel expenses resulting from increased headcount, higher commissions expenses associated with both increased revenues and headcount levels, and an increase in planned marketing program expenses. Sales and marketing expenses include $45 million in expenses from BEA in fiscal 2008. These increases were partially offset by a $42 million reduction in litigation related expenses resulting primarily from the settlement of certain legal matters during the third quarter of fiscal 2008.

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

Fiscal 2007 Compared to Fiscal 2006: Excluding the effect of currency rate fluctuations, new software license revenues grew in all major product lines and across all geographies. Database and middleware revenues contributed 57% to the increase in new software license revenues, while applications revenues contributed 43%. The Americas contributed 50%, EMEA contributed 33% and Asia Pacific contributed 17% to the increase in new software license revenues.

Excluding the effect of currency rate fluctuations, database and middleware revenues grew 12% as a result of increased demand for our database and middleware products as well as incremental revenues from acquired companies. Siebel products contributed incremental revenues of $48 million, Stellent products contributed $26 million, Hyperion products contributed $16 million and other recently acquired products contributed $19 million to the total database and middleware revenues growth in fiscal 2007.

On a constant currency basis, applications revenues increased 29% as a result of the strengthening of our competitive position in the applications software segment of the software industry and incremental revenues from acquired companies. Siebel products contributed $130 million, i-flex products contributed $50 million, Hyperion products contributed $27 million, Portal products contributed $22 million, Demantra products contributed $21 million and other recently acquired products contributed $22 million to the total applications revenues growth.

New software license revenues earned from transactions over $0.5 million grew by 24% in fiscal 2007 and increased from 45% of new software license revenues in fiscal 2006 to 46% in fiscal 2007.

Excluding the effect of currency rate fluctuations, sales and marketing expenses increased in fiscal 2007 primarily due to higher personnel related expenses associated with increased headcount, as well as higher commissions expenses

associated with both increased revenues and headcount levels. Total new software license margin as a percentage of revenues declined as our expenses, including amortization costs of intangible assets, grew at a faster rate than our revenues.

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

intangible assets associated with software support contracts and customer relationships obtained from our acquisitions.

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	**2008**	**Actual**	**Constant**	**2007**	**Actual**	**Constant**	**2006**
Software License Updates and Product Support Revenues:							
Americas	$ 5,587	19%	17%	$ 4,698	24%	23%	$ 3,790
EMEA	3,503	32%	20%	2,653	29%	21%	2,052
Asia Pacific	1,238	27%	18%	978	23%	22%	794
Total revenues	10,328	24%	18%	8,329	25%	22%	6,636
Expenses:							
Software license updates and product support[1]	987	19%	13%	831	16%	12%	716
Stock-based compensation	10	-6%	-6%	11	306%	306%	3
Amortization of intangible assets[2]	596	27%	27%	470	34%	34%	351
Total expenses	1,593	21%	18%	1,312	23%	21%	1,070
Total Margin	$ 8,735	24%	18%	$ 7,017	26%	23%	$ 5,566
Total Margin %	85%			84%			84%
% Revenues by Geography:							
Americas	54%			57%			57%
EMEA	34%			32%			31%
Asia Pacific	12%			11%			12%

(1) Excluding stock-based compensation

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

Fiscal 2008 Compared to Fiscal 2007: The growth in our software license updates and product support revenues was favorably affected by foreign currency rate fluctuations of 6 percentage points in fiscal 2008. Excluding the effect of currency rate fluctuations, software license updates and product support revenues increased in fiscal 2008 as a result of the addition of software license updates and product support contracts associated with new software licenses sold during the fourth quarter of fiscal 2007 and over the course of fiscal 2008, the renewal of substantially all of the customer base eligible for renewal in the current fiscal year and incremental revenues from the expansion of our customer base from acquisitions. Excluding the effect of currency rate fluctuations, the Americas contributed 53%, EMEA contributed 36% and Asia Pacific contributed 11% to the increase in software license updates and product support revenues.

Software license updates and product support revenues in fiscal 2008 include incremental revenues of $303 million from Hyperion, $38 million from BEA, $38 million from Agile, $30 million from Stellent, $25 million from Metasolv, and $46 million from other recently acquired companies. As a result of our acquisitions, we recorded adjustments to reduce support obligations assumed to their estimated fair value at the acquisition dates. Due to our

application of business combination accounting rules, software license updates and product support revenues related to support contracts in the amounts of $179 million, $212 million and $391 million that would have been otherwise recorded by our acquired businesses as independent entities, were not recognized in fiscal 2008, 2007 and 2006, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their support contracts when such contracts are eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full value of these contracts over the support periods, the substantial majority of which are one year.

Software license updates and product support expenses were adversely impacted by 3 percentage points of unfavorable currency variations during fiscal 2008. Excluding the effect of currency rate fluctuations, software license updates and product support expenses increased due to higher salary and benefits associated with increased headcount to support the expansion of our customer base, higher bonuses and commissions due to increased revenues, and higher amortization expenses resulting from additional intangible assets acquired during fiscal 2008 and fiscal 2007. Software license updates and product support expenses include $7 million of expense growth from BEA in fiscal 2008. Total software license updates and product support margin as a percentage of revenues

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increased slightly as our revenues grew faster than expenses, but were partially offset by a higher growth rate in our amortization of intangible assets expenses.

Fiscal 2007 Compared to Fiscal 2006: Excluding the effect of currency rate fluctuations, software license updates and product support revenues increased in fiscal 2007 as a result of the addition of software license updates and product support contracts associated with new software licenses sold during the fourth quarter of fiscal 2006 and over the course of fiscal 2007, the renewal of substantially all of the customer base eligible for renewal in fiscal 2007 and incremental revenues from the expansion of our customer base from acquisitions. Excluding the effect of currency rate fluctuations, the Americas contributed 59%, EMEA contributed 29% and Asia Pacific contributed 12% to the increase in software license updates and product support revenues. Software license updates and product support revenues in fiscal 2007 include revenue growth of $310 million from Siebel, $37 million from i-flex, $19 million from Hyperion, and $55 million from other recently acquired companies.

Excluding the effect of currency rate fluctuations, software license updates and product support expenses increased due to higher salary and benefits associated with increased headcount to support the expansion of our customer base, higher amortization expenses resulting from additional intangible assets acquired during fiscal 2007 and fiscal 2006 and higher stock-based compensation expenses. Software license updates and product support expenses include $16 million in incremental expenses from both i-flex and Hyperion. Total software license updates and product support margin as a percentage of revenues remained constant as intangible asset amortization expenses and stock-based compensation expenses grew much faster than revenues and offset the lower growth in other operating expenses.

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.

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	**2008**	**Actual**	**Constant**	**2007**	**Actual**	**Constant**	**2006**
Consulting Revenues:							
Americas	$ 1,720	12%	10%	$ 1,534	33%	32%	$ 1,157
EMEA	1,291	25%	14%	1,033	34%	24%	771
Asia Pacific	466	54%	42%	302	57%	52%	192
Total revenues	3,477	21%	15%	2,869	35%	31%	2,120
Expenses:							
Cost of services[1]	3,014	22%	16%	2,477	32%	27%	1,878
Stock-based compensation	7	-18%	-18%	9	36%	36%	7
Amortization of intangible assets[2]	42	38%	38%	30	585%	579%	4
Total expenses	3,063	22%	16%	2,516	33%	29%	1,889

Total Margin	$	414	17%	10%	$	353	53%	47%	$ 231
Total Margin %		12%				12%			11%
% Revenues by Geography:									
Americas		50%				53%			55%
EMEA		37%				36%			36%
Asia Pacific		13%				11%			9%

(1) Excluding stock-based compensation

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

Fiscal 2008 Compared to Fiscal 2007: Consulting revenue growth was positively affected by foreign currency rate fluctuations of 6 percentage points in fiscal 2008. Excluding the effect of currency rate fluctuations, consulting revenues increased during fiscal 2008 primarily due to an increase in application product implementations associated with the sales of our application software products and incremental revenues from our recent acquisitions, primarily Hyperion and BEA. BEA added $16 million to our consulting revenue growth in fiscal 2008. Excluding the effect of currency rate fluctuations, the Americas contributed 36%, EMEA contributed 35% and Asia Pacific contributed 29% to the increase in consulting revenues.

Consulting expenses were adversely impacted by 6 percentage points of unfavorable currency variations during fiscal 2008. Excluding the effect of currency rate fluctuations, consulting expenses increased during fiscal 2008 as a result of higher personnel related expenses attributable to higher headcount levels and third party contractor expenses that supported our increase in revenues. BEA added $16 million to our consulting expense growth in fiscal 2008. Total consulting margin as a percentage of revenues remained constant during fiscal 2008 as margin improvements in the EMEA and Asia Pacific regions were offset by expense growth in the Americas region and for i-flex and an increase in our amortization of intangible asset expenses.

Fiscal 2007 Compared to Fiscal 2006: Excluding the effect of currency rate fluctuations, consulting revenues increased during fiscal 2007 primarily due to an increase in our application product implementations associated with the increase in sales of our application software products and incremental revenues from our acquisitions, including $359 million of incremental revenues from i-flex, whom we acquired at the beginning of fiscal 2007, and $16 million of incremental revenues from Hyperion. Excluding the effect of currency rate fluctuations, the Americas contributed 55%, EMEA contributed 29% and Asia Pacific contributed 16% to the increase in consulting revenues.

Excluding the effect of currency rate fluctuations, consulting expenses increased in fiscal 2007 as a result of higher personnel related expenses attributable to higher headcount levels and third-party contractor expenses. Consulting expenses included $281 million of incremental expenses from i-flex and $17 million from Hyperion. Total consulting margin as a percentage of revenues increased primarily due to higher margins contributed by i-flex.

On Demand: On Demand includes our Oracle On Demand, CRM On Demand and Advanced Customer Services offerings. Oracle On Demand provides multi-featured software and hardware management, and maintenance services for our database and middleware as well as our applications software delivered either at our data center facilities, at select partner data centers, or at customer facilities. CRM On Demand is a service offering that provides our customers with our CRM software functionality delivered via a hosted solution that we manage. Advanced Customer Services consists of configuration and performance analysis, personalized support and on-site technical services. The cost of providing On Demand services consists primarily of personnel related expenditures, technology infrastructure expenditures and facilities costs.

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(Dollars in millions)	Year Ended May 31, 2008	Percent Change Actual	Percent Change Constant	2007	Percent Change Actual	Percent Change Constant	2006
On Demand Revenues:							
Americas	$ 375	20%	18%	$ 313	35%	35%	$ 231
EMEA	226	29%	18%	176	49%	39%	118
Asia Pacific	93	36%	28%	68	46%	42%	48
Total revenues	694	25%	19%	557	40%	37%	397
Expenses:							
Cost of services[1]	632	10%	6%	574	49%	45%	385
Stock-based compensation	5	16%	16%	4	*	*	
Amortization of intangible assets[2]	14	0%	0%	14	365%	365%	3
Total expenses	651	10%	6%	592	52%	47%	388
Total Margin	$ 43	224%	213%	$ (35)	-553%	-512%	$ 9
Total Margin %	6%			-6%			2%
% Revenues by Geography:							
Americas	54%			56%			58%
EMEA	33%			32%			30%
Asia Pacific	13%			12%			12%

(1) Excluding stock-based compensation

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

* Not meaningful

Fiscal 2008 Compared to Fiscal 2007: On Demand revenue growth was positively affected by foreign currency rate fluctuations of 6 percentage points in fiscal 2008. Excluding the effect of currency rate fluctuations, On Demand revenues increased in fiscal 2008 due to an increase in each service category s subscription base as more customers engaged us to provide IT outsourcing solutions. On a constant currency basis, Oracle On Demand, Advanced Customer Services and CRM On Demand contributed 44%, 42% and 14%, respectively. Excluding the effect of currency rate fluctuations, the Americas contributed 53%, EMEA contributed 29% and Asia Pacific contributed 18% to the increase in On Demand revenues.

Excluding the effect of unfavorable currency rate fluctuations of 4 percentage points, On Demand expenses increased in fiscal 2008 due to higher salaries and benefits expenses associated with increased headcount, and higher technology infrastructure related expenses to support the expansion of our customer base. These expense increases were partially offset by a shift of certain U.S. based costs to global support centers in lower cost countries. Total On Demand margin as a percentage of revenues improved primarily as a result of our Oracle On Demand business, which increased revenues while managing operating expenses to a level consistent with fiscal 2007 and the favorable impact of currency effects during the period. Our Advanced Customer Services and CRM On Demand margin percentages also improved modestly in comparison to fiscal 2007.

Fiscal 2007 Compared to Fiscal 2006: Excluding the effect of currency rate fluctuations, On Demand revenues increased in fiscal 2007 due to higher Advanced Customer Services revenues, and the expansion of our subscription base in both Oracle On Demand and CRM On Demand services. Advanced Customer Services revenues contributed 46% of the growth, while Oracle On Demand and CRM On Demand contributed 33% and 21%, respectively. Excluding the effect of currency rate fluctuations, the Americas contributed 55%, EMEA contributed 32% and Asia Pacific contributed 13% to the increase in On Demand revenues. Advanced Customer Services and CRM On Demand revenues included $50 million and $31 million, respectively, of incremental revenues from Siebel in fiscal 2007.

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On Demand expenses were adversely impacted by 5 percentage points of unfavorable currency variations during fiscal 2007. Excluding the effect of currency rate fluctuations, On Demand expenses increased due to higher personnel related expenditures, higher amortization expenses resulting from intangible assets, as well as higher IT related costs to support the expansion of our customer base. On Demand expense growth also reflects a full year of expenses from Siebel On Demand employees (in comparison to only four months in fiscal 2006). Total On Demand margin as a percentage of revenues decreased, primarily driven by more rapid growth in personnel related expenses in comparison to revenues, and to a lesser extent, growth in IT related expenditures for Oracle On Demand and CRM On Demand, as well as amortization of intangible assets. Advanced Customer Services operating margins remained flat compared with the prior year while operating losses in both Oracle On Demand and CRM On Demand increased.

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

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	**2008**	**Actual**	**Constant**	**2007**	**Actual**	**Constant**	**2006**
Education Revenues:							
Americas	$ 181	10%	8%	$ 164	9%	8%	$ 151
EMEA	159	20%	9%	132	13%	6%	117
Asia Pacific	76	22%	14%	63	16%	14%	54
Total revenues	416	16%	10%	359	11%	8%	322
Expenses:							
Cost of services[1]	325	15%	8%	283	15%	11%	246
Stock-based compensation	1	-17%	-17%	2	*	*	
Total expenses	326	15%	8%	285	16%	12%	246
Total Margin	$ 90	21%	16%	$ 74	-2%	-5%	$ 76
Total Margin %	22%			21%			24%
% Revenues by Geography:							
Americas	44%			46%			47%
EMEA	38%			37%			36%
Asia Pacific	18%			17%			17%

(1) Excluding stock-based compensation

* Not meaningful

Fiscal 2008 Compared to Fiscal 2007: Education revenue growth was positively affected by foreign currency rate fluctuations of 6 percentage points in fiscal 2008. Excluding the effect of currency rate fluctuations, education revenues increased in fiscal 2008 due primarily to an increase in customer training on the use of our applications products, including recently acquired products. BEA contributed $2 million to our revenue growth in fiscal 2008. Excluding the effect of currency rate fluctuations, the Americas contributed 39%, EMEA contributed 36% and Asia

Pacific contributed 25% to the increase in education revenues.

Excluding the effect of unfavorable currency rate fluctuations of 7 percentage points, education expenses increased due to higher personnel related expenses during the first half of fiscal 2008 and were partially offset by lower personnel related expenses in the second half of fiscal 2008 as a result of restructuring actions taken. Education expenses also increased due to third party contractor expenses and royalty fees associated with increased revenues and included $2 million of incremental expenses from BEA. Education margin as a percentage of revenues increased slightly in fiscal 2008 as revenue growth exceeded expense growth.

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Fiscal 2007 Compared to Fiscal 2006: Excluding the effect of currency rate fluctuations, education revenues grew in fiscal 2007 primarily due to an increase in customer training on the use of our application products, as well as $5 million of incremental revenues from Hyperion. The Americas contributed 46%, EMEA contributed 26% and Asia Pacific contributed 28% to the increase in education revenues.

Excluding the effects of currency rate fluctuations, education expenses increased in fiscal 2007 due to incremental headcount and associated personnel related expenditures, as well as higher third party contractor expenses and royalty fees associated with increased revenues. Education expenses also included $3 million of incremental expenses from Hyperion. Total education margin as a percentage of revenues decreased as expenses grew at a higher rate than revenues.

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.

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	**2008**	**Actual**	**Constant**	**2007**	**Actual**	**Constant**	**2006**
Research and development[1]	$ 2,627	24%	22%	$ 2,110	14%	11%	$ 1,859
Stock-based compensation	114	35%	35%	85	541%	541%	13
Amortization of intangible assets[2]		-100%	-100%	10	-47%	-47%	17
Total expenses	$ 2,741	25%	22%	$ 2,205	17%	16%	$ 1,889
% of Total Revenues	12%			12%			13%

(1) Excluding stock-based compensation

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

Fiscal 2008 Compared to Fiscal 2007: Excluding the effect of currency rate fluctuations, research and development expenses increased in fiscal 2008 due to higher employee related expenses associated with higher headcount levels, including higher stock-based compensation expenses, and $46 million of increased expenses pertaining to certain legal-related matters. Our growth in research and development expenses included $15 million from BEA in fiscal 2008. The increase in our headcount was the combined result of our recent acquisitions and our hiring of additional resources to develop new functionality for our existing products. Research and development headcount as of the end of fiscal 2008 increased by approximately 2,550 employees in comparison to fiscal 2007, and included approximately 950 employees from BEA.

Fiscal 2007 Compared to Fiscal 2006: Excluding the effect of currency rate fluctuations, research and development expenses increased due to higher salary and benefits expenses associated with higher headcount levels, increased stock-based compensation expenses due to our adoption of Statement 123(R) at the beginning of fiscal 2007, and increased external contractor expenses. Our growth in research and development expenses was impacted by our acquisitions, including $25 million from i-flex and $19 million from Hyperion. Research and development headcount increased by approximately 3,600 employees in comparison to fiscal 2006, and included approximately

1,200 employees from i-flex and 600 employees from Hyperion.

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

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	2008	Actual	Constant	2007	Actual	Constant	2006
General and Administrative[1]	$ 739	15%	10%	$ 643	16%	13%	$ 555
Stock-based compensation	69	40%	40%	49	*	*	
Total expenses	$ 808	17%	12%	$ 692	25%	22%	$ 555
% of Total Revenues	4%			4%			4%

(1) Excluding stock-based compensation

* Not meaningful

Fiscal 2008 Compared to Fiscal 2007: Excluding the effect of currency rate fluctuations, general and administrative expenses increased during fiscal 2008 as a result of higher personnel related costs associated with increased headcount to support our expanding operations and increased stock-based compensation expenses. General and administrative expenses include $4 million of expenses from BEA in fiscal 2008.

Fiscal 2007 Compared to Fiscal 2006: Excluding the effect of currency rate fluctuations, general and administrative expenses increased during fiscal 2007 as a result of higher personnel related costs associated with increased headcount to support our expanding operations, the recognition of stock-based compensation expenses due to the adoption of Statement 123(R) at the beginning of fiscal 2007 and increased professional services fees, primarily litigation related expenses. General and administrative expenses included incremental expenses of $25 million from i-flex and $10 million from Hyperion in fiscal 2007.

Amortization of Intangible Assets Expenses:

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	2008	Actual	Constant	2007	Actual	Constant	2006
Software support agreements and related relationships	$ 402	25%	25%	$ 321	33%	33%	$ 241
Developed technology	515	45%	45%	355	72%	72%	206
Core technology	178	34%	34%	133	46%	46%	91
Customer contracts	85	93%	93%	44	47%	47%	30
Trademarks	32	28%	28%	25	67%	67%	15
Total amortization of intangible assets	$ 1,212	38%	38%	$ 878	51%	51%	$ 583

Fiscal 2008 Compared to Fiscal 2007: Amortization of intangible assets increased in fiscal 2008 due to the amortization of acquired intangibles from Agile, Hyperion, BEA and other acquisitions that we consummated since the fourth quarter of fiscal 2007. See Note 5 of Notes to Consolidated Financial Statements for additional information

regarding our intangible assets (including weighted average useful lives) and related amortization expenses.

Fiscal 2007 Compared to Fiscal 2006: Amortization of intangible assets increased in fiscal 2007 due to the amortization of purchased intangibles from Hyperion, Siebel (a full year of amortization in fiscal 2007 in comparison to four months in fiscal 2006), i-flex and other acquisitions that we consummated since the fourth quarter of fiscal 2006.

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

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(Dollars in millions)	2008	Year Ended May 31, Percent Change Actual	Constant	2007	Percent Change Actual	Constant	2006
In-process research and development	$ 24	-84%	-84%	$ 151	94%	94%	$ 78
Transitional employee related expenses	32	34%	33%	24	-20%	-20%	30
Stock-based compensation	112	1,144%	1,144%	9	-50%	-50%	18
Professional fees	7	-13%	-13%	8	-27%	-27%	11
Business combination contingency adjustments	6	111%	111%	(52)	*	*	
Gain on sale of property	(57)	*	*		*	*	
Total acquisition related and other expenses	$ 124	-11%	-12%	$ 140	2%	2%	$ 137

* Not meaningful

Fiscal 2008 Compared to Fiscal 2007: Acquisition related and other expenses decreased during fiscal 2008 due to lower in-process research and development acquired as a part of our fiscal 2008 acquisitions in comparison to our fiscal 2007 acquisitions and a $57 million gain on a property sale in December 2007 (see Note 1 to Notes to Consolidated Financial Statements for additional information). These decreases to acquisition related and other expenses were partially offset by higher transitional employee related expenses and increased stock-based compensation expenses due to the acceleration of certain acquired employee stock options pursuant to the terms of those options. Business combination contingency adjustments in fiscal 2007 included a $52 million benefit relating to the settlement of a lawsuit filed against PeopleSoft on behalf of the U.S. government. This lawsuit was filed in October 2003, prior to our acquisition of PeopleSoft, and represented a pre-acquisition contingency that we identified and assumed in connection with our acquisition of PeopleSoft. We settled this lawsuit in October 2006, which was subsequent to the purchase price allocation period, for approximately $98 million. Accordingly, we included the difference between the amount accrued as of the end of the purchase price allocation period and the settlement amount as a $52 million benefit to our consolidated statement of operations for fiscal 2007.

Fiscal 2007 Compared to Fiscal 2006: Acquisition related charges increased primarily due to in-process research and development charges resulting from our acquisitions of Hyperion, i-flex and others in fiscal 2007. This increase was almost entirely offset by a $52 million benefit as described above.

Restructuring expenses: Restructuring expenses consist of Oracle employee severance costs and Oracle duplicate facilities closures that were initiated to improve our cost structure as a result of acquisitions. For additional information regarding the Oracle restructuring plans, as well as restructuring activities of our acquired companies, please see Note 7 of Notes to Consolidated Financial Statements.

(Dollars in millions)	2008	Year Ended May 31, Percent Change Actual	Constant	2007	Percent Change Actual	Constant	2006

Restructuring expenses	$	41	113%	95%	$	19	-78%	-78%	$	85

Fiscal 2008 Compared to Fiscal 2007: During the second quarter of fiscal 2008, our management with the appropriate level of authority approved, committed to, and initiated the Oracle Fiscal 2008 Restructuring Plan (2008 Plan) as a result of certain management and operational changes that are intended to improve efficiencies in our Oracle-based operations. Our 2008 Plan was amended in the fourth quarter of fiscal 2008 to include the expected effects resulting from our acquisition of BEA. The total estimated costs associated with the 2008 Plan are approximately $111 million and are primarily related to employee severance. The majority of these estimated costs are expected to be incurred over the course of fiscal 2009. Our estimated costs are preliminary and may be subject to change in future periods. We incurred restructuring expenses of $41 million in fiscal 2008, pursuant to the 2008 Plan (see Note 7 to Notes to Consolidated Financial Statements for additional information). Restructuring expenses in fiscal 2007 relate to Oracle employee severance and facility closures that were recorded in those periods and were a part of a restructuring plan initiated in the third quarter of fiscal 2006.

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Fiscal 2007 Compared to Fiscal 2006: Restructuring expenses decreased in fiscal 2007 as we initiated the majority of the actions pursuant to the Fiscal 2006 Oracle Restructuring Plan during fiscal 2006. Our management did not initiate any new plans to restructure our Oracle-based operations during fiscal 2007.

Interest Expense:

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	**2008**	**Actual**	**Constant**	**2007**	**Actual**	**Constant**	**2006**
Interest expense	$ 394	15%	15%	$ 343	103%	104%	$ 169

Fiscal 2008 Compared to Fiscal 2007: Interest expense increased in fiscal 2008 due to higher average borrowings resulting from the issuance of $5.0 billion of senior notes in April 2008, a net increase of $500 million in additional senior notes outstanding for the majority of fiscal 2008 and our issuances of short-term commercial paper in the fourth quarter of fiscal 2008 and fourth quarter of fiscal 2007 (we repaid these commercial paper amounts during fiscal 2008).

Fiscal 2007 Compared to Fiscal 2006: Interest expense increased in fiscal 2007 due to higher average borrowings in fiscal 2007 related to our $5.75 billion aggregate principal amount of senior notes issued in January 2006 (of which $1.5 billion was redeemed by us in May 2007), our $2.1 billion of commercial paper issuances (of which approximately $1.4 billion remained outstanding as of May 31, 2007) and our $2.0 billion of senior notes issued in May 2007.

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

	Year Ended May 31,						
		Percent Change			Percent Change		
(Dollars in millions)	**2008**	**Actual**	**Constant**	**2007**	**Actual**	**Constant**	**2006**
Interest income	$ 337	14%	9%	$ 295	74%	72%	$ 170
Foreign currency gains, net	40	-10%	3%	45	15%	19%	39
Minority interests	(60)	-15%	-18%	(71)	72%	70%	(41)
Other, net	67	-22%	-26%	86	15%	8%	75
Total non-operating income, net	$ 384	8%	5%	$ 355	46%	45%	$ 243

Fiscal 2008 Compared to Fiscal 2007: Non-operating income, net increased in fiscal 2008 primarily due to an increase in interest income from higher weighted average cash and marketable securities balances during fiscal 2008.

Fiscal 2007 Compared to Fiscal 2006: Non-operating income, net increased in fiscal 2007 primarily due to higher interest income attributable to an increase in average interest rates (the weighted average interest rate earned on cash, cash equivalents and marketable securities increased from 3.04% in fiscal 2006 to 3.97% in fiscal 2007), partially offset by higher minority interests share in the net profits of i-flex and our Oracle Japan majority-owned subsidiaries.

Provision for Income Taxes: The effective tax rate in all periods is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to state taxes and earnings considered as indefinitely reinvested in foreign operations. Future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where we have lower statutory rates, by unfavorable changes in tax laws and regulations, or by adverse rulings in tax related litigation.

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(Dollars in millions)	Year Ended May 31, 2008	Actual	Constant	2007	Actual	Constant	2006
Provision for income taxes	$ 2,313	35%	32%	$ 1,712	20%	20%	$ 1,429
Effective tax rate	29.5%			28.6%			29.7%

Provision for income taxes increased in fiscal 2008 and fiscal 2007 due to higher earnings before taxes. See Note 12 of Notes to Consolidated Financial Statements for additional information.

Liquidity and Capital Resources

(Dollars in millions)	As of May 31, 2008	Change	2007	Change	2006
Working capital	$ 8,074	131%	$ 3,496	-31%	$ 5,044
Cash, cash equivalents and marketable securities	$ 11,043	57%	7,020	-8%	7,605

Working capital: The increase in working capital in fiscal 2008 was primarily due to an increase in our cash, cash equivalents and marketable securities balances resulting from the issuance of $5.0 billion of long-term senior notes in April 2008, additional cash and trade receivables generated from our operations and our adoption of FIN 48, which resulted in a significant reclassification of certain short-term tax liabilities to long-term (see Note 12 to Notes to Consolidated Financial Statements for additional information). These increases in working capital were partially offset by cash used in fiscal 2008 to pay for our acquisitions (primarily BEA) and to repurchase our common stock. The decrease in working capital in fiscal 2007 was primarily a result of cash used to pay for our acquisitions and stock repurchases, partially offset by increases in operating cash flows from higher sales volumes, proceeds received from employee stock option exercises and an increase in our long-term borrowings.

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 and U.S. government agency and government sponsored enterprise obligations. Cash, cash equivalents and marketable securities include $10.1 billion held by our foreign subsidiaries as of May 31, 2008. The increase in cash, cash equivalents and marketable securities at May 31, 2008 in comparison to May 31, 2007 is due to the issuance of $5.0 billion of senior notes in April 2008 and an increase in our operating cash flows resulting primarily from an increase in net income, partially offset by cash used for our acquisitions (primarily BEA), net repayments of our short-term commercial paper notes, and repurchases of our common stock. The decrease in cash, cash equivalents and marketable securities at May 31, 2007 in comparison to May 31, 2006 is a result of cash used to pay for acquisitions and stock repurchases during fiscal 2007, partially offset by an increase in our operating cash flows from higher net income, increases in our short-term and long-term borrowings and proceeds from stock option exercises.

Days sales outstanding, which is calculated by dividing period end accounts receivable by average daily sales for the quarter, was 63 days at May 31, 2008 compared with 62 days at May 31, 2007. The days sales outstanding calculation excludes the adjustment to reduce software license updates and product support revenues related to adjusting the carrying value for deferred support revenues acquired to fair value. Our increase in days sales outstanding is primarily

due to differences in the timing of completion of certain sales transactions between years and a slight decline in timeliness of collections in certain countries.

(Dollars in millions)	Year Ended May 31, 2008	Change	2007	Change	2006
Cash provided by operating activities	$ 7,402	34%	$ 5,520	22%	$ 4,541
Cash used for investing activities	$ (9,076)	83%	$ (4,971)	48%	$ (3,359)
Cash provided by (used for) financing activities	$ 3,281	388%	$ (1,139)	-175%	$ 1,527

Cash flows from operating activities: Our largest source of operating cash flows is cash collections from our customers following the purchase and renewal of their software license updates and product support agreements.

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

Fiscal 2008 Compared to Fiscal 2007: Net cash provided by operating activities increased in fiscal 2008 primarily due to higher net income, partially offset by increased accounts receivable due to fourth quarter fiscal 2008 revenue growth.

Fiscal 2007 Compared to Fiscal 2006: Cash flows provided by operating activities increased in fiscal 2007 primarily due to higher net income, partially offset by increased accounts receivable due to fourth quarter fiscal 2007 revenue growth, cash payments to terminate leases associated with excess facilities assumed in the Siebel acquisition, and the settlement of a pre-acquisition lawsuit filed against PeopleSoft.

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

Fiscal 2008 Compared to Fiscal 2007: Net cash used for investing activities increased in fiscal 2008 due to an increase in cash used for acquisitions (primarily BEA), net of cash acquired and an increase in cash used to purchase marketable securities (net of proceeds received from maturities).

Fiscal 2007 Compared to Fiscal 2006: Net cash used for investing activities increased in fiscal 2007 due to an increase in cash used for acquisitions, net of cash acquired. We paid cash to purchase a number of companies in fiscal 2007 including Hyperion, Stellent, MetaSolv, and Portal Software, and to purchase additional equity securities in i-flex. Cash outflows in fiscal 2006 primarily relate to our acquisition of Siebel and our equity investment purchases in i-flex.

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

Fiscal 2008 Compared to Fiscal 2007: Net cash provided by financing activities in fiscal 2008 increased in comparison to cash used by financing activities in fiscal 2007 due to the issuance of $5.0 billion of long-term senior notes in April 2008, additional proceeds from stock option exercises, excess tax benefits realized from stock-based compensation arrangements, and decreased spending on stock repurchases, and were partially offset by $1.4 billion of net repayments of short-term commercial paper notes.

Fiscal 2007 Compared to Fiscal 2006: Net cash used for financing activities in fiscal 2007 primarily relates to an increase in stock repurchases and lower borrowings, net of repayments, when compared with fiscal 2006.

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)	Year Ended May 31, 2008	Change	2007	Change	2006
Cash provided by operating activities	$ 7,402	34%	$ 5,520	22%	$ 4,541
Capital expenditures[1]	$ (243)	-24%	$ (319)	35%	$ (236)
Free cash flow	$ 7,159	38%	$ 5,201	21%	$ 4,305
Net income	$ 5,521	29%	$ 4,274	26%	$ 3,381
Free cash flow as a percent of net income	130%		122%		127%

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

Long-Term Customer Financing

We offer our customers the option to acquire our software products and service offerings through separate long-term payment contracts. We generally sell contracts that we have financed on a non-recourse basis to financial institutions. We record the transfers of amounts due from customers to financial institutions as sales of financial assets because we are considered to have surrendered control of these financial assets. In fiscal 2008, 2007 and 2006, $1.1 billion, $891 million and $618 million or approximately 15%, 15% and 13%, respectively, of our new software license revenues were financed through our financing division.

Contractual Obligations

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions, changing interest rates and other factors may result in actual payments differing from these estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our information within the context of our consolidated financial position, results of operations and cash flows. The following is a summary of our contractual obligations as of May 31, 2008:

		Year Ending May 31,					
(Dollars in millions)	**Total**	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
Principal payments on borrowings[1]	$ 11,250	$ 1,000	$ 1,000	$ 2,250	$	$ 1,250	$ 5,750
Capital leases[2]	2	1	1				
Interest payments on borrowings[1]	5,509	602	552	506	392	392	3,065
Operating leases[3]	1,713	432	370	259	187	124	341
Purchase obligations[4]	432	395	17	4	3	3	10
Funding commitments[5]	3	3					
Total contractual obligations	$ 18,909	$ 2,433	$ 1,940	$ 3,019	$ 582	$ 1,769	$ 9,166

(1) Our borrowings (excluding capital leases) consist of the following as of May 31, 2008:

	Principal Balance
Floating rate senior notes due May 2009	$ 1,000
Floating rate senior notes due May 2010	1,000
5.00% senior notes due January 2011, net of discount of $4	2,246
4.95% senior notes due April 2013	1,250
5.25% senior notes due January 2016, net of discount of $9	1,991
5.75% senior notes due April 2018, net of discount of $1	2,499
6.50% senior notes due April 2038, net of discount of $2	1,248

Total borrowings	$	11,234

Our floating rate senior notes due May 2009 and May 2010 bore interest at a rate of 2.70% and 2.74%, respectively, as of May 31, 2008. In September 2007, we entered into two interest-rate swap agreements that have the economic effect of modifying the variable interest obligations associated with our floating rate senior notes due May 2009 and May 2010 so that the interest payable on the senior notes effectively became fixed at a rate of 4.62% and 4.59%, respectively. Interest payments were calculated based on terms of the related agreements and include estimates based on the effective interest rates as of May 31, 2008 for variable rate borrowings after consideration of the aforementioned interest rate swap agreements.

(2) Represents remaining payments under capital leases assumed from acquisitions.

(3) Primarily represents leases of facilities and includes future minimum rent payments for facilities that we have vacated pursuant to our restructuring and merger integration activities. We have approximately $355 million in facility obligations, net of estimated sublease income, in accrued restructuring for these locations in our consolidated balance sheet at May 31, 2008.

(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.

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

Excluded from the table above are agreements that we entered into during the fourth quarter of fiscal 2008 and the first quarter of fiscal 2009 in which we agreed to acquire a number of companies for estimated total cash consideration of $407 million. We expect these transactions to close during the first quarter of fiscal 2009.

As of May 31, 2008, we have $1.7 billion of unrecognized tax benefits recorded on our consolidated balance sheet. We have reached certain settlement agreements with relevant taxing authorities to pay approximately $90 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 fiscal 2009. We cannot make a reasonably reliable estimate of the period in which the remainder of these liabilities 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 fiscal 2009.

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 expenditures and contractual obligations. In addition, we believe we could fund our acquisitions, including the aforementioned acquisitions that we expect to close during the first quarter of fiscal 2009, and repurchase common stock with our internally available cash, cash equivalents and marketable securities, cash generated from operations, our existing available debt capacity, additional borrowings or from the issuance of additional securities.

Off-Balance Sheet Arrangements

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

Recent Financing Activities

Senior Notes

In April 2008, we issued $5.0 billion of fixed rate senior notes, of which $1.25 billion of 4.95% senior notes is due April 2013 (2013 Notes), $2.5 billion of 5.75% senior notes is due April 2018 (2018 Notes), and $1.25 billion of 6.50% senior notes is due April 2038 (2038 Notes). We issued these senior notes to finance the acquisition of BEA and for general corporate purposes. Some or all of the 2013 Notes, 2018 Notes and 2038 Notes may be redeemed at any time, subject to payment of a make-whole premium. The 2013 Notes, 2018 Notes and 2038 Notes pay interest semi-annually.

In May 2007, we issued $2.0 billion of floating rate senior notes, of which $1.0 billion is due May 2009 (New 2009 Notes) and $1.0 billion is due May 2010 (2010 Notes). We issued the New 2009 Notes and 2010 Notes to fund the redemption of the $1.5 billion of senior floating rate notes that we issued in fiscal 2006 (see below) and for general corporate purposes. The New 2009 Notes and 2010 Notes bear interest at a rate of three-month USD LIBOR plus 0.02% and 0.06%, respectively, and interest is payable quarterly. The New 2009 Notes and 2010 Notes may not be redeemed prior to their maturity.

In January 2006, we issued $5.75 billion of senior notes consisting of $1.5 billion of floating rate senior notes due 2009 (Original 2009 Notes), $2.25 billion of 5.00% senior notes due 2011 (2011 Notes) and $2.0 billion of 5.25% senior notes due 2016 (2016 Notes and together with the Original 2009 Notes and the 2011 Notes, Original Senior Notes) to finance the Siebel acquisition and for general corporate purposes. On June 16, 2006, we completed a registered exchange offer of the Original Senior Notes for registered senior notes with substantially identical terms to the Original Senior Notes.

In May 2007 we redeemed the Original 2009 Notes for