Ozark Holding Inc.
Form 424B3
January 18, 2006
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Filed pursuant to Rule 424(b)(3)
Registration No. 333-129139

SIEBEL SYSTEMS MERGER PROPOSED   YOUR VOTE IS VERY IMPORTANT

Dear Stockholder,

As previously announced, the board of directors of Siebel Systems, Inc. has unanimously approved the Agreement and Plan of Merger, dated as of September 12, 2005, as amended, by and among Oracle Corporation, Siebel Systems, Ozark Holding Inc. (New Oracle), Ozark Merger Sub Inc. and Sierra Merger Sub Inc., all Delaware corporations. The special meeting of Siebel Systems stockholders to approve the transaction and other matters will be held on January 31, 2006.

Included with this letter are Oracle s Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2005, Oracle s Current Report on Form 8-K containing revised pro-forma financial disclosures and Oracle s Current Report on Form 8-K containing a press release describing the pricing of $5.75 billion in investment grade notes to fund the purchase of Siebel Systems, Inc., each of which has been filed with the SEC. Please take time to review these materials carefully as they are important in making your decision on how to vote your shares.

On December 29, 2005, the SEC declared effective New Oracle s registration statement on Form S-4 (File No. 333-129139) that registered the New Oracle common stock to be issued to Siebel Systems stockholders in the transaction. This letter and the attached Oracle filings are a supplement to the registration statement and constitute a prospectus of New Oracle, in addition to being a proxy statement of Siebel Systems for the special meeting.

It is important that your shares are represented at the special meeting, whether or not you plan to attend the meeting. Abstentions and failures to vote will have the same effect as votes   Against   the proposal to adopt the merger agreement. Accordingly, please submit a proxy by telephone or the Internet or complete, date, sign and return promptly your proxy card in the postage pre-paid envelope that was provided in the proxy statement/prospectus first mailed on December 30, 2005. You may attend the special meeting and vote your shares in person if you wish, even if you have previously returned your proxy.

Thank you for your attention to these important matters.

Sincerely,

/s/ Thomas M. Siebel

Thomas M. Siebel

Chairman of the Board of Directors, Siebel Systems, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the common stock of New Oracle to be issued under the proxy statement/prospectus and this supplement or determined if the proxy statement/prospectus and this supplement is truthful or complete. Any representation to the contrary is a criminal offense.

Proxy statement/prospectus supplement dated January 17, 2006, and first mailed to stockholders on January 19, 2006.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

—

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended November 30, 2005

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number: 0-14376

—

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-2871189**
(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)

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 ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES x NO ¨

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

The number of shares of registrant s common stock outstanding as of December 30, 2005 was: 5,162,025,333.

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ORACLE CORPORATION

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ORACLE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of November 30, 2005 and May 31, 2005

(Unaudited)

(in millions, except per share data)	November 30, 2005	May 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,837	$ 3,894
Marketable securities	566	877
Trade receivables, net of allowances of $275 and $269	1,976	2,570
Other receivables	229	330
Deferred tax assets	471	486
Prepaid expenses and other current assets	187	291
Total current assets	6,266	8,448
Non-current assets:		
Property, net	1,366	1,442
Intangible assets, net	3,269	3,373
Goodwill	7,366	7,003
Deferred tax assets	51	32
Other assets	1,028	389
Total non-current assets	13,080	12,239
Total assets	$ 19,346	$ 20,687
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 907	$ 2,693
Accounts payable	240	230
Income taxes payable	667	904
Accrued compensation and related benefits	699	923
Accrued restructuring	73	156
Deferred revenues	2,183	2,289
Other current liabilities	794	868
Total current liabilities	5,563	8,063

Non-current liabilities:		
Notes payable and long-term debt, net of current portion	156	159
Deferred tax liabilities	950	1,010
Accrued restructuring	91	120
Deferred revenues	89	126
Other long-term liabilities	382	372
Total non-current liabilities	1,668	1,787
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value authorized: 1.0 shares; outstanding: none		
Common stock, $0.01 par value and additional paid in capital authorized: 11,000 shares; outstanding: 5,154 shares at November 30, 2005 and 5,145 shares at May 31, 2005	6,887	6,596
Retained earnings	5,063	4,043
Deferred compensation	(29)	(45)
Accumulated other comprehensive income	194	243
Total stockholders equity	12,115	10,837
Total liabilities and stockholders equity	$ 19,346	$ 20,687

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended November 30, 2005 and 2004

(Unaudited)

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions, except per share data)	**2005**	**2004**	**2005**	**2004**
Revenues:				
New software licenses	$ 1,058	$ 971	$ 1,687	$ 1,534
Software license updates and product support	1,559	1,252	3,061	2,427
Software revenues	2,617	2,223	4,748	3,961
Services	675	533	1,312	1,010
Total revenues	3,292	2,756	6,060	4,971
Operating expenses:				
Sales and marketing	706	555	1,321	1,035
Software license updates and product support	175	141	335	277
Cost of services	582	449	1,145	868
Research and development	468	320	868	623
General and administrative	109	130	265	255
Amortization of intangible assets	126	7	249	16
Acquisition related	10	23	38	52
Restructuring			11	
Total operating expenses	2,176	1,625	4,232	3,126
Operating income	1,116	1,131	1,828	1,845
Interest expense	(16)	(6)	(37)	(11)
Non-operating income, net	22	29	63	58
Income before provision for income taxes	1,122	1,154	1,854	1,892
Provision for income taxes	324	339	538	568
Net income	$ 798	$ 815	$ 1,316	$ 1,324
Earnings per share:				
Basic	$ 0.15	$ 0.16	$ 0.26	$ 0.26
Diluted	$ 0.15	$ 0.16	$ 0.25	$ 0.25
Weighted-average common shares outstanding:				
Basic	5,152	5,123	5,150	5,139

Diluted	5,238	5,218	5,241	5,229

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended November 30, 2005 and 2004

(Unaudited)

	Six Months Ended November 30,	
(in millions)	**2005**	**2004**
Cash Flows From Operating Activities:		
Net income	$ 1,316	$ 1,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	110	89
Amortization of intangible assets	249	16
Deferred income taxes	(65)	(42)
Minority interests in income	17	19
Amortization of stock-based compensation	20	
In-process research and development	12	
Changes in assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables	558	527
Decrease in prepaid expenses and other assets	158	152
Decrease in accounts payable and other liabilities	(308)	(267)
(Decrease) increase in income taxes payable	(219)	38
Decrease in deferred revenues	(92)	(57)
Net cash provided by operating activities	1,756	1,799
Cash Flows From Investing Activities:		
Purchases of marketable securities	(926)	(5,097)
Proceeds from maturities and sale of marketable securities	1,203	6,011
Acquisitions, net of cash acquired	(498)	
Purchase of equity investment	(605)	
Capital expenditures	(86)	(92)
Proceeds from sale of property	89	
Increase in other assets	(3)	(4)
Net cash (used for) provided by investing activities	(826)	818
Cash Flows From Financing Activities:		
Payments for repurchase of common stock	(324)	(1,095)
Proceeds from issuance of common stock	245	165
Proceeds from borrowings	6,518	
Payments of debt	(8,321)	
Distributions to minority interests	(23)	(26)
Net cash used for financing activities	(1,905)	(956)
Effect of exchange rate changes on cash and cash equivalents	(82)	106

Net (decrease) increase in cash and cash equivalents	(1,057)	1,767
Cash and cash equivalents at beginning of period	3,894	4,138
Cash and cash equivalents at end of period	$ 2,837	$ 5,905
Non-cash financing transactions:		
Fair value of options and stock issued in connection with acquisitions	$ 33	$ 12

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2005

(Unaudited)

1. BASIS OF PRESENTATION

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K, as amended, for the fiscal year ended May 31, 2005.

We believe that all necessary adjustments, which consisted only of normal recurring items, have been included in the accompanying financial statements to present fairly the results of the interim periods. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for our fiscal year ending May 31, 2006. Certain prior period balances have been reclassified to conform to the current period presentation.

2. STOCK-BASED COMPENSATION PLANS

We issue stock options to our employees and outside directors under stockholder approved stock option programs and provide employees the right to purchase our stock pursuant to employee stock purchase programs. We account for our stock-based compensation plans under the intrinsic value method of accounting as defined by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. We apply the disclosure provisions of Financial Accounting Standards Board Statement No. 123, *Accounting for Stock-Based Compensation*, as amended by FASB Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. For pro forma disclosures, the estimated fair value of the unvested options is amortized using the accelerated expense attribution method over the vesting period, typically four years, and the estimated fair value of the stock purchases is amortized over the six-month purchase period. The following table illustrates the effect on reported net income and earnings per share if we had accounted for our stock option and stock purchase plans under the fair value method of accounting:

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions, except per share data)	**2005**	**2004**	**2005**	**2004**
Net income, as reported	$ 798	$ 815	$ 1,316	$ 1,324
Add: Stock-based employee compensation expense included in net income, net of related tax effects	5		13	
Deduct: Stock-based employee compensation expense determined under the fair value based method for awards, net of forfeitures and related tax effects [1]	(39)	(41)	(73)	(79)

Pro forma net income	$ 764	$ 774	$ 1,256	$ 1,245
Earnings per share:				
Basic as reported	$ 0.15	$ 0.16	$ 0.26	$ 0.26
Basic pro forma	$ 0.15	$ 0.15	$ 0.24	$ 0.24
Diluted as reported	$ 0.15	$ 0.16	$ 0.25	$ 0.25
Diluted pro forma	$ 0.15	$ 0.15	$ 0.24	$ 0.24

(1) Includes reversal of unearned stock compensation expense for forfeitures arising from our use of the accelerated expense attribution method, net of related tax effects, of $4.9 million and $19.8 million in the three and six months ended November 30, 2005 and $4.8 million and $7.9 million for the three and six months ended November 30, 2004.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2005

(Unaudited)

We estimate the fair value of our options using a Black-Scholes-Merton option-pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of assumptions, including the expected stock price volatility. Our options have characteristics significantly different from those of traded options, and changes in the input assumptions can materially affect the fair value estimates. The fair values of employee and director stock options granted were estimated at the date of grant using the following weighted-average assumptions:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2005	**2004**	**2005**	**2004**
Expected life (in years)	2.50-7.15	2.31-5.31	2.50-7.15	2.28-6.54
Risk-free interest rate	4.26-4.41%	3.00-3.69%	3.78-4.41%	2.40-3.69%
Volatility	28%	34%	27-28%	34-36%
Dividend yield				
Weighted-average fair value of grants	$ 4.85	$ 3.26	$ 4.53	$ 3.42

The fair value of the option component of the employee purchase plan shares was estimated at the date of grant using a Black-Scholes-Merton option-pricing model. The following weighted-average assumptions were used in the three and six months ended November 30, 2004, respectively: expected life of 0.50 years, risk-free interest rate of 1.69%, volatility of 37% and dividend yield of 0%. The weighted average fair value of employee purchase plan grants was $3.09 for the three and six months ended November 30, 2004. We modified the terms of our employee stock purchase plan in April 2005 to eliminate the option component associated with the plan and to reduce the discount from 15% to 5%.

3. NEW ACCOUNTING PRONOUNCEMENTS

Share-Based Payment: On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of Statement 123. Statement 123(R) supersedes Opinion 25, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) generally requires share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair values. Pro forma disclosure of fair value recognition will no longer be an alternative.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

Modified prospective method: Compensation cost is recognized beginning with the effective date of adoption (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date of adoption and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of adoption that remain unvested on the date of adoption.

Modified retrospective method: Includes the requirements of the modified prospective method described above, but also permits restatement using amounts previously disclosed under the pro forma provisions of Statement 123 either for (a) all prior periods presented or (b) prior interim periods of the year of adoption.

On April 14, 2005, the Securities and Exchange Commission announced that the Statement 123(R) effective transition date would be extended to annual periods beginning after June 15, 2005. We are required to adopt this new standard on June 1, 2006, with early-adoption permitted.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2005

(Unaudited)

Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under current accounting rules. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Total cash flow will remain unchanged from what would have been reported under prior accounting rules.

As permitted by Statement 123, we currently account for share-based payments to employees using Opinion 25 s intrinsic value method. As a consequence, we generally recognize no compensation cost for employee stock options and purchases under our Employee Stock Purchase Plan. Although the adoption of Statement 123(R) s fair value method will have no adverse impact on our balance sheet or total cash flows, it will affect our net income and earnings per share. The actual effects of adopting Statement 123(R) will depend on numerous factors including the amounts of share-based payments granted in the future, the valuation model we use to value future share-based payments to employees and estimated forfeiture rates. See Note 2 for the effect on reported net income and earnings per share if we had accounted for our stock option and stock purchase plans using the fair value recognition provisions of Statement 123.

Exchanges of Nonmonetary Assets: On December 16, 2004, the FASB issued Statement No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions.* Statement 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. Statement 153 was effective for nonmonetary asset exchanges beginning in our second quarter of fiscal 2006. The adoption of Statement 153 did not have a material effect on our consolidated financial position, results of operations or cash flows.

Accounting Changes and Error Corrections: On June 7, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Statement 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition of a cumulative effect adjustment within net income of the period of the change. Statement 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Statement 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. We do not believe adoption of Statement 154 will have a material effect on our consolidated financial position, results of operations or cash flows.

Amortization Period for Leasehold Improvements: On June 29, 2005, the FASB ratified the EITF s Issue No. 05-06, *Determining the Amortization Period for Leasehold Improvements*. Issue 05-06 provides that the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured upon the acquisition or the purchase. The provisions of Issue 05-06 were effective on a prospective basis for leasehold improvements purchased or acquired beginning in our second quarter of fiscal 2006. The adoption of Issue 05-06 did not have a material effect on our consolidated financial position, results of operations or cash flows.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2005

(Unaudited)

4. ACQUISITIONS

Fiscal 2006 Acquisitions

Investment in i-flex Solutions Limited

On August 2, 2005, we entered into a Share Purchase Agreement with OrbiTech Limited, a subsidiary of Citigroup Inc. for the purchase of 32,236,000 shares of i-flex Solutions Limited, a provider of software solutions and services to the financial services industry (Bombay Stock Exchange: IFLX.BO and National Stock Exchange of India: IFLX.NS). Under the terms of the Share Purchase Agreement and related agreements, we purchased the i-flex shares from OrbiTech on November 18, 2005 for $593 million, or 800 Indian rupees per share. As a result of this purchase and additional purchases of i-flex common stock pursuant to an open offer in October 2005, our investment in i-flex is $605 million as of November 30, 2005, which represents 43% of the outstanding common stock of i-flex.

We account for our investment in i-flex under the equity method of accounting. Under the equity method of accounting, we record our percentage interest of the earnings of i-flex in other income, net. We record such amounts two months in arrears as our reporting periods differ and the access to more current information is not available. As a result, we have not reflected any equity in earnings of i-flex for the three and six months ended November 30, 2005. We plan to record our percentage interest in the earnings of i-flex for its quarter ending December 31, 2005 in our third fiscal quarter ending February 28, 2006. Our investment in i-flex reflects the price paid for the common stock recently purchased and, therefore, it differs from the underlying interest in the net assets of i-flex, which is based on U.S. GAAP. As we are unable to relate this difference to specific accounts of i-flex, the difference has been recognized in a similar manner as goodwill and will not be subject to amortization. The market value of our investment, which was $707 million at November 30, 2005, was in excess of the carrying value of our investment of $605 million, which is recorded in other assets, net in the condensed consolidated balance sheets.

Other Acquisitions

During the first half of fiscal 2006, we acquired several software companies and purchased certain technology and development organizations for approximately $545 million, which includes cash paid of $512 million and the fair value of options assumed of $33 million.

We recorded approximately $368 million of goodwill, $145 million of identifiable intangible assets, $20 million of net tangible assets and $12 million of in-process research and development in connection with these other acquisitions during the first half of fiscal 2006. We have included the effects of these transactions in our results of operations prospectively from the respective dates of the acquisitions. Pro forma financial information for acquisitions accounted for as business combinations has not been presented, as the effects were not material to our historical consolidated financial statements either individually or in aggregate.

Fiscal 2005 Acquisitions

PeopleSoft, Inc.

Pursuant to our Agreement and Plan of Merger with PeopleSoft Inc., a Delaware corporation, dated December 12, 2004, we acquired approximately 75% and 97% of the outstanding common stock of PeopleSoft (including shares subject to guaranteed delivery) for $26.50 per share in cash as of December 29, 2004 and January 6, 2005, respectively. On January 7, 2005, we completed the merger of our wholly-owned subsidiary

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2005

(Unaudited)

with and into PeopleSoft and converted each remaining outstanding share of PeopleSoft common stock not tendered, into a right to receive $26.50 per share in cash, without interest.

The total purchase price was $11.1 billion, which consisted of $10,576 million in cash paid or payable to acquire the outstanding common stock of PeopleSoft, $492 million for the fair value of options assumed and $12 million in cash for transaction costs. In allocating the purchase price based on estimated fair values, we recorded approximately $6,480 million of goodwill, $3,384 million of identifiable intangible assets, $1,183 million of net tangible assets and $33 million of in-process research and development. The preliminary allocation of the purchase price was based, in part, upon a valuation and our estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of Oracle and PeopleSoft, on a pro forma basis, as though the companies had been combined as of the beginning of the period presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the period presented. The pro forma financial information includes the business combination accounting effect on historical PeopleSoft support revenues, adjustments to depreciation on acquired property, the charge for in-process research and development, amortization charges from acquired intangible assets, stock-based compensation charges for unvested options assumed, Oracle restructuring costs, acquisition and tender offer costs reflected in Oracle s and PeopleSoft s historical statements of operations for periods prior to our Agreement and Plan of Merger, adjustments to interest expense and related tax effects.

The unaudited pro forma financial information combines the historical results for Oracle with the historical results for PeopleSoft for the three and six months ended November 30, 2004.

(in millions, except per share data)	Three Months Ended November 30, 2004	Six Months Ended November 30, 2004
Total revenues	$ 3,322	$ 6,011
Net income	$ 595	$ 798
Basic net income per share	$ 0.12	$ 0.16
Diluted net income per share	$ 0.11	$ 0.15

Retek Inc.

We purchased 5.5 million shares of common stock of Retek Inc., a Delaware Corporation, on March 7 and 8, 2005, through ordinary brokerage transactions at prevailing market prices for a weighted-average price of $8.82 per share. In April and May 2005, we acquired the remaining outstanding common stock of Retek for $11.25 per share, or $584 million.

The total purchase price was $701 million, comprised of $633 million of cash paid to acquire the outstanding common stock of Retek, $32 million of cash paid for outstanding stock options and $36 million of acquisition related transaction costs. In allocating the purchase price based on estimated fair values, we recorded approximately $430 million of goodwill, $133 million of identifiable intangible assets, $131 million of net tangible assets and $7 million of in-process research and development. The preliminary allocation of the

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2005

(Unaudited)

purchase price was based upon a valuation and our estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to certain legal matters as well as income and non-income based taxes. Pro forma financial information for Retek has not been presented, as the effects were not material to our consolidated financial statements.

5. RESTRUCTURING ACTIVITIES

During fiscal 2005, management approved and initiated plans to restructure the pre-merger operations of Oracle, PeopleSoft and Retek to eliminate certain duplicative activities, focus on strategic product and customer bases and reduce our cost structure. We have completed our planned legal-entity mergers, information system conversions and integration of PeopleSoft s and Retek s operations. We also have completed all exit activities associated with the pre-merger operations of Oracle.

Fiscal 2005 Oracle Restructuring Plan

The total restructuring costs associated with exit activities of pre-merger Oracle are $161 million. We have incurred $158 million in restructuring expenses to date, including $11 million in the first half of fiscal 2006. The following table reflects the activities of the fiscal 2005 Oracle restructuring plan for the six months ended November 30, 2005 and total costs incurred to date by operating segment:

(in millions)	Accrued Restructuring at May 31, 2005	Six Months Ended November 30, 2005 Total Costs Incurred	Six Months Ended November 30, 2005 Cash Payments	Accrued Restructuring at November 30, 2005 (3)	Total Costs Incurred to Date	Total Expected Program Costs
Employee severance						
New software licenses	$ 14	$ 1	$ (13)	$ 2	$ 37	$ 38
Software license updates and product support	1		(1)		6	6
Consulting	6	1	(5)	2	20	21
On Demand (1)					2	2
Education	2	3	(3)	2	6	7
Other (2)	6	6	(5)	7	66	66
Total severance	$ 29	$ 11	$ (27)	$ 13	$ 137	$ 140

Facilities						
New software licenses	$ 2	$	$	$ 2	$ 2	$ 2
Software license updates and product support	1			1	1	1
Consulting	2			2	2	2
On Demand [(1)]	1			1	1	1
Other [(2)]	15		(2)	13	15	15
Total facilities	$ 21	$	$ (2)	$ 19	$ 21	$ 21
Total Oracle restructuring	$ 50	$ 11	$ (29)	$ 32	$ 158	$ 161

(1) Formerly referred to as advanced product services.

(2) Other includes severance and facility charges associated with research and development, general and administrative and marketing functions.

(3) Accrued restructuring of $32 million at November 30, 2005 includes $14 million recorded in accrued restructuring, current and $18 million, related to long-term facilities obligations, recorded in accrued restructuring, non-current in the accompanying condensed consolidated balance sheets.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2005

(Unaudited)

Fiscal 2005 PeopleSoft and Retek Restructuring Plan

We currently estimate total restructuring costs associated with exiting activities of PeopleSoft and Retek to approximate $393 million. The following table reflects the activities of the PeopleSoft and Retek restructuring plan for the six months ended November 30, 2005, total costs accrued to date and total expected program costs:

(in millions)	Accrued Restructuring at May 31, 2005	Six Months Ended November 30, 2005 Adjustments to Accrual [1]	Cash Payments	Translation Adjustments	Accrued Restructuring at November 30, 2005 [2]	Total Costs Accrued to Date	Total Expected Program Costs
Severance	$ 63	$ (18)	$ (33)	$ (1)	$ 11	$ 193	$ 193
Facilities	143	(6)	(30)	(3)	104	152	152
Other	20	9	(12)		17	48	48
Total PeopleSoft and Retek Restructuring	$ 226	$ (15)	$ (75)	$ (4)	$ 132	$ 393	$ 393

(1) Primarily relates to changes in estimates related to severance payments, facility plans and other restructuring obligations relating to the PeopleSoft acquisition.

(2) Accrued restructuring of $132 million at November 30, 2005 includes $59 million recorded in accrued restructuring, current and $73 million, related to long-term facilities obligations, recorded in accrued restructuring, non-current in the accompanying condensed consolidated balance sheets.

6. ACQUISITION RELATED CHARGES

Acquisition related charges primarily consist of in-process research and development expenses, integration-related professional services, stock-compensation expenses and personnel related costs for transitional employees, as well as costs associated with our tender offer for PeopleSoft prior to the agreement date. Stock-based compensation included in acquisition related charges resulted from unvested options assumed in the PeopleSoft acquisition whose vesting was fully accelerated upon termination of the employees pursuant to the terms of these options.

	Three Months Ended	Six Months Ended

	November 30,		November 30,	
(in millions)	2005	2004	2005	2004
In-process research and development	$ 4	$	$ 12	$
Transitional employee related costs	5		11	
Stock-based compensation	1		4	
Professional fees		23	11	52
Total acquisition related charges	$ 10	$ 23	$ 38	$ 52

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7. BORROWINGS

Borrowings consisted of the following:

(in millions)	November 30, 2005	May 31, 2005
Commercial paper notes with various maturities through December 2005, net of unamortized discount of $1 and $7	$ 489	$ 1,993
OTC Loan Facility due May 2006	418	700
Short-term borrowings and current portion of long-term debt	907	2,693
6.91% senior notes due February 2007	150	153
Notes payable due May 2007	6	6
Notes payable and long-term debt	156	159
Total borrowings	$ 1,063	$ 2,852

Short-Term Borrowings

In April 2005, we issued and sold unsecured short-term promissory notes with an aggregate principal face value of $2.0 billion (the CP Notes), under our $3.0 billion commercial paper program (CP Program). The CP Notes were issued and sold pursuant to a private placement exemption from the registration requirements under federal and state securities laws. The CP Notes, which were issued at a discount from their principal face value, have various maturities with different yields. The average weighted yield of the CP Notes outstanding at November 30, 2005 is 4.13%. The CP Notes are not redeemable prior to maturity and are not subject to voluntary prepayment.

In May 2005, Oracle Technology Company (OTC), a wholly-owned subsidiary, entered into an unsecured $700 million loan facility (OTC Loan Facility) with ABN AMRO Bank N.V. guaranteed by us. The effective interest rate on the OTC Loan Facility was 4.47% at November 30, 2005. All amounts under the OTC Loan Facility are due in May 2006.

$150 Million Senior Notes

We have $150 million in 6.91% senior notes due in February 2007. In February 2002, we entered into an interest-rate swap agreement that has the economic effect of modifying the interest obligations associated with these senior notes so that the interest payable on the senior notes effectively becomes variable based on the three month LIBOR set quarterly until maturity. Our interest rate swap reduced the effective interest rate on the senior notes to 6.43% as of November 30, 2005. The fair value of the interest rate swap was $0.4 million at November 30, 2005 ($3.1 million at May 31, 2005) and is included in other assets in the accompanying condensed consolidated balance sheets.

364-Day Revolving Credit Agreement

On March 18, 2005, we entered into a 364-day revolving credit agreement (Credit Agreement). The Credit Agreement is unsecured and provides a $3.0 billion credit facility (Credit Facility) to support any commercial paper we may issue and for working capital and other general corporate purposes. We may borrow, prepay and re-borrow amounts under the Credit Facility at any time under the Credit Agreement. As of November 30, 2005, we had not borrowed any funds against the Credit Agreement.

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We were in compliance with all covenants at November 30, 2005, including the requirement in the Credit Facility that our total net debt to total capitalization ratio not exceed 40%.

8. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	November 30, 2005	May 31, 2005
Software license updates and product support	$ 1,926	$ 1,985
Services	190	225
New software licenses	67	79
Deferred revenues, current	2,183	2,289
Deferred revenues, non-current	89	126
Total deferred revenues	$ 2,272	$ 2,415

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

In connection with purchase price allocations related to our acquisitions in fiscal 2005 and during the first half of fiscal 2006, we have estimated the fair values of the support obligations assumed. The estimated fair values of the support obligations assumed were determined using a cost-build up approach. The cost-build up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligations. We recorded adjustments to reduce the carrying values of the deferred software license updates and product support revenues assumed by $447 million to $300 million, which represents our estimate of the fair value of the support obligations assumed. As a result, software license updates and product support revenues related to support contracts assumed in business acquisitions in the amount of $240 million, which would have been otherwise recorded by the acquired entities, were not recognized as revenue during the six months ended November 30, 2005. Historically, substantially all of our customers, including customers from acquired companies, renew their contracts when the contract is eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenue for the full value of the support contracts over the support periods, the majority of which are one year.

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9. STOCK REPURCHASE PROGRAM

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. From the inception of the stock repurchase program in 1992 to November 30, 2005, a total of 1.8 billion shares have been repurchased for approximately $20.7 billion. We repurchased 24.1 million shares for $324 million and 93.9 million shares for $1,095 million during the six months ended November 30, 2005 and 2004, respectively. At November 30, 2005, approximately $1.6 billion was available to repurchase shares of our common stock pursuant to the stock repurchase program.

10. 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 federal statutory income tax rate due primarily to state taxes and earnings considered as indefinitely reinvested in foreign operations. The effective tax rate was 28.9% and 29.0% for the three and six months ended November 30, 2005, respectively, and 29.4% and 30.0% for the three and six months ended November 30, 2004, respectively.

The Internal Revenue Service has examined our federal income tax returns for all years through 1999 without any material adjustment of taxes due. The IRS is currently examining our federal income tax returns for 2000 through 2003. We do not believe that the outcome of these matters will have a material adverse effect on our consolidated financial position or results of operations. We are also under examination by numerous state and non-US tax authorities. We believe that we have adequately provided for any reasonably foreseeable outcome related to these audits.

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. However, these agreements, which are effective for fiscal years through May 31, 2006, do not cover all elements of our intercompany transfer pricing issues and do not bind tax authorities outside the United States. We are currently negotiating bilateral Advance Pricing Agreements to cover various periods from June 1, 2001 through May 31, 2008.

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11. EARNINGS PER SHARE

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

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions, except per share data)	2005	2004	2005	2004
Net income	$ 798	$ 815	$ 1,316	$ 1,324
Weighted-average common shares outstanding	5,152	5,123	5,150	5,139
Dilutive effect of employee stock plans	86	95	91	90
Diluted weighted-average common shares outstanding	5,238	5,218	5,241	5,229
Basic earnings per share	$ 0.15	$ 0.16	$ 0.26	$ 0.26
Diluted earnings per share	$ 0.15	$ 0.16	$ 0.25	$ 0.25
Shares subject to anti-dilutive options excluded from calculation [1]	108	139	108	144

[1] These weighted-average shares relate to anti-dilutive stock options and could be dilutive in the future.

12. COMPREHENSIVE INCOME

Comprehensive income includes foreign currency translation gains and losses and unrealized gains and losses on equity securities and equity hedge gains and losses that are reflected in stockholders equity instead of net income. The following table sets forth the calculation of comprehensive income:

	Three Months Ended November 30,	Six Months Ended November 30,

(in millions)	2005	2004	2005	2004
Net income	$ 798	$ 815	$ 1,316	$ 1,324
Net foreign currency translation (loss) gain	(82)	185	(94)	195
Unrealized gain (loss) on equity securities, net	6		9	(1)
Equity hedge gain (loss), net	28	(27)	37	(34)
Comprehensive income	$ 750	$ 973	$ 1,268	$ 1,484

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13. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill, which is not deductible for tax purposes, for the six months ended November 30, 2005 were as follows:

(in millions)	New Software Licenses	Software License Updates and Product Support	Services	Other	Total
Balance as of May 31, 2005	$ 1,220	$ 4,863	$ 445	$ 475	$ 7,003
Allocation of goodwill [1]	218	164	93	(475)	
Goodwill acquired	231	102	35		368
Goodwill adjustments		(5)			(5)
Balance as of November 30, 2005	$ 1,669	$ 5,124	$ 573	$	$ 7,366

[1] Represents goodwill associated with fourth quarter fiscal 2005 acquisitions, primarily Retek, that was allocated to operating segments upon finalization of our intangible asset valuations in the first quarter of fiscal 2006.

The changes in intangible assets for the six months ended November 30, 2005 were as follows:

	Intangible Assets, Gross			Accumulated Amortization			Net Book Value		
(in millions)	May 31, 2005	Additions	Nov 30, 2005	May 31, 2005	Expense	Nov 30, 2005	May 31, 2005	Nov 30, 2005	Weighted Average Useful Life
Software support agreements and related relationships	$ 2,124	$ 14	$ 2,138	$ (88)	$ (107)	$ (195)	$ 2,036	$ 1,943	10 years
Developed technology	800	106	906	(127)	(86)	(213)	673	693	5 years
Core technology	368	18	386	(30)	(38)	(68)	338	318	5 years
Customer relationships	257	5	262	(11)	(12)	(23)	246	239	10 years
Trademarks	84	2	86	(4)	(6)	(10)	80	76	7 years
Total	$ 3,633	$ 145	$ 3,778	$ (260)	$ (249)	$ (509)	$ 3,373	$ 3,269	

The total amortization expense related to intangible assets was $126 million and $249 million for the three and six months ended November 30, 2005, respectively, and $7 million and $16 million for the three and six months ended November 30, 2004, respectively. Estimated future amortization expense related to intangible assets is as follows:

(in millions)	**Year Ended May 31,**
2006 (remainder of fiscal year)	$ 256
2007	509
2008	500
2009	495
2010	390
Thereafter	1,119
Total	$ 3,269

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14. SEGMENT REPORTING

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

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

The consulting line of business provides services to customers in the design, implementation, deployment and upgrade of our database, middleware and applications software. On Demand includes Oracle On Demand and Advanced Customer Services. Oracle On Demand provides multi-featured software and hardware management and maintenance services for our database, middleware and applications software. Advanced Customer Services provide customers configuration and performance analysis, personalized support and annual on-site technical services. The education line of business provides instructor led, media based and internet based training in the use of our database, middleware and applications software.

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

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

(in millions)	Three Months Ended November 30, 2005	Three Months Ended November 30, 2004	Six Months Ended November 30, 2005	Six Months Ended November 30, 2004
New software licenses:				
Revenues [1]	$ 1,056	$ 969	$ 1,683	$ 1,530
Sales and distribution expenses	576	447	1,077	830
Margin [2]	$ 480	$ 522	$ 606	$ 700
Software license updates and product support:				
Revenues [1]	$ 1,661	$ 1,252	$ 3,302	$ 2,427
Cost of services	165	134	317	264
Margin [2]	$ 1,496	$ 1,118	$ 2,985	$ 2,163
Total software business:				
Revenues [1]	$ 2,717	$ 2,221	$ 4,985	$ 3,957
Expenses	741	581	1,394	1,094
Margin [2]	$ 1,976	$ 1,640	$ 3,591	$ 2,863
Consulting:				
Revenues [1]	$ 505	$ 393	$ 985	$ 746
Cost of services	424	317	836	625
Margin [2]	$ 81	$ 76	$ 149	$ 121
On Demand:				
Revenues [1]	$ 87	$ 73	$ 171	$ 144
Cost of services	79	55	151	106
Margin [2]	$ 8	$ 18	$ 20	$ 38
Education:				
Revenues [1]	$ 85	$ 69	$ 159	$ 124
Cost of services	56	56	109	100
Margin [2]	$ 29	$ 13	$ 50	$ 24
Total services business:				
Revenues [1]	$ 677	$ 535	$ 1,315	$ 1,014

Cost of services	559	428	1,096	831
Margin [2]	$ 118	$ 107	$ 219	$ 183
Totals:				
Revenues [1]	$ 3,394	$ 2,756	$ 6,300	$ 4,971
Expenses	1,300	1,009	2,490	1,925
Margin [2]	$ 2,094	$ 1,747	$ 3,810	$ 3,046

(1) Operating segment revenues differ from the external reporting classifications due to certain software license products that are classified as service revenues for management reporting purposes. Additionally, software license updates and product support revenues for management reporting include $102 million and $240 million that was not recognized on the accompanying condensed consolidated statements of operations for the three and six months ended November 30, 2005, respectively. See Note 8 for an explanation of these adjustments and the following table for a reconciliation of operating segment revenues to total revenues.

(2) The margins reported reflect only the direct controllable costs and expenses of each line of business and do not represent the actual margins for each operating segment because they do not contain an allocation of product development, information technology, marketing and partner programs, and corporate and general and administrative expenses incurred in support of the lines of business. Additionally, the margins do not reflect the amortization of intangible assets, restructuring costs, acquisition related costs and stock-based compensation.

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Reconciliation of operating segment revenues to total revenues

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2005**	**2004**	**2005**	**2004**
Total revenues for reportable segments	$ 3,394	$ 2,756	$ 6,300	$ 4,971
Software license updates and product support revenues	(102)		(240)	
Total revenues	$ 3,292	$ 2,756	$ 6,060	$ 4,971

Reconciliation of operating segment margin to income before provision for income taxes

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2005**	**2004**	**2005**	**2004**
Total margin for reportable segments	$ 2,094	$ 1,747	$ 3,810	$ 3,046
Software license updates and product support revenues	(102)		(240)	
Product development and information technology expenses	(545)	(385)	(1,013)	(757)
Marketing and partner program expenses	(111)	(92)	(205)	(174)
Corporate and general and administrative expenses	(76)	(110)	(206)	(198)
Amortization of intangible assets	(126)	(7)	(249)	(16)
Acquisition related	(10)	(23)	(38)	(52)
Restructuring			(11)	
Stock-based compensation	(7)		(16)	
Interest expense	(16)	(6)	(37)	(11)
Non-operating income, net	21	30	59	54
Income before provision for income taxes	$ 1,122	$ 1,154	$ 1,854	$ 1,892

15. PEOPLESOFT CUSTOMER ASSURANCE PROGRAM

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 Oracle, as a result of our acquisition of PeopleSoft, with a contingent obligation to make payments to PeopleSoft customers should we fail to take certain business actions for a fixed period. The payment obligation, which typically expires four years from the date of the contract, is fixed at an amount generally between two and five times the license and first year support fees paid to PeopleSoft in the applicable license transaction. PeopleSoft customers retain rights to the licensed products whether or not the CAP payments are triggered.

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The maximum potential penalty under the CAP, by version, as of November 30, 2005 was as follows:

	Dates Offered to Customers [1]		Maximum Potential
CAP Version	Start Date	End Date	Penalty (in millions)
Version 1	June 2003	September 12, 2003	$ 76 [2]
Version 2	September 12, 2003	September 30, 2003	170
Version 3	September 30, 2003	November 7, 2003	40
Version 4	November 18, 2003	June 30, 2004	1,352
Version 5	June 16, 2004	December 28, 2004	792
Version 6	October 12, 2004	December 28, 2004	1,105
			$ 3,535

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

(2) As of November 30, 2005, all but two contracts containing Version One of the CAP have expired by their terms. $76 million is the maximum potential payment under the two remaining Version 1 CAP contracts.

This purported obligation was not reflected as a liability on PeopleSoft s balance sheet as PeopleSoft concluded that it could be triggered only following the consummation of an acquisition. We have concluded that, as of the date of the acquisition, the penalty provisions under the CAP represented a contingent liability of Oracle. The aggregate potential CAP obligation as of November 30, 2005 was $3.5 billion. Unless the CAP provisions are removed from these licensing arrangements, we do not expect the aggregate potential CAP obligation to decline substantially until fiscal year 2008 when these provisions begin to expire. We have not recorded a liability related to the CAP, as we do not believe it is probable that our post-acquisition activities related to the PeopleSoft product line will trigger an obligation to make any payment pursuant to the CAP. While no assurance can be given as to the ultimate outcome of litigation, we believe we would also have substantial defenses with respect to the legality and enforceability of the CAP contract provisions in response to any claims seeking payment from Oracle under the CAP terms.

16. LEGAL PROCEEDINGS

Securities Class Action

Stockholder class actions were filed in the United States District Court for the Northern District of California against us and our Chief Executive Officer on and after March 9, 2001. Between March 2002 and March 2003, the court dismissed plaintiffs consolidated complaint, first amended complaint and a revised second amended complaint. The last dismissal was with prejudice. On September 1, 2004, the United States Court of Appeals for the Ninth Circuit reversed the dismissal order and remanded the case for further proceedings. The revised second amended complaint named our Chief Executive Officer, our then Chief Financial Officer (who currently is Chairman of our Board of Directors) and a former Executive Vice President as defendants. This complaint was brought on behalf of purchasers of our stock during the period from December 14, 2000 through March 1, 2001. Plaintiffs alleged that the defendants made false and misleading statements about our actual and expected financial performance and the performance of certain of our applications products, while certain individual defendants were selling Oracle stock in violation of federal securities laws. Plaintiffs further alleged that certain individual defendants sold Oracle stock while in possession of material non-public information. Plaintiffs also allege that the defendants engaged in accounting violations. Currently, the parties are conducting discovery. Trial has been set for September 11, 2006. Plaintiffs seek unspecified damages plus interest, attorneys fees and costs,

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and equitable and injunctive relief. We believe that we have meritorious defenses against this action, and we will continue vigorously to defend it.

Derivative Litigation

Stockholder derivative lawsuits were filed in the Court of Chancery in the State of Delaware in and for New Castle County on and after March 12, 2001. A revised amended consolidated complaint was filed in the Delaware action on October 9, 2001 (the Delaware Derivative Action). During the same period, similar stockholder derivative lawsuits were filed in the Superior Court of the State of California, County of San Mateo and County of Santa Clara. A consolidated amended complaint was filed in San Mateo Superior Court on January 28, 2002 (the San Mateo Derivative Action). On March 15, 2002, a similar derivative suit was filed in the United States District Court for the Northern District of California (the Federal Derivative Action). The derivative suits were brought by alleged stockholders of Oracle, purportedly on our behalf, against some of our current and former directors. The derivative plaintiffs alleged that these directors breached their fiduciary duties to us, abused their control, mismanaged Oracle, unjustly enriched themselves, committed constructive fraud and breached contracts with us, by making or causing to be made alleged misstatements about our revenue, growth and the performance of certain of our applications products, while certain officers and directors allegedly sold Oracle stock based on material, non-public information and by taking actions that resulted in our being sued in the federal stockholder class actions. The derivative plaintiffs seek compensatory and other damages, disgorgement of profits, treble damages and other relief. On November 24, 2004, the Delaware Court issued an opinion granting summary judgment in favor of the remaining defendants. On April 13, 2005, the Delaware Supreme Court unanimously upheld Court of Chancery s grant of summary judgment.

Regarding the San Mateo Derivative Action, on April 18, 2003, the San Mateo Court dismissed plaintiffs claim for breach of contract. On December 8, 2003, the San Mateo Court approved plaintiffs request in the San Mateo Derivative Action to dismiss all defendants other than our Chief Executive Officer and our then Chief Financial Officer. On June 6, 2005, the San Mateo Court signed a stipulated order, dismissing our former Chief Financial Officer from the case. On June 9, 2005, our Chief Executive Officer brought a motion for summary judgment, and on August 15, 2005, the parties filed a stipulation withdrawing this motion. The parties reached a settlement, which was approved by the Court on November 22, 2005. In the settlement agreement, our Chief Executive Officer continued to deny all allegations in plaintiffs complaint, and he noted that the Delaware Chancery Court dismissed all of the claims against him. Nonetheless, our Chief Executive Officer agreed to the settlement, stating that it would eliminate the burden (to him and Oracle), expense, and uncertainties of further litigation and related distraction of resources and efforts from his business. Under the settlement, our Chief Executive Officer agreed to pay $22 million in plaintiffs legal fees and costs and agreed to make a $100 million contribution in Oracle s name to a charity or institution to be approved by Oracle s Board of Directors. After approving the settlement, the court entered a judgment of dismissal on November 22, 2005. That judgment is currently subject to possible appeal.

Litigation Related to the PeopleSoft Acquisition

In connection with our unsolicited offer for PeopleSoft, we were involved in several legal proceedings, all of which have been resolved. The antitrust litigation brought against us by the U.S. Department of Justice and numerous states concluded in September 2004 with a final judgment in our favor, and the governments concluded not to appeal this judgment. The other proceedings relating to the acquisition have all been dismissed.

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Intellectual Property Litigation

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

Other Litigation

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

17. PENDING ACQUISITION OF SIEBEL SYSTEMS, INC.

On September 12, 2005, we entered into a Merger Agreement to acquire Siebel Systems, Inc. The proposed transaction is valued at approximately $6.1 billion (based on a fully-diluted equity value). The transaction is conditioned upon (i) clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which occurred on November 15, 2005, and the applicable foreign antitrust laws of certain other jurisdictions, including the European Commission, which occurred on December 22, 2005, (ii) approval of the merger and adoption of the Merger Agreement by Siebel stockholders and (iii) other customary closing conditions.

Pursuant to the Merger Agreement, each share of Siebel common stock will be converted into the right to receive either (a) $10.66 in cash or (b) a number of shares of our common stock equal to $10.66 divided by the greater of (i) $10.72 or (ii) the average closing price of our common stock over the ten trading days immediately preceding (but not including) the closing date, provided that no more than 30% of the outstanding Siebel common stock may be converted into our common stock. If Siebel stockholders holding more than 30% of Siebel common stock elect to receive our stock, the equity consideration will be prorated. The stock election will not be available unless the holders of at least 6% of the outstanding Siebel common stock make the stock election. In addition, options to acquire Siebel common stock and Siebel restricted stock awards will be converted into options to acquire shares of our common stock based on formulas contained in the Merger Agreement.

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

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

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Results or the Market Price of Our Stock. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions are generally intended to identify forward-looking statement should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document. You should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-K, as amended, for the fiscal year ended May 31, 2005 and the other Quarterly Reports on Form 10-Q to be filed by us in our fiscal year 2006, which runs from June 1, 2005 to May 31, 2006.

Business Overview

We are the world s largest enterprise software company. We have two businesses, software and services, which are further organized 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 United States dollars, we conduct a significant number of transactions in currencies other than United States 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, which should allow us to continually improve margins and profits.

New Software Licenses: We license our database, middleware and 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. The new software license business is also characterized by long sales cycles. The timing of a few large software license transactions can substantially affect our quarterly new software license revenues. This is particularly true for applications products given the relatively small size of new application 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 new software revenues on a trailing 4-quarter period provides more visibility into the underlying performance of our software revenues than quarterly revenues. We believe that new software license margins will be affected by amortization of intangible assets associated with acquisitions, and as a result, will be lower than margins achieved prior to the acquisition of PeopleSoft.

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 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

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

Software License Updates and Product Support: Customers that purchase software license updates and product support are granted rights to unspecified product upgrades and maintenance releases issued during the support period, as well as technical support assistance. Substantially all of our customers renew their software license updates and product support contracts annually, thereby eliminating the need to repurchase new software licenses when new upgrades are released. The growth of software license updates and product support revenues is influenced by four factors: (1) the support contract base of companies acquired (2) the renewal rate of the support contract base, (3) the amount of new support contracts sold in connection with the sale of new software licenses and (4) inflationary support price increases.

Software license updates and product support revenues, which represent approximately 46% of our total revenues on a trailing 4-quarter basis, is our highest margin business unit. Support margins over the last trailing 4-quarters were 89%, and account for 74% of our total margins over the same respective period. We believe that software license updates and product support revenues and margins will continue to grow for the following reasons:

- Recent acquisitions of software companies have significantly increased our support contract base, as well as the portfolio of products available to be licensed.
- Substantially all customers purchase license updates and product support subscriptions when they buy new software licenses, resulting in a further increase in our support subscription contract base. Even if 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 the support contract base.
- Substantially all of our customers, including customers from acquired companies, renew their support contracts when eligible for renewal.
- When support contract renewals are negotiated, inflationary price increases are assessed, where applicable.

As a result of the acquisition of PeopleSoft and other businesses, we recorded adjustments to reduce support obligations assumed in business acquisitions to their estimated fair value at the acquisition dates. Software license updates and product support revenues related to support contracts in the amount of $102 million and $240 million that would have been otherwise recorded by PeopleSoft and other acquired businesses as independent entities, were not recognized during the three and six months ended November 30, 2005, respectively. As these underlying support contracts are renewed, we will recognize the revenue 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 (formerly referred to as advanced product services) and education revenues. Our services business, which represents 21% of our total revenues on a trailing 4-quarter basis, has significantly lower margins than our software business.

Consulting: Consulting revenues tend to lag software revenues by several quarters since consulting services, if purchased, are typically performed after the purchase of new software licenses. Consulting revenues have been negatively impacted in recent periods for the following reasons:

Continued attrition of personnel due to a demand for technical talent in certain markets, particularly in the United States.

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A shift in the mix of resources to lower cost countries, which has resulted in a decrease in average billing rates.

Our decision to work more closely with partners who perform implementations of our software.

Despite these trends, we expect consulting revenues to increase in fiscal 2006, primarily due to an increase in application implementations related to acquired products.

On Demand: On Demand includes our Oracle On Demand software as a service and outsourcing offerings as well as Advanced Customer Services. We believe that our On Demand offerings provide an additional opportunity for customers to lower their total cost of ownership and can therefore provide us with a competitive advantage. We will continue to make investments in Oracle On Demand to support current and future revenue growth.

Education: The purpose of our education services is to further enhance the usability of our software products by our customers and to create opportunities to grow 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. Despite these trends, we expect education revenues to increase in fiscal 2006, primarily due to an increase in customer training on the use of our application products.

Operating Margins

We continually focus on improving our operating margins by providing our customers with superior products and services, as well as maintaining a world class cost structure by hiring personnel in countries where advanced technical expertise is available at lower costs. As part of this effort, we continually evaluate our workforce and make adjustments we deem appropriate. 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, but we believe that the fundamental shift towards globalization is crucial to maintaining a long-term competitive cost structure.

Acquisitions

In January 2005, we completed the acquisition of PeopleSoft Inc., a provider of enterprise application software products for approximately $11.1 billion. We have also acquired several other companies over the last two years. We have completed our planned legal-entity mergers, information system conversions and integration of PeopleSoft s operations as well as our other acquisitions. In addition, we completed the acquisition of 43% of the outstanding common stock of i-flex Solutions Limited, a provider of software solutions and services to the financial services industry, for approximately $605 million in November 2005. See Note 4 of Notes to Condensed Consolidated Financial Statements for additional information related to our acquisitions.

An active acquisition program is an important element of our corporate strategy. We expect to continue to acquire companies, products, services and technologies. In September 2005, we agreed to purchase all of the outstanding shares of Siebel Systems, Inc. for $10.66 per share in cash or stock (up to 30%), for approximately $6.1 billion (based on a fully-diluted equity value). The Siebel acquisition is subject to a vote of their stockholders, regulatory approvals and other customary conditions. We expect that the transaction will close on January 31, 2006, or shortly thereafter, provided the foregoing conditions which have not yet been satisfied or waived are satisfied or waived. Including the Siebel acquisition, in the last two years, we have paid or agreed to pay an aggregate of approximately $19 billion for these acquisitions. We believe our recent acquisitions support our long-term strategic direction, strengthen our competitive position in the enterprise applications market, expand our customer base and provide greater scale to increase our investment in research and development to accelerate innovation and increase stockholder value.

We believe we can fund additional acquisitions with our internally available cash and marketable securities, cash generated from operations, amounts available under our commercial paper program, additional borrowings or from the issuance of additional securities. We analyze the financial impact of any potential acquisition with regard to earnings, operating margin, cash flow and return on invested capital targets.

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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:

Business Combinations

PeopleSoft Customer Assurance Program

Goodwill

Revenue Recognition

Accounting for Income Taxes

Legal Contingencies

Stock-Based Compensation

Allowances for Doubtful Accounts and Returns

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

Business Combinations

In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as in-process research and development based on their estimated fair values. We engage third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such a valuation requires management to make significant estimates and assumptions, especially with respect to intangible assets.

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from license sales, maintenance agreements, consulting contracts, customer contracts and acquired developed technologies and patents; expected costs to develop the in-process research and development into commercially viable products and estimating cash flows from the projects when completed; the acquired company s brand awareness and market 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 purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. 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

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historical direct costs related to providing the support services and to correct any errors in the software products acquired. 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 selling effort is excluded because the acquired entities would have concluded the selling effort on the support contracts prior to the acquisition date. The estimated research and development costs are not included in the fair value determination, as these costs are not deemed to represent a legal obligation at the time of acquisition. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation.

Software license updates and product support revenues related to support contracts assumed in business acquisitions in the amount of $102 million and $240 million, which would have been otherwise recorded by the acquired entities, were not recognized as revenue by Oracle during the three and six months ended November 30, 2005, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their contracts when the contract is eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenue for the full value of the support contracts over the support periods, the majority of which are one year. Had we included 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 value of the support obligations would have been significantly higher than what we have recorded and we would have recorded a higher amount of software license updates and product support revenue historically and in future periods related to these assumed contracts.

Other significant estimates associated with the accounting for acquisitions include restructuring costs. Restructuring costs are primarily 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 which are subject to refinement. 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 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 (generally within one year of the acquisition date) and as operating expenses thereafter. Changes in estimates of executing the currently approved plans associated with pre-merger activities of Oracle are recorded in restructuring expenses.

We have identified certain pre-acquisition contingencies, but we have yet to conclude whether the fair values for such contingencies are determinable. 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. After the end of the purchase price allocation period, any adjustment that results from a pre-acquisition contingency will be included in our operating results in the period in which the adjustment is determined.

PeopleSoft Customer Assurance Program

As discussed in Note 15 of Notes to Condensed Consolidated Financial Statements, 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 contractually to burden Oracle, as a result of our acquisition of PeopleSoft, with a contingent obligation to make payments to PeopleSoft customers should we fail to take certain business actions for a fixed period, which typically expires four years from the date of the contract. We have concluded that, as of the date of the acquisition, the penalty provisions under the CAP represent a contingent liability of Oracle. We have not recorded a liability related to the CAP, as we do not believe it is probable that our post-acquisition activities related to the PeopleSoft product line will trigger an obligation to make any payment pursuant to the CAP. The maximum potential penalty under

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the CAP as of November 30, 2005 was $3.5 billion. Unless the CAP provisions are removed from these licensing arrangements, we do not expect the aggregate potential CAP obligation to decline substantially until fiscal year 2008 when these provisions begin to expire. While no assurance can be given as to the ultimate outcome of potential litigation, we believe we would also have substantial defenses with respect to the legality and enforceability of the CAP contract provisions in response to any claims seeking payment from Oracle under the CAP terms. If we determine in the future that a payment pursuant to the CAP is probable, the estimated liability would be recorded in our operating results in the period in which such liability is determined.

Goodwill

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 14 of the Notes to Condensed 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 is judgmental in nature and 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 2005, did not result in an impairment charge.

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 all 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 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

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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. 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 the 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, revenue is 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. We recognize no more than 90% of the milestone or total contract amount until project acceptance is obtained. 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 affect the amounts of revenue 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 revenue is 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 and Advanced Customer Services. Oracle On Demand provides multi-featured software and hardware management and maintenance services for our database, middleware and applications software. Advanced Customer Services are earned by providing customers configuration and performance analysis, personalized support and annual on-site technical services. On Demand revenues are recognized over the term of the service contract, 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 additionally 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 multi-element arrangements could differ significantly from our historical results.

We defer revenue for any undelivered elements, and recognize revenue when the product is delivered or over the period in which the service is performed, in accordance with our revenue recognition policy for such element. If we cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, we defer revenue 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 provide for a sales return allowance in accordance with FASB Statement No. 48, *Revenue Recognition when Right of Return Exists*. If acceptance provisions are long-term in nature or are not included as standard terms of an arrangement or if we cannot reasonably estimate the incidence of returns, revenue is 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 non- acceptance is remote, we then recognize revenue once all of the criteria described above have been met. If such a determination cannot be made, revenue is 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 revenue if all other revenue recognition requirements are met. Our standard payment terms are net 30; however, 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 (a 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

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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 revenue from Concurrent Transactions if all of our revenue recognition criteria are met and the goods and services acquired are necessary for our current operations.

During the three months ended November 30, 2005 we recognized new software license revenue of approximately $33 million from a supplier. We are currently negotiating to acquire goods and services from this supplier and expect to finalize terms of the purchase during the three months ended February 28, 2006. We currently estimate the value of the goods and services we will acquire from this supplier under this agreement to total approximately $20 million over the next five years.

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 revenue and expense that qualify for preferential tax treatment, and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our 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 foreign and domestic operations. Based on these assumptions, we estimate the amount that will be distributed to the United States 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 have considered future market 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 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.

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 for 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.

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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 will not be tax deductible and will result in an increased effective income tax rate in the quarter the impairment is recorded. Amortization expense associated with acquired intangible assets is likewise not tax deductible; however, deferred taxes have been recorded as part of the purchase price allocation and, therefore, will not affect our post-acquisition income tax rate. Income tax contingencies existing as of the acquisition dates of the acquired companies are evaluated quarterly and any adjustments are recorded as an adjustment to goodwill.

Legal 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.

Stock-Based Compensation

We currently measure compensation expense for our stock-based incentive programs using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* Under this method, we do not record compensation expense when stock options are granted to eligible participants as long as the exercise price is not less than the fair market value of the stock when the option is granted. In accordance with FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and FASB Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, we disclose our pro forma net income or loss and net income or loss per share as if the fair value-based method had been applied in measuring compensation expense for our stock-based incentive programs. We have elected to follow Opinion 25 because the fair value accounting provided for under Statement 123 requires the use of option valuation models that were not developed for use in valuing incentive stock options and employee stock purchase plan shares.

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of Statement 123. Statement 123(R) generally requires share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair values. This standard is effective for public companies for fiscal years beginning after June 15, 2005. We are required to adopt this new standard on June 1, 2006, with early-adoption permitted.

Allowances for Doubtful Accounts and Returns

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 recorded at differing rates, based upon the age of the receivable. In determining these percentages, we analyze our historical collection experience and current economic trends. If the historical data we use to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

We also record a provision for estimated sales returns and allowances on product and service related sales in the same period the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. If the historical data we use to calculate these estimates do not properly reflect future returns, then a change in the allowances would be made in the period in which such a determination is made and revenues in that period could be materially affected.

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Results of Operations

The fluctuations in operating results of Oracle in the second quarter and first half of fiscal 2006 compared with the same periods in fiscal 2005 are generally due to acquisitions made in the second half of fiscal 2005, principally PeopleSoft.

In our discussion of changes in our results of operations from the second quarter and first half of fiscal 2006 compared to the second quarter and first half of fiscal 2005, we quantify the amount of new software licenses and software license updates and product support revenues associated with PeopleSoft products and services and present supplemental disclosure related to acquisition accounting. Although certain revenues were quantifiable, we are unable to allocate the costs associated with the PeopleSoft products and services because the substantial majority of former PeopleSoft sales and services personnel were fully integrated into our existing operations. We caution readers that, while pre- and post-acquisition comparisons as well as the quantified amounts themselves may provide indications of general trends, the information has inherent limitations for the following reasons:

- The quantification cannot address the substantial effects attributable to our sales force integration efforts, in particular the effect of having a single sales force offer the Oracle and PeopleSoft product families on a neutral basis. The commissions earned by our integrated sales force did not vary based on the application product family sold. We believe that if our sales forces had not been integrated, the relative mix of Oracle and PeopleSoft products sold would have been different.

- The acquisition did not result in our entering 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 contracts when the contract is eligible for renewal, amounts shown as support deferred revenue in our supplemental disclosure related to acquisition accounting are not necessarily indicative of revenue improvements we will achieve upon contract renewal to the extent customers do not renew.

Constant Currency Presentation

We compare the percent change in the results from one period to another period in this Quarterly Report using constant currency disclosure. We present constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the exchange rate in effect on May 31, 2005, which was the last day of our prior fiscal year, rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on November 30, 2005 and November 30, 2004, our financial statements would reflect revenues of $1.17 million for the six months ended November 30, 2005 (using 1.17 as the exchange rate) and $1.31 million for the six months ended November 30, 2004 (using 1.31 as the exchange rate). The constant currency presentation would translate the results for the six months ended November 30, 2005 and 2004 using the May 31, 2005 exchange rate and indicate, in this example, no change in revenues during the periods. In each of the tables below, we present the percent change based on actual results as reported and based on constant currency.

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Total Revenues and Operating Expenses

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2005	Actual	Constant	2004	2005	Actual	Constant	2004
Total Revenues by Geography:								
Americas	$ 1,733	34%	33%	$ 1,292	$ 3,209	35%	33%	$ 2,384
EMEA [1]	1,090	3%	9%	1,062	1,972	7%	11%	1,839
Asia Pacific	469	17%	21%	402	879	18%	18%	748
Total revenues	3,292	19%	22%	2,756	6,060	22%	23%	4,971
Total Operating Expenses	2,176	34%	36%	1,625	4,232	35%	36%	3,126
Total Operating Margin	$ 1,116	-1%	2%	$ 1,131	$ 1,828	-1%	1%	$ 1,845
Total Operating Margin %	34%			41%	30%			37%
% Revenues by Geography:								
Americas	53%			47%	53%			48%
EMEA	33%			38%	33%			37%
Asia Pacific	14%			15%	14%			15%
Total Revenues by Business:								
Software	$ 2,617	18%	20%	$ 2,223	$ 4,748	20%	21%	$ 3,961
Services	675	26%	29%	533	1,312	30%	31%	1,010
Total revenues	$ 3,292	19%	22%	$ 2,756	$ 6,060	22%	23%	$ 4,971
% Revenues by Business:								
Software	80%			81%	78%			80%
Services	20%			19%	22%			20%

[1] Comprised of Europe, the Middle East and Africa

Fiscal Second Quarter 2006 Compared to Fiscal Second Quarter 2005: Total revenues were negatively affected by foreign currency rate fluctuations of 3 percentage points due to a strengthening of the United States dollar against certain major international currencies, primarily the Euro, British Pound and Japanese Yen. Excluding the effect of currency rate fluctuations, software license updates and product support revenues contributed 55% to the growth in total revenues, whereas consulting and new software license revenues contributed 20% and 19%, respectively. On a constant currency basis, the Americas contributed 70% to the increase in total revenues, EMEA contributed 16% and Asia Pacific contributed 14%.

Operating expenses were favorably affected by 2 percentage points as a result of the strengthening of the United States dollar relative to other major international currencies. Excluding the effect of currency rate fluctuations, the increase in operating expenses is primarily due to higher headcount levels and associated personnel related costs in sales and marketing, consulting and research and development. In addition, the amortization of intangible assets acquired in the PeopleSoft acquisition contributed to the overall increase in total operating expenses. As a result, operating margins as a percentage of total revenues decreased from 41% to 34%.

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

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First Half Fiscal 2006 Compared to First Half Fiscal 2005: Total revenues were negatively affected by foreign currency rate fluctuations of 1 percentage point. Excluding the effect of currency rate fluctuations, software license updates and product support revenues contributed 57% to the growth in total revenues, whereas consulting and new software license revenues contributed 22% and 15%, respectively. On a constant currency basis, the Americas contributed 70% to the increase in total revenues, EMEA contributed 18% and Asia Pacific contributed 12%.

Operating expenses were favorably affected by 1 percentage point. Excluding the effect of currency rate fluctuations, the increase in operating expenses is primarily due to the same reasons noted above. As a result, operating margins as a percentage of total revenues decreased from 37% to 30%.

Supplemental Disclosure Related to Acquisition Accounting

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

The results of operations include the following purchase accounting adjustments and significant expenses incurred in connection with acquisitions:

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2005**	**2004**	**2005**	**2004**
Support deferred revenue [1]	$ 102	$	$ 240	$
Amortization of intangible assets [2]	126	7	249	16
Acquisition related charges [3] [5]	10	23	38	52
Restructuring [4]			11	
Stock-based compensation [5]	7		16	
Income tax effect [6]	(71)	(8)	(160)	(20)
	$ 174	$ 22	$ 394	$ 48

(1) In connection with our purchase price allocations, we estimated the fair value of support obligations assumed in connection with business acquisitions made during fiscal 2005 and the first half of fiscal 2006. Due to our application of business combination accounting rules, software license updates and product support revenues related to support contracts assumed in business acquisitions in the amount of $102 million and $240 million, which would have been otherwise recorded by the acquired entities, were not recognized as revenue by Oracle during the three and six months ended November 30, 2005, respectively. Estimated software license updates and product support revenues related to support contracts assumed that will not be recognized due to the application of business combination accounting rules in future periods are as follows:

(in millions)		Year Ended May 31,
2006 (remainder of fiscal year)	$	56
2007		35
2008		9
Total	$	100

To the extent customers renew these support contracts, we expect to recognize revenue for the full contract value over the support renewal period.

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(2) Primarily represents the amortization of intangible assets acquired in connection with our acquisition of PeopleSoft. Estimated future amortization expense related to intangible assets is as follows:

(in millions)	Year Ended May 31,
2006 (remainder of fiscal year)	$ 256
2007	509
2008	500
2009	495
2010	390
Thereafter	1,119
Total	$ 3,269

(3) Acquisition related charges primarily consist of in-process research and development expenses, integration-related professional services, stock-compensation expenses and personnel related costs for transitional employees, as well as costs associated with our tender offer for PeopleSoft prior to the agreement date.

(4) Restructuring costs relate to Oracle employee severance and facility closures in connection with our third quarter of fiscal 2005 restructuring plan, which has been completed as of November 30, 2005.

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

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	2005	2004	2005	2004
Sales and marketing	$ 1	$	$ 3	$
Software license updates and product support			1	
Cost of services	2		4	
Research and development	4		8	
Subtotal	7		16	
Acquisition related charges	1		4	
Total	$ 8	$	$ 20	$

As of November 30, 2005, the portion of the intrinsic value of unvested options assumed from acquired companies related to future service, which is approximately $29 million, is recorded as deferred stock-based compensation on our consolidated balance sheet and will be amortized using the accelerated expense attribution method over the remaining vesting period, which averages 2.2 years.

Stock-based compensation included in acquisition related charges resulted from unvested options assumed in the PeopleSoft acquisition whose vesting was fully accelerated upon termination of the employees pursuant to the terms of these options.

(6) The income tax effect on purchase accounting adjustments and other significant expenses incurred in connection with acquisitions was calculated based on our effective tax rate of 28.9% and 29.4% in the second quarter of fiscal 2006 and 2005, respectively, and 29.0% and 30.0% in the first half of fiscal 2006 and 2005, respectively.

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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 products, as well as 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.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	**2005**	**Actual**	**Constant**	**2004**	**2005**	**Actual**	**Constant**	**2004**
New Software License Revenues:								
Americas	$ 495	22%	21%	$ 405	$ 771	21%	19%	$ 637
EMEA	359	-7%	0%	385	562	-2%	3%	572
Asia Pacific	204	13%	18%	181	354	9%	10%	325
Total revenues	1,058	9%	12%	971	1,687	10%	11%	1,534
Expenses:								
Sales and marketing [1]	705	27%	29%	555	1,318	27%	28%	1,035
Stock-based compensation	1	*	*		3	*	*	
Amortization of intangible assets [2]	45	*	*		85	*	*	
Total expenses	751	35%	37%	555	1,406	36%	36%	1,035
Total Margin	$ 307	-26%	-22%	$ 416	$ 281	-44%	-41%	$ 499
Total Margin %	29%			43%	17%			33%
% Revenues by Geography:								
Americas	47%			42%	46%			42%
EMEA	34%			40%	33%			37%
Asia Pacific	19%			18%	21%			21%
Revenues by Product:								
Database technology	$ 785	5%	8%	$ 749	$ 1,278	3%	5%	$ 1,235
Applications	266	24%	27%	215	393	39%	40%	283
Total revenues by product	1,051	9%	12%	964	1,671	10%	11%	1,518
Other revenues	7	*	*	7	16	*	*	16
Total new software license revenues	$ 1,058	9%	12%	$ 971	$ 1,687	10%	11%	$ 1,534
% Revenues by Product:								
Database technology	75%			78%	76%			81%

Applications	25%	22%	24%	19%

(1) Excluding stock-based compensation
(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations
* not meaningful

Fiscal Second Quarter 2006 Compared to Fiscal Second Quarter 2005: New software license revenues were negatively affected by foreign currency rate fluctuations of 3 percentage points. Excluding the effect of currency rate fluctuations, the Americas and Asia Pacific contributed 72% and 28%, respectively, to the increase in new software license revenues, respectively, while EMEA revenues remained flat with prior year levels as a result of weak economic conditions and demand in Europe.

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We believe that the trailing 4-quarter growth rates more accurately reflect the underlying performance of our new software license business since large transactions can cause significant swings in our quarterly reported product revenue growth rates and are not predictive of our future quarterly or annual growth rates. Therefore, we provide a discussion of both quarterly and trailing 4-quarter product revenue growth rates.

Excluding the effect of currency rate fluctuations, database and middleware revenues grew 5% and 10% in the second quarter and on a trailing 4-quarter basis, respectively. Database revenues increased 5% and 9% in the second quarter and on a trailing 4-quarter basis, respectively. The growth in database revenues was primarily driven by increased demand for database option products, which grew 26% and 16%, respectively. The growth in database option product revenues is partly due to strong demand for our Real Application Cluster (RAC) product, which allows customers to manage their software using multiple computers, rather than mainframe computers, in a fault tolerant environment. RAC revenues grew 36% and 24% in the second quarter and on a trailing 4-quarter basis, respectively. Middleware revenues grew 6% in the second quarter and 24% on a trailing 4-quarter basis, respectively. We believe the growth in middleware revenues is due to a gain in market share in the application server market as a result of better sales execution and more competitive features and functionality.

Excluding the effect of currency rate fluctuations, application revenues increased 24% and 37% in the second quarter of fiscal 2006 and on a trailing 4-quarter basis, respectively. The growth in our applications sales is the result of $72 million in revenues from the licensing of PeopleSoft products, increased demand for our applications products, better sales execution as a result of segmenting our sales force by product, and a strengthening of our competitive position in the applications market, particularly in the United States.

New software license revenues earned from transactions over $0.5 million increased from 40% of new software license revenues in the second quarter of fiscal 2005 to 41% in the second quarter of fiscal 2006. New software license revenues earned from large contracts increased by 14% in the second quarter of fiscal 2006 from the prior year corresponding period.

Sales and marketing expenses increased primarily due to personnel related costs associated with increased sales headcount, higher commission expenses resulting from higher revenue levels, and higher marketing program expenses.

The total new software license margin as a percentage of revenues declined as expenses, including amortization of intangible assets, grew faster than revenues.

First Half Fiscal 2006 Compared to First Half Fiscal 2005: New software license revenues were negatively affected by foreign currency rate fluctuations of 1 percentage point. Excluding the effect of currency rate fluctuations, the Americas contributed 71%, EMEA contributed 9% and Asia Pacific contributed 20%.

Excluding the effect of currency rate fluctuations, the growth in new software license revenues in the first half of fiscal 2006 is due to a 5% growth in database and middleware revenues, and a 40% increase in application revenues. Applications revenues include $121 million from the licensing of PeopleSoft products. Database revenues grew 4%, while middleware revenues grew 16%.

New software license revenues earned from transactions over $0.5 million increased from 35% of new software license revenues in the first half of fiscal 2005 to 36% in the first half of fiscal 2006. New software license revenues earned from large contracts increased by 14% in the first half of fiscal 2006 from the prior year corresponding period.

Sales and marketing expenses increased in the first half of fiscal 2006 from the prior year corresponding period primarily due to the same reasons noted above. Likewise, the total new software license margin as a percentage of revenues declined in the first half of 2006 as expenses, including amortization of intangible assets, grew at a faster rate than revenues.

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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. The cost of providing support services consists largely of personnel related expenses.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2005	Actual	Constant	2004	2005	Actual	Constant	2004
Software License Updates and Product Support Revenues:								
Americas	$ 882	39%	38%	$ 633	$ 1,729	39%	38%	$ 1,240
EMEA	484	8%	14%	451	951	10%	13%	863
Asia Pacific	193	15%	19%	168	381	17%	18%	324
Total revenues	1,559	25%	27%	1,252	3,061	26%	26%	2,427
Expenses:								
Software license updates and product support [1]	175	24%	25%	141	334	21%	21%	277
Stock-based compensation		*	*		1	*	*	
Amortization of intangible assets [2]	78	*	*		155	*	*	
Total expenses	253	79%	81%	141	490	77%	77%	277
Total Margin	$ 1,306	18%	20%	$ 1,111	$ 2,571	20%	20%	$ 2,150
Total Margin %	84%			89%	84%			89%
% Revenues by Geography:								
Americas	57%			51%	56%			51%
EMEA	31%			36%	31%			36%
Asia Pacific	12%			13%	13%			13%

(1) Excluding stock-based compensation
(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations
* not meaningful

Fiscal Second Quarter 2006 Compared to Fiscal Second Quarter 2005: Excluding the effect of currency rate fluctuations, software license updates and product support revenues increased as a result of approximately $240 million in revenues from the expansion of our customer base resulting from the acquisition of PeopleSoft, the renewal of substantially all of the subscription base eligible for renewal in the current year, and the addition of software license updates and product support revenues associated with new software license revenues recognized over the past trailing 4-quarters. Excluding the effect of currency rate fluctuations, the Americas contributed 72% to the growth in software license updates and product support revenues, EMEA contributed 18% and Asia Pacific contributed 10%.

As a result of the acquisition of PeopleSoft and other businesses, we recorded adjustments to reduce support obligations assumed in business acquisitions 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 amount of $102 million that would have been otherwise recorded by PeopleSoft and other acquired businesses as independent entities, were not recognized in the second quarter of fiscal 2006. Historically, substantially all of our customers, including customers from acquired companies, renew their contracts when the contract is eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenue for the full value of the support contracts over the support periods, the majority of which are one year.

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Excluding the effect of currency rate fluctuations, software license updates and product support expenses increased primarily due to personnel related costs associated with increased headcount levels to support our applications customers.

The software license updates and product support margin as a percentage of revenues decreased in the first quarter of fiscal 2006 from the prior year corresponding period primarily due to incremental amortization costs of intangible assets acquired in connection with the PeopleSoft acquisition.

First Half Fiscal 2006 Compared to First Half Fiscal 2005: The growth in software license updates and product support revenues and expenses is attributed to the same reasons noted above. Software license updates and product support revenues includes approximately $445 million from the expansion of our customer base resulting from the acquisition of PeopleSoft in the six months ending November 30, 2005. Excluding the effect of currency rate fluctuations, the Americas contributed 73% to the growth in software license updates and product support revenues, EMEA contributed 18% and Asia Pacific contributed 9%. Software license updates and product support revenues related to support contracts in the amount of $240 million that would have been otherwise recorded by PeopleSoft and other acquired businesses as independent entities, were not recognized in the first half of fiscal 2006.

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, middleware and applications software. The cost of providing consulting services consists primarily of personnel related expenditures.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	**2005**	**Actual**	**Constant**	**2004**	**2005**	**Actual**	**Constant**	**2004**
Consulting Revenues:								
Americas	$ 270	40%	38%	$ 194	$ 540	39%	38%	$ 388
EMEA	188	9%	16%	171	352	14%	18%	308
Asia Pacific	48	60%	65%	30	95	75%	75%	55
Total revenues	506	28%	31%	395	987	32%	32%	751
Expenses:								
Cost of services (1)	441	33%	35%	332	870	33%	34%	653
Stock-based compensation	2	*	*		4	*	*	
Amortization of intangible assets (2)	1	*	*		2	*	*	
Total expenses	444	34%	36%	332	876	34%	35%	653

Total Margin	$ 62	-2%	3%	$ 63	$ 111	13%	17%	$ 98
Total Margin %	12%			16%	11%			13%
% Revenues by Geography:								
Americas	53%			49%	55%			52%
EMEA	37%			43%	35%			41%
Asia Pacific	10%			8%	10%			7%

(1) Excluding stock-based compensation

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

* not meaningful

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Fiscal Second Quarter 2006 Compared to Fiscal Second Quarter 2005: The increase in consulting revenues is primarily due to an increase in application product implementations and billable hours, primarily provided by consultants who were formerly employed by our acquired companies. Excluding the effect of currency rate fluctuations, the Americas contributed 61% to the growth in consulting revenues, EMEA contributed 23% and Asia Pacific contributed 16%.

Excluding the effect of currency rate fluctuations, consulting expenses grew as a result of higher personnel related expenditures associated with increased headcount and revenue levels, as well as higher external contractor costs incurred to perform implementation services for our customers.

First Half Fiscal 2006 Compared to First Half Fiscal 2005: Excluding the effect of currency rate fluctuations, the growth rates for both consulting revenues and expenses were due to the same reasons as noted above. The Americas contributed 61% to the growth in consulting revenues, EMEA contributed 22% and Asia Pacific contributed 17%.

On Demand: On Demand includes Oracle 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. Advanced Customer Services consists of configuration and performance analysis, personalized support and annual on-site technical services. The cost of providing On Demand services consist primarily of personnel related expenditures and hardware and facilities costs.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	**2005**	**Actual**	**Constant**	**2004**	**2005**	**Actual**	**Constant**	**2004**
On Demand Revenues:								
Americas	$ 49	31%	30%	$ 37	$ 97	24%	23%	$ 77
EMEA	27	11%	18%	24	52	15%	19%	45
Asia Pacific	11	2%	3%	11	22	8%	5%	21
Total revenues	87	20%	22%	72	171	19%	19%	143
Cost of services	81	41%	43%	58	156	41%	41%	111
Total Margin	$ 6	-62%	-62%	$ 14	$ 15	-54%	-54%	$ 32
Total Margin %	6%			19%	9%			22%
% Revenues by Geography:								
Americas	57%			52%	57%			54%
EMEA	30%			33%	30%			31%
Asia Pacific	13%			15%	13%			15%

Fiscal Second Quarter 2006 Compared to Fiscal Second Quarter 2005: Excluding the effect of currency rate fluctuations, On Demand revenues increased in the second quarter of fiscal 2006 from the prior year corresponding period due to the expansion of our subscription base in Oracle On Demand services, as well as higher revenues from Advanced Customer Services. Excluding the effect of currency rate fluctuations, the Americas contributed 71% to the increase in On Demand revenues, EMEA contributed 27% and Asia Pacific contributed 2%.

Excluding the effect of currency rate fluctuations, expenses increased primarily due to higher headcount levels and associated personnel related expenditures. The On Demand margin as a percent of revenues decreased as expenses grew at a higher rate than revenues to support future growth.

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First Half Fiscal 2006 Compared to First Half Fiscal 2005: Excluding the effect of currency rate fluctuations, the growth rates for both On Demand revenues and expenses increased due to the same reasons as noted above. The Americas contributed 65% to the growth in On Demand revenues, EMEA contributed 31% and Asia Pacific contributed 4%.

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

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	**2005**	**Actual**	**Constant**	**2004**	**2005**	**Actual**	**Constant**	**2004**
Education Revenues:								
Americas	$ 37	59%	57%	$ 23	$ 72	70%	68%	$ 42
EMEA	32	6%	12%	31	55	9%	13%	51
Asia Pacific	13	6%	8%	12	27	13%	12%	23
Total revenues	82	25%	27%	66	154	32%	33%	116
Cost of services	58	0%	0%	59	115	10%	10%	104
Total Margin	$ 24	*	*	$ 7	$ 39	*	*	$ 12
Total Margin %	29%			11%	25%			10%
% Revenues by Geography:								
Americas	45%			35%	47%			36%
EMEA	39%			47%	36%			44%
Asia Pacific	16%			18%	17%			20%

* not meaningful

Fiscal Second Quarter 2006 Compared to Fiscal Second Quarter 2005: Education revenues primarily increased due to an increase in customer training on the use of our applications products. Excluding the effect of currency rate fluctuations, the Americas contributed 73%, EMEA contributed 21% and Asia Pacific contributed 6% to the overall increase in education revenues.

Excluding the effect of currency rate fluctuations, the increase in education expenses is due to higher headcount levels and associated personnel related expenditures. The education margin as a percentage of revenues increased as revenues increased at a higher rate than expenses.

First Half Fiscal 2006 Compared to First Half Fiscal 2005: Excluding the effect of currency rate fluctuations, the growth rates for both education revenues and expenses were due to the same reasons as noted above. The Americas contributed 75% to the growth in education revenues, EMEA contributed 17% and Asia Pacific contributed 8%.

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

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	**2005**	**Actual**	**Constant**	**2004**	**2005**	**Actual**	**Constant**	**2004**
Research and development [1]	$ 464	45%	46%	$ 320	$ 860	38%	38%	$ 623
Stock-based compensation	4	*	*		8	*	*	
Amortization of intangible assets [2]	3	-56%	-56%	7	8	-52%	-52%	16
Total expenses	$ 471	44%	44%	$ 327	$ 876	37%	37%	$ 639
% of Total Revenues	14%			12%	14%			13%

(1) Excluding stock-based compensation
(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations
* not meaningful

Fiscal Second Quarter 2006 Compared to Fiscal Second Quarter 2005: Excluding the effect of currency rate fluctuations, research and development expenses increased due to higher personnel related costs associated with increased headcount levels, costs associated with patent litigation, as well as higher external contractor costs. Total research and development headcount increased by approximately 3,300 employees or 31% over the prior year. Research and development headcount increased by 3% in the database and middleware divisions, and 57% in the applications division.

First Half Fiscal 2006 Compared to First Half Fiscal 2005: Excluding the effect of currency rate fluctuations, research and development expenses increased for the same reasons noted above.

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

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	**2005**	**Actual**	**Constant**	**2004**	**2005**	**Actual**	**Constant**	**2004**
General and administrative	$ 109	-16%	-15%	$ 130	$ 265	4%	4%	$ 255
% of Total Revenues	3%			5%	4%			5%

Fiscal Second Quarter 2006 Compared to Fiscal Second Quarter 2005: General and administrative expenses decreased due to the reversal of a $24 million charge for an expected legal settlement that was accrued in the first quarter of fiscal 2006. During the second quarter, a judgment was rendered on this settlement that relieved us of this possible liability. Excluding this charge and the effect of currency rate fluctuations, general and administrative expenses would have increased 3% due to higher headcount levels and associated costs, offset by lower discretionary bonuses.

First Half Fiscal 2006 Compared to First Half Fiscal 2005: Excluding the effect of currency rate fluctuations, general and administrative expenses increased due to higher headcount levels and associated costs, offset by lower discretionary bonuses.

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Amortization of Intangible Assets: Amortization of intangible assets increased in the second quarter and first half of fiscal 2006 from the prior year corresponding periods primarily from purchased intangible assets associated with our acquisition of PeopleSoft.

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2005**	**2004**	**2005**	**2004**
Software support agreements and related relationships	$ 54	$	$ 107	$
Developed technology	44	7	86	16
Core technology	19		38	
Customer contracts	6		12	
Trademarks	3		6	
Total amortization of intangible assets	$ 126	$ 7	$ 249	$ 16

Acquisition Related Charges: Acquisition related charges primarily consist of in-process research and development expenses, integration-related professional services, stock-compensation expenses and personnel related costs for transitional employees, as well as costs associated with our tender offer for PeopleSoft prior to the agreement date. Stock-based compensation included in acquisition related charges resulted from unvested options assumed in the PeopleSoft acquisition whose vesting was fully accelerated upon termination of the employees pursuant to the terms of these options. In the second quarter and first half of fiscal 2005, acquisition related charges included costs associated with our tender offer for PeopleSoft prior to the agreement date.

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2005**	**2004**	**2005**	**2004**
In-process research and development	$ 4	$	$ 12	$
Transitional employee related costs	5		11	
Stock-based compensation	1		4	
Professional fees		23	11	52
Total acquisition related charges	$ 10	$ 23	$ 38	$ 52

Restructuring: Restructuring expenses consist of Oracle employee severance costs of $11 million were recorded in the first quarter of fiscal 2006. There were no restructuring charges recorded in the second quarter of fiscal 2006 or the comparable periods in fiscal 2005.

Interest Expense: Interest expense increased 184% to $16 million and increased 230% to $37 million in the second quarter and first half of fiscal 2006 compared to the corresponding prior periods, respectively, due to borrowings under our commercial paper program and unsecured loan facility.

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Non-Operating Income, net: Non-operating income, net consists primarily of interest income, net foreign currency exchange gains (losses), net investment gains related to equity securities and the minority interest share in the net profits of Oracle Japan.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	**2005**	**Actual**	**Constant**	**2004**	**2005**	**Actual**	**Constant**	**2004**
Interest income	$ 24	-43%	-43%	$ 43	$ 49	-38%	-38%	$ 80
Foreign currency gains (losses)	(4)	*	*	(7)	13	*	*	(11)
Net investment gains related to equity securities	3	*	*		4	*	*	1
Minority interest	(9)	-7%	-7%	(10)	(17)	-10%	-10%	(19)
Other	8	*	*	3	14	*	*	7
Total non-operating income, net	$ 22	-25%	-22%	$ 29	$ 63	9%	11%	$ 58

* not meaningful

The increase in non-operating income, net is primarily due to higher foreign currency gains partially offset by lower interest income. The increase in foreign currency gains primarily relates to the Chinese currency revaluation in July 2005. The decrease in interest income is primarily due to lower cash and short-term investment balances as a result of using available cash for the pay down of commercial paper borrowings. In the second quarter and first half of fiscal 2006, the weighted average interest rate earned on cash, cash equivalents and marketable securities increased from 1.9% to 2.3% and 1.7% to 2.2%, respectively.

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 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, if earnings are higher than anticipated in countries where we have higher statutory rates, by unfavorable changes in tax laws and regulations or by adverse rulings in tax related litigation.

The provision for income taxes decreased 4% from $339 million in the second quarter of fiscal 2005 to $324 million in the second quarter of fiscal 2006 and decreased 5% from $568 million in the first half of fiscal 2005 to $538 million in the first half of fiscal 2006 due to a lower effective tax rate. The decrease in the effective tax rate from 29.4% in the second quarter of fiscal 2005 to 28.9% in the second quarter of fiscal 2006 and from 30.0% in the first half of fiscal 2005 to 29.0% in the first half of fiscal 2006 is attributable to a higher ratio of earnings from lower tax rate jurisdictions.

Liquidity and Capital Resources

(Dollars in millions)	**November 30, 2005**	**Change**	**May 31, 2005**

Working capital	$	703	83%	$	385
Cash, cash equivalents and marketable securities	$	3,403	-29%	$	4,771

Working capital: The increase in working capital as of November 30, 2005 is primarily due to greater cash flows from operations from higher sales volumes, partially offset by cash used to pay for acquisitions and to reduce debt obligations.

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Cash, cash equivalents and marketable securities: Cash and cash equivalents consist of highly liquid investments in time deposits held at major banks, commercial paper, United States government agency discount notes, money market mutual funds and other money market securities with original maturities of 90 days or less. Marketable securities primarily consist of commercial paper, corporate notes and Unites States government agency notes. Cash, cash equivalents and marketable securities include $3.0 billion held by our foreign subsidiaries as of November 30, 2005. The decrease in cash, cash equivalents and marketable securities is due to the use of available cash to repay certain debt obligations and fund acquisitions.

	Six Months Ended November 30,		
(Dollars in millions)	**2005**	**Change**	**2004**
Cash provided by operating activities	$ 1,756	-2%	$ 1,799
Cash (used for) provided by investing activities	$ (826)	-201%	$ 818
Cash used for financing activities	$ (1,905)	99%	$ (956)

Cash flows from operating activities: Our largest source of operating cash flows is cash collections from our customers following the purchase and renewal of their software license updates and product support agreements. Payments from customers for software license updates and product support are generally received by 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, payment of taxes, facilities and technology costs.

Cash flows from operating activities decreased in the first half of fiscal 2006 primarily due to increased income taxes paid attributable to the repatriation of the maximum dividend available under the American Jobs Creation Act of 2004 and the timing of tax payments as a result of acquisitions, partially offset by higher net income, excluding non-cash charges and increases in non-acquisition related deferred revenues.

Days sales outstanding, which is calculated by dividing period end accounts receivable by average daily sales for the quarter, was 52 at November 30, 2005 and 56 days at May 31, 2005. The days sales outstanding calculation excludes the adjustment to reduce software license updates and product support revenue related to adjusting the carrying value for deferred support revenues acquired, primarily from PeopleSoft, to its estimated fair value. The decline in days sales outstanding is due to more timely collections, as well as a shift in the mix of total revenues. Software license updates and product support revenues are generally billed one year in advance, while the revenues are recognized ratably over the annual contract period. Software license updates and product support revenues as a percentage of total revenues increased, resulting in higher cash collections and lower days sales outstanding.

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

Cash used for investing activities was attributable to cash used for our acquisitions in the first half of fiscal 2006, including our equity investment in i-flex, while net cash provided by investing activities in the first half of fiscal 2005 was attributable to net investment proceeds received.

Cash flows from financing activities: The changes in cash flows from financing activities primarily relate to payments made for stock repurchases, as well as borrowings and payments under debt obligations.

Net cash used for financing activities increased in the first half of fiscal 2006 primarily due to net repayment of amounts under our commercial paper program, partially offset by higher stock repurchases in the first half of fiscal 2005.

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Free cash flow: To supplement our statements of cash flows presented on a GAAP basis, we use non-GAAP measures of cash flows on a trailing 4-quarter basis to analyze cash flow generated from 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:

	Trailing 4-Quarters Ended November 30,		
(Dollars in millions)	**2005**	**Change**	**2004**
Cash provided by operating activities	$ 3,509	4%	$ 3,386
Capital expenditures [1]	$ (182)	2%	$ (178)
Free cash flow	$ 3,327	4%	$ 3,208
Net income	$ 2,878		$ 2,948
Free cash flow as a percent of net income	116%		109%

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

Long-Term Customer Financing

We offer our customers the option to acquire our software and services through separate long-term payment contracts. We generally sell such contracts 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. For the six months ended November 30, 2005 and 2004, $158.1 million and $163.1 million or approximately 9% and 11% of our new software license revenues were financed through our financing division.

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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 November 30, 2005:

	Year Ending May 31,							
(in millions)	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**
Balance Sheet Contractual Obligations:								
Short-term borrowings [(1)]	$ 907	$ 907	$	$	$	$	$	$
Principal payments on senior notes	150		150					
Payable to PeopleSoft stockholders [(2)]	4	4						
Notes payable	6		6					
Total balance sheet contractual obligations	1,067	911	156					
Other Contractual Obligations:								
Interest payments on short-term borrowings [(1)]	10	10						
Interest payments on senior notes [(3)]	12	5	7					
Operating leases [(4)]	806	103	177	138	114	89	56	129
Purchase obligations [(5)]	48	20	18	9	1			
Funding commitments [(6)]	8	8						
Total other contractual obligations	884	146	202	147	115	89	56	129
Total contractual obligations	$ 1,951	$ 1,057	$ 358	$ 147	$ 115	$ 89	$ 56	$ 129

(1) Short-term borrowings include approximately $489 million in promissory notes under our commercial paper program with various maturities through December 2005, net of unamortized discount of $1 million (weighted average effective interest rate of 4.13% at November 30, 2005) and $418 million outstanding under our unsecured $700 million loan facility due May 2006 (effective interest rate of 4.47% at November 30, 2005).

(2) On January 7, 2005, we completed the merger of PeopleSoft and converted each remaining outstanding share of PeopleSoft common stock not tendered into a right to receive $26.50 per share in cash, without interest. As of November 30, 2005, $4.0 million remained payable to PeopleSoft stockholders who had not submitted their shares.

(3) Represents estimated interest payments on our senior notes using an effective interest rate of 6.43% at November 30, 2005. We entered into an interest-rate swap agreement that has the economic effect of modifying the interest obligations associated with our 6.91% senior notes so that the interest payable on the senior notes effectively becomes variable.

(4) Includes future minimum rent payments for facilities that we have vacated pursuant to our restructuring and merger integration activities. We have approximately $123 million in facility obligations, net of estimated sublease income and other costs, in accrued restructuring for these locations in our condensed consolidated balance sheet at November 30, 2005.

(5) 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.

(6) Funding commitments relate to the maximum additional capital we may need to contribute toward our venture fund investments which are payable upon demand.

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Off-Balance Sheet Arrangements

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

Pending Acquisition of Siebel Systems, Inc.

On September 12, 2005, we entered into a Merger Agreement to acquire Siebel Systems, Inc. The proposed transaction is valued at approximately $6.1 billion. The transaction is conditioned upon (i) clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which occurred on November 15, 2005, and the applicable foreign antitrust laws of certain other jurisdictions, including the European Commission, which occurred on December 22, 2005, (ii) approval of the merger and adoption of the Merger Agreement by Siebel stockholders and (iii) other customary closing conditions. We expect that the transaction will close on January 31, 2006, or shortly thereafter, provided the foregoing conditions which have not yet been satisfied or waived are satisfied or waived.

Pursuant to the Merger Agreement, each share of Siebel common stock will be converted into the right to receive either (a) $10.66 in cash or (b) a number of shares of our common stock equal to $10.66 divided by the greater of (i) $10.72 or (ii) the average closing price of our common stock over the ten trading days immediately preceding (but not including) the closing date, provided that no more than 30% of the outstanding Siebel common stock may be converted into our common stock. If Siebel stockholders holding more than 30% of Siebel common stock elect to receive our stock, the equity consideration will be prorated. The stock election will not be available unless the holders of at least 6% of the outstanding Siebel common stock make the stock election. In addition, options to acquire Siebel common stock and Siebel restricted stock awards will be converted into options to acquire shares of our common stock based on formulas contained in the Merger Agreement.

We expect that we will borrow $5.0 billion to finance the Siebel Systems, Inc. acquisition and for acquisition-related transaction costs, and depending on how much stock is issued, to use any remaining proceeds for general corporate purposes.

We believe that our current cash and cash equivalents, marketable securities and cash generated from operations will be sufficient to meet our working capital, capital expenditure, contractual obligations and investment needs. In addition, we believe we could fund other acquisitions, including our pending acquisitions, with our internally available cash and investments, cash generated from operations, amounts available under our commercial paper program, additional borrowings or from the issuance of additional securities.

Stock Options

Our stock option program is a key component of the compensation package we provide to attract and retain talented employees and align their interests with the interests of existing stockholders. We recognize that options dilute existing stockholders and have sought to control the number of options granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution over the last three full fiscal years has been less than 2.0% and has averaged 1.1% per year. The potential dilution percentage is calculated as the new option grants for the year, net of options forfeited by employees leaving the company, divided by the total outstanding shares at the beginning of the year. This maximum potential dilution will only result if all options are exercised. Many of these options, which have 10-year exercise periods, have exercise prices substantially higher than the current market price. At November 30, 2005, 22% of our outstanding stock options had exercise prices in excess of the current market price. Consistent with our historic practices, we do not expect that dilution from future grants before the effect of our stock repurchase program will exceed 1.5% per year for our ongoing business. Over the last 10 years, our stock repurchase program has more than offset the dilutive effect of our stock option program, however, we may reduce the level of our stock repurchases in the future as we may use our available cash to repay indebtedness. At November 30, 2005, the maximum potential dilution from all outstanding and unexercised option awards, regardless of when granted and regardless of whether vested or unvested and including options where the strike price is higher than the current market price, was 9.3%.

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The Compensation Committee of the Board of Directors reviews and approves the organization-wide stock option grants to selected employees, all stock option grants to executive officers and any individual stock option grants in excess of 25,000 shares. A separate Plan Committee, which is an executive officer committee, approves individual stock option grants up to 25,000 shares to non-executive officers and employees.

Options granted from June 1, 2002 through November 30, 2005 are summarized as follows:

	(Shares in millions)
Options outstanding at May 31, 2002	454
Options granted [1]	313
Options exercised	(187)
Forfeitures	(99)
Options outstanding at November 30, 2005	481
Average annualized options granted, net of forfeitures	61
Average annualized stock repurchases	150
Shares outstanding at November 30, 2005	5,154
Weighted-average shares outstanding from June 1, 2002 through November 30, 2005	5,208
Options outstanding as a percent of shares outstanding at November 30, 2005	9.3%
In the money options outstanding (based on our November 30, 2005 stock price) as a percent of shares outstanding at November 30, 2005	7.3%
Average annualized options granted, net of forfeitures and before stock repurchases, as a percent of weighted-average shares outstanding from June 1, 2002 through November 30, 2005	1.2%
Average annualized options granted, net of forfeitures and after stock repurchases, as a percent of average shares outstanding from June 1, 2002 through November 30, 2005	-1.7%

(1) Includes 100 options assumed in connection with acquisitions.

Generally, we grant stock options to our existing employees on an annual basis. During the first half of fiscal 2006, we made our annual grant of options and other grants to purchase approximately 61.3 million shares, which were partially offset by forfeitures of options to purchase 22.0 million shares.

New Accounting Pronouncements

Share-Based Payment: On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of Statement 123. Statement 123(R) supersedes Opinion 25, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) generally requires share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair values. Pro forma disclosure of fair value recognition will no longer be an alternative.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

Modified prospective method: Compensation cost is recognized beginning with the effective date of adoption (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date of adoption and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of adoption that remain unvested on the date of adoption.

Modified retrospective method: Includes the requirements of the modified prospective method described above, but also permits restatement using amounts previously disclosed under the pro forma provisions of Statement 123 either for (a) all prior periods presented or (b) prior interim periods of the year of adoption.

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On April 14, 2005, the Securities and Exchange Commission announced that the Statement 123(R) effective transition date would be extended to annual periods beginning after June 15, 2005. We are required to adopt this new standard on June 1, 2006, with early-adoption permitted.

Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under current accounting rules. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Total cash flow will remain unchanged from what would have been reported under prior accounting rules.

As permitted by Statement 123, we currently account for share-based payments to employees using Opinion 25 s intrinsic value method. As a consequence, we generally recognize no compensation cost for employee stock options and purchases under our Employee Stock Purchase Plan. Although the adoption of Statement 123(R) s fair value method will have no adverse impact on our balance sheet or total cash flows, it will affect our net income and earnings per share. The actual effects of adopting Statement 123(R) will depend on numerous factors including the amounts of share-based payments granted in the future, the valuation model we use to value future share-based payments to employees and estimated forfeiture rates. See Note 2 of Notes to Condensed Consolidated Financial Statements for the effect on reported net income and earnings per share if we had accounted for our stock option and stock purchase plans using the fair value recognition provisions of Statement 123.

Exchanges of Nonmonetary Assets: On December 16, 2004, the FASB issued Statement No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions.* Statement 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. Statement 153 was effective for nonmonetary asset exchanges beginning in our second quarter of fiscal 2006. The adoption of Statement 153 did not have a material effect on our consolidated financial position, results of operations or cash flows.

Accounting Changes and Error Corrections: On June 7, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Statement 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition of a cumulative effect adjustment within net income of the period of the change. Statement 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Statement 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. We do not believe adoption of Statement 154 will have a material effect on our consolidated financial position, results of operations or cash flows.

Amortization Period for Leasehold Improvements: On June 29, 2005, the FASB ratified the EITF s Issue No. 05-06, *Determining the Amortization Period for Leasehold Improvements*. Issue 05-06 provides that the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured upon the acquisition or the purchase. The provisions of Issue 05-06 were effective on a prospective basis for leasehold improvements purchased or acquired beginning in our second quarter of fiscal 2006. The adoption of Issue 05-06 did not have a material effect on our consolidated financial position, results of operations or cash flows.

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Factors That May Affect Our Future Results or the Market Price of Our Stock

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 discussed previously, 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:

- the overall demand for enterprise computer software and services;
- governmental budgetary constraints or shifts in government spending priorities;
- general economic and business conditions; and
- general political developments, such as the war on terrorism.

Recovery in the global economic environment remains modest and uneven. A general weakening of the global economy, or a curtailment in government spending, could delay and decrease customer purchases. In addition, the war on terrorism and the potential for other hostilities in various parts of the world, as well as 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 impacts generally fall most strongly on our sales of software licenses, 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 variation 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 information technology 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. In addition, for companies we acquire, we will have limited experience for several quarters regarding how their pipelines will convert into sales or revenues. Because a substantial portion of our new software license revenue contracts are completed in the latter part of a quarter, and our cost structure is largely fixed in the short term, revenue shortfalls tend to have a disproportionately negative impact on our profitability. A delay in even a small number of large new software license 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, standards for network protocols, as well as other industry adopted and de facto standards for the internet, 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.

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We have announced a next generation applications platform that is planned to combine the best features, flows and usability traits of the Oracle and PeopleSoft applications. We have also acquired, or agreed to acquire, several other application product lines, which will need to be optimized for the next generation platform. If we do not develop and release theses products within the anticipated time frames, if there is a delay in market acceptance of the product line, or if we do not timely optimize complementary product lines, our applications 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. An active acquisition program is an important element of our corporate strategy. We expect to continue to acquire companies, products, services and technologies. In September 2005, we announced that we have agreed to purchase all of the outstanding shares of Siebel Systems, Inc. for $10.66 per share in cash or stock (up to 30%), or an estimated aggregate of $6.1 billion. The Siebel acquisition is subject to a vote of their stockholders, regulatory approvals and other customary conditions. Including the Siebel acquisition, in the last two years, we have paid or agreed to pay an aggregate of approximately $19 billion for these acquisitions. Risks we may encounter in acquisitions include:

- the acquisition may not further our business strategy, or we may pay more than it is worth;
- 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 acquired contract models do not allow us to recognize revenues on a timely basis;
- we may have difficulty incorporating the acquired technologies or products with our existing product lines and maintaining uniform standards, controls, procedures and policies;
- 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;
- we may significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition;
- we may have higher than anticipated costs in continuing support and development of acquired products;
- we may have multiple and overlapping product lines that may be offered, priced and supported differently, which could cause customer confusion and delays;
- our relationship with current and new employees, customers and distributors could be impaired;
- our due diligence process may fail to identify technical problems, such as issues with the company s product quality or product architecture;
- we may lose anticipated tax benefits or have additional legal or tax exposures if we have prematurely or improperly combined entities;
- we may face contingencies related to product liability, intellectual property, financial disclosures and accounting practices or internal controls;

- the acquisition may result in litigation from terminated employees or third parties;

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

- we may be unable to obtain timely approvals from governmental authorities under competition and antitrust laws; and

- while we have generally paid for acquisitions in cash, 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.

These factors 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 number of acquisitions.

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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 Oracle, as a result of its acquisition of PeopleSoft, with a contingent obligation to make payments to PeopleSoft customers should Oracle fail to take certain business actions for a fixed period of time subsequent to the 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. This purported obligation was not reflected as a liability on PeopleSoft s balance sheet as PeopleSoft concluded that it could be triggered only following the consummation of an acquisition. PeopleSoft used six different standard versions of the CAP over the 18-month period commencing June 2003. PeopleSoft ceased using the CAP on December 29, 2004, the date on which we acquired a controlling interest in PeopleSoft. We have concluded that, as of the date of the acquisition, the penalty provisions under the CAP represented a contingent liability of Oracle. The aggregate potential CAP obligation as of November 30, 2005 was $3.5 billion. Unless the CAP provisions are removed from these licensing arrangements, we do not expect the aggregate potential CAP obligation to decline substantially until fiscal year 2008 when a significant number of these provisions begin to expire. The last CAP obligation will expire on December 31, 2008. We have not recorded a liability related to the CAP, as we do not believe it is probable that our post-acquisition activities related to the PeopleSoft product line will trigger an obligation to make any payment pursuant to the CAP.

In addition, while no assurance can be given as to the ultimate outcome of litigation, we believe we would also have substantial defenses with respect to the legality and enforceability of the CAP contract provisions in response to any claims seeking payment from Oracle under the CAP terms. While we have taken extensive steps to assure customers that we intend to continue developing and supporting the PeopleSoft line of products, PeopleSoft customers may assert claims for CAP payments.

We may need to change our pricing models to compete successfully. The intensely competitive markets in which we compete can put pressure on us to reduce our prices. If our competitors offer deep discounts on certain products, we may need to lower prices or offer other favorable terms in order to compete successfully. Any such changes would likely reduce margins and could adversely affect operating results. Our software license updates and product support fees are generally priced as a percentage of our new license fees. Our competitors may offer a lower percentage pricing on product updates and support, which could put pressure on us to further discount our new license prices. Any broadly-based changes 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 our products. In addition, if we do not adapt our pricing models to reflect changes in customer use of our products, our new software license revenues could decrease. Additionally, increased distribution of applications through application service 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 in a range of markets 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 outsourcing as a competitive alternative to buying software. Some of these competitors have greater financial or technical resources than we do. Also, our competitors who offer business applications and application server 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 market share if our competitors introduce new competitive products, add new functionality, acquire competitive products, reduce prices or form strategic alliances with other companies. We may also face increasing competition from open source software initiatives, in which competitors may provide software and intellectual property free. Existing or new competitors could gain market share in any of our markets at our expense.

Our periodic sales force restructurings can be disruptive. We continue to rely heavily on our direct sales force. We have in the past restructured or made other adjustments to our sales force in response to management changes, product changes, performance issues and other internal considerations. We recently made some adjustments to focus our sales force separately on our database management software or applications software products, to modify and simplify our coverage models and to change some of our sales and consulting management. In the past, sales force 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.

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 market share.

Charges to earnings resulting from past acquisitions may adversely affect our operating results. Under purchase accounting, we allocate the total purchase price to an acquired company s net tangible assets, amortizable intangible assets and in-process research and development based on their fair values as of the date of the acquisition and record the excess of the purchase price over those fair values as goodwill. Management s estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain. Going forward, the following factors could result in material charges that would adversely affect our results:

- impairment of goodwill;
- charges for the amortization of identifiable intangible assets and for stock-based compensation;
- accrual of newly identified pre-merger contingent liabilities that are identified subsequent to the finalization of the purchase price allocation; and
- charges to income to eliminate certain Oracle pre-merger activities that duplicate those of the acquired company or to reduce our cost structure.

We have incurred charges to earnings associated with our recent acquisitions of $599 million for the fiscal year ended May 31, 2005 and $314 million for the six months ended November 30, 2005 on a pre-tax basis. Charges to earnings 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 earnings 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 Supplemental Disclosure Related to Acquisition Accounting discussed previously, as well as in Part II, Item 7 of the Oracle 10-K, as amended, 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 previously acquired companies, which may be substantial. Additional costs may include costs of employee redeployment, relocation and retention, including salary increases or bonuses, accelerated amortization of deferred equity compensation 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.

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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 and shared administrative service centers, and we plan to expand these international operations, including in China and India. We are subject to a variety of risks, including those related to general economic conditions in each country or region, regulatory changes, political unrest, terrorism and the potential for other hostilities, particularly in areas in which we have facilities. We face difficulty in managing an organization operating in various countries, which can entail 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. We must comply with a variety of international laws and regulations, including trade restrictions, local labor ordinances, changes in tariff rates and import and export licensing requirements. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties.

We have recently acquired an approximately 43% equity position in i-flex Solutions Limited, a publicly traded Indian software company focused on the banking industry. As a major shareholder of an international entity, 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 portion of our business in currencies other than the United States 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. Changes in the value of major foreign currencies, particularly the Euro, Japanese Yen and British Pound relative to the United States dollar positively affected revenues and operating results in fiscal 2005 and the first quarter of fiscal 2006, but negatively affected revenues and operating results in the second quarter of fiscal 2006. If the dollar continues to strengthen relative to other currencies in the future, our revenues and operating results will be adversely affected.

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.

Oracle On Demand may not be successful. We offer outsourcing services for our products through three core offerings: Oracle Applications On Demand, Oracle Collaboration Suite On Demand and Oracle Technology On Demand, delivered either at Oracle or at a customer designated location. Our Oracle On Demand business model continues to evolve and we may not be able to compete effectively or generate significant revenues. This business is subject to a variety of risks including:

- demand for these services may not meet our expectations;
- we may not be able to operate this business at an acceptable profit level;
- we manage critical customer applications, data and other confidential information through Oracle On Demand and thus would face increased exposure to significant damage claims in the event of system failures or inadequate disaster recovery 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 information technology 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 offshore resources; changes in these laws could affect our ability to provide services from or to some locations and could increase both the cost and risk associated with providing the services; and

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our Oracle On Demand offerings may require large fixed costs such as for data centers, computers, network infrastructure and security.

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 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 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.

Part of our total compensation program includes stock options. If our stock price performs poorly it may adversely affect our ability to retain or attract key employees. In addition, because we will expense all stock-based compensation no later than the beginning of fiscal 2007, we may change both our cash and stock-based compensation practices. Some of the changes we are considering or have already implemented include the reduction in the number of employees granted options, a reduction in the number of options granted, the reduction of benefits under the employee stock purchase plan 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.

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. 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, and other outsourcing, support and consulting services, on our products and networks and any security flaws, if exploited, could affect our ability to conduct 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. The detection and correction of any security flaws can be time consuming and costly.

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 payback cycle. In the first six months of fiscal 2006, our research and development expenses were $868 million, or 14% of our total revenues. Our plans for the remainder of fiscal 2006 include 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.

We may not be able to protect our intellectual property. We rely on a combination of copyright, patent, trade secrets, confidentiality procedures and contractual commitments to protect our proprietary information. Despite our efforts, these measures can only provide limited protection. Unauthorized third parties may try to copy or reverse engineer portions of our products or otherwise obtain and use our intellectual property. Any patents

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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 proprietary rights as do the laws of the United States. If we cannot protect our proprietary technology against unauthorized copying or use, we may not remain competitive.

Third parties may claim we infringe their intellectual property rights. We periodically receive notices from others claiming we are infringing their intellectual property rights, principally patent rights. We expect the number of such claims will increase as the number of products and competitors in our industry segments grows, the functionality of products overlap, and the volume of issued software patents continues to increase. Responding to any infringement claim, regardless of its validity, could:

- be time-consuming, costly and/or result in litigation;
- 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; or
- require us to satisfy indemnification obligations to our customers.

If a successful claim is made against us and we fail to develop or license a substitute technology, our business, results of operations, financial condition or cash flows could be adversely affected. A patent infringement case, which has reached the motion stage, is discussed under Legal Proceedings in our Notes to Condensed Consolidated Financial Statements.

Our sales to government clients subject us to risks including early termination, audits and investigations. We derive revenues from contracts with the United States government, state and local governments and their respective agencies, who 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.

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. If we were assessed any penalties or sanctions, our business and operating results could be adversely affected.

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 Oracle On Demand. 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.

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.

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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. However, these agreements, which are effective for fiscal years through May 31, 2006, do not cover all elements of our transfer pricing and do not bind tax authorities outside the United States. We are currently negotiating bilateral Advance Pricing Agreements to cover various periods from June 1, 2001 through May 31, 2008.

Although we believe that our tax estimates are reasonable, we cannot assure you 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 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 taxes and may have exposure to additional non-income tax liabilities.

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, 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Income Rate Risk. Based on our intentions regarding our investments, we classify our investments as either held-to-maturity or available-for-sale. Held-to-maturity investments are reported on the balance sheet at amortized cost. Available-for-sale securities are reported at market value. Auction rate securities, which are classified as available-for-sale, are reported on the balance sheet at par value, which equals market value, as the rate on such securities re-sets generally every 7 to 28 days. As a majority of our investments are held-to-maturity, interest rate movements do not affect the balance sheet valuation of the fixed income investments. Changes in the overall level of interest rates affect our interest income that is generated from our investments. For the three months ended November 30, 2005, total interest income was $24.3 million with investments yielding an average 2.34% on a worldwide basis. This interest rate level was up approximately 47 basis points from 1.87% for the three months ended November 30, 2004. If overall interest rates fell by a similar amount (47 basis points) in the third quarter of fiscal 2006, our interest income would decline approximately $4.7 million, assuming consistent investment levels.

The table below presents the cash, cash equivalent and marketable securities balances and the related weighted average interest rates for our investment portfolio at November 30, 2005. The cash, cash equivalent and marketable securities balances approximate fair value at November 30, 2005:

(Dollars in millions)	Amortized Principal Amount	Weighted Average Interest Rate
Cash and cash equivalents	$ 2,837	2.50%
Marketable securities	566	0.32%
Total cash, cash equivalents and marketable securities	$ 3,403	2.14%

The table above includes the United States dollar equivalent of cash, cash equivalents and marketable securities, which is denominated in foreign currencies as shown below. See discussion of our foreign currency risk below for a description of how we hedge net assets of certain international subsidiaries from foreign currency exposure.

(in millions)	Amortized Principal Amount at November 30, 2005
Japanese Yen	$ 740
Euro	647
British Pound	270
Chinese Renminbi	222
Canadian Dollar	199
Australian Dollar	104
South African Rand	89
Other currencies	752

Total cash, cash equivalents and marketable securities denominated in foreign currencies	$	3,023

Interest Expense Rate Risk. On April 7, 2005, we introduced a commercial paper program with an authorized maximum outstanding amount of $3 billion. As of November 30, 2005, $490 million of commercial paper remained outstanding (effective weighted-average interest rate of 4.13%). A 50 basis point change in interest rates would increase or decrease interest expense by $2.5 million annually.

On May 20, 2005, a wholly-owned subsidiary of Oracle borrowed $700 million under an unsecured 364-day term loan agreement (OTC Loan Facility). Borrowings under the OTC Loan Facility bear interest at a rate per annum equal to a rate based on the London interbank offered rate from time to time plus a margin, which fluctuates

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based upon the ratings assigned from time to time by Moody s Investors Service, Inc. and Standard & Poor s Ratings Services to our senior unsecured long-term debt. As of November 30, 2005, $418 million remained outstanding (effective interest rate of 4.47%). A 50 basis point change in interest rates would increase or decrease interest expense by $2.1 million annually.

We have $150 million in 6.91% senior notes due in February 2007. In February 2002, we entered into an interest-rate swap agreement that has the economic effect of modifying the interest obligations associated with these senior notes so that the interest payable on the senior notes effectively becomes variable based on the three month LIBOR set quarterly until maturity. The notional amount of the interest rate swap and the termination date match the principal amounts and maturity date of the outstanding senior notes. Our interest rate swap reduced the effective interest rate on our 6.91% senior notes to 6.43% as of November 30, 2005. The fair value of the interest rate swap was $0.4 million at November 30, 2005 and is included in other assets in the accompanying condensed consolidated balance sheets.

Foreign Currency Transaction Risk. We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to offset the risk associated with the effects of certain foreign currency exposures. Under this program, increases or decreases in our foreign currency exposures are offset by gains or losses on the forward contracts, to mitigate the possibility of foreign currency transaction gains or losses. These foreign currency exposures typically arise from intercompany sublicense fees and other intercompany transactions. Our forward contracts generally have terms of 90 days or less. We do not use forward contracts for trading purposes. All outstanding foreign currency forward contracts (excluding our Yen equity hedge described below) are marked to market at the end of the period with unrealized gains and losses included in non-operating income, net. Our ultimate realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature. Net foreign exchange transaction gains (losses) included in non-operating income, net in the accompanying condensed consolidated statements of operations were $1.8 million and $(15.7) million in the six months ended November 30, 2005 and 2004, respectively. The fair values of foreign currency forward contracts were not significant individually and approximated $2.3 million as of November 30, 2005.

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

At November 30, 2005, we had one net investment hedge in Japanese Yen. The Yen investment hedge minimizes currency risk arising from net assets held in Yen as a result of equity capital raised during the initial public offering and secondary offering of Oracle Japan. The fair value of our Yen investment hedge was $0.2 million as of November 30, 2005. The Yen investment hedge has a notional amount of $557.4 million and an exchange rate of 118.413 Yen for United States dollar.

Net losses on investment hedges reported in stockholders equity were $59.0 million and $55.9 million in the six months ended November 30, 2005 and 2004, respectively. Net gains on investment hedges reported in non-operating income, net were $10.9 million and $5.2 million in the six months ended November 30, 2005 and 2004, respectively.

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Item 4. Controls and Procedures

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

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

Inherent Limitations on Effectiveness of Controls. The Company s management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are effective at the reasonable assurance level. However, the Company s management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The material set forth in Note 16 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

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

In the second quarter of fiscal 2006, we sold an aggregate of 9,013 shares of our common stock to eligible employees of Oracle EMEA Limited, an indirect subsidiary of the Company, who are participants in the Oracle Ireland Approved Profit Sharing Scheme (the Ireland APSS) at an aggregate purchase price of approximately $112,000. We purchased the shares in the open market at the same price the shares were sold to the Ireland APSS participants and paid customary brokerage commissions of approximately $1,000 in connection with the purchase. There were no underwriting discounts or commissions in connection with the sale. The Ireland APSS permits an eligible employee to receive shares of common stock in a tax efficient manner as a portion of such employee s bonus, as well as to contribute a portion of their base salary allowance towards the purchase of additional shares in certain circumstances. The securities are held in trust for the employees for a minimum of two years. The shares of common stock were offered and sold in reliance upon Section 4(2) of the Securities Act of 1933, as amended, and the safe harbor provided by Rule 903 of Regulation S under the Securities Act, to employees of Oracle EMEA Limited who are not U.S. Persons as that term is defined in Regulation S.

Stock Repurchase Program

In 1992, our Board of Directors approved a program to repurchase shares of our common stock to reduce the dilutive effect of our stock option and stock purchase plans. The Board has expanded the repurchase program several times by either increasing the authorized number of shares to be repurchased or by authorizing a fixed dollar amount expansion, most recently in October 2004. From the inception of the stock repurchase program to November 30, 2005, a total of 1.8 billion shares have been repurchased for approximately $20.7 billion. At November 30, 2005, approximately $1.6 billion was available to repurchase shares of our common stock pursuant to the stock repurchase program.

The following table summarizes the stock repurchase activity for the three months ending November 30, 2005, and the approximate dollar value of shares that may yet be purchased pursuant to the stock repurchase program:

(in millions, except per share amounts)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
September 1, 2005 September 30, 2005	0.3	$ 12.37	0.3	$ 1,655.4
October 1, 2005 October 31, 2005	5.8	12.34	5.8	1,584.0
November 1, 2005 November 30, 2005				1,584.0
Total	6.1	$ 12.35	6.1	

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

Set forth is information concerning each matter submitted to a vote at the Annual Meeting of Stockholders on October 10, 2005.

Proposal No. 1: The stockholders elected each of the following persons as a director to hold office until the 2006 Annual Meeting of Stockholders or until earlier retirement, resignation or removal.

Director s Name	Votes For (in millions)	Votes Withheld (in millions)
Jeffrey O. Henley	4,471	176
Lawrence J. Ellison	4,496	151
Donald L. Lucas	4,483	164
Michael J. Boskin	4,436	211
Jack F. Kemp	4,584	63
Jeffrey S. Berg	4,549	98
Safra A. Catz	4,472	175
Hector Garcia-Molina	4,490	157
Joseph A. Grundfest	4,489	158
H. Raymond Bingham	3,831	816
Charles E. Phillips, Jr.	4,393	254

Proposal No. 2: The stockholders approved the adoption of the Company s Fiscal Year 2006 Executive Bonus Plan with 3,372.8 million affirmative votes, 199.2 million negative votes, 27.9 million votes abstaining and 1,046.8 million broker non-votes.

Proposal No. 3: The stockholders ratified the appointment of Ernst and Young LLP as the Company s independent registered public accounting firm for the fiscal year ended May 31, 2006 with 4,603.7 million affirmative votes, 20.6 million negative votes and 22.4 million votes abstaining.

Item 5. Other Information

The forms of agreements we enter into each fiscal year with our chief executive officer and our four other most highly compensated executive officers (determined by reference to compensation for each preceding fiscal year and hereinafter referred to as the named executive officers) under our Executive Bonus Plan are filed as exhibits to this Form 10-Q. Exhibit 10.29 is our forms of non-sales Executive Bonus Plan agreements, and Exhibit 10.30 is our form of sales and consulting Executive Bonus Plan agreement.

The Executive Bonus Plan provides for the payment of cash bonuses to eligible senior officers based upon the attainment of certain performance criteria established by the Compensation Committee of the Board of Directors. The criteria established for our named executive officers for fiscal year 2006 include improvement in pre-tax profit, license and outsourcing revenue growth and licensing, outsourcing and consulting margins. The individual agreements specify which criteria apply to each covered participant.

The maximum bonus payment that our Chief Executive Officer may receive under the Executive Bonus Plan for fiscal year 2006 is $9,680,000. The maximum bonus payment that any other participant may receive under the Executive Bonus Plan for fiscal year 2006 is based on a fixed multiple of a target bonus for such participant and is less than the maximum bonus payment that our Chief Executive Officer may receive under the Executive Bonus Plan.

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Item 6. Exhibits

Exhibit Number	Exhibit Title
10.27 [1]	Description of the Fiscal Year 2006 Executive Bonus Plan
10.28 [2]	Resignation Agreement dated November 3, 2005, of Gregory B. Maffei
10.29	Forms of Executive Bonus Plan Agreements for the Oracle Executive Bonus Plan, Non-Sales
10.30	Form of Executive Bonus Plan Agreement for the Oracle Executive Bonus Plan, Sales and Consulting
31.01	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Lawrence J. Ellison
31.02	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Safra A. Catz
32.01	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

(1) Incorporated by reference to the Form 8-K filed on October 13, 2005

(2) Incorporated by reference to the Form 8-K filed on November 9, 2005

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SIGNATURES

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

	ORACLE CORPORATION
Dated: January 5, 2006	By: /s/ SAFRA A. CATZ
	Safra A. Catz
	President, Chief Financial Officer and Director
Dated: January 5, 2006	By: /s/ JENNIFER L. MINTON
	Jennifer L. Minton
	Senior Vice President, Global Finance and Operations and Chief Accounting Officer

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Exhibit 10.29

FORM OF
FISCAL YEAR ______ ORACLE EXECUTIVE BONUS PLAN FOR __________

Name: **Employee ID:**
Title: **Effective Date:**

Individual Bonus based on Change in Operating Profit

(in '000)	FY__ (projected)	FY__	Change in Operating Profit	Individual Payout	Total Individual Bonus ($)
Example:					
Revenue					
Expense					
Operating Profit					

Operating Profit is calculated as ______ LOB Revenue minus ______ LOB Expense

Revenue and expense numbers are in USD

Plan is potentially subject to restatement in the event of a significant acquisition.

If both years profit is negative, but year-over-year is producing a positive variance, no bonus is paid.

If year over year operating profit is producing negative results, no bonus is paid

The individual bonus may not fall below zero.

Oracle Proprietary and Confidential Page 1 of 2

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Administration of the Fiscal Year	Oracle Executive Bonus Plan (Bonus Plan)
Amendment and Termination. The Compensation Committee may terminate the Bonus Plan, in whole or in part, suspend the Bonus Plan, in whole or in part from time to time, and amend the Bonus Plan, from time to time, including the adoption of amendments deemed necessary or desirable to correct any defect or supply omitted data or reconcile any inconsistency in the Bonus Plan or in any award granted thereunder, so long as stockholder approval has been obtained, if required in order for awards under the Bonus Plan to qualify as performance-based compensation under Section 162(m). The Compensation Committee may amend or modify the Bonus Plan in any respect, or terminate the Bonus Plan, without the consent of any affected participant. However, in no event may such amendment or modification result in an increase in the amount of compensation payable pursuant to any award. Awards under the Bonus Plan do not vest, and are not earned, until the Compensation Committee makes any and all authorized determinations, adjustments, modifications, and changes of amounts payable under the Bonus Plan. All awards will be paid in cash as soon as is practicable following determination of the award, unless the Committee has, prior to the grant of an award, received and approved, in its sole discretion, a request by a participant to defer receipt of an award in accordance with the Bonus Plan. The amounts that will be paid pursuant to the Bonus Plan are not currently determinable. The maximum bonus payment that ________ may receive under this Bonus Plan is $________. Should a participant s employment with Oracle terminate for any reason during fiscal year ____, the participant will not be eligible to receive an award under the Bonus Plan. Executives on a paid or unpaid leave of absence will not be eligible to earn compensation under the Bonus Plan. Payments under the Bonus Plan may be adjusted to reflect time on leave. Under present federal income tax law, participant will realize ordinary income equal to the amount of the award received in the year of receipt. That income will be subject to applicable income and employment tax withholding by the Company.	
Oracle Policies. The executive agrees to abide by published Oracle policies including this Bonus Plan, the Code of Ethics and Business Conduct, the Proprietary Information Agreement, and other employment and/or financial guidelines.	
At-Will Employment. Employment at Oracle is at-will. Oracle makes no express or implied commitment that employment will have a minimum or fixed term; that Oracle may take adverse employment action only for cause or that employment is terminable only for cause. Either the executive or Oracle may terminate the employment relationship at any time for any reason. Additionally, Oracle may take any other employment action at any time for any reason. No one at Oracle may make, unless specifically authorized in writing by Oracle s Board of Directors, any promise, express or implied, that employment is for any fixed term or that cause is required for the termination of or change in the employment relationship.	
Severability. If any portion of this Bonus Plan shall, for any reason, be held invalid or unenforceable, or contrary to public policy or any law, the remainder of the Bonus Plan shall not be affected by such invalidity or unenforceability, but shall remain in full force and effect, as if the invalid or unenforceable term or portion thereof had not existed within this Bonus Plan.	

Knowing and Voluntary Agreement. By signing the Fiscal Year ______ Oracle Executive Bonus Plan, the executive is agreeing that he or she has read and understood every provision set forth herein, and that, in consideration for participation in the Bonus Plan, agrees to abide by its terms.

I acknowledge receipt and accept this document.

Date

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FORM OF
FISCAL YEAR ______ ORACLE EXECUTIVE BONUS PLAN FOR __________

Name:	**Employee ID:**
Title:	**Effective Date:**

Individual Bonus based on Change in Pretax Profit

(in '000)	FY__ (projected)	FY__	Change in Pretax Profit	Individual Payout %	Total Individual Bonus ($)
Example:					
Pretax Profit					

Pretax Profit is defined as Total Company Revenue minus Total Company Expense on Non-Gaap basis.

Pretax profit numbers are in USD.

Plan is potentially subject to restatement, including in the event of a significant acquisition.

If both years' profit is negative, but year-over-year is producing a positive variance, no bonus is paid.

If year over year pretax profit is producing negative results, no bonus is paid.

The individual bonus may not fall below zero.

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Administration of the Fiscal Year Oracle Executive Bonus Plan (Bonus Plan)

Amendment and Termination. The Compensation Committee may terminate the Bonus Plan, in whole or in part, suspend the Bonus Plan, in whole or in part from time to time, and amend the Bonus Plan, from time to time, including the adoption of amendments deemed necessary or desirable to correct any defect or supply omitted data or reconcile any inconsistency in the Bonus Plan or in any award granted thereunder, so long as stockholder approval has been obtained, if required in order for awards under the Bonus Plan to qualify as performance-based compensation under Section 162(m). The Compensation Committee may amend or modify the Bonus Plan in any respect, or terminate the Bonus Plan, without the consent of any affected participant. However, in no event may such amendment or modification result in an increase in the amount of compensation payable pursuant to any award.

Awards under the Bonus Plan do not vest, and are not earned, until the Compensation Committee makes any and all authorized determinations, adjustments, modifications, and changes of amounts payable under the Bonus Plan.

All awards will be paid in cash as soon as is practicable following determination of the award, unless the Committee has, prior to the grant of an award, received and approved, in its sole discretion, a request by a participant to defer receipt of an award in accordance with the Bonus Plan.

The amounts that will be paid pursuant to the Bonus Plan are not currently determinable. The maximum bonus payment that ________ may receive under this Bonus Plan is $________.

Should a participant s employment with Oracle terminate for any reason during fiscal year ____, the participant will not be eligible to receive an award under the Bonus Plan.

Executives on a paid or unpaid leave of absence will not be eligible to earn compensation under the Bonus Plan. Payments under the Bonus Plan may be adjusted to reflect time on leave.

Under present federal income tax law, participant will realize ordinary income equal to the amount of the award received in the year of receipt. That income will be subject to applicable income and employment tax withholding by the Company.

Oracle Policies. The executive agrees to abide by published Oracle policies including this Bonus Plan, the Code of Ethics and Business Conduct, the Proprietary Information Agreement, and other employment and/or financial guidelines.

At-Will Employment. Employment at Oracle is at-will. Oracle makes no express or implied commitment that employment will have a minimum or fixed term; that Oracle may take adverse employment action only for cause or that employment is terminable only for cause. Either the executive or Oracle may terminate the employment relationship at any time for any reason. Additionally, Oracle may take any other employment action at any time for any reason. No one at Oracle may make, unless specifically authorized in writing by Oracle s Board of Directors, any promise, express or implied, that employment is for any fixed term or that cause is required for the termination of or change in the employment relationship.

Severability. If any portion of this Bonus Plan shall, for any reason, be held invalid or unenforceable, or contrary to public policy or any law, the remainder of the Bonus Plan shall not be affected by such invalidity or unenforceability, but shall remain in full force and effect, as if the invalid or unenforceable term or portion thereof had not existed within this Bonus Plan.

Knowing and Voluntary Agreement. By signing the Fiscal Year ______ Oracle Executive Bonus Plan, the executive is agreeing that he or she has read and understood every provision set forth herein, and that, in consideration for participation in the Bonus Plan, agrees to abide by its terms.

I acknowledge receipt and accept this document.

Date

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Exhibit 10.30

FISCAL YEAR __________ SALES AND CONSULTING BONUS PLAN

Name:	Employee ID:
Title:	Effective Date:

COMPONENTS OF THE BONUS PLAN

There are three components to the bonus plan. The first two are calculated independently of each other. The third component is the sum of the first two components and applies a netting process to the first two components to determine the Total Bonus Target as set forth in Exhibit A to this Bonus Plan.

I. License Revenue and Outsourcing Bookings Growth Component
II. License and Consulting Margin Component
III. Total Bonus Target

I. LICENSE REVENUE and OUTSOURCING BOOKINGS GROWTH COMPONENT ASSUMPTIONS

All calculations are at constant dollar values.

License revenue and outsourcing growth bonus may fall below zero, and is carried forward to the Total Bonus Target.

The bonus for this component is calculated based on the confidential and proprietary formula set forth in Exhibit A to this Bonus Plan.

II. LICENSE and CONSULTING MARGIN COMPONENT ASSUMPTIONS

License and Outsourcing Margin:

All calculations are at constant dollar values.

License expense is adjusted to exclude the individual s bonus expense/accrual that was reported as part of the license expense, when calculating margin.

The bonus is calculated on margin achieved above and beyond the gate.

The license and outsourcing margin subcomponent may fall below zero, and is carried forward to the Total Margin Bonus.

The bonus for the license and outsourcing margin subcomponent is calculated based on the confidential and proprietary formula set forth in Exhibit A to this Bonus Plan.

Consulting Margin:

All calculations are at constant dollar values.

The consulting margin subcomponent may fall below zero, and is carried forward to the Total Margin Bonus.

The bonus for the consulting margin subcomponent is calculated based on the confidential and proprietary formula set forth in Exhibit A to this Bonus Plan.

Total Margin Bonus:

The license and outsourcing margin subcomponent and consulting margin subcomponent are netted to reach a Total Margin Bonus as set forth in Exhibit A to this Bonus Plan.
The Total Margin Bonus may fall below zero, and is carried forward to the Total Bonus Target.

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FISCAL YEAR ________ SALES AND CONSULTING BONUS PLAN

Name:	Employee ID:
Title:	Effective Date:

III. ***TOTAL BONUS TARGET***

The License Revenue and Outsourcing Bookings Growth Bonus and the Total License and Consulting Margin Bonus are netted to reach the Total Bonus Target as set forth in Exhibit A to this Bonus Plan.
The Total Bonus Target may not fall below zero.

Payment is made in US Dollars even though the basis of calculation is at constant dollars. No conversion from constant dollars to US Dollars is made.

The amounts that will be paid pursuant to the Bonus Plan are not currently determinable. The maximum total payout that __________ may receive under the Bonus Plan is $______.

I acknowledge receipt and accept this document, accompanied by the FY__ Sales and Consulting Executive Bonus Plan: Terms and Conditions, as my FY__ Sales and Consulting Bonus Plan.

Signature	**Date**

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FISCAL YEAR __________ SALES AND CONSULTING BONUS PLAN

Name:	Employee ID:
Title:	Effective Date:

EXHIBIT A TO SALES AND CONSULTING

BONUS PLAN: PROPRIETARY AND CONFIDENTIAL

[Omitted]

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FISCAL YEAR _________ SALES AND CONSULTING BONUS PLAN

Name:	Employee ID:
Title:	Effective Date:

FY__ Sales and Consulting Executive Bonus Plan: Terms and Conditions

An executive s FY_ Sales and Consulting Executive Bonus Plan (Bonus Plan) consists of this document (the__FY Sales and Consulting Executive Bonus Plan: Terms and Conditions), and the accompanying Individualized Bonus Plan as approved by the Oracle Corporation Board of Directors Committee on Compensation and Management Development (the Compensation Committee). Signature of the FY Sales and Consulting Executive Bonus Plan: Terms and Conditions indicates acceptance of the Bonus Plan.

Administration of the Bonus Plan. The Compensation Committee may terminate the Bonus Plan, in whole or in part, suspend the Bonus Plan, in whole or in part from time to time, and amend the Bonus Plan, from time to time, including the adoption of amendments deemed necessary or desirable to correct any defect or supply omitted data or reconcile any inconsistency in the Bonus Plan or in any award granted thereunder, so long as stockholder approval has been obtained, if required in order for awards under the Bonus Plan to qualify as performance-based compensation under Section 162(m). The Compensation Committee may amend or modify the Bonus Plan in any respect, or terminate the Bonus Plan, without the consent of any affected participant. However, in no event may such amendment or modification result in an increase in the amount of compensation payable pursuant to any award.

The Compensation Committee shall have all final discretion regarding the administration and interpretation of the Bonus Plan. The Compensation Committee shall make the final and binding determination of amounts payable under the Bonus Plan. Adjustments, modifications and changes may be made to bonuses, bonus rates, bonus factors, targets, margin gates, margin elements, or any other terms and conditions, and may result in a decrease in payments under the Bonus Plan. Awards under the Bonus Plan do not vest, and are not earned, until the Compensation Committee makes any and all final determinations and adjustments, modifications or changes of amounts payable under the Bonus Plan.

In addition, for any single large transaction, the Compensation Committee may review the transaction and determine appropriate treatment of the transaction under the Bonus Plan. Appropriate treatment may include, but is not limited to, limiting or reducing the applicable bonus, bonus rate, bonus factor, target, margin gate, margin elements, or any other terms and conditions. Bonuses under the Plan do not vest, and are not earned, until the Compensation Committee has determined final and appropriate treatment of the transaction.

The amounts that will be paid pursuant to the Bonus Plan are not currently determinable. The maximum total payout that _________ may receive under this Bonus Plan is $______.

All awards will be paid in cash as soon as is practicable following determination of the award, unless the Committee has, prior to the grant of an award, received and approved, in its sole discretion, a request by a participant to defer receipt of an award in accordance with the Bonus Plan.

Executives on a paid or unpaid leave of absence will not be eligible to earn compensation under the Bonus Plan. Payments under the Bonus Plan may be adjusted to reflect time on leave.

Should an executive s employment with Oracle terminate for any reason during fiscal year____ , the participant will not be eligible to receive an award under the Bonus Plan.

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FISCAL YEAR __________ SALES AND CONSULTING BONUS PLAN

Name:	Employee ID:
Title:	Effective Date:

Under present federal income tax law, the executive will realize ordinary income equal to the amount of the award received in the year of receipt. That income will be subject to applicable income and employment tax withholding by the Company.

Advances against compensation may result in the executive incurring a negative compensation balance, where compensation advanced exceeds compensation earned under the Bonus Plan. No additional payments under the Bonus Plan will be made to executives who have incurred a negative balance until the entire negative balance has been offset in full by earned compensation under the Bonus Plan. The Company reserves the right to recover all advances against compensation that are not offset against earned compensation under the Bonus Plan. Only the Compensation Committee is authorized to forgive advances against compensation.

Club Excellence. Club Excellence qualification criteria are set forth in the executive s Individualized Sales Bonus Plan where applicable. Final selection for Club Excellence is at the discretion of the Company. Neither cash nor any other form of compensation will be paid in lieu of the award. The award may not be transferred to another person.

Oracle Policies. The executive agrees to abide by published Oracle policies including these Terms and Conditions, the Code of Ethics and Business Conduct, the Proprietary Information Agreement and other employment and/or financial guidelines.

At-Will Employment. Employment at Oracle is at-will. Oracle makes no express or implied commitment that employment will have a minimum or fixed term, that Oracle may take adverse employment action only for cause or that employment is terminable only for cause. Either the executive or Oracle may terminate the employment relationship at any time for any reason. Additionally, Oracle may take any other employment action at any time for any reason. No one at Oracle may make, unless specifically authorized in writing by Oracle s Board of Directors, any promise, express or implied, that employment is for any fixed term or that cause is required for the termination of or change in the employment relationship.

Severability. If any portion of this FY__ Sales and Consulting Executive Bonus Plan: Terms and Conditions shall, for any reason, be held invalid or unenforceable, or contrary to public policy or any law, the remainder of the FY__ Sales and Consulting Executive Bonus Plan: Terms and Conditions shall not be affected by such invalidity or unenforceability, but shall remain in full force and effect, as if the invalid or unenforceable term or portion thereof had not existed within this FY__ Sales and Consulting Executive Bonus Plan: Terms and Conditions.

Knowing and Voluntary Agreement. By signing the FY__ Sales and Consulting Executive Bonus Plan: Terms and Conditions, the executive is agreeing that he or she has read and understood every provision set forth herein, and that, in consideration for participation in the Bonus Plan, agrees to abide by its terms. The executive accepts this FY__ Sales and Consulting Executive Bonus Plan: Terms and Conditions, along with the accompanying Individualized Sales Bonus Plan, as his or her FY__ Sales Bonus Plan.

ACKNOWLEDGED AND ACCEPTED:

Print Name

Signature Date

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Exhibit 31.01

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Lawrence J. Ellison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oracle Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the Finance and Audit Committee of the registrant s board of directors (or persons performing the equivalent function):

   a)

all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls over financial reporting.

Date: January 5, 2006

By: /s/ LAWRENCE J. ELLISON

Lawrence J. Ellison

Chief Executive Officer and Director

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Exhibit 31.02

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Safra A. Catz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oracle Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the Finance and Audit Committee of the registrant s board of directors (or persons performing the equivalent function):

   a)

all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls over financial reporting.

Date: January 5, 2006

By: /s/ SAFRA A. CATZ

Safra A. Catz

President, Chief Financial Officer and Director

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Exhibit 32.01

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

January 5, 2006

Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549

Ladies and Gentlemen:

The certification set forth below is being furnished to the Securities and Exchange Commission solely for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and with Section 1350 of Chapter 63 of Title 18 of the United States Code.

Lawrence J. Ellison, the Chief Executive Officer of Oracle Corporation, and Safra A. Catz, the Chief Financial Officer of Oracle Corporation, each certifies that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Oracle Corporation.

By: /s/ Lawrence J. Ellison

Lawrence J. Ellison

Chief Executive Officer and Director

By: /s/ Safra A. Catz

Safra A. Catz

President, Chief Financial Officer and Director

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

—

FORM 8-K

CURRENT REPORT

Pursuant To Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of report (Date of earliest event reported): January 10, 2006

ORACLE CORPORATION

(Exact Name of Registrant as Specified in Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

0-14376 **(Commission File Number)**	**94-2871189** **(IRS Employer Identification No.)**
500 Oracle Parkway, Redwood City, California **(Address of Principal Executive Offices)**	**94065** **(Zip Code)**

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

N/A

(Former Name or Former Address, if Changed Since Last Report)

—

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Section 7 Regulation FD

Item 7.01 Regulation FD Disclosure

(a) On January 10, 2006, Oracle Corporation issued a press release furnished herewith as Exhibit 99.1, as required by paragraph (d) of Rule 135c under the Securities Act of 1933.

Section 9 Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(c) Exhibit

99.1	Press release dated January 10, 2006

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SIGNATURES

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

	ORACLE CORPORATION
Dated: January 10, 2006	By: /s/ Martin J. Collins
	Name: Martin J. Collins
	Title: Vice President, Associate General Counsel and Assistant Secretary

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Exhibit Index

99.1	Press release dated January 10, 2006

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Exhibit 99.1

PRESS RELEASE

Contact:	Catherine Evans	Bob Wynne
	Investor Relations	Corporate Communications
	Catherine.evans@oracle.com	bob.wynne@oracle.com
	(650) 506-4073	(650) 506-5834

Oracle Prices $5.75 Billion of Investment Grade Notes

REDWOOD SHORES, Calif., January 10, 2006 Oracle Corporation today announced the pricing of its sale of $1.5 billion of Floating Rate Notes due 2009 (the 2009 Notes), $2.25 billion of 5.00% Notes due 2011 (the 2011 Notes) and $2.0 billion of 5.25% Notes due 2016 (the 2016 Notes). The offering is expected to close on January 13, 2006.

The 2009 Notes will bear interest at a floating rate equal to three-month LIBOR plus 0.23% per year, the 2011 Notes will bear interest at the rate of 5.00% per year, and the 2016 Notes will bear interest at the rate of 5.25% per year. Interest will be payable quarterly on January 13, April 13, July 13 and October 13 for the 2009 Notes and semi-annually on January 15 and July 15 for the 2011 Notes and 2016 Notes.

Oracle intends to use the net proceeds from the offering to fund the purchase of Siebel Systems (expected to close on January 31, 2006 or shortly thereafter), for acquisition-related transaction costs and for general corporate purposes, including stock repurchases and other acquisitions.

The notes were sold in a private placement only to qualified institutional buyers in reliance on Rule 144A, under the Securities Act of 1933, as amended, and in offshore transactions pursuant to Regulation S under the Securities Act. The notes are not registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Important Information

This press release does not constitute an offer to sell or the solicitation of an offer to buy securities and shall not constitute an offer, solicitation or sale in any jurisdiction in which such offer, solicitation or sale is unlawful. This press release is being issued pursuant to and in accordance with Rule 135c under the Securities Act of 1933, as amended.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) January 17, 2006

Oracle Corporation

(Exact name of Registrant as Specified in its Charter)

Delaware	**0-14376**	**94-2871189**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

500 Oracle Parkway, Redwood City, California	**94065**
(Address of Principal Executive Offices)	**(Zip Code)**

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

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Section 9 Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(b) Pro forma financial information

The pro forma financial information with respect to the pending acquisition of Siebel Systems, Inc. is filed as Exhibit 99.1 to this Form 8-K and incorporated herein by this reference.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	ORACLE CORPORATION	
Dated: January 17, 2006	By:	/s/ SAFRA A. CATZ **Safra A. Catz**
		President and Chief Financial Officer

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Exhibit Index

99.1	Unaudited Pro Forma Condensed Combined Financial Statements

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Exhibit 99.1

ORACLE CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements are based on the historical financial statements of Oracle Corporation, PeopleSoft, Inc. and Siebel Systems, Inc. after giving effect to Oracle s acquisition of PeopleSoft on December 29, 2004, borrowings used to finance the PeopleSoft acquisition, Oracle s pending acquisition of Siebel Systems, the $5.75 billion of notes issued on January 13, 2006 to finance the Siebel Systems acquisition and for general corporate purposes, including stock repurchases and other acquisitions, as well as the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined balance sheet as of November 30, 2005 is presented as if the Siebel Systems acquisition and notes issued to finance the Siebel Systems acquisition occurred on November 30, 2005. The unaudited pro forma condensed combined statement of operations of Oracle and Siebel Systems for the six months ended November 30, 2005 is presented as if the Siebel Systems acquisition and notes issued to finance the Siebel Systems acquisition had taken place on June 1, 2004 and were carried forward through November 30, 2005. The unaudited pro forma condensed combined statement of operations of Oracle, PeopleSoft and Siebel Systems for the year ended May 31, 2005 is presented as if the PeopleSoft acquisition and related borrowings as well as the Siebel Systems acquisition and notes issued had taken place on June 1, 2004 and were carried forward through May 31, 2005.

To complete the Siebel Systems acquisition, Oracle formed Ozark Holding Inc., or New Oracle , a direct wholly owned subsidiary. Pursuant to the merger agreement, Siebel Systems and Oracle will survive as wholly owned subsidiaries of New Oracle and New Oracle will be renamed Oracle Corporation. In preparing the unaudited pro forma condensed combined financial statements, Oracle has assumed that holders of 30% of Siebel Systems common stock will elect to receive New Oracle common stock and has assumed that the Conversion Ratio will be 0.79, which was calculated as $10.66 divided by $13.49 (the closing price of Oracle common stock on September 12, 2005, the date the signing of the merger agreement was announced). Depending on the actual number of Siebel Systems shares outstanding as of the acquisition date, the percentage of Siebel Systems stockholders that do not elect to receive New Oracle common stock and the actual Conversion Ratio, the cash paid and New Oracle common stock issued may differ significantly from the information in the unaudited pro forma condensed combined financial statements.

The preliminary allocation of the purchase price used in the unaudited pro forma condensed combined financial statements is based upon preliminary estimates. The estimates and assumptions, some of which cannot be made prior to completion of the Siebel Systems acquisition, are subject to change upon the acquisition date and finalization of the valuation of Siebel Systems assets and liabilities. Upon completion of the acquisition, Oracle expects to make additional adjustments, including adjustments for property and restructuring activities. The final determination of the allocation of the purchase price will be based on the actual intangible assets, tangible assets and in-process research and development of Siebel Systems that exist as of the acquisition date.

The unaudited pro forma condensed combined financial statements do not include the effects of restructuring certain activities of pre-merger Oracle or Siebel Systems operations. These restructuring liabilities, once determined, may be material and may include costs for severance, costs of vacating facilities and costs to exit or terminate other duplicative activities. Liabilities related to restructuring Siebel Systems operations would be recorded as an adjustment to the purchase price and an increase in goodwill. Liabilities related to restructuring Oracle s operations would be recorded as expenses in Oracle s statements of operations in the period that the costs are incurred. Oracle expects to be able to quantify estimated restructuring expenses upon completion of the acquisition of Siebel Systems.

The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the consolidated results of operations or financial position of Oracle that would have been reported had the acquisitions, borrowings and notes issued been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of Oracle. The unaudited pro forma condensed combined financial statements do not reflect any operating efficiencies and cost savings that Oracle may achieve with respect to the combined companies.

The unaudited pro forma condensed combined financial statements should be read in conjunction with the historical consolidated financial statements and accompanying notes of Oracle, PeopleSoft and Siebel Systems included in their respective annual reports on Form 10-K and quarterly reports on Form 10-Q, and related amendments.

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UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of November 30, 2005

	Historical			
	Nov 30, 2005	Sep 30, 2005	Pro Forma Adjustments	Pro Forma
(in millions)	Oracle	Siebel Systems	(Note 4)	Combined
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,837	$ 566	$ 1,774(A)	$ 5,177
Marketable securities	566	1,681		2,247
Trade receivables, net	1,976	229		2,205
Deferred tax assets	471	24		495
Prepaid expenses and other current assets	416	44		460
Total current assets	6,266	2,544	1,774	10,584
Non-current assets:				
Property, net	1,366	62		1,428
Intangible assets, net	3,269	36	1,674(B)	4,979
Goodwill	7,366	297	1,937(C)	9,600
Deferred tax assets	51	116	668(D)	835
Other assets	1,028	33	17(F)	1,078
Total non-current assets	13,080	544	4,296	17,920
Total assets	$ 19,346	$ 3,088	$ 6,070	$ 28,504
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Short term borrowings and current portion of long-term debt	$ 907	$	$	$ 907
Accounts payable and accrued liabilities	1,733	261	75(G)	2,069
Income taxes payable	667	58		725
Accrued restructuring	73	37		110
Deferred revenues	2,183	315	(150)(H)	2,348
Total current liabilities	5,563	671	(75)	6,159
Non-current liabilities:				
Notes payable and long-term debt, net of current portion and discount of $19	156		5,731(E)	5,887
Deferred tax liabilities	950		702(D)	1,652
Other long-term liabilities	562	131		693
Total non-current liabilities	1,668	131	6,433	8,232

Stockholders equity	12,115	2,286	(288)[(I)]	14,113
Total liabilities and stockholders equity	$ 19,346	$ 3,088	$ 6,070	$ 28,504

See notes to unaudited pro forma condensed combined financial statements.

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ORACLE CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Six Months Ended November 30, 2005

(in millions, except per share data)	Historical — For the Six Months Ended Nov 30, 2005 Oracle	Historical — For the Six Months Ended Sep 30, 2005 Siebel Systems	Pro Forma Adjustments (Note 4)	Pro Forma Combined
Revenues:				
New software licenses	$ 1,687	$ 190	$	$ 1,877
Software license updates and product support	3,061	248		3,309
Software revenues	4,748	438		5,186
Services	1,312	223		1,535
Total revenues	6,060	661		6,721
Operating expenses:				
Sales and marketing	1,321	182	1(J)	1,504
Software license updates and product support	335	33		368
Cost of services	1,145	206	2(J)	1,353
Research and development	868	137	1(J)	1,006
General and administrative	265	51	1(J)	317
Amortization of intangible assets	249	5	128(K)	382
Acquisition related	38			38
Restructuring	11	83		94
Total operating expenses	4,232	697	133	5,062
Operating income (loss)	1,828	(36)	(133)	1,659
Interest expense	(37)		(148)(L)	(185)
Non-operating income, net	63	33		96
Income (loss) before provision for income taxes	1,854	(3)	(281)	1,570
Provision for income taxes	538	12	(108)(M)	442
Net income (loss)	$ 1,316	$ (15)	$ (173)	$ 1,128
Earnings (loss) per share:				
Basic	$ 0.26	$ (0.03)		$ 0.21
Diluted	$ 0.25	$ (0.03)		$ 0.21
Weighted average common shares outstanding (Note 6)				

Basic	5,150	522	5,275
Diluted	5,241	522	5,384

See notes to unaudited pro forma condensed combined financial statements.

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ORACLE CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Year Ended May 31, 2005

(in millions, except per share data)	Historical: For the Year Ended May 31, 2005 Oracle	Historical: For the Seven Months Ended Dec 28, 2004 PeopleSoft	Historical: For the Twelve Months Ended Mar 31, 2005 Siebel Systems	Pro Forma Adjustments PeopleSoft (Note 5)	Pro Forma Adjustments Siebel Systems (Note 4)	Pro Forma Combined
Revenues:						
New software licenses	$ 4,091	$ 540	$ 436	$	$	$ 5,067
Software license updates and product support	5,330	745	478			6,553
Software revenues	9,421	1,285	914			11,620
Services	2,378	521	395			3,294
Total revenues	11,799	1,806	1,309			14,914
Operating expenses:						
Sales and marketing	2,511	514	353	(4)(N)	4 (J)	3,378
Software license updates and product support	618	89	73	(N)	1	781
Cost of services	2,033	475	371	(1)(N)	5 (J)	2,883
Research and development	1,491	324	301	3 (N)	5 (J)	2,124
General and administrative	550	82	109	(3)(N)	2 (J)	740
Amortization of intangible assets	219	69	9	187 (O)	254 (K)	738
Acquisition related	208	79	17			304
Restructuring	147	248	6			401
Total operating expenses	7,777	1,880	1,239	182	271	11,349
Operating income (loss)	4,022	(74)	70	(182)	(271)	3,565
Interest expense	(135)			(47)(P)	(296)(L)	(478)
Non-operating income, net	164	15	51			230
Income (loss) before provision for income taxes	4,051	(59)	121	(229)	(567)	3,317
Provision for income taxes	1,165	(26)	45	(88)(Q)	(218)(M)	878
Net income (loss)	$ 2,886	$ (33)	$ 76	$ (141)	$ (349)	$ 2,439
Earnings (loss) per share:						
Basic	$ 0.56	$ (0.09)	$ 0.15			$ 0.46
Diluted	$ 0.55	$ (0.09)	$ 0.14			$ 0.45
Weighted average common shares outstanding (Note 6)						
Basic	5,136	371	508			5,260
Diluted	5,231	371	532			5,390

See notes to unaudited pro forma condensed combined financial statements.

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ORACLE CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma condensed combined balance sheet as of November 30, 2005 and the unaudited pro forma condensed combined statements of operations for the six months ended November 30, 2005 and for the year ended May 31, 2005 are based on the historical financial statements of Oracle Corporation, PeopleSoft, Inc. and Siebel Systems, Inc. after giving effect to Oracle s acquisition of PeopleSoft on December 29, 2004, borrowings used to finance the PeopleSoft acquisition, Oracle s pending acquisition of Siebel Systems, the $5.75 billion of notes issued on January 13, 2006 to finance the Siebel Systems acquisition and for general corporate purposes, including stock repurchases and other acquisitions, as well as the assumptions and adjustments described in the notes herein.

Oracle accounts for acquisitions under Financial Accounting Standards Board Statement No. 141, *Business Combinations*. In accordance with business combination accounting, Oracle will allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed as well as in-process research and development based on their estimated fair values. The excess of the purchase price over the net tangible and identifiable intangible assets will be recorded as goodwill. Oracle s management has made significant assumptions and estimates in determining the preliminary purchase price and the preliminary allocation of the estimated purchase price in the unaudited pro forma condensed combined financial statements. The final determination of such assumptions and estimates cannot be made until Oracle completes the acquisition of Siebel Systems.

The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the consolidated results of operations or financial position of Oracle that would have been reported had the acquisitions, borrowings and notes issued been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of Oracle. The unaudited pro forma condensed combined financial statements do not reflect any operating efficiencies and cost savings that Oracle may achieve with respect to the combined companies.

The unaudited pro forma condensed combined financial statements should be read in conjunction with the historical consolidated financial statements and accompanying notes of Oracle, PeopleSoft and Siebel Systems included in their respective annual reports on Form 10-K and quarterly reports on Form 10-Q, and related amendments.

Accounting Periods Presented

Siebel Systems fiscal year ends on December 31, and its historical results have been aligned to more closely conform to Oracle s May 31 fiscal year end by adding subsequent interim period results to their most recent fiscal year-end information and deducting the comparable preceding year interim period results as explained below. In addition, certain historical Siebel Systems balances have been reclassified to conform to the pro forma combined presentation. Transactions between Oracle and Siebel Systems were nominal during the periods presented. No pro forma adjustments were made to conform Siebel Systems accounting policies to Oracle s accounting policies.

The unaudited pro forma condensed combined balance sheet as of November 30, 2005 is presented as if the Siebel Systems acquisition and notes issued to finance the Siebel Systems acquisition occurred on November 30, 2005, and due to different fiscal period ends, combines the historical balance sheet of Oracle at November 30, 2005 and the historical balance sheet of Siebel Systems at September 30, 2005.

The unaudited pro forma condensed combined statement of operations of Oracle and Siebel Systems for the six months ended November 30, 2005 is presented as if the Siebel Systems acquisition and notes issued to finance the Siebel Systems acquisition had taken place on June 1, 2004 and, due to different fiscal period ends, combines the historical results of Oracle for the six months ended November 30, 2005 and the historical results of Siebel Systems for the six months ended September 30, 2005.

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ORACLE CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(Continued)

The unaudited pro forma condensed combined statement of operations of Oracle, PeopleSoft and Siebel Systems for the year ended May 31, 2005 is presented as if the PeopleSoft acquisition and related borrowings as well as the Siebel Systems acquisition and notes issued had taken place on June 1, 2004, and due to different fiscal period ends, combines the historical results of Oracle for the year ended May 31, 2005, the historical results of PeopleSoft for the seven months ended December 28, 2004 and the historical results of Siebel Systems for the twelve months ended March 31, 2005. Oracle has five months of operations of PeopleSoft in its historical results for the year ended May 31, 2005 as Oracle acquired a controlling interest of PeopleSoft on December 29, 2004.

Basis of Preliminary Purchase Price and Allocation

The preliminary allocation of the purchase price used in the unaudited pro forma condensed combined financial statements is based upon preliminary estimates. The estimates and assumptions, some of which cannot be made prior to completion of the Siebel Systems acquisition, are subject to change upon the acquisition date and finalization of the valuation of Siebel Systems assets and liabilities. Upon completion of the acquisition, Oracle expects to make additional adjustments, including adjustments for property and restructuring activities. The final determination of the allocation of the purchase price will be based on the actual intangible assets, tangible assets and in-process research and development of Siebel Systems that exist as of the acquisition date.

The final valuation of identifiable intangible assets may change significantly from Oracle s preliminary estimates, which could result in a material change in the amortization of intangible assets. The fair value of options assumed and the intrinsic value associated with deferred stock-based compensation could change based on option activity through the acquisition date and based on changes in the stock prices of Oracle and Siebel Systems, all of which could materially change the valuation of options as of the acquisition date, the deferred stock-based compensation charges recorded as of the acquisition date and the associated amortization of stock-based compensation. Additionally, changes in the balances of Siebel Systems cash, marketable securities and other tangible assets and liabilities could differ substantially from September 30, 2005, which was the basis for developing Oracle s fair value estimates in the pro forma condensed combined financial statements, to the date of the acquisition.

The unaudited pro forma condensed combined financial statements do not include the effects of restructuring certain activities of pre-merger Oracle or Siebel Systems operations. These restructuring liabilities, once determined, may be material and may include costs for severance, costs of vacating facilities and costs to exit or terminate other duplicative activities. Liabilities related to restructuring Siebel Systems operations would be recorded as an adjustment to the purchase price and an increase in goodwill. Liabilities related to restructuring Oracle s operations would be recorded as expenses in Oracle s statements of operations in the period that the costs are incurred.

2. SIEBEL SYSTEMS ACQUISITION

On September 12, 2005, Oracle entered into a merger agreement to acquire Siebel Systems. The transaction is conditioned upon (i) clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which occurred on November 15, 2005, and the applicable foreign antitrust laws of certain other jurisdictions, including the European Commission, which occurred on December 22, 2005, (ii) approval of the merger and adoption of the merger agreement by Siebel Systems stockholders and (iii) other customary closing conditions. Oracle expects that the transaction will close on January 31, 2006, or shortly thereafter, provided the foregoing conditions which have not yet been satisfied or waived are satisfied or waived.

The estimated purchase price and purchase price allocation below are preliminary as the acquisition has not been completed and the date for which the assets to be acquired and liabilities to be assumed has not been determined.

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ORACLE CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(Continued)

For purposes of the pro forma financial statements, Oracle has used Siebel Systems assets and liabilities as of September 30, 2005 as the basis for developing Oracle s fair value estimates.

Preliminary Purchase Price

The total preliminary purchase price is estimated at $6.1 billion, including estimated Siebel Systems stock options assumed and restricted stock awards exchanged as well as acquisition related transaction costs, and is comprised of:

	(in millions)
Acquisition of the outstanding common stock of Siebel Systems at $10.66 per share:	
In cash (370 million shares)	$ 3,940
In exchange for Oracle stock	
(158 million Siebel Systems shares converted to 125 million Oracle shares)	1,689
Estimated fair value of Siebel Systems stock options assumed and restricted stock awards exchanged	378
Acquisition related transaction costs	75
Total preliminary purchase price	$ 6,082

Acquisition of common stock: Pursuant to the merger agreement, each share of Siebel Systems common stock will be converted into the right to receive either (a) $10.66 in cash or (b) a number of shares of New Oracle common stock equal to $10.66 divided by the greater of (i) the average closing price of Oracle Common Stock on the Nasdaq Stock Market over the ten trading days immediately preceding (but not including) the date on which the Siebel Systems merger becomes effective (the Average Oracle Stock Price) or (ii) $10.72 (the Conversion Ratio), provided that no more than 30% of the outstanding Siebel Systems common stock may be converted into New Oracle common stock. If Siebel Systems stockholders holding more than 30% of Siebel Systems common stock elect to receive New Oracle common stock, the equity consideration will be prorated. The stock election will not be available unless the holders of at least six percent of the outstanding Siebel Systems common stock make the stock election.

Oracle has assumed that holders of 30% of Siebel Systems common stock elect to receive New Oracle common stock and that the Conversion Ratio will be 0.79, which was calculated as $10.66 divided by $13.49 (the closing price of Oracle common stock on September 12, 2005, the date the signing of the merger agreement was announced), for purposes of the unaudited pro forma condensed combined financial statements. Depending on the actual number of shares of Siebel Systems common stock outstanding as of the Siebel Systems acquisition date, the percentage of Siebel Systems stockholders that do not elect to receive New Oracle common stock and the actual Conversion Ratio, the cash paid and stock issued may differ significantly from the information in the unaudited pro forma condensed combined financial statements.

ORACLE CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(Continued)

The following table outlines the impact of changes to certain assumptions and estimates:

(Shares and dollars in millions)	If 0% of Siebel Systems Stockholders Elect Stock	If 6% of Siebel Systems Stockholders Elect Stock	If 30% of Siebel Systems Stockholders Elect Stock
Siebel Systems shares outstanding at September 30, 2005	528	528	528
Cash paid to Siebel Systems stockholders who elect cash	$ 5,629	$ 5,291	$ 3,940
Number of Siebel Systems shares subject to stock election		32	158
Number of estimated New Oracle shares issued using Conversion Ratio of 0.79		25	125
Number of estimated New Oracle shares issued assuming a 26% decrease in Conversion Ratio		19	93
Number of estimated New Oracle shares issued assuming a 26% increase in Conversion Ratio		32	158

The maximum conversion ratio is 0.9944, which is 26% higher than the conversion ratio of 0.79 used in the unaudited pro forma condensed combined financial statements. The table below discloses the effect on pro forma basic and diluted earnings per share from the respective amounts presented in the unaudited pro forma condensed combined financial statements if the maximum conversion ratio was required and if a correspondingly divergent minimum ratio was required.

	Effect on Oracle Pro Forma Earnings Per Share	
	Basic	Diluted
For the Year Ended May 31, 2005:		
26% increase in conversion ratio	$ 0.00	$ 0.00
26% decrease in conversion ratio	$ 0.01	$ 0.01
For the Six Months Ended November 30, 2005:		
26% increase in conversion ratio	$ 0.00	$ 0.00
26% decrease in conversion ratio	$ 0.01	$ 0.00

Fair value of estimated options assumed and restricted stock awards exchanged: As of September 30, 2005, Siebel Systems had approximately 111 million stock options outstanding. The fair value of estimated stock options assumed and restricted stock awards exchanged was determined using an average price of $13.49, which was the closing price of Oracle s common stock on September 12, 2005, the date the signing of the merger agreement was announced and was calculated using a Black-Scholes-Merton valuation model with the following assumptions: expected life of 3.5 to 5.5 years, risk-free interest rate of 3.9%, expected volatility of 27% and no dividend yield. In accordance with the merger agreement, the conversion value of each option assumed will be determined based on the exercise price of each Siebel Systems option, the closing sale price of a share of Siebel Systems common stock on the trading day immediately preceding the date on which the effective time occurs and the Average Oracle Stock Price. The portion of the estimated intrinsic value of unvested Siebel Systems options and restricted stock awards related to future service will be allocated to deferred stock-based compensation and will be amortized using the accelerated expense attribution method over the remaining vesting period.

Acquisition related transaction costs: Acquisition related transaction costs of $75 million include Oracle s estimate of investment banking fees of $41 million, legal and accounting fees of $29 million and other external costs directly related to the mergers of $5 million.

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ORACLE CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(Continued)

Preliminary Purchase Price Allocation

The total preliminary purchase price will be allocated to Siebel Systems tangible and intangible assets acquired, liabilities assumed as well as in-process research and development based on their estimated fair values as of the acquisition date. The excess of the purchase price over the net tangible and identifiable intangible assets will be recorded as goodwill. Based upon a preliminary valuation, the total preliminary purchase price was allocated as follows:

	(in millions)
Cash and marketable securities	$ 2,247
Goodwill	2,234
Identifiable intangible assets	1,710
Net deferred tax assets	106
Net tangible liabilities	(284)
Deferred stock-based compensation	30
In-process research and development	39
Total preliminary purchase price allocation	$ 6,082

The preliminary allocation of the purchase price is based upon a preliminary valuation, as described below, and Oracle s estimates and assumptions are subject to change upon the finalization of the valuation.

Cash, marketable securities and other net tangible liabilities: Oracle valued cash, marketable securities and other net tangible liabilities at their respective carrying amounts, except for adjustments to deferred revenues, as Oracle believes that these amounts approximate their current fair values or the fair values are not yet determinable as regulatory approvals have not been obtained and the acquisition has not been completed. Upon completion of the acquisition, Oracle expects to make additional adjustments, including adjustments for property and restructuring activities.

Oracle reduced Siebel Systems historical deferred revenues by $148 million in the pro forma condensed combined balance sheet to adjust deferred revenue to an amount equivalent to the estimated cost plus an appropriate profit margin to perform the services related to Siebel Systems software support contracts. Oracle has not yet assessed whether a fair value adjustment will be required for consulting contract obligations assumed.

Goodwill: Goodwill represents the excess of the estimated purchase price over the estimated fair value of tangible and identifiable intangible assets that Oracle estimates will be acquired. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. In the event that Oracle determines that the value of goodwill has become impaired, Oracle will incur an accounting charge for the amount of impairment during the fiscal quarter in which such determination is made.

Identifiable intangible assets: Oracle expects identifiable intangible assets acquired to include developed technology, core technology, tradenames, customer contracts, software support agreements and related relationships and consulting contracts. Developed technology, which comprises products that have reached technological feasibility, includes products in most of Siebel Systems product lines, principally the Siebel Systems CRM and Siebel Systems Business Analytics products. Core technology represents a combination of Siebel Systems processes, patents and trade secrets related to the design and development of its applications products. This proprietary know-how can be leveraged to develop new technology and improve Oracle s applications software products. Customer contracts and software support agreements and related relationships represent the underlying relationships and agreements with customers of Siebel Systems installed base.

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(Continued)

The fair value of intangible assets was based on a preliminary third-party valuation completed by Duff & Phelps, LLC using an income approach, as well as limited discussions with Siebel Systems management and a review of certain transaction-related documents and forecasts prepared by Oracle management. The rates utilized to discount net cash flows to their present values range from 10% to 18%. These discount rates were determined after consideration of Oracle s rate of return on debt capital and equity, the weighted average return on invested capital and the internal rate of return specific to this transaction.

Estimated useful lives for the intangible assets were based on historical experience with technology life cycles, product roadmaps, branding strategy, historical and projected maintenance renewal rates, historical treatment of Siebel Systems and Oracle acquisition-related intangible assets and Oracle s intended future use of the intangible assets. Intangible assets are being amortized using the straight-line method, considering the pattern in which the economic benefits of the intangible assets are consumed.

Oracle believes the most substantial changes that will affect the Siebel Systems purchase price allocation will relate to the valuation of intangible assets. Oracle management expects to conduct more detailed discussions with Siebel Systems management and development personnel as due diligence activities continue. Oracle also believes that additional purchase price adjustments, including adjustments to property and restructuring accruals, may affect the allocation. However, Oracle is unable to quantify the effect of these adjustments until it completes the acquisition of Siebel Systems.

The table below illustrates the effect of a 10% increase or decrease in identifiable intangible assets on the pro forma financial statements:

(in millions)	Estimated Pro-Forma Values	Effect of a 10% Increase in Identifiable Intangible Assets	Effect of a 10% Decrease in Identifiable Intangible Assets
Goodwill	$ 2,234	$ 2,063	$ 2,405
Identifiable intangible assets	$ 1,710	$ 1,881	$ 1,539
Annual amortization of intangible assets expense	$ 263	$ 292	$ 239

Net deferred tax assets: Net deferred tax assets include a fair value adjustment to the valuation allowance on deferred tax assets based on Oracle s expected utilization of net operating loss carryforwards as well as the tax effects of fair value adjustments related to identifiable intangible assets, property and deferred revenues. Upon the finalization of the combined company s legal entity structure and the restructuring plans, additional adjustments to deferred taxes may be required.

Deferred stock-based compensation: Deferred stock-based compensation represents the portion of the estimated intrinsic value, which will be measured as of the acquisition date, of unvested Siebel Systems stock options and restricted stock awards related to future service that will be assumed. Oracle intends to assume Siebel Systems equity incentive plans and retain all of the rights, terms and conditions of the respective plans under which options, restricted stock and restricted stock unit awards were originally granted including a provision to provide for accelerated vesting of all unvested equity incentive awards for eligible employees terminated within one year after a change in control. Until Oracle assesses the impact of restructuring pre-merger Oracle and Siebel Systems operations, Oracle is unable to quantify the amount of accelerated stock compensation expenses that will be recorded in Oracle s statements of operations as a result of the change in control and termination provisions.

In-process research and development: In-process research and development represents incomplete Siebel Systems research and development projects that had not reached technological feasibility and had no alternative future use when acquired. Oracle estimates that $39 million of the purchase price represents purchased in-process

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ORACLE CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(Continued)

technology primarily related to projects associated with the Siebel Systems CRM and Siebel Systems Business Analytics products which had not yet reached technological feasibility and have no alternative future use. Although in-process research and development costs are not included in the unaudited pro forma condensed combined statements of operations, such costs will be expensed in Oracle s consolidated financial statements as a non-tax deductible charge in the period in which the acquisition is consummated.

Pre-acquisition contingencies: Oracle has currently not identified any pre-acquisition contingencies where a liability is probable and the amount of the liability can be reasonably estimated. If information becomes available to us prior to the end of the purchase price allocation period, which would indicate that a liability is probable and the amount can be reasonably estimated, such items will be included in the purchase price allocation.

Financing Activities

On January 13, 2006, Oracle issued $5.75 billion of investment grade notes, including $1.5 billion of floating rate notes due 2009 (2009 Notes), $2.25 billion of 5.00% notes due 2011 (2011 Notes) and $2.0 billion of 5.25% notes due 2016 (2016 Notes) to finance the Siebel Systems acquisition and for general corporate purposes, including stock repurchases and other acquisitions.

(Dollars in millions)	Par	Discount	Net	Initial Interest Rate
2009 Notes	$ 1,500	$	$ 1,500	4.8%
2011 Notes	2,250	8	2,242	5.0%
2016 Notes	2,000	11	1,989	5.3%
Total	$ 5,750	$ 19	$ 5,731	5.1%

The 2009 Notes bear interest at a floating rate equal to three-month LIBOR plus 0.23% per year, the 2011 Notes bear interest at the rate of 5.00% per year, and the 2016 Notes bear interest at the rate of 5.25% per year. Interest is payable quarterly on January 13, April 13, July 13 and October 13 for the 2009 Notes and semi-annually on January 15 and July 15 for the 2011 Notes and 2016 Notes.

The notes were sold in a private placement only to qualified institutional buyers in reliance on Rule 144A, under the Securities Act of 1933, as amended, and in offshore transactions pursuant to Regulation S under the Securities Act. The notes are not registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

3. PEOPLESOFT ACQUISITION

Pursuant to Oracle s agreement and plan of merger with PeopleSoft, dated December 12, 2004, Oracle acquired approximately 75% and 97% of the outstanding common stock of PeopleSoft (including shares subject to guaranteed delivery) for $26.50 per share in cash as of December 29, 2004 and January 6, 2005, respectively. On January 7, 2005, Oracle completed the merger of Oracle s wholly-owned subsidiary with and into PeopleSoft. Oracle has included the financial results of PeopleSoft in its consolidated financial statements beginning December 29, 2004. The minority interest in the earnings of PeopleSoft for the period from December 29, 2004 to January 7, 2005 was nominal.

The total purchase price was $11.1 billion, which consisted of $10,576 million in cash paid to acquire the outstanding common stock of PeopleSoft, $492 million for the fair value of options assumed and $12 million in cash for transaction costs. In allocating the purchase price based on estimated fair values, Oracle recorded approximately $6,480 million of goodwill, $3,384 million of identifiable intangible assets, $1,183 million of net

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tangible assets and $33 million of in-process research and development. The preliminary allocation of the purchase price was based, in part, upon a valuation and Oracle s estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to restructuring costs, certain legal matters, income and non-income based taxes and residual goodwill.

The unaudited pro forma condensed combined statement of operations for the year ended May 31, 2005 includes severance expenses of $224 million recorded by PeopleSoft in their historical financial statements for the seven months ended December 28, 2004 related to change in control provisions that were triggered as part of Oracle s agreement and plan of merger.

4. PRO FORMA ADJUSTMENTS SIEBEL SYSTEMS ACQUISITION

The following pro forma adjustments are included in the unaudited pro forma condensed combined balance sheet:

(A) To record the following adjustments to cash:

	(in millions)
To record estimated proceeds from borrowings, net of discount and offering costs	$ 5,714
To record estimated cash paid for Siebel Systems common stock	(3,940)
Total adjustments to cash	$ 1,774

(B) To record the difference between the preliminary fair value and the historical amount of intangible assets.

(Dollars in millions)	Historical Amount, Net	Preliminary Fair Value	Increase	Annual Amortization	Six Months Amortization	Estimated Useful Life
Developed technology	$ 25	$ 476	$ 451	$ 95	$ 48	5 yrs.
Core technology		197	197	39	20	5 yrs.
Trademarks		45	45	6	3	7 yrs.
Customer contracts	1	108	107	13	7	8 yrs.
Software support agreements and related relationships	10	884	874	110	55	8 yrs.
Total identifiable intangible assets	$ 36	$ 1,710	$ 1,674	$ 263	$ 133	

Siebel Systems historical amortization	9	5
Net increase in amortization	$ 254	$ 128

(C) To eliminate Siebel Systems historical goodwill and record the preliminary fair value of goodwill.

(in millions)	Historical Amount, Net	Preliminary Fair Value	Increase
Goodwill	$ 297	$ 2,234	$ 1,937

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(D) To record adjustments for deferred tax liabilities related to identifiable intangible assets and deferred revenues and to adjust the valuation allowance on deferred tax assets.

(Dollars in millions)	Preliminary Fair Value Adjustment	Statutory Tax Rate	Deferred Tax Asset (Liability)
Increase in identifiable intangible assets	$ 1,674	38.5%	$ (644)
Decrease in deferred revenues	150	38.5%	(58)
Deferred tax liabilities			(702)
Decrease in valuation allowance on deferred tax assets			668
Net deferred tax liabilities			$ (34)

(E) To record the notes issued, net of discount to finance the Siebel Systems acquisition and for general corporate purposes.

(F) To record the offering costs related to the notes issued to finance the Siebel Systems acquisition and for general corporate purposes. The estimated offering costs will be amortized over the weighted-average borrowing period.

(G) To accrue for estimated acquisition related transaction costs of $75 million.

(H) To record the difference between the preliminary fair value and the historical amount of Siebel Systems deferred revenue. The preliminary fair value represents an amount equivalent to the estimated cost plus an appropriate profit margin to perform services related to Siebel Systems software support contracts based on the deferred revenue balances of Siebel Systems as of September 30, 2005 and will not reflect the actual fair value adjustment as of the date of acquisition. To the extent these underlying support contracts are renewed, Oracle will recognize the revenue for the full value of the support contracts over the support periods, the majority of which are one year. Oracle is currently assessing whether a fair value adjustment will be required for consulting contract obligations assumed.

(in millions)	Historical Amount	Preliminary Fair Value	Decrease
Software license updates and product support	$ 246	$ 98	$ (148)
Services	67	67	
New software licenses	2		(2)
Total deferred revenues	$ 315	$ 165	$ (150)

(I) To record the following adjustments to stockholders equity:

	(in millions)
To record New Oracle stock issued in exchange for Siebel Systems stock	$ 1,689
To record the preliminary value of Siebel Systems options assumed in the acquisition	378
To record the preliminary estimate of the fair value of in-process research and development	(39)
To record deferred stock-based compensation related to unvested Siebel Systems options	(30)
To eliminate Siebel Systems historical stockholders equity	(2,286)
Total adjustments to stockholders equity	$ (288)

(J) To record the estimated amortization of stock-based compensation related to the unvested portion of Siebel Systems options assumed in connection with the acquisition using the accelerated expense attribution method over the remaining vesting period, which approximates one year. Oracle intends to assume Siebel

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Systems equity incentive plans and retain all of the rights, terms and conditions of the respective plans under which options, restricted stock and restricted stock unit awards were originally granted including a provision to provide for accelerated vesting of all unvested equity incentive awards for eligible employees terminated within one year after a change in control. Until Oracle assesses the impact of restructuring pre-merger Oracle and Siebel Systems operations, Oracle is unable to quantify the amount of accelerated stock compensation expenses that will be recorded in Oracle s statements of operations as a result of the change in control and termination provisions.

(in millions)	Estimated Deferred Stock-Based Compensation	Increase in Year Ended May 31, 2005 Amortization	Increase in Six Months Ended November 30, 2005 Amortization
Sales and marketing	$ 7	$ 4	$ 1
Software license updates and product support	2	1	
Cost of services	9	5	2
Research and development	9	5	1
General and administrative	3	2	1
Stock-based compensation expense	$ 30	$ 17	$ 5

(K) To record additional amortization expenses related to intangible assets acquired see (B).

(L) To record interest expense, including amortization of the discount and offering costs, associated with notes issued to finance the Siebel Systems acquisition. Notes issued in excess of cash required to purchase Siebel Systems stock will be used for general corporate purposes. The pro forma condensed combined statements of operations do not assume reductions in interest based on actual and anticipated principal repayments of Oracle s borrowings or changes in interest rates if Oracle refinances its borrowings.

(Dollars in millions)	Notes Issued	Estimated Annual Interest Rate	Increase (Decrease) in Annual Interest Exp.	Increase (Decrease) in Six Months Interest Exp.
Interest expense, including amortization of the discount and offering costs	$ 5,750	5.1%	$ 296	$ 148
Impact of a 1/8% increase in interest rate			$ 7	$ 4
Impact of a 1/8% decrease in interest rate			$ (7)	$ (4)

(M) To record the income tax impact on pro forma adjustments at the statutory tax rate of 38.5%. The pro forma combined provision for income taxes does not reflect the amounts that would have resulted had Oracle and Siebel Systems filed consolidated income tax returns during the periods presented.

(Dollars in millions)	**Year Ended May 31, 2005**	**Six Months Ended November 30, 2005**
Pro forma adjustments before income taxes	$ (567)	$ (281)
Statutory tax rate	38.5%	38.5%
Pro forma income tax adjustment	$ (218)	$ (108)

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5. PRO FORMA ADJUSTMENTS PEOPLESOFT ACQUISITION

The following pro forma adjustments are included in the unaudited pro forma condensed combined statement of operations for the year ended May 31, 2005:

(N) To record i) a reduction in depreciation expense related to the decreased basis of fixed assets acquired and ii) amortization of stock-based compensation related to the unvested portion of PeopleSoft options assumed in connection with the acquisition using the accelerated expense attribution method over the remaining vesting period. The adjustments made by operating expense line item are as follows:

(in millions)	Decrease in Depreciation	Increase in Amortization of Stock-Based Compensation	Net Increase (Decrease)
Sales and marketing	$ (7)	$ 3	$ (4)
Software license updates and product support	(2)	2	
Cost of services	(6)	5	(1)
Research and development	(6)	9	3
General and administrative	(4)	1	(3)
Total	$ (25)	$ 20	$ (5)

(O) To record additional amortization expenses related to intangible assets acquired.

(P) To record interest expense associated with borrowings to finance the PeopleSoft acquisition.

(Q) To record the income tax impact on pro forma adjustments at the statutory tax rate of 38.5%. The pro forma combined provision for income taxes does not reflect the amounts that would have resulted had Oracle and PeopleSoft filed consolidated income tax returns during the period presented

6. PRO FORMA EARNINGS PER SHARE

The pro forma basic and diluted earnings per share are based on the weighted average number of shares of Oracle common stock outstanding and are adjusted for additional common stock issued to Siebel Systems stockholders as part of the acquisition and the estimated common stock dilution under the treasury stock method for stock options.

(in millions)	Weighted Average Shares Year Ended May 31, 2005	Six Months Ended November 30, 2005
Basic, as reported	5,136	5,150
Estimated stock issued in connection with Siebel Systems acquisition	124	125
Basic, pro forma	5,260	5,275
Diluted, as reported	5,231	5,241
Estimated stock issued in connection with Siebel Systems acquisition	124	125
Estimated dilutive effect of stock options	35	18
Diluted, pro forma	5,390	5,384