ORACLE CORP
Form 10-Q
December 23, 2011

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, 2011

or

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

THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number: 000-51788

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware	**54-2185193**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
500 Oracle Parkway	
Redwood City, California	**94065**
(Address of principal executive offices)	**(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The number of shares of registrant s common stock outstanding as of December 16, 2011 was: 5,025,837,000.

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FORM 10-Q QUARTERLY REPORT

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Cautionary Note on Forward-Looking Statements

For purposes of this Quarterly Report, the terms Oracle, we, us and our refer to Oracle Corporation and its consolidated subsidiaries. This Quarterly Report on Form 10-Q contains statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or contain forward-looking statements within the meaning of Section 21 of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These include, among other things, statements regarding:

- our expectation to continue to acquire companies, products, services and technologies;
- our expectation that our software business total revenues and our profits generally will continue to increase;
- our belief that software license updates and product support revenues and margins will grow;
- our international operations providing a significant portion of our total revenues and expenses;
- our expectation to continue to make investments in research and development and related product opportunities, including opportunities to improve existing hardware products and services or develop new hardware products and services;
- our expectation to grow our consulting revenues;
- the sufficiency of our sources of funding;
- our belief that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits and that any settlement will not have a material adverse effect on our consolidated financial position or results of operations;
- our expectation of incurring the majority of the remaining expenses pursuant to the Sun Restructuring Plan through the remainder of fiscal 2012;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may be preceded by, followed by or include the words expects, anticipates, intends, plans, believes, seeks, estimates, will, to and similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Risk Factors included in documents we file from time to time with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K for our fiscal year ended May 31, 2011 and our other Quarterly Reports on Form 10-Q to be filed by us in our fiscal year 2012, which runs from June 1, 2011 to May 31, 2012.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this Quarterly Report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

ORACLE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of November 30, 2011 and May 31, 2011

(Unaudited)

(in millions, except per share data)	November 30, 2011	May 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,286	$ 16,163
Marketable securities	17,726	12,685
Trade receivables, net of allowances for doubtful accounts of $352 and $372 as of November 30, 2011 and May 31, 2011, respectively	4,434	6,628
Inventories	218	303
Deferred tax assets	1,239	1,189
Prepaid expenses and other current assets	1,579	2,206
Total current assets	38,482	39,174
Non-current assets:		
Property, plant and equipment, net	2,900	2,857
Intangible assets, net	7,152	7,860
Goodwill	21,994	21,553
Deferred tax assets	1,122	1,076
Other assets	1,260	1,015
Total non-current assets	34,428	34,361
Total assets	$ 72,910	$ 73,535
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable, current and other current borrowings	$	$ 1,150
Accounts payable	445	494
Accrued compensation and related benefits	1,582	2,320
Deferred revenues	6,091	6,802
Other current liabilities	2,954	3,426
Total current liabilities	11,072	14,192
Non-current liabilities:		
Notes payable and other non-current borrowings	14,778	14,772
Income taxes payable	3,383	3,169
Other non-current liabilities	1,410	1,157

Total non-current liabilities	19,571	19,098
Commitments and contingencies		
Oracle Corporation stockholders equity:		
Preferred stock, $0.01 par value authorized: 1.0 shares; outstanding: none		
Common stock, $0.01 par value and additional paid in capital authorized: 11,000 shares; outstanding: 5,032 shares as of November 30, 2011 and 5,068 shares as of May 31, 2011	17,245	16,653
Retained earnings	24,383	22,581
Accumulated other comprehensive income	292	542
Total Oracle Corporation stockholders equity	41,920	39,776
Noncontrolling interests	347	469
Total equity	42,267	40,245
Total liabilities and equity	$ 72,910	$ 73,535

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, 2011 and 2010

(Unaudited)

(in millions, except per share data)	Three Months Ended November 30, 2011	Three Months Ended November 30, 2010	Six Months Ended November 30, 2011	Six Months Ended November 30, 2010
Revenues:				
New software licenses	$ 2,048	$ 1,999	$ 3,546	$ 3,284
Software license updates and product support	3,986	3,645	8,008	7,096
Software revenues	6,034	5,644	11,554	10,380
Hardware systems products	953	1,112	1,981	2,190
Hardware systems support	625	641	1,271	1,261
Hardware systems revenues	1,578	1,753	3,252	3,451
Services	1,180	1,185	2,360	2,253
Total revenues	8,792	8,582	17,166	16,084
Operating expenses:				
Sales and marketing(1)	1,697	1,530	3,327	2,864
Software license updates and product support(1)	298	307	594	615
Hardware systems products(1)	471	525	943	1,082
Hardware systems support(1)	258	356	541	656
Services(1)	929	969	1,865	1,865
Research and development	1,102	1,119	2,152	2,222
General and administrative	277	156	587	428
Amortization of intangible assets	592	614	1,184	1,217
Acquisition related and other	5	47	25	130
Restructuring	52	189	154	318
Total operating expenses	5,681	5,812	11,372	11,397
Operating income	3,111	2,770	5,794	4,687
Interest expense	(192)	(214)	(384)	(410)
Non-operating income, net	41	90	21	165
Income before provision for income taxes	2,960	2,646	5,431	4,442
Provision for income taxes	768	776	1,399	1,219
Net income	$ 2,192	$ 1,870	$ 4,032	$ 3,223
Earnings per share:				
Basic	$ 0.43	$ 0.37	$ 0.80	$ 0.64
Diluted	$ 0.43	$ 0.37	$ 0.78	$ 0.63

Weighted average common shares outstanding:				
Basic	5,041	5,044	5,052	5,035
Diluted	5,123	5,117	5,137	5,100
Dividends declared per common share	$ 0.06	$ 0.05	$ 0.12	$ 0.10

(1) Exclusive of amortization of intangible assets, which is shown separately below

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, 2011 and 2010

(Unaudited)

	Six Months Ended November 30,	
(in millions)	**2011**	**2010**
Cash Flows From Operating Activities:		
Net income	$ 4,032	$ 3,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	226	194
Amortization of intangible assets	1,184	1,217
Deferred income taxes	(137)	(76)
Stock-based compensation	298	254
Tax benefits on the exercise of stock options and vesting of restricted stock-based awards	94	142
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	(53)	(86)
Other, net	53	24
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	2,128	1,343
Decrease in inventories	93	25
Decrease in prepaid expenses and other assets	424	280
Decrease in accounts payable and other liabilities	(1,306)	(620)
Increase (decrease) in income taxes payable	184	(613)
Decrease in deferred revenues	(544)	(546)
Net cash provided by operating activities	6,676	4,761
Cash Flows From Investing Activities:		
Purchases of marketable securities and other investments	(21,422)	(16,802)
Proceeds from maturities and sales of marketable securities and other investments	16,335	11,153
Acquisitions, net of cash acquired	(571)	(806)
Capital expenditures	(289)	(239)
Net cash used for investing activities	(5,947)	(6,694)
Cash Flows From Financing Activities:		
Payments for repurchases of common stock	(1,798)	(504)
Proceeds from issuances of common stock	434	734
Payments of dividends to stockholders	(607)	(504)
Proceeds from borrowings, net of issuance costs		3,204
Repayments of borrowings	(1,150)	(890)
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	53	86
Distributions to noncontrolling interests	(163)	(38)
Net cash (used for) provided by financing activities	(3,231)	2,088
Effect of exchange rate changes on cash and cash equivalents	(375)	351
Net (decrease) increase in cash and cash equivalents	(2,877)	506
Cash and cash equivalents at beginning of period	16,163	9,914
Cash and cash equivalents at end of period	$ 13,286	$ 10,420

Non-cash investing and financing transactions:				
Fair value of stock options and restricted stock-based awards assumed in connection with acquisitions	$	1	$	1
Fair value of contingent consideration payable in connection with acquisition	$	346	$	
Increase (decrease) in unsettled repurchases of common stock	$	25	$	(4)

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2011

(Unaudited)

1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

We have prepared the condensed consolidated financial statements included herein pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures herein are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2011.

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, 2012. General and administrative expenses as presented in our condensed consolidated statements of operations during the three and six months ended November 30, 2010 included a benefit of $120 million related to the recovery of legal costs, which reduced our expenses in these periods.

There have been no significant changes in new accounting pronouncements or to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2011 that have had a significant impact on our consolidated financial statements or notes thereto.

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

Acquisition Related and Other Expenses

Acquisition related and other expenses consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments including adjustments after the measurement period has ended and changes in fair value of contingent consideration payable (further discussed in Note 2 below), and certain other operating expenses, net. Stock-based compensation included in acquisition related and other expenses resulted from unvested options and restricted stock-based awards assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those options and restricted stock-based awards.

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2011**	**2010**	**2011**	**2010**
Transitional and other employee related costs	$ 1	$ 28	$ 12	$ 77
Stock-based compensation	2	5	3	6
Professional fees and other, net	(8)	31	(8)	59
Business combination adjustments, net	10	(17)	18	(12)
Total acquisition related and other expenses	$ 5	$ 47	$ 25	$ 130

Non-Operating Income, net

Non-operating income, net consists primarily of interest income, net foreign currency exchange gains (losses), the noncontrolling interests in the net profits of our majority-owned subsidiaries (Oracle Financial Services

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2011

(Unaudited)

Software Limited and Oracle Japan), and net other income (losses), including net realized gains and losses related to all of our investments and net unrealized gains and losses related to the small portion of our investment portfolio that we classify as trading.

(in millions)	Three Months Ended November 30, 2011	Three Months Ended November 30, 2010	Six Months Ended November 30, 2011	Six Months Ended November 30, 2010
Interest income	$ 58	$ 39	$ 114	$ 73
Foreign currency gains (losses), net	(10)	33	(40)	82
Noncontrolling interests in income	(25)	(22)	(52)	(47)
Other income (loss), net	18	40	(1)	57
Total non-operating income, net	$ 41	$ 90	$ 21	$ 165

Comprehensive Income

Comprehensive income consists of the following, net of income tax effects: net income, net foreign currency translation gains and losses, net unrealized gains and losses related to defined benefit plans and net unrealized gains and losses on marketable debt and equity securities that we classify as available-for-sale. The following table sets forth the calculation of comprehensive income:

(in millions)	Three Months Ended November 30, 2011	Three Months Ended November 30, 2010	Six Months Ended November 30, 2011	Six Months Ended November 30, 2010
Net income	$ 2,192	$ 1,870	$ 4,032	$ 3,223
Foreign currency translation gains (losses), net	(307)	160	(255)	310
Unrealized gains (losses) on defined benefit plans, net	(5)		(4)	2
Unrealized gains on marketable securities, net	12	11	9	11
Comprehensive income	$ 1,892	$ 2,041	$ 3,782	$ 3,546

Sales of Financing Receivables

We offer certain of our customers the option to acquire our products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed on a non-recourse basis to financial institutions within 90 days of the contracts dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financing receivables because we are considered to have surrendered control of these financing receivables. During the three and six months ended November 30, 2011, $108 million and $887 million of financing receivables were sold to financial institutions, respectively.

Recent Accounting Pronouncements

Testing Goodwill for Impairment: In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment* (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2011

(Unaudited)

two-step goodwill impairment test is not required. ASU 2011-08 is effective for us in fiscal 2013 and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2011-08 on our consolidated financial statements.

Presentation of Comprehensive Income: In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for us in our first quarter of fiscal 2013 and should be applied retrospectively. We are currently evaluating the impact of our pending adoption of ASU 2011-05 on our consolidated financial statements.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements: In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement* (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements (as defined in Note 3 below). ASU 2011-04 is effective for us in our fourth quarter of fiscal 2012 and should be applied prospectively. We are currently evaluating the impact of our pending adoption of ASU 2011-04 on our consolidated financial statements.

2. ACQUISITIONS

Fiscal 2012 Acquisitions

Acquisition of Pillar Data Systems, Inc.

On July 18, 2011, we acquired Pillar Data Systems, Inc. (Pillar Data), a provider of enterprise storage systems solutions. Prior to the acquisition, Pillar Data was directly and indirectly majority-owned and controlled by Lawrence J. Ellison, our Chief Executive Officer, director and largest stockholder. Pursuant to the agreement and plan of merger dated as of June 29, 2011 (Merger Agreement), we acquired all of the issued and outstanding equity interests of Pillar Data from the stockholders in exchange for rights to receive contingent cash consideration (Earn-Out), if any, pursuant to an Earn-Out calculation. An affiliate of Mr. Ellison s has a preference right to receive the first approximately $565 million of the Earn-Out, if any, and rights to 55% of any amount of the Earn-Out that exceeds $565 million.

The Earn-Out will be calculated with respect to a three-year period that commenced with our second quarter of fiscal 2012 and will conclude with our first quarter of fiscal 2015 (Earn-Out Period). The Earn-Out will be an amount (if positive) calculated based on the product of (i) the difference between (x) future revenues generated from the sale of certain Pillar Data products during Oracle s last four full fiscal quarters during the Earn-Out Period minus (y) certain losses associated with certain Pillar Data products incurred over the entire Earn-Out Period, multiplied by (ii) three. Our obligation to pay the Earn-Out will be subject to reduction as a result of our right to set-off the amount of any indemnification claims we may have under the Merger Agreement. We do not expect the amount of the Earn-Out or its potential impact will be material to our results of operations or financial position.

We have included the financial results of Pillar Data in our consolidated financial statements from the date of acquisition. The estimated fair value of the liability for contingent consideration, representing the preliminary

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2011

(Unaudited)

purchase price payable for our acquisition of Pillar Data, was approximately $346 million and is included in other non-current liabilities in our consolidated balance sheet. This preliminary purchase price payable may differ from the amount that is ultimately payable via the Earn-Out calculation (described above) with any changes in the liability recorded as acquisition related and other in our consolidated statements of operations until the liability is settled. We have preliminarily recorded $142 million of identifiable intangible assets and $10 million of net tangible liabilities, based on their estimated fair values, and $214 million of residual goodwill. The fair value of contingent consideration payable was estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in the FASB s Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures.* The significant inputs in the Level 3 measurement not supported by market activity included our probability assessments of expected future cash flows related to our acquisition of Pillar Data during the Earn-Out Period, appropriately discounted considering the uncertainties associated with the obligation, and calculated in accordance with the terms of the Merger Agreement. Subsequent to the date of acquisition, the estimated fair value of the Earn-Out liability increased to $368 million as of November 30, 2011 primarily as a result of the passage of time and the corresponding impact of discounting.

Other Fiscal 2012 Acquisitions

During the first half of fiscal 2012, we acquired certain other companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate. We have included the financial results of these companies in our consolidated results from their respective acquisition dates.

The preliminary estimates of fair value for the assets acquired and liabilities assumed for acquisitions completed during the first half of fiscal 2012 were based upon preliminary calculations and valuations and our estimates and assumptions for each of these acquisitions are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the acquisition date). The primary areas of those preliminary estimates that are not yet finalized related to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters, and income and non-income based taxes.

Proposed Acquisitions

On October 24, 2011, we entered into an Agreement and Plan of Merger (Merger Agreement) with RightNow Technologies, Inc. (RightNow), a provider of cloud-based customer service. Upon the consummation of the merger, each share of RightNow common stock will be converted into the right to receive $43.00 per share in cash. In addition, outstanding options to acquire RightNow common stock and RightNow restricted stock-based awards will generally be converted into options and restricted stock-based awards, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of RightNow is approximately $1.6 billion.

Completion of this transaction is subject to certain regulatory approvals and customary closing conditions.

In addition, we have also agreed to acquire certain other companies for amounts that are not material to our business. We expect to close such acquisitions within the next twelve months.

Fiscal 2011 Acquisitions

On January 5, 2011, we completed our acquisition of Art Technology Group, Inc. (ATG), a provider of eCommerce software and related on demand commerce optimization applications. We have included the financial results of ATG in our consolidated financial statements from the date of acquisition. The total preliminary purchase price for ATG was approximately $1.0 billion, which consisted of approximately $990 million in cash

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2011

(Unaudited)

and $16 million for the fair value of stock options and restricted stock-based awards assumed. We have preliminarily recorded $404 million of identifiable intangible assets and $50 million of net tangible assets, based on their estimated fair values, and $552 million of residual goodwill.

On August 11, 2010, we completed our acquisition of Phase Forward Incorporated (Phase Forward), a provider of applications for life sciences companies and healthcare providers. We have included the financial results of Phase Forward in our consolidated financial statements from the date of acquisition. The total purchase price for Phase Forward was approximately $736 million, which consisted of approximately $735 million in cash and $1 million for the fair value of restricted stock-based awards assumed. We recorded $370 million of identifiable intangible assets, $20 million of in-process research and development and $17 million of net tangible assets, based on their estimated fair values, and $329 million of residual goodwill.

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

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

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, Pillar Data, ATG, Phase Forward, and certain other companies that we acquired since the beginning of fiscal 2011 (which were considered significant for the purposes of unaudited pro forma financial information disclosure) as though the companies were combined as of the beginning of fiscal 2011. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from these acquisitions including our amortization charges from acquired intangible assets (certain of which are preliminary), stock-based compensation charges for unvested stock options and restricted stock-based awards assumed, if any, and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2011. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2011.

The unaudited pro forma financial information for the three and six months ended November 30, 2011 combined the historical results of Oracle for the three and six months ended November 30, 2011, the historical results of Pillar Data for the three months ended June 30, 2011 (adjusted due to differences in reporting periods and considering the date we acquired Pillar Data), the historical results of certain other companies that we acquired since the beginning of fiscal 2012 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above.

The unaudited pro forma financial information for the three and six months ended November 30, 2010 combined the historical results of Oracle for the three and six months ended November 30, 2010, the historical results of Pillar Data for the three and six months ended December 31, 2010 (due to differences in reporting periods), the historical results of ATG for the three and six months ended September 30, 2010 (due to differences in reporting periods), the historical results of Phase Forward for the three months ended June 30, 2010 (adjusted due to differences in reporting periods and considering the date we acquired Phase Forward), the historical results of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2011

(Unaudited)

certain other companies that we acquired since the beginning of fiscal 2011 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above.

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions, except per share data)	**2011**	**2010**	**2011**	**2010**
Total revenues	$ 8,792	$ 8,664	$ 17,184	$ 16,291
Net income	$ 2,192	$ 1,840	$ 4,017	$ 3,163
Basic earnings per share	$ 0.43	$ 0.36	$ 0.80	$ 0.63
Diluted earnings per share	$ 0.43	$ 0.36	$ 0.78	$ 0.62

3. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following (Level 1, 2 and 3 inputs are defined above):

	November 30, 2011				May 31, 2011		
	Fair Value Measurements Using Input Types				Fair Value Measurements Using Input Types		
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:							
Money market funds	$ 26	$	$	$ 26	$ 3,362	$	$ 3,362
U.S. Treasury, U.S. government and U.S. government agency debt securities	1,065			1,065	1,150		1,150
Commercial paper debt securities		16,855		16,855		11,884	11,884
Corporate debt securities and other	132	1,886		2,018	106	1,885	1,991
Derivative financial instruments		75		75		69	69
Total assets	$ 1,223	$ 18,816	$	$ 20,039	$ 4,618	$ 13,838	$ 18,456
Liabilities:							
Contingent consideration payable	$	$	$ 368	$ 368	$	$	$

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November 30, 2011

(Unaudited)

Our valuation techniques used to measure the fair values of our money market funds, U.S. Treasury, U.S. government and U.S. government agency debt securities and certain other marketable securities that were classified as Level 1 in the table above were derived from quoted market prices as substantially all of these instruments have maturity dates, if any, within one year from our date of purchase and active markets for these instruments exist. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, generally all of which mature within one year and the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others. Our valuation techniques and Level 3 inputs used to estimate the fair value of contingent consideration payable in connection with our acquisition of Pillar Data are described in Note 2.

Our cash and cash equivalents, marketable securities and derivative financial instruments are recognized and measured at fair value in our condensed consolidated financial statements. Based on the trading prices of our $14.8 billion and $15.9 billion of borrowings, which consisted of senior notes that were outstanding at November 30, 2011 and senior notes and short-term borrowings that were outstanding as of May 31, 2011, respectively, and the interest rates we could obtain for other borrowings with similar terms at those dates, the estimated fair values of our borrowings at November 30, 2011 and May 31, 2011 were $17.3 billion and $17.4 billion, respectively.

4. INVENTORIES

Inventories consisted of the following:

(in millions)	November 30, 2011	May 31, 2011
Raw materials	$ 71	$ 94
Work-in-process	20	17
Finished goods	127	192
Total	$ 218	$ 303

5. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2012 and the net book value of intangible assets at November 30, 2011 and May 31, 2011 were as follows:

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted
(Dollars in millions)	May 31, 2011	Additions	November 30, 2011	May 31, 2011	Expense	November 30, 2011	May 31, 2011	November 30, 2011	Average Useful Life
Software support agreements and related relationships	$ 5,177	$ 44	$ 5,221	$ (2,745)	$ (290)	$ (3,035)	$ 2,432	$ 2,186	9 years

Hardware systems support agreements and related relationships	760	8	768	(147)	(59)	(206)	613	562	7 years
Developed technology	6,034	165	6,199	(3,728)	(457)	(4,185)	2,306	2,014	5 years
Core technology	2,295	254	2,549	(1,272)	(168)	(1,440)	1,023	1,109	6 years
Customer relationships	2,063	35	2,098	(926)	(177)	(1,103)	1,137	995	7 years
Trademarks	528	9	537	(229)	(33)	(262)	299	275	7 years
Total intangible assets subject to amortization	16,857	515	17,372	(9,047)	(1,184)	(10,231)	7,810	7,141	
In-process research and development	50	(39)	11				50	11	N.A.
Total intangible assets, net	$ 16,907	$ 476	$ 17,383	$ (9,047)	$ (1,184)	$ (10,231)	$ 7,860	$ 7,152	

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(Unaudited)

Total amortization expense related to our intangible assets was $592 million and $1.2 billion for the three and six months ended November 30, 2011, respectively, and $614 million and $1.2 billion for the three and six months ended November 30, 2010, respectively. As of November 30, 2011, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of Fiscal 2012	$ 1,162
Fiscal 2013	1,991
Fiscal 2014	1,644
Fiscal 2015	1,244
Fiscal 2016	737
Fiscal 2017	183
Thereafter	180
Total intangible assets subject to amortization	7,141
In-process research and development	11
Total intangible assets, net	$ 7,152

The changes in the carrying amounts of goodwill, which is generally not deductible for tax purposes, for our operating segments for the six months ended November 30, 2011 were as follows:

(in millions)	New Software Licenses	Software License Updates and Product Support	Hardware Systems Support	Other[2]	Total
Balances as of May 31, 2011	$ 6,785	$ 12,052	$ 1,009	$ 1,707	$ 21,553
Goodwill from acquisitions	182	91	183	31	487
Goodwill adjustments[1]	(34)	(9)		(3)	(46)
Balances as of November 30, 2011	$ 6,933	$ 12,134	$ 1,192	$ 1,735	$ 21,994

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

(2) Represents goodwill allocated to our other operating segments.

6. NOTES PAYABLE AND OTHER BORROWINGS

Senior Notes

In accordance with our obligations under a registration rights agreement entered into in July 2010 in connection with the original issuance of our $3.25 billion of fixed rate senior notes consisting of $1.0 billion of 3.875% notes due July 2020 (2020 Notes) and $2.25 billion of 5.375% notes due July 2040 (2040 Notes, and together with the 2020 Notes, the Original Senior Notes), on December 16, 2011 we completed a registered offer to exchange the Original Senior Notes for new freely tradable notes having terms substantially identical to the Original Senior Notes. An aggregate of $994 million principal amount of the 2020 Notes and an aggregate of $2.24 billion principal amount of the 2040 Notes were tendered and exchanged in the offer.

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(Unaudited)

Revolving Credit Agreements

On May 27, 2011, we entered into two revolving credit agreements with BNP Paribas, as initial lender and administrative agent, and BNP Paribas Securities Corp., as sole lead arranger and sole bookrunner (the 2011 Credit Agreements), and borrowed $1.15 billion pursuant to these agreements. As of June 30, 2011, we repaid the $1.15 billion and the 2011 Credit Agreements expired pursuant to their terms.

There have been no other significant changes in our notes payable or other borrowing arrangements that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2011.

7. RESTRUCTURING ACTIVITIES

Sun Restructuring Plan

During the third quarter of fiscal 2010, our management approved, committed to and initiated a plan to restructure our operations due to our acquisition of Sun Microsystems, Inc. (the Sun Restructuring Plan) in order to improve the cost efficiencies in our merged operations. Our management subsequently amended the Sun Restructuring Plan to reflect additional actions that we expect to take to improve the cost efficiencies in our merged operations. The total estimated restructuring costs associated with the Sun Restructuring Plan are $1.0 billion consisting primarily of employee severance expenses, abandoned facilities obligations and contract termination costs. The restructuring costs will be recorded to the restructuring expense line item within our consolidated statements of operations as they are recognized. We recorded $121 million of net restructuring expenses in connection with the Sun Restructuring Plan in the first half of fiscal 2012, and we expect to incur the majority of the approximately $129 million of remaining expenses pursuant to the Sun Restructuring Plan through the remainder of fiscal 2012. Any changes to the estimates of executing the Sun Restructuring Plan will be reflected in our future results of operations.

Summary of All Plans

		Six Months Ended November 30, 2011						
(in millions)	Accrued May 31, 2011[2]	Initial Costs[3]	Adj. to Cost[4]	Cash Payments	Others[5]	Accrued November 30, 2011[2]	Total Costs Accrued to Date	Total Expected Program Costs
Sun Restructuring Plan[1]								
New software licenses	$ 14	$ 25	$ (2)	$ (24)	$ (1)	$ 12	$ 92	$ 108
Software license updates and product support	19	10	(2)	(20)		7	65	89
Hardware systems business	10	14	3	(17)	(1)	9	128	140
Services	9	17		(15)	(1)	10	73	74
General and administrative and other	100	62	(6)	(72)				