

ORACLE CORP
Form 10-Q
September 22, 2008

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

FORM 10-Q

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

For the Quarterly Period Ended August 31, 2008

OR

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

For the transition period from _____ to _____.

Commission file number: 000-51788

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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.

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Large Accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of registrant's common stock outstanding as of September 15, 2008 was: 5,154,458,000.

ORACLE CORPORATION
FORM 10-Q QUARTERLY REPORT

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EXHIBIT 31.01

EXHIBIT 31.02

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ORACLE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
As of August 31, 2008 and May 31, 2008
(Unaudited)

(in millions, except per share data)	August 31, 2008	May 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,553	\$ 8,262
Marketable securities	4,468	2,781
Trade receivables, net of allowances of \$306 and \$303 as of August 31, 2008 and May 31, 2008	3,260	5,127
Deferred tax assets	905	853
Prepaid expenses and other current assets	665	1,080
Total current assets	17,851	18,103
Non-current assets:		
Property, net	1,886	1,688
Intangible assets: software support agreements and related relationships, net	3,731	3,797
Intangible assets: other, net	4,422	4,598
Goodwill	18,260	17,991
Other assets	1,103	1,091
Total non-current assets	29,402	29,165
Total assets	\$ 47,253	\$ 47,268
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable, current and other current borrowings	\$ 1,001	\$ 1,001
Accounts payable	402	383
Accrued compensation and related benefits	1,138	1,770
Deferred revenues	5,017	4,492
Other current liabilities	1,689	2,383
Total current liabilities	9,247	10,029
Non-current liabilities:		

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Notes payable and other non-current borrowings	10,236	10,235
Income taxes payable	1,638	1,566
Deferred tax liabilities	1,214	1,218
Other non-current liabilities	1,102	1,195
 Total non-current liabilities	 14,190	 14,214
 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 as of August 31, 2008 and 5,150 shares as of May 31, 2008	12,828	12,446
Retained earnings	10,593	9,961
Accumulated other comprehensive income	395	618
 Total stockholders' equity	 23,816	 23,025
 Total liabilities and stockholders' equity	 \$ 47,253	 \$ 47,268

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended August 31, 2008 and 2007
(Unaudited)

(in millions, except per share data)	Three Months Ended August 31,	
	2008	2007
Revenues:		
New software licenses	\$ 1,237	\$ 1,087
Software license updates and product support	2,935	2,383
Software revenues	4,172	3,470
Services	1,159	1,059
Total revenues	5,331	4,529
Operating expenses:		
Sales and marketing	1,112	974
Software license updates and product support	282	228
Cost of services	1,026	931
Research and development	708	652
General and administrative	206	195
Amortization of intangible assets	413	285
Acquisition related and other	49	47
Restructuring	14	
Total operating expenses	3,810	3,312
Operating income	1,521	1,217
Interest expense	(159)	(94)
Non-operating income, net	82	77
Income before provision for income taxes	1,444	1,200
Provision for income taxes	367	360
Net income	\$ 1,077	\$ 840
Earnings per share:		
Basic	\$ 0.21	\$ 0.16
Diluted	\$ 0.21	\$ 0.16
Weighted average common shares outstanding:		
Basic	5,152	5,110
Diluted	5,235	5,217

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended August 31, 2008 and 2007
(Unaudited)

(in millions)	Three Months Ended August 31,	
	2008	2007
Cash Flows From Operating Activities:		
Net income	\$ 1,077	\$ 840
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	64	67
Amortization of intangible assets	413	285
Deferred income taxes	(53)	24
Minority interests in income	16	12
Stock-based compensation	91	101
Tax benefits on the exercise of stock options	101	129
Excess tax benefits on the exercise of stock options	(65)	(82)
In-process research and development	4	7
Other gains, net	(1)	
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	1,812	1,381
Decrease in prepaid expenses and other assets	397	161
Decrease in accounts payable and other liabilities	(906)	(679)
Decrease in income taxes payable	(361)	(301)
Increase in deferred revenues	651	756
Net cash provided by operating activities	3,240	2,701
Cash Flows From Investing Activities:		
Purchases of marketable securities and other investments	(3,188)	(896)
Proceeds from maturities and sales of marketable securities and other investments	1,420	561
Acquisitions, net of cash acquired	(395)	(546)
Capital expenditures	(323)	(87)
Net cash used for investing activities	(2,486)	(968)
Cash Flows From Financing Activities:		
Payments for repurchases of common stock	(500)	(530)
Proceeds from issuances of common stock	280	317
Repayments of borrowings	(4)	(1,361)
Excess tax benefits on the exercise of stock options	65	82
Distributions to minority interests	(30)	(28)
Net cash used for financing activities	(189)	(1,520)
Effect of exchange rate changes on cash and cash equivalents	(274)	24

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Net increase in cash and cash equivalents	291	237
Cash and cash equivalents at beginning of period	8,262	6,218
Cash and cash equivalents at end of period	\$ 8,553	\$ 6,455
Non-cash investing and financing transactions:		
Fair value of stock awards assumed in connection with acquisitions	\$	\$ 14
Unsettled repurchases of common stock	\$ 24	\$ 17

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2008
(Unaudited)

1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS**Basis of Presentation**

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures 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, 2008.

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, 2009. There have been no significant changes in new accounting pronouncements or in our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2008 other than the impact of our adoption of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, for which we have established a policy and provided disclosures in Note 3.

Acquisition Related and Other Expenses

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

(in millions)	Three Months Ended	
	August 31,	
	2008	2007
In-process research and development	\$ 4	\$ 7
Transitional employee related costs	27	6
Stock-based compensation	5	32
Professional fees and other, net	4	2
Business combination adjustments	9	
Total acquisition related and other expenses	\$ 49	\$ 47

Non-Operating Income, net

Non-operating income, net consists primarily of interest income, net foreign currency exchange gains, the minority owners' shares in the net profits of our majority-owned subsidiaries (Oracle Financial Services Software Limited, formerly i-flex solutions limited, and Oracle Japan), and other income including net realized gains related to our investments.

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ORACLE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
August 31, 2008
(Unaudited)

(in millions)	Three Months Ended August 31,	
	2008	2007
Interest income	\$ 88	\$ 74
Foreign currency gains, net	9	6
Minority interests	(16)	(12)
Other income, net	1	9
Total non-operating income, net	\$ 82	\$ 77

Comprehensive Income

Comprehensive income consists of the following, net of income tax effects: net income, foreign currency translation gains and losses, gains and losses related to derivative financial instruments that are reflected in stockholders' equity instead of net income, and unrealized gains and losses on marketable debt and equity securities. The following table sets forth the calculation of comprehensive income:

(in millions)	Three Months Ended August 31,	
	2008	2007
Net income	\$ 1,077	\$ 840
Change in foreign currency translation gain (loss), net	(243)	