ORACLE CORP
Form 10-K
June 29, 2009

Table of Contents

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

FORM 10-K

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

For the Fiscal Year Ended May 31, 2009
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-51788

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

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

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

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

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

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

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

None

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

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

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

Indicate by check mark 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was $61,831,796,000 based on the number of shares held by non-affiliates of the registrant as of May 31, 2009, and based on the closing sale price of common stock as reported by the NASDAQ Global Select Market on November 28, 2008, which is the last business day of the registrant s most recently completed second fiscal quarter. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Number of shares of common stock outstanding as of June 22, 2009: 5,007,230,000

Documents Incorporated by Reference:

Portions of the registrant s definitive proxy statement relating to its 2009 annual stockholders meeting are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

ORACLE CORPORATION

FISCAL YEAR 2009
FORM 10-K
ANNUAL REPORT

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

For purposes of this Annual Report, the terms Oracle, we, us and our refer to Oracle Corporation and its consolidat subsidiaries. In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 1A. Risk Factors. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates and simi expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Annual Report. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document. You should carefully review the risk factors described in other documents we file from time to time with the U.S. Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in our 2010 fiscal year, which runs from June 1, 2009 to May 31, 2010.

PART I

Item 1. Business

General

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

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

We believe our internal, or organic, growth and continued innovation with respect to our core database, middleware and applications technologies provide the foundation for our long-term strategic plan. In fiscal 2009, we invested $2.8 billion in research and development to enhance our existing portfolio of products and services and to develop new products, features and services.

An active acquisition program is another important element of our corporate strategy. In recent years, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies. We believe our acquisition program supports our long-term strategic direction, strengthens our competitive position, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings, and increases stockholder value. We expect to continue to acquire companies, products, services and technologies.

On April 19, 2009, we entered into an Agreement and Plan of Merger with Sun Microsystems, Inc. (Sun), a provider of enterprise computing systems, software and services, under which we have agreed to acquire all outstanding shares of Sun for $9.50 per share in cash. The estimated total purchase price for Sun is approximately $7.4 billion. The transaction is subject to Sun stockholder approval, regulatory clearances and other customary closing conditions.

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

Software and Services

We are organized into two businesses, software and services, which are further divided into five operating segments. Our software business is comprised of two operating segments: (1) new software licenses and (2) software license updates and product support. Our services business is comprised of three operating segments: (1) consulting, (2) On Demand and (3) education. Our software and services businesses represented 81% and 19% of our total revenues, respectively, in fiscal 2009, 80% and 20% of our total revenues, respectively, in fiscal 2008 and 79% and 21% of our total revenues, respectively, in fiscal 2007. See Note 15 of Notes to Consolidated Financial Statements for additional information related to our operating segments.

Software Business

New Software Licenses

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

In an internet model, database servers manage and protect a customer s underlying business information, while application servers run the business applications that automate a myriad of business functions. Our architecture provides high quality business information and can be adapted to the specific needs of any industry or application. Oracle technology operates on both single server and clustered server configurations, which we refer to as grid software, and supports a choice of operating systems including Linux, Windows and UNIX. Our applications software is designed to help customers reduce the cost and complexity of their IT infrastructures by delivering industry solutions via an open, integrated and standards-based architecture that supports customer choice and reduces customer risk by automating business functions.

New software license revenues include fees earned from granting customers licenses to use our software products and exclude revenues derived from software license updates and product support. The standard end user software license agreement for our products provides for an initial fee to use the product in perpetuity based on a maximum number of processors, named users or other metrics. We also have other types of software license agreements restricted by the number of employees or the license term. New software license revenues represented 31%, 34% and 33% of total revenues in fiscal 2009, 2008 and 2007, respectively.

Database and Middleware Software

Our database and middleware software offerings provide a cost-effective, high-performance platform for running and managing business applications for mid-size businesses and large global enterprises. With an increasing focus by enterprises on reducing their total cost of IT infrastructure, our software is designed to accommodate demanding, non-stop business environments, using low cost server, storage and application grids that can incrementally scale as required. The ability to assign computing resources as required simplifies our customers IT capacity, planning and procurement to support all of their business applications. With an Oracle grid infrastructure, our customers can lower their investment in servers and storage, reduce their risk of data loss and IT infrastructure downtime and efficiently utilize available IT resources to meet business users quality of service expectations. New software license revenues from database and middleware products represented 72%, 68% and 71% of our new software license revenues in fiscal 2009, 2008 and 2007, respectively.

Databases

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

Table of Contents

A number of optional offerings are available with Oracle Database Enterprise Edition to address specific customer requirements in the areas of performance and scalability, high availability, data security and compliance, data warehousing, information management and systems management. Examples of these options include:

- Oracle Real Application Clusters, which enables any Oracle Database application to share more efficiently the processing power and memory capacity of a fault tolerant cluster of servers;
- Oracle Advanced Compression, which enables customers to reduce the amount of disk space required to store all their business information and improve query performance;
- Oracle Partitioning, which breaks down large database tables into smaller segments for faster query performance and easier management of data throughout its lifecycle; and
- Oracle In-Memory Database Cache, which improves application performance by caching or storing critical parts of Oracle Database in the main memory of the application tier.

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

- Oracle TimesTen In-Memory Database, which is a memory-optimized relational database that delivers low latency and high throughput for applications requiring real-time performance in industries such as communications, financial services and defense;
- Oracle Berkeley DB, which is a family of open source, embeddable, non-relational databases that allows developers to incorporate a fast, scalable and reliable database engine within their applications and devices; and
- Oracle Database Lite, which is a comprehensive solution for developing, deploying and managing applications for mobile and embedded environments. It consists of a small footprint relational database that runs on many devices and platforms, a mobile server that synchronizes data between the mobile devices and Oracle Database, and mobile application development tools.

We also offer a selection of products that are complementary to our database offerings. These include Oracle Exadata, Oracle Enterprise Manager and Oracle Audit Vault.

Oracle Exadata

Oracle Exadata is a family of high performance storage software and hardware products that is designed to improve data warehouse query performance. Built using smart storage software from Oracle and industry-standard hardware from Hewlett-Packard Company (HP), it uses a parallel architecture to increase data bandwidth between database servers and storage. In addition, it enables query processing closer to the data, resulting in faster query processing and less data movement through high bandwidth connections. The Oracle Exadata Storage Server is based on HP servers with Oracle Exadata software pre-installed. It is designed to be an industry-standard storage server, which offers linear scalability and mission-critical reliability, in addition to fast query processing. Oracle Exadata Storage Servers are also the building block for the Oracle Database Machine that is designed for large, multi-terabyte data warehouses. The Oracle Database Machine packages together software, servers, and storage that can scale to support data warehouses and business intelligence applications.

Oracle Enterprise Manager

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

Oracle Enterprise Manager is designed to monitor service levels and performance, automate tasks, manage configuration information, and provide change management in a unified way across groups of computers or grids.

Table of Contents

Oracle Enterprise Manager s provisioning automates the discovery, tracking and scheduling of software patches and allows IT administrators to apply patches without taking their system down. Additionally, IT administrators can manage systems from anywhere through an HTML browser or through wireless mobile devices.

Oracle Audit Vault

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

Middleware

Oracle Fusion Middleware is a broad family of application infrastructure products that forms a reliable and scalable foundation on which customers can build, deploy, secure, access and integrate business applications and automate their business processes. Oracle Fusion Middleware suites and products can be used in conjunction with custom, packaged and composite applications. Oracle Fusion Middleware is available in various products and suites, including the below functional areas:

- Application Server and Application Grid;
- Business Intelligence;
- Identity and Access Management;
- Content Management;
- Portal and User Interaction;
- Service-Oriented Architecture and Business Process Management;
- Data Integration; and
- Development Tools

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

By using Oracle Fusion Middleware, our customers increase their capacity to adapt to business changes rapidly, reduce their risks related to security and compliance, increase user productivity and drive better business decisions.

Specifically, Oracle Fusion Middleware enables customers to easily integrate heterogeneous business applications, automate business processes, scale applications to meet customer demand, simplify security and compliance, manage lifecycles of documents and get actionable, targeted business intelligence, while continuing to utilize their existing IT systems. In addition, Oracle Fusion Middleware supports multiple development languages and tools, which allows developers to build and deploy web services, web sites, portals and web-based applications. Oracle s Fusion Middleware is used to support Oracle applications, other enterprise applications, independent software vendors that build their own custom applications and business processes that span multiple application environments.

Table of Contents

Application Server and Application Grid

The foundation of Oracle Fusion Middleware is Oracle WebLogic Server. Designed for grid computing, Oracle WebLogic Server incorporates clustering and caching technology, which increases application reliability, performance, security and scalability. Our ongoing development of existing Oracle Fusion Middleware products, combined with our acquisition of BEA Systems, Inc. in fiscal 2008, enables us to provide our customers with additional application grid capabilities, including Oracle Coherence for rapid access to information, Oracle JRockit to create Java virtual machines and the scalable messaging and transaction processing platform products of Oracle Tuxedo.

Business Intelligence

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

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

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

Identity and Access Management

Oracle Identity and Access Management products and suites make it easier for our customers to manage multiple user identities, provision users in multiple enterprise applications and systems and manage access privileges for customers, employees and partners. Our customers use Oracle Identity and Access Management offerings to secure their information from potential threats and increase compliance levels, while lowering the total cost of their security and compliance initiatives.

Content Management

Unstructured information, which is data that is not easily readable or has not been stored so that it can be used efficiently, makes up a large portion of all the information residing in most businesses and public sector entities. Oracle Content Management solutions provide a comprehensive set of capabilities to create, capture, publish, share and collaborate on, archive, retain, manage business process flows and manage information access rights to documents and other unstructured content file types. Oracle Content Management solutions support an extensive set of document and image formats. Specific benefits include the ability to use external facing websites as strategic marketing assets and rapid communication channels, to automate paper-based processes and to enforce document retention and security policies.

Portal and User Interaction

Oracle WebCenter Suite enables personalized web portals and task-oriented web applications to be developed and deployed, all with single sign-on access and security. These features provide users with a single interface through which they can access information from any number of enterprise applications, systems, information sources and processes. Oracle WebCenter also includes integrated Enterprise 2.0 capabilities that enable customers to work together in teams via the internet and capitalize on collective intelligence within their enterprise and with their partners and customers. The addition of Oracle WebCenter Services in fiscal 2009 includes the ability to incorporate these Enterprise 2.0 capabilities into existing portal environments, including those built with Oracle Portal, Oracle WebLogic Portal and Oracle WebCenter Interaction (formerly AquaLogic User Interaction).

Table of Contents

Service-Oriented Architecture Suite and Business Process Management

Service-Oriented Architecture (SOA) is an IT strategy that creates a modular, re-usable approach to applications development and reduces the need for costly custom development. Oracle SOA Suite is a complete set of service infrastructure components for creating, deploying, and managing SOAs, including Oracle JDeveloper, Oracle BPEL Process Manager, Oracle Web Services Manager, Oracle Business Rules, Oracle Business Activity Monitoring, and Oracle Service Bus. The combination of Oracle Business Process Management and Oracle SOA Suite enables business and IT professionals to collaborate, implement, automate and change business processes in a comprehensive fashion, which accelerates development and transition time and reduces costly quality assurance cycles. Oracle SOA Suite is hot-pluggable , enabling customers to easily extend and evolve their architectures instead of replacing existing investments. Oracle SOA Governance maintains the security and integrity of our customers SOA deployments.

Data Integration

Through Oracle Data Integration Suite, we offer best-of-breed and unified data integration technologies that enable customers to build, deploy and manage enterprise business data. Our Data Integration foundation allows enterprise data architects to unify, manage, replicate, migrate and distribute data into enterprise applications and orchestrated business processes. With our open and hot-pluggable data integration components, organizations can continue to use and evolve their IT infrastructure instead of replacing it. Oracle Data Integration Suite can extract data from one system and load it into another (such as a data warehouse) and then rapidly transform the data into a new format. It also includes technology to address data quality and data profiling.

Developer Tools

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

Applications Software

Our applications software strategy is designed to help customers reduce the cost and complexity of their IT infrastructures, by delivering industry solutions that are complete, open, and integrated. Through a focused strategy of investments in organic research and development and strategic acquisitions, we provide industry-specific solutions for customers in over 20 industries, from retail and communications to financial services and the public sector. Our solutions are delivered on an open, standards-based architecture to support customer choice, reduce customer risk and enable customers to differentiate their businesses using our technologies. New software license revenues from applications software represented 28%, 32% and 29% of new software license revenues in fiscal 2009, 2008 and 2007, respectively.

Central to our applications strategy is our Applications Unlimited program, which is our commitment to offer customers that purchase software license updates and product support contracts a choice as to when they wish to upgrade to the next generation of the products they own. Until our customers reach a decision to upgrade to the next generation of the products they own, we protect their investments in their applications by offering them the ability to purchase software license updates and product support contracts for their existing products. Solutions such as Oracle Fusion Middleware, Oracle Business Intelligence Suite, Oracle WebCenter, and Oracle User Productivity Kit are designed to help customers extend the benefits of their IT investments in our applications, to reduce their investment risk, and to support their evolution to the next generation of enterprise software that best fits their needs.

We also protect our customers investments in Oracle applications by delivering new product releases that incorporate customer-specific and industry-specific innovations across product lines. Since announcing our Applications Unlimited program in fiscal 2005, we have delivered a number of new product releases and

Table of Contents

enhancements. In fiscal 2009, we continued our product investment with new versions of Oracle E-Business Suite, JD Edwards EnterpriseOne, JD Edwards World and Siebel Customer Relationship Management, including CRM On Demand.

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

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

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

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

Enterprise Resource Planning (ERP)

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

Customer Relationship Management (CRM)

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

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

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

Enterprise Performance Management (EPM)

We offer a full spectrum of EPM applications that are open, industry-specific analytic applications with capabilities such as interactive dashboarding and embedded analytic functionality for delivering insight across the enterprise. Our business analytics solution is tailored to 20 industries, giving customers the ability to monitor, analyze and act upon business intelligence while providing end-to-end visibility into a customer s operations and financial performance. Our performance management applications, combined with our BI analytics, BI foundation and data warehousing products, enable us to offer our customers an integrated, end-to-end EPM system that spans planning, consolidation, operational analytic applications, business intelligence tools, reporting and data integration, all on a unified business intelligence platform.

Enterprise Project Portfolio Management (EPPM)

With our acquisition of Primavera Software, Inc. in the second quarter of fiscal 2009, we added EPPM software solutions for project-intensive industries such as engineering and construction, aerospace and defense, utilities, oil and gas, manufacturing, and professional services. Our EPPM solutions help companies propose, prioritize and select project investments and plan, manage and control the most complex projects and project portfolios.

Industry Applications

Our applications can be tailored to offer customers a variety of industry-specific solutions. As a part of our strategy, we strive to ensure that our applications portfolio addresses the major industry-influenced technology challenges of customers in key industries. We continue to expand our offerings in a number of other key industries we view as strategic to our future growth, including retail, banking and financial services, communications, utilities, health sciences, insurance, manufacturing, education, professional services, and the public sector. In fiscal 2009, we added expertise in the social services industry through our acquisition of Haley Limited, a leading provider of policy modeling and automation software for legislative and regulated industries such as public sector, financial services, and insurance.

Software License Updates and Product Support

We seek to protect and enhance our customers current investments in Oracle technology and applications by offering proactive and personalized support services, including our Lifetime Support policy, product enhancements and upgrades. Software license updates provide customers with rights to unspecified software product upgrades and maintenance releases and patches released during the term of the support period. Product support includes internet and telephone access to technical support personnel located in our global support centers, as well as internet access to technical content through My Oracle Support. Software license updates and product support are generally priced as a percentage of the new software license fees. Substantially all of our customers purchase software license updates and product support when they acquire new software licenses. In addition, substantially all of our customers renew their software license updates and product support contracts annually. We also offer Oracle Unbreakable Linux Support, which provides enterprise level support for the Linux operating system and Oracle VM server virtualization software support.

Our software license updates and product support revenues represented 50% of total revenues in fiscal 2009, and 46% of total revenues in both fiscal 2008 and 2007.

Services Business

Consulting

Oracle Consulting assists our customers in successfully deploying our applications and technology products. Our consulting services include: business/IT strategy alignment; business process simplification; solution integration; and product implementation, enhancements, and upgrades. These services help our customers achieve measurable business results, manage their total cost of ownership and reduce the risk associated with their product deployment.

Oracle Consulting employs consulting professionals globally to engage our customers directly, as well as to provide specialized expertise to our global systems integrator partners. Oracle Consulting utilizes a global blended delivery model to achieve economies of scale for our customers. This global delivery model consists of onsite consultants within the customer s local geography as well as consultants in our global delivery and solution centers. Consulting revenues represented 14%, 15% and 16% of total revenues in fiscal 2009, 2008 and 2007, respectively.

On Demand

On Demand includes our Oracle On Demand and Advanced Customer Services offerings. Oracle On Demand provides multi-featured software and hardware management, and maintenance services for customers that deploy over the internet our database, middleware and applications software delivered at our data center facilities, select partner data centers or physically on-site at customer facilities. Advanced Customer Services consists of solution lifecycle management services, database and application management services, industry-specific solution support centers, and remote and on-site expert services. On Demand revenues represented 3% of total revenues in fiscal 2009, 2008 and 2007.

Education

We provide training to customers, partners and employees as a part of our mission of accelerating the adoption of our technology around the world. We currently offer thousands of courses covering all of our product offerings. Our training is provided primarily through public and private instructor-led classroom events, but is also made available through a variety of online courses and self paced media training on CD-ROMs. Most recently, Oracle University launched live virtual class offerings that allow students anywhere in the world to connect to a live instructor-led class. In addition, we also offer a certification program certifying database administrators, developers and implementers. Oracle University also offers user adoption services designed to provide comprehensive training services to help customers get the most out of their investment in Oracle. Education revenues represented 2% of total revenues in fiscal 2009, 2008 and 2007.

Marketing and Sales

Sales Distribution Channels

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

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

International Markets

We sell our products and provide services globally. Our geographic coverage allows us to draw on business and technical expertise from a global workforce, provides stability to our operations and revenue streams to offset geography-specific economic trends and offers us an opportunity to take advantage of new markets for our products. A summary of our domestic and international revenues and long-lived assets is set forth in Note 15 of Notes to Consolidated Financial Statements.

Seasonality and Cyclicality

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

Table of Contents

Customers

Our customer base consists of a significant number of businesses of many sizes and industries, government agencies, educational institutions and resellers. No single customer accounted for 10% or more of our total revenues in fiscal 2009, 2008 or 2007.

Competition

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

- database software (including the sale of our Exadata database machine, which is hardware sold with preconfigured Oracle database software and is more fully described above);
- middleware (including application server, business intelligence, data integration, portal server and identity management);
- enterprise applications;
- content management and collaboration;
- development tools;
- enterprise management software;
- Software-as-a-Service;
- hosted and On Demand solutions;
- operating systems (by virtue of our distribution of Enterprise Linux);
- virtualization software; and
- consulting/systems integration.

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

Our product sales (and the relative strength of our products versus our competitors products) are also directly and indirectly affected by the following, among other things:

- the broader platform competition between industry standard Java EE (formerly, J2EE) programming platform by Sun Microsystems, Inc. (Sun) and the .NET programming environment of Microsoft Corporation (Microsoft);

operating system competition among, primarily, Microsoft s Windows Server, Unix (including Sun s Solaris, HP-UX from Hewlett Packard Company (HP) and AIX from International Business Machines Corporation (IBM)) and Linux;

open source alternatives to commercial software, which are typically offered free of charge, subject to certain restrictions, and are readily available over the internet. Open source vendors will typically charge fees for commercial versions or unrestricted licenses of these products and for technical support of these products; and

Software-as-a-Service (SaaS) offerings, which also continue to alter the competitive landscape.

Table of Contents

The following lists of competitors are necessarily incomplete due to the nature of the enterprise software industry, where the competitive landscape is constantly evolving as firms emerge, expand or are acquired, as technology evolves and as customer demands and competitive pressures otherwise change:

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

In the sale of middleware products, our offerings include application server and application grid, business intelligence, identity and access management, portal and user interaction, Service-Oriented Architecture and business process management, and data integration. Our ability to offer a full range of rich functionality in a standards-based, open architecture has been a key competitive differentiator which has contributed to rapid growth of our middleware solutions in recent years relative to our competitors. Our middleware competitors include IBM, Microsoft, SAP AG, Sun, Progress Software, Fujitsu Software Corporation, Hitachi Software Engineering Co., Ltd., open source vendors such as Red Hat, Inc. (JBoss), Apache Geronimo, Liferay, Inc., SpringSource, Inc., MuleSource, Inc. and JasperSoft Corporation, as well as several other competitors in each element of our packaged functions such as TIBCO Software, Inc., Software AG, SOA Software, Inc., Savvion, Inc., MicroStrategy, Inc., CA, Inc. (CA), Siemens AG, Courion Corporation, EMC Corporation (RSA), Informatica Corporation, Novell, Inc. (Novell), Lombardi Software, Inc. and Pegasystems, Inc., among others.

Competition in the sale of applications software, in particular, is multifaceted and subject to rapid change. We currently offer several application product lines that are designed to address functions applicable to customers across many industries (e.g., enterprise resource planning (ERP) or customer relationship management (CRM)), as well as applications specific to operations in particular industry verticals, such as retail, financial services, communications, tax and utilities, health sciences, public sector and others. One of the main competitive differentiators in applications software is our ability to combine best-of-breed software, suite software and our application integration architecture, without adding complexity for the end user.

Our applications offerings (including our On Demand/Hosted and SaaS offerings) typically compete with commercial software vendors pre-packaged applications, applications offered as On Demand, SaaS, or hosted offerings, open source applications, applications developed in-house by customers, applications that were custom developed by other software vendors or systems integrators, applications consisting of a variety of discrete pieces of functionality from multiple providers that have been customized and implemented by systems integrators or consultants (such as IBM Global Services and Accenture Ltd.) and business process outsourcers (such as Automatic Data Processing, Inc. (ADP), Fidelity Investments, Ceridian Corporation, Hewitt Associates, Inc., Accero Software (formerly Cyborg Systems Limited) and others). The variety of competing offerings is even more pronounced in industry verticals where complete industry solutions either do not exist or are addressed by combining offerings of multiple software offerings. As a result, our applications compete against offerings from the vendors listed above as well as SAP AG, IBM (through Maximo, MRO Software, Ascential Software, Cognos), Microsoft (through Dynamics GP, Dynamics NAV, Dynamics AX, Dynamics CRM, Dynamics Snap, Dynamics SL), Lawson Software, Inc., Infor Global Solutions (with numerous independent product lines coming from acquisitions including Agilisys, Baan, infor GmbH, SSA Global Technologies, Extensity and Datastream), Ariba, Inc., IFS AB, JDA Software Group, Inc., I2 Technologies, Inc., Manhattan Associates, Inc. The Sage Group plc, salesforce.com, Inc., Taleo Corporation, SuccessFactors, Inc., as well as many other application providers and point solution providers.

In the sale of content management and collaboration products, we compete with Microsoft, IBM (through Domino/Notes/FileNet), EMC Corporation (Documentum), Open Text Corporation, Autonomy Corporation plc (Interwoven), HP (through Tower Software), SAP AG and Vignette Corporation, as well as open source vendors such as Alfresco Software, Inc., among others.

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

In the sale of enterprise management software, we compete with BMC Software, Inc., Quest Software, Inc., IBM Tivoli, HP, CA, Compuware Corporation, Embarcadero Technologies, Inc., and open source vendors such as Hyperic, Inc.

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

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

In the sale of consulting and systems integration services, we both partner with and compete against Accenture Ltd., HP, IBM Global Services, Bearing Point, Inc., Capgemini Group, and many others (both large and small).

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

Research and Development

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

Research and development expenditures were $2.8 billion, $2.7 billion and $2.2 billion, in fiscal 2009, 2008 and 2007, respectively, or 12% of total revenues in each of the aforementioned fiscal years. As a percentage of new software license revenues, research and development expenditures were 39%, 36% and 37% in fiscal 2009, 2008 and 2007, respectively. Rapid technological advances in hardware and software development, evolving standards in computer hardware and software technology, changing customer needs and frequent new product introductions and enhancements characterize the software markets in which we compete. We plan on continuing to dedicate a significant amount of resources to research and development efforts to maintain and improve our current product offerings including our database, middleware and applications software products.

Employees

As of May 31, 2009, we employed approximately 86,000 full-time employees, including 20,000 in sales and marketing, 8,000 in software license updates and product support, 28,000 in services, 22,000 in research and development and 8,000 in general and administrative positions. Of these employees, approximately 28,000 were located in the United States and 58,000 were employed internationally. None of our employees in the United States is represented by a labor union; however, in certain international subsidiaries workers councils represent our employees.

Available Information

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

Table of Contents

Executive Officers of the Registrant

Our executive officers are listed below.

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

Mr. Ellison, 64, has been Chief Executive Officer and a Director since he founded Oracle in June 1977. He served as Chairman of the Board from May 1995 to January 2004.

Mr. Henley, 64, has served as the Chairman of the Board since January 2004 and as a Director since June 1995. He served as an Executive Vice President and Chief Financial Officer from March 1991 to July 2004. He also serves as a director of Callwave, Inc.

Ms. Catz, 47, has been a President since January 2004 and has served as a Director since October 2001. She was Chief Financial Officer from November 2005 until September 2008 and Interim Chief Financial Officer from April 2005 until July 2005. She served as an Executive Vice President from November 1999 to January 2004 and Senior Vice President from April 1999 to October 1999. She also serves as a director of HSBC Holdings plc.

Mr. Phillips, 50, has been a President and has served as a Director since January 2004. He served as Executive Vice President, Strategy, Partnerships, and Business Development, from May 2003 to January 2004. He also serves as a director of Morgan Stanley and Viacom, Inc.

Mr. Block, 48, has been Executive Vice President, North America Sales and Consulting since September 2002 and Executive Vice President, North America Consulting since February 2002. He served as Senior Vice President of North America Commercial Consulting and Global Service Lines from June 1999 until January 2002. He served as Senior Vice President of the Commercial Consulting Practice from April 1999 until May 1999. Mr. Block was Group Vice President, East Consulting from June 1997 until March 1999.

Mr. Epstein, 52, has been Executive Vice President and Chief Financial Officer since September 2008. Prior to joining us, he served as Executive Vice President and Chief Financial Officer of Oberon Media, Inc., a privately held internet game technology provider and publisher from April 2007 to June 2008. From June 2005 until its sale in March 2007, Mr. Epstein was Executive Vice President and Chief Financial Officer of ADVO, Inc., a direct mail media company. Mr. Epstein was a member of the Board of Directors of Revonet, Inc., a business-to-business marketing and database company, from January 2004 to December 2005, Chairman of the Board from December 2004 to December 2005 and the Acting President and Chief Executive Officer from June 2004 through December 2004. Mr. Epstein also serves as a director of priceline.com Incorporated.

Mr. Le Guisquet, 47, has been Executive Vice President, Europe, Middle East and Africa (EMEA) Sales and Consulting since December 2008. He served as Senior Vice President, Western Central Europe Applications from June 2006 until November 2008. He served as Senior Vice President, Oracle Customer Relationship Management EMEA from January 2006 until June 2006. He served as Senior Vice President, EMEA Consulting from August 2003 until January 2006. He also held various other EMEA regional executive positions with us since January 1990.

Table of Contents

Mr. Meisler, 56, has been Executive Vice President, Latin America Sales and Consulting since July 2008. He served as Senior Vice President, Latin America Sales and Consulting from December 2001 to July 2008; as Vice President, Latin America Sales and Consulting from June 2001 to December 2001; and as Managing Director of Oracle Brazil from January 2000 to May 2001. He served as Vice President, Latin America Consulting from June 1999 to January 2000 and as Vice President, Oracle Brazil Consulting from March 1998 to May 1999.

Mr. Rottler, 42, has been Executive Vice President, Oracle Customer Services since September 2006. He was Executive Vice President, Oracle Support and Oracle On Demand, from January 2005 to September 2006 and was Executive Vice President, Oracle On Demand, from September 2004 to January 2005. Prior to joining us, he served as Senior Vice President, Public Sector, Customer Solutions Group at Hewlett-Packard Company (HP), from December 2003 to September 2004, where he was responsible for HP s worldwide Public Sector, Health and Education business. He also held various other global and regional executive positions in HP s Services and Software business units since 1997.

Mr. Rozwat, 61, has been Executive Vice President, Product Development, since October 2007. He served as Executive Vice President, Server Technologies from November 1999 to October 2007 and served as Senior Vice President, Database Server from December 1996 to October 1999. He served as Vice President of Development from December 1994 to November 1996.

Mr. Williams, 64, has been Executive Vice President, Japan Sales and Consulting since June 2008 and was Executive Vice President, Asia Pacific Sales and Consulting from October 2000 to May 2008. He served as Senior Vice President, Asia Pacific from July 1993 to October 2000 and as Vice President, Asia Pacific from April 1991 to July 1993. He joined Oracle United Kingdom in October 1988 and served as Regional Director, Strategic Accounts from October 1988 to April 1991.

Ms. Daley, 50, has been Senior Vice President, General Counsel and Secretary since October 2007. She served as Vice President, Legal, Associate General Counsel and Assistant Secretary from June 2004 to October 2007, as Associate General Counsel and Assistant Secretary from October 2001 to June 2004, and as Associate General Counsel from February 2001 to October 2001. She joined Oracle s Legal Department in 1992.

Mr. West, 47, has been Senior Vice President, Corporate Controller and Chief Accounting Officer since February 2008 and was Vice President, Corporate Controller and Chief Accounting Officer from April 2007 to February 2008. Prior to joining us, he served as Intuit Inc. s Director of Accounting from August 2005 to March 2007, as The Gap, Inc. s Assistant Controller from April 2005 to August 2005, and as Vice President, Finance, at Cadence Design Systems, Inc. s product business from June 2001 to April 2005. He also spent 14 years with Arthur Andersen LLP, most recently as a partner.

Item 1A. Risk Factors

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

The effects of the current recession and the recent global economic crisis may impact our business, results of operations, financial condition or stock price. The current recession and recent global economic crisis have caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. These macroeconomic developments could negatively affect our business, operating results or financial condition in a number of ways which, in turn, could adversely affect our stock price.

For example, current or potential customers may reduce their IT spending or be unable to fund software or services purchases, which could cause them to delay, decrease or cancel purchases of our products and services or not to pay us or to delay paying us for previously purchased products and services.

Table of Contents

In some financial markets, institutions may decrease or discontinue their purchase of the long-term customer financing contracts that we have traditionally sold on a non-recourse basis. As a result, we may hold more of these contracts ourselves or require more customers to purchase our products and services on a cash basis.

In addition, financial institution weakness or failures may cause us to incur increased expenses or make it more difficult either to utilize our existing debt capacity or otherwise obtain financing for our operations, investing activities or financing activities (including the financing of any future acquisitions and the timing and amount of any future dividend declarations or repurchases of our common stock or our debt).

Finally, our investment portfolio, which includes short-term debt securities, is generally subject to general credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by the recent global financial crisis. If the banking system or the fixed income, credit or equity markets continue to deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

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

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

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

We may fail to achieve our financial forecasts due to inaccurate sales forecasts or other factors. Our revenues, and particularly our new software license revenues, are difficult to forecast, and, as a result, our quarterly operating results can fluctuate substantially. We use a pipeline system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all proposals and estimate when a customer will make a purchase decision and the dollar amount of the sale. These estimates are aggregated periodically to generate a sales pipeline. Our pipeline estimates can prove to be unreliable both in a particular quarter and over a longer period of time, in part because the conversion rate or closure rate of the pipeline into contracts can be very difficult to estimate. A contraction in the conversion rate, or in the pipeline itself, could cause us to plan or budget incorrectly and adversely affect our business or results of operations. In particular, a slowdown in IT spending or economic conditions generally can unexpectedly reduce the conversion rate in particular periods as purchasing decisions are delayed, reduced in amount or cancelled. The conversion rate can also be affected by the tendency of some of our customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms, which can also impede our ability to negotiate and execute these contracts in a timely manner. In addition, for newly acquired companies, we have limited ability to predict how their pipelines will convert into sales or revenues for one or two quarters following the acquisition, and their conversion rate post-acquisition may be quite different from their historical conversion rate.

A substantial portion of our new software license revenue contracts is completed in the latter part of a quarter and a significant percentage of these are large orders. Because our cost structure is largely fixed in the short term, revenue shortfalls tend to have a disproportionately negative impact on our profitability. The number of large new software license transactions also increases the risk of fluctuation in our quarterly results because a delay in even a small number of these transactions could cause our quarterly new software license 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 purchase or renew software license updates and product support contracts. Renewals of these support contracts are an important factor in the growing software license update and product support segment of our business. In addition, IT standards from both consortia and formal standards-setting forums as well as de facto marketplace standards are rapidly evolving. We cannot provide any assurance that the standards on which we choose to develop new products will allow us to compete effectively for business opportunities in emerging areas.

We are currently building Oracle Fusion Applications, which are being designed to unify best-of-business capabilities from all Oracle applications in a complete suite. We have also announced that we intend to extend the life of many of our acquired products and will continue to provide long-term support for many of our acquired products, both of which require us to dedicate resources. If we do not develop and release these new or enhanced products and services within the anticipated time frames, if there is a delay in market acceptance of a new, enhanced or acquired product line or service, if we do not timely optimize complementary product lines and services or if we fail to adequately integrate, support or enhance acquired product lines or services, our business may be adversely affected.

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

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

- an acquisition may not further our business strategy as we expected, we may pay more than the acquired company or assets are ultimately worth or we may not integrate an acquired company or technology as successfully as we expected, which could adversely affect our business or operating results;

- we may have difficulties (i) managing an acquired company s technologies or lines of business or (ii) entering new markets, in each case where we have no or limited direct prior experience or where competitors may have stronger market positions;

- our operating results or financial condition may be adversely impacted by liabilities that we assume from an acquired company or technology or by other circumstances related to an acquisition, including claims related to an acquired business or technology from government agencies, terminated employees, customers, former stockholders or other third parties; pre-existing contractual relationships of an acquired company that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business; unfavorable revenue recognition or other accounting treatment as a result of an acquired company s practices; and intellectual property disputes;

we may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition;

Table of Contents

we may not realize the anticipated increase in our revenues from an acquisition if a larger than predicted number of customers decline to renew software license updates and product support contracts, if we are unable to sell the acquired products to our customer base or if contract models of an acquired company do not allow us to recognize revenues on a timely basis;

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

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

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

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

we may be unable to obtain required approvals from governmental authorities under competition and antitrust laws on a timely basis, if it all, which could, among other things, delay or prevent us from completing a transaction, otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition or have other adverse effects on our current business and operations;

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

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

we may experience additional and/or unexpected changes in how we are required to account for our acquisitions pursuant to U.S. generally accepted accounting principles (GAAP), including our adoption of FASB Statement No. 141 (revised 2007), *Business Combinations,* in fiscal 2010, which could materially affect our consolidated financial statements; and

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

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

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 from, and have significant operations, outside of the United States. Our international operations include software development, sales, customer support, consulting, On Demand and shared administrative service centers.

Compliance with international and U.S. laws and regulations that apply to our international operations increases our cost of doing business in foreign jurisdictions. These laws and regulations include U.S. laws such as the Foreign Corrupt Practices Act, and local laws which also prohibit corrupt payments to governmental officials, data privacy requirements, labor relations laws, tax laws, anti-competition regulations, import and trade restrictions, and export requirements. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could result in prohibitions on our ability to offer our products and services in one or more countries, could delay or prevent potential acquisitions, and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties. We monitor our international operations and investigate allegations of improprieties relating to transactions and the way in which such transactions are recorded. Where circumstances warrant, we provide information and report our findings to government authorities, but no assurance can be given that action will not be taken by such authorities.

We are also subject to a variety of other risks and challenges in managing an organization operating in various countries, including those related to:

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

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

We may experience foreign currency gains and losses. We conduct a significant number of transactions in currencies other than the U.S. Dollar. Changes in the value of major foreign currencies, particularly the Euro, Japanese Yen and British Pound relative to the U.S. Dollar can significantly affect revenues and our operating results. Our revenues and operating results are adversely affected when the dollar strengthens relative to other currencies and are positively affected when the dollar weakens. Our revenues and operating results in fiscal 2009 have been unfavorably affected by the recent strengthening U.S. Dollar relative to other major foreign currencies.

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 our foreign currency exposures.

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

Third parties have claimed and, in the future, may claim infringement or misuse of intellectual property rights and/or breach of license agreement provisions. We periodically receive notices from, or have lawsuits filed against us by, others claiming infringement or other misuse of their intellectual property rights and/or breach of our agreements with them. We expect the number of such claims will increase as:

- we continue to acquire companies;
- the number of products and competitors in our industry segments grows;

the functionality of products overlap;

the use and support of third-party code (including open source code) becomes more prevalent in the software industry; and

the volume of issued software patents continues to increase.

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

be time consuming, costly and 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;

require us to release source code to third parties, possibly under open source license terms;

require us to satisfy indemnification obligations to our customers; or

otherwise adversely affect our business, results of operations, financial condition or cash flows.

Specific patent infringement cases are discussed under Note 17 of Notes to Consolidated Financial Statements.

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

We continually focus on improving our cost structure by hiring personnel in countries where advanced technical expertise is available at lower costs. When we make adjustments to our workforce, we may incur expenses associated with workforce reductions that delay the benefit of a more efficient workforce structure. We may also experience increased competition for employees in these countries as the trend toward globalization continues, which may affect our employee retention efforts and/or increase our expenses in an effort to offer a competitive compensation program. Part of our total compensation program includes stock options which are an important tool in attracting and retaining employees in our industry. If our stock price performs poorly, it may adversely affect our ability to retain or attract employees. In addition, because we expense all stock-based compensation, we may in the future change our stock-based and other compensation practices. Some of the changes we consider from time to time include a reduction in the number of employees granted options, a reduction in the number of options granted per employee and a change to alternative forms of stock-based compensation. Any changes in our compensation practices or changes made by competitors could affect our ability to retain and motivate existing personnel and recruit new personnel.

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

Table of Contents

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

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

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

Charges to earnings resulting from acquisitions may adversely affect our operating results. In fiscal 2010, we will adopt FASB Statement No. 141 (revised 2007), *Business Combinations* and FASB Staff Position (FSP) FAS 141(R)-1 *Accounting for Assets Acquired and Liabilities Assumed in a Business Combinations That Arise from Contingencies*. Accounting for our acquisitions pursuant to Statement 141(R) is significantly different than how we have historically accounted for our acquisitions under existing accounting principles and these differences could materially impact our results of operations or financial position. The more significant differences include how we account for restructuring liabilities associated with an acquisition, costs incurred to effect the acquisition, changes in estimates of income tax valuation allowances and liabilities for uncertain tax positions associated with an acquisition, and how we reflect goodwill adjustments in comparative financial statements, among others. A more thorough discussion of our accounting for these and other items is presented in the Critical Accounting Policies and Estimates section of Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 7).

For any business combination that is consummated pursuant to Statement 141(R), we will recognize the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in acquired companies generally at their acquisition date fair values and, in each case, separately from goodwill. Goodwill as of the acquisition date is measured as the excess amount of consideration transferred, which is also generally measured at fair value, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Our estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain. After we complete an acquisition, the following factors could result in material charges and adversely affect our operating results and may adversely affect our cash flows:

- costs incurred to combine the operations of companies we acquire, such as employee retention, redeployment or relocation expenses;
- impairment of goodwill or intangible assets;
- amortization of intangible assets acquired;
- a reduction in the useful lives of intangible assets acquired;
- identification of assumed contingent liabilities after the measurement period (generally up to one year from the acquisition date) has ended;
- charges to our operating results to eliminate certain duplicative pre-merger activities, to restructure our operations or to reduce our cost structure;
- charges to our operating results due to changes in deferred tax asset valuation allowances and liabilities related to uncertain tax positions after the measurement period has ended;
- charges to our operating results resulting from expenses incurred to effect the acquisition; and
- charges to our operating results due to the expensing of certain stock awards assumed in an acquisition.

Substantially all of these costs will be accounted for as expenses that will decrease our net income and earnings per share for the periods in which those costs are incurred. Charges to our operating results in any given period could differ substantially from other periods based on the timing and size of our future acquisitions and the extent of integration activities.

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

We might experience significant errors or security flaws in our products and services. Despite testing prior to their release, software products frequently contain errors or security flaws, especially when first introduced or when new versions are released. The detection and correction of any security flaws can be time consuming and costly. Errors in our software products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. If we experience errors or delays in releasing new products or new versions of products, we could lose revenues. In addition, we run our own business operations, Oracle On Demand and other outsourcing services, support and consulting services, on our products and networks and any security flaws, if exploited, could affect our ability to conduct internal business operations. End users, who rely on our products and services for applications that are critical to their businesses, may have a greater sensitivity to product errors and security vulnerabilities than customers for software products generally. Software product errors and security flaws in our products or services could expose us to product liability, performance and/or warranty claims as well as harm our reputation, which could impact our future sales of products and services. In addition, we may be legally required to publicly report security breaches of our services, which could adversely impact future business prospects for those services.

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

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

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

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

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

There are risks associated with our outstanding indebtedness. As of May 31, 2009, we had an aggregate of $10.2 billion of outstanding indebtedness that will mature between 2010 and 2038, and we may incur additional indebtedness in the future. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

We may also need to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of our existing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. Should we incur future increases in interest expense, our ability to utilize certain of our foreign tax credits to reduce our U.S. federal income tax could be limited, which could unfavorably affect our provision for income taxes and effective tax rate. In addition, changes by any rating agency to our outlook or credit rating could negatively affect the value of both our debt and equity securities and increase the interest amounts we pay on outstanding or future debt. These risks could adversely affect our financial condition and results of operations.

Adverse litigation results could affect our business. We are subject to various legal proceedings. Litigation can be lengthy, expensive and disruptive to our operations, and results cannot be predicted with certainty. An adverse decision could result in monetary damages or injunctive relief that could affect our business, operating results or financial condition. Additional information regarding certain of the lawsuits we are involved in is discussed under Note 17 in Notes to Consolidated Financial Statements.

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

Changes in tax laws or tax rulings may have a significantly adverse impact on our effective tax rate. For example, proposals for fundamental U.S. international tax reform, such as the recent proposal by President Obama s Administration, if enacted, could have a significant adverse impact on our effective tax rate.

In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Our intercompany transfer pricing is currently being reviewed by the IRS and by foreign tax jurisdictions and will likely be subject to additional audits in the future. We previously negotiated three unilateral Advance Pricing Agreements with the IRS that cover many of our intercompany transfer pricing issues and preclude the IRS from making a transfer pricing adjustment within the scope of these agreements. These agreements are effective for fiscal years through May 31, 2006. We have submitted to the IRS a request for renewal of this Advance Pricing Agreement for the years ending May 31, 2007 through May 31, 2011. However, these agreements do not cover all elements of our transfer pricing and do not bind tax authorities outside the United States. We have finalized one bilateral Advance Pricing Agreement, which was effective for the years ending May 31, 2002 through May 31, 2006 and we have submitted a renewal for the years ending May 31, 2007 through May 31, 2011. There can be no guarantee that such negotiations will result in an agreement. During the fiscal year ended May 31, 2009, we concluded an additional bilateral agreement to cover the period from June 1, 2001 through January 25, 2008.

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

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

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

we manage critical customer applications, data and other confidential information through Oracle On Demand and CRM On Demand; accordingly, we face increased exposure to significant damage claims and risk to Oracle s brand and future business prospects in the event of system failures, inadequate disaster recovery or loss or misappropriation of customer confidential information;

we may face regulatory exposure in certain areas such as data privacy, data security and export compliance;

the laws and regulations applicable to hosted service providers are unsettled, particularly in the areas of privacy and security and use of global resources; changes in these laws could affect our ability to provide services from or to some locations and could increase both the costs and risks associated with providing the services;

demand for these services may not meet our expectations and may be affected by customer and media concerns about security risks, international transfers of data, government or other third-party access to data, and/or use of outsourced services providers more generally; and

our offerings may require large fixed costs for data centers, computers, network infrastructure, security and otherwise, and we may not be able to generate sufficient revenues to offset these costs and generate acceptable operating margins from these offerings.

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. Changes in the amounts and frequency of share repurchases or dividends could adversely affect our stock price. Our stock price is subject to speculation in the press and the analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors or analysts valuation measures for our stock, our credit ratings and market trends

Table of Contents

unrelated to our performance. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management s attention and resources, which could adversely affect our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our properties consist of owned and leased office facilities for sales, support, research and development, consulting and administrative personnel. Our headquarters facility consists of approximately 2.1 million square feet in Redwood City, California. We also own or lease office facilities for current use consisting of approximately 18.3 million square feet in various other locations in the United States and abroad. Approximately 4.0 million square feet or 20% of total owned and leased space is sublet or is being actively marketed for sublease or disposition.

Item 3. Legal Proceedings

The material set forth in Note 17 of Notes to Consolidated Financial Statements in Item 15 of this Annual Report on Form 10-K is incorporated herein by reference.

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

None.

PART II

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

Our common stock is traded on the NASDAQ Global Select Market under the symbol ORCL and has been traded on NASDAQ since our initial public offering in 1986. According to the records of our transfer agent, we had 18,952 stockholders of record as of May 31, 2009. The following table sets forth the low and high sale price of our common stock, based on the last daily sale, in each of our last eight fiscal quarters.

	Fiscal 2009		Fiscal 2008	
	Low Sale Price	High Sale Price	Low Sale Price	High Sale Price
Fourth Quarter	$ 13.85	$ 19.79	$ 18.44	$ 22.84
Third Quarter	$ 15.44	$ 18.41	$ 18.80	$ 23.11
Second Quarter	$ 15.40	$ 21.55	$ 19.36	$ 22.92
First Quarter	$ 20.25	$ 23.52	$ 18.73	$ 20.78

In the fourth quarter of fiscal 2009, we declared and paid our first quarterly cash dividend in our history of $0.05 per share of outstanding common stock. In June 2009, our Board of Directors declared a quarterly cash dividend of $0.05 per share of outstanding common stock payable on August 13, 2009 to stockholders of record as of the close of business on July 15, 2009. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

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

Stock Repurchase Programs

Our Board of Directors has approved a program for Oracle to repurchase shares of our common stock. On October 20, 2008, we announced that our Board of Directors had approved the expansion of our repurchase program by $8.0 billion and as of May 31, 2009, approximately $6.3 billion was available for share repurchases pursuant to our stock repurchase program.

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

The following table summarizes the stock repurchase activity for the three months ending May 31, 2009 and the approximate dollar value of shares that may yet be purchased pursuant to our share repurchase program:

	Total Number of	Approximate Dollar

(in millions, except per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Programs	Value of Shares that May Yet Be Purchased Under the Programs
March 1, 2009 March 31, 2009	5.4	$ 16.08	5.4	$ 6,414.5
April 1, 2009 April 30, 2009	4.4	$ 19.11	4.4	$ 6,331.1
May 1, 2009 May 31, 2009	4.2	$ 18.80	4.2	$ 6,251.8
Total	14.0	$ 17.85	14.0	

Table of Contents

Stock Performance Graph and Cumulative Total Return

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the S&P s 500 Index and the Dow Jones U.S. Software Index for each of the last five fiscal years ended May 31, 2009, assuming an investment of $100 at the beginning of such period and the reinvestment of any dividends. The comparisons in the graphs below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

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

* $100 INVESTED ON MAY 31, 2004 IN STOCK OR
INDEX-INCLUDING REINVESTMENT OF DIVIDENDS.

	5/04	5/05	5/06	5/07	5/08	5/09
Oracle Corporation	100.00	112.28	124.74	170.00	200.35	172.29
S&P 500 Index	100.00	108.24	117.59	144.39	134.72	90.84
Dow Jones U.S. Software Index	100.00	109.39	104.04	138.31	137.29	105.59

Table of Contents

Item 6. Selected Financial Data

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

	As of and For The Year Ended May 31,				
(in millions, except per share amounts)	**2009**	**2008**	**2007**	**2006**	**2005**
Consolidated Statements of Operations Data:					
Total revenues	$ 23,252	$ 22,430	$ 17,996	$ 14,380	$ 11,799
Operating income	$ 8,321	$ 7,844	$ 5,974	$ 4,736	$ 4,022
Net income	$ 5,593	$ 5,521	$ 4,274	$ 3,381	$ 2,886
Earnings per share basic	$ 1.10	$ 1.08	$ 0.83	$ 0.65	$ 0.56
Earnings per share diluted	$ 1.09	$ 1.06	$ 0.81	$ 0.64	$ 0.55
Basic weighted average common shares outstanding	5,070	5,133	5,170	5,196	5,136
Diluted weighted average common shares outstanding	5,130	5,229	5,269	5,287	5,231
Cash dividends declared per share	$ 0.05	$	$	$	$
Consolidated Balance Sheets Data:					
Working capital	$ 9,432	$ 8,074(1)	$ 3,496	$ 5,044(1)	$ 385(2)
Total assets	$ 47,416	$ 47,268(3)	$ 34,572(3)	$ 29,029(3)	$ 20,687
Notes payable, current and other current borrowings(4)	$ 1,001	$ 1,001	$ 1,358	$ 159	$ 2,693
Notes payable and other non-current borrowings(5)	$ 9,237	$ 10,235	$ 6,235	$ 5,735	$ 159
Stockholders equity	$ 25,090	$ 23,025	$ 16,919	$ 15,012	$ 10,837

(1) Total working capital increased as of May 31, 2008 and 2006 primarily due to the issuance of $5.0 billion and $5.75 billion, respectively, in long-term senior notes and increased cash flows from operations.

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

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

(4) Notes payable, current and other current borrowings remained constant in fiscal 2009 due to repayment of $1.0 billion of senior notes that matured in May 2009 offset by the prospective maturity of $1.0 billion of senior notes due in fiscal 2010. Notes payable, current and other current borrowings decreased in fiscal 2008 due to repayments of amounts borrowed under our commercial paper program during fiscal 2007 partially offset by

$1.0 billion of senior notes that matured in fiscal 2009. Notes payable, current and other current borrowings increased in fiscal 2005 due to amounts borrowed under our commercial paper program and amounts borrowed by Oracle Technology Company, a wholly-owned subsidiary, which were repaid in fiscal 2006.

(5) Notes payable and other non-current borrowings increased between fiscal 2006 and fiscal 2008 due to the issuances of $5.0 billion of long-term senior notes in fiscal 2008, $2.0 billion of long-term senior notes in fiscal 2007 and $5.75 billion of long-term senior notes in fiscal 2006, partially offset by redemptions of $1.5 billion in fiscal 2007. In fiscal 2009 and 2008, $1.0 billion of these long-term senior notes were repaid at maturity. See Note 7 of Notes to Consolidated Financial Statements for additional information on our notes payable and other borrowings.

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

We begin Management s Discussion and Analysis of Financial Condition and Results of Operations with an overview of our key operating business segments and significant trends. This overview is followed by a 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 results of operations and financial condition.

Table of Contents

Business Overview

We are the world s largest enterprise software company. We develop, manufacture, market, distribute and service database and middleware software as well as applications software designed to help our customers manage and grow their business operations. We believe our internal, or organic, growth and continued innovation with respect to our software products and services offerings provide the foundation for our long-term strategic plan. We invest billions of dollars in research and development each year to enhance our existing portfolio of products and services and to develop new products, features and services. Our internally developed offerings have been enhanced by our acquisitions.

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

Software Business

Our software business, which represented 81%, 80% and 79% of our total revenues in fiscal 2009, 2008 and 2007, respectively, is comprised of two operating segments: (1) new software license revenues and (2) software license updates and product support revenues. On a constant currency basis, we expect that our software business revenues generally will continue to increase due to continued demand for our products, including the high percentage of customers that renew their software license updates and product support contracts, and due to our acquisitions, which should allow us to grow our profits and continue to make investments in research and development.

New Software Licenses: We license our database and middleware as well as our applications software to businesses of many sizes, government agencies, educational institutions and resellers. The growth in new software license revenues that we report is affected by the strength of general economic and business conditions, governmental budgetary constraints, the competitive position of our software products, our acquisitions and foreign currency fluctuations. Our new software license business is also characterized by long sales cycles. The timing of a few large software license transactions can substantially affect our quarterly new software license revenues. Since our new software license revenues in a particular quarter can be difficult to predict as a result of the timing of a few large software license transactions, we believe that analysis of new software license revenues on a trailing 4-quarter period (as provided in our quarterly reports on Form 10-Q) provides additional visibility into the underlying performance of our new software license business. New software license revenues represented 31%, 34% and 33% of our total revenues in fiscal 2009, 2008 and 2007, respectively. Our new software license margins have historically trended upward over the course of the four quarters within a particular fiscal year due to the historical upward trend of our new software license revenues over those quarterly periods and because the majority of our costs are predominantly fixed in the short term. However, our new software license margins have been and will continue to be affected by the amortization of intangible assets associated with companies that we have acquired.

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

Table of Contents

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

Software license updates and product support revenues, which represented 50%, 46% and 46% of our total revenues in fiscal 2009, 2008 and 2007, respectively, is our highest margin business unit. Support margins during fiscal 2009 were 84%, and accounted for 81% of our total margins over the same period. Our software license update and product support margins have been affected by fair value adjustments relating to support obligations assumed in business combinations (described further below) and by amortization of intangible assets. However, over the longer term, we believe that software license updates and product support revenues and margins will grow for the following reasons:

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

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

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

We record adjustments to reduce support obligations assumed in business acquisitions to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize software license updates and product support revenues related to support contracts that would have been otherwise recorded by the acquired businesses as independent entities in the amount of $243 million, $179 million and $212 million in fiscal 2009, 2008 and 2007, respectively. To the extent underlying support contracts are renewed with us following an acquisition, we will recognize the revenues for the full value of the support contracts over the support periods, the majority of which are one year.

Services Business

Our services business consists of consulting, On Demand and education. Our services business, which represented 19%, 20% and 21% of our total revenues in fiscal 2009, 2008 and 2007, respectively, has significantly lower margins than our software business.

Consulting: Our consulting line of business provides services to customers in business/IT strategy alignment; business process simplification; solution integration; and product implementation, enhancements, and upgrades of our database, middleware and applications software. The amount of consulting revenues recognized tends to lag software revenue recognition by several quarters since consulting services, if purchased, are typically performed after the purchase of new software licenses. Our consulting revenues are dependent upon general economic conditions and the level of new software license sales, particularly our application product sales. To the extent we are able to grow our new software license revenues, in particular our application product revenues, we would also generally expect to be able to grow our consulting revenues.

On Demand: On Demand includes Oracle On Demand and our Advanced Customer Services offerings. We believe that our On Demand offerings provide our customers flexibility in how they manage their IT environments and an additional opportunity to lower their total cost of ownership and can therefore provide us with a competitive advantage. Recently, we have grown the base of customers that have purchased our On Demand services and to the extent we are able to continue this trend, we would expect our On Demand revenues and margins to increase. We have made and plan to continue to make investments in our On Demand business to support current and future revenue growth, which historically has negatively impacted On Demand margins and may do so in the future.

Education: The purpose of our education services is to further the adoption and usage of our software products by our customers and to create opportunities to grow our software revenues. Education revenues are impacted by general economic conditions, personnel reductions in our customers information technology departments, tighter controls over discretionary spending and greater use of outsourcing solutions. We believe the recent global economic environment has unfavorably affected customer demand for our education services in comparison to prior years, which has negatively impacted our revenues and margins.

Acquisitions

An active acquisition program is another important element of our corporate strategy. In recent years, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies.

On April 19, 2009, we entered into an Agreement and Plan of Merger (Merger Agreement) with Sun Microsystems, Inc. (Sun), a provider of enterprise computing systems, software and services. Pursuant to the Merger Agreement, our wholly owned subsidiary will merge with and into Sun and Sun will become a wholly owned subsidiary of Oracle. Upon the consummation of the merger, each share of Sun common stock will be converted into the right to receive $9.50 in cash. In addition, options to acquire Sun common stock, Sun restricted stock unit awards and other equity-based awards denominated in shares of Sun common stock outstanding immediately prior to the consummation of the merger will generally be converted into options, restricted stock unit awards or other equity-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 Sun is approximately $7.4 billion. This transaction is subject to Sun stockholder approval, regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the applicable merger control laws of the European Commission and other jurisdictions, and other customary closing conditions.

We believe our acquisition program supports our long-term strategic direction, strengthens our competitive position, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings, and increases stockholder value. We expect to continue to acquire companies, products, services and technologies. See Note 2 of Notes to Consolidated Financial Statements for additional information related to our recent acquisitions.

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

Business Combinations

Goodwill and Intangible Assets Impairment Assessments

Accounting for Income Taxes

Legal and Other Contingencies

Stock-Based Compensation

Allowances for Doubtful Accounts

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

Revenue Recognition

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

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

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize new software license revenue when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Substantially all of our new software license revenues are recognized in this manner.

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

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

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

On Demand is comprised of Oracle On Demand and Advanced Customer Services. Oracle On Demand provides multi-featured software and hardware management and maintenance services for our database, middleware and applications software delivered at our data center facilities, select partner data centers or customer facilities. Advanced Customer Services provide customers with solution lifecycle management services, database and application management services, industry-specific solution support centers and remote and on-site expert services. Revenues from On Demand services are recognized over the term of the service period, which is generally one year.

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

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

For software license arrangements that include hardware, software and services, and the software is more than incidental to the multiple element arrangement, but not essential to the functionality of the hardware, we apply the guidance of Emerging Issues Task Force (EITF) Issue No. 03-5, *Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software*, which allows the non-software elements and related services to be accounted for pursuant to SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* (Topic 13), and EITF 00-21, *Revenue Arrangements with Multiple Deliverables*, and the software license and related services to be accounted for pursuant to SOP 97-2.

We defer revenues for any undelivered elements, and recognize revenues when the product is delivered or over the period in which the service is performed, in accordance with our revenue recognition policy for each such element. If we cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, we defer revenues until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, we use the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

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

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

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

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

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

Business Combinations

Fiscal 2009 and Prior Periods

In accordance with FASB Statement No. 141, *Business Combinations*, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed as well as to in-process research and development based upon their estimated fair values at the acquisition date. The purchase price allocation process requires our management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities and pre-acquisition contingencies.

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

- future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents;

expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed;

the acquired company s brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company s product portfolio; and

discount rates.

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

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

As a result, we did not recognize software license updates and product support revenues related to support contracts in the amounts of $243 million, $179 million and $212 million that would have been otherwise recorded by the acquired businesses as independent entities in fiscal 2009, 2008 and 2007, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their support contracts when the contracts are eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full value of the support contracts over the support periods, the substantial majority of which are one year. Had we included costs for our estimated selling and research and development activities and the associated margin for unspecified product upgrades and enhancements to be provided under our assumed support arrangements, the fair values of the support obligations would have been significantly higher than what we had recorded and we would have recorded a higher amount of software license updates and product support revenues both historically and in future periods related to these assumed support arrangements.

Other significant estimates associated with the accounting for business combinations include restructuring costs. Restructuring costs are typically comprised of severance costs, costs of consolidating duplicate facilities and contract termination costs. Restructuring expenses are based upon plans that have been committed to by management, but are generally subject to refinement during the purchase price allocation period (generally within one year of the acquisition date). To estimate restructuring expenses, management utilizes assumptions of the number of employees that would be involuntarily terminated and of future costs to operate and eventually vacate duplicate facilities. Estimated restructuring expenses may change as management executes the approved plan. Decreases to the cost estimates of executing the currently approved plans associated with pre-merger activities of the companies we acquire are recorded as an adjustment to goodwill indefinitely, whereas increases to the estimates are recorded as an adjustment to goodwill during the purchase price allocation period and as operating expenses thereafter.

For a given acquisition, we may identify certain pre-acquisition contingencies. If, during the purchase price allocation period, we are able to determine the fair value of a pre-acquisition contingency, we will include that amount in the purchase price allocation. If, as of the end of the purchase price allocation period, we are unable to determine the fair value of a pre-acquisition contingency, we will evaluate whether to include an amount in the purchase price allocation based on whether it is probable a liability had been incurred and whether an amount can be reasonably estimated. Through fiscal 2009, after the end of the purchase price allocation period, any adjustment to amounts recorded for a pre-acquisition contingency, with the exception of unresolved income tax matters, were included in our operating results in the period in which the adjustment was determined.

Table of Contents

Fiscal 2010

In fiscal 2010, we will adopt FASB Statement No. 141 (revised 2007), *Business Combinations*. For any business combination that is consummated pursuant to Statement 141(R), including our proposed acquisition of Sun described above, we will recognize separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree generally at their acquisition date fair values as defined by FASB Statement No. 157, *Fair Value Measurements*. Goodwill as of the acquisition date is measured as the excess of consideration transferred, which is also generally measured at fair value, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

The determination of fair value will require our management to make significant estimates and assumptions, with respect to intangible assets acquired, support obligations assumed, and pre-acquisition contingencies. The assumptions and estimates used in determining the fair values of these items will be substantially similar upon our adoption of Statement 141(R) as they were under Statement 141 (see above).

The below discussion lists those areas of Statement 141(R) that we believe, upon our adoption, require us to apply additional, significant estimates and assumptions.

Upon our adoption of Statement 141(R), any changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions will be recorded in current period income tax expense, unless any such changes are identified during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination) and relate to new information obtained about facts and circumstances that existed as of the acquisition date. Our estimates for the ultimate outcome of income tax matters are based on the best information available to us as of the acquisition date and corresponding measurement period. Additional information may become available subsequent to the acquisition date and corresponding measurement period, which may require us to revise our estimates for these income tax matters. Such estimate revisions that do not qualify as measurement period adjustments will be recorded to our provision for income taxes in our consolidated statement of operations in the period the revision is made and could have a material impact on our results of operations and financial position.

Upon our adoption of Statement 141(R), we will account for one-time termination and exit costs associated with prospective acquisitions pursuant to FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at its fair value in the period in which the liability is incurred. In order to incur a liability pursuant to Statement 146, our management must have established and approved a plan of restructuring in sufficient detail. A liability for a cost associated with involuntary termination benefits is recorded when benefits have been communicated and a liability for a cost to terminate an operating lease or other contract are incurred when the contract has been terminated in accordance with the contract terms or we have ceased using the right conveyed by the contract, such as vacating a leased facility. Statement 146 requires the use of assumptions and estimates, including estimated sub-lease payments to be received, which can differ materially from actual results. This may require us to revise our estimated liabilities and may materially affect our results of operations and financial position in the period the revision is made. In addition, the recognition of liabilities pursuant to Statement 146 are subject to certain criteria being met, such as the communication of benefits to be paid to employees and the cessation of benefits received under existing contracts, amongst others. These criteria can cause variability in the timing of recognition of restructuring liabilities, which could cause us to incur expenses in periods we had not expected and could materially affect our results of operations and financial position.

If the initial accounting for a business combination that is accounted for pursuant to Statement 141(R) is incomplete by the end of the reporting period in which the business combination occurs, we will report the provisional amounts for such items in our consolidated financial statements. During the measurement period, we will adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date and record those adjustments to our consolidated financial statements. Those measurement period adjustments that we determine to be significant will be applied retrospectively to comparative information in our consolidated financial statements, including adjustments to depreciation, amortization, or other income effects recognized in the initial accounting. Identifying changes to the initial accounting requires our management to apply judgment in determining whether the subsequent information received relates to facts and circumstances that existed for the provisional items as of the acquisition date, including information that affects the estimated amounts involved. To the extent significant measurement period adjustments are identified, the comparative financial information we present for a reporting period could be materially revised in comparison to that which we had previously presented in our earnings releases and related filings with the U.S. Securities and Exchange Commission (SEC).

Our adoption of Statement 141(R) in fiscal 2010 will also change how we account for certain other areas of business combinations in comparison to how these areas are currently accounted for pursuant to Statement 141 and related accounting guidance, including the expensing of direct transaction costs.

Goodwill and Intangible Assets Impairment Assessments

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The provisions of Statement 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are consistent with the reportable segments identified in Note 15 of Notes to Consolidated Financial Statements. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. Our most recent annual goodwill impairment analysis, which was performed during the fourth quarter of fiscal 2009, did not result in an impairment charge, nor did we record any goodwill impairment in fiscal 2008 or 2007.

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

Assumptions and estimates about future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the historical assumptions and estimates we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. We did not recognize any intangible asset impairment charges in fiscal 2009, 2008 or 2007.

Accounting for Income Taxes

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

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

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

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

The amount of income tax we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental. We account for our uncertain tax issues pursuant to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which contains a two-step approach to recognizing and measuring uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given with respect to the final outcome of these matters. We adjust reserves for our uncertain tax positions due to changing facts and circumstances, such as the closing of a tax audit, refinement of estimates or realization of earnings or deductions that differ from our estimates. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will impact our provision for income taxes in the period in which such a determination is made. Our provisions for income taxes include the impact of reserve provisions and changes to reserves that are considered appropriate and also include the related interest and penalties.

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

As described in the Business Combinations section above, through fiscal 2009, income tax contingencies that exist as of the acquisition date for an acquired company are evaluated quarterly and any changes are recorded as adjustments to goodwill. For fiscal 2010, we will make our best estimate of income tax contingencies that we

Table of Contents

assumed from our legacy acquisitions, and that we will assume from any future acquisitions, as of the acquisition date and during the related measurement period and we will reassess our estimates quarterly. Subsequent to the measurement period, adjustments to these income tax contingencies will affect our provision for income taxes in our consolidated statement of operations and could have a material impact on our results of operations and financial position.

Legal and Other Contingencies

We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether the amount of 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 account for share-based payments to employees, including grants of employee stock awards and purchases under employee stock purchase plans in accordance with FASB Statement No. 123 (revised 2004), *Share-Based Payment,* which requires that share-based payments (to the extent they are compensatory) be recognized in our consolidated statements of operations based on their fair values. In addition, we have applied certain of the provisions of the SEC s Staff Accounting Bulletin No. 107 (Topic 14), as amended, in our accounting for Statement 123(R).

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

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

We estimate the fair value of employee stock options using a Black-Scholes valuation model. The fair value of an award is affected by our stock price on the date of grant as well as other assumptions including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption we use is based upon United States treasury interest rates appropriate for the expected life of the awards. We use the implied volatility of our publicly traded, longest-term options in order to estimate future stock price trends as we believe that implied volatility is more representative of future stock price trends than historical volatility. In order to determine the estimated period of time that we expect employees to hold their stock options, we have used historical rates of employee groups by seniority of job classification. Our expected dividend rate was zero prior to our first dividend declaration in the fourth quarter of fiscal 2009 as we did not historically pay cash dividends on our common stock and did not anticipate doing so for the foreseeable future for grants issued prior to this declaration date. For grants issued subsequent to this dividend

Table of Contents

declaration date, we used an annualized dividend yield based on the per share dividend declared by our Board of Directors. The aforementioned inputs entered into the option valuation model we use to fair value our stock awards are subjective estimates and changes to these estimates will cause the fair value of our stock awards and related stock-based compensation expense we record to vary.

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

To the extent we change the terms of our employee stock-based compensation programs, experience market volatility in the pricing of our common stock that increases the implied volatility calculation of our publicly traded, longest-term options or refine different assumptions in future periods such as forfeiture rates that differ from our current estimates, amongst other potential impacts, the stock-based compensation expense that we record in future periods and the tax benefits that we realize may differ significantly from what we have recorded in previous reporting periods.

Allowances for Doubtful Accounts

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

Results of Operations

Impact of Acquisitions

The comparability of our operating results in fiscal 2009 compared to fiscal 2008 is impacted by our acquisitions, prima