ORACLE CORP /DE/
Form 10-Q/A
December 27, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q /A

Amendment No. 1

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2005

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 0-14376

—

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-2871189**
(State or other jurisdiction of incorporation or organization)	**(IRS 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 zip code)

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

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

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

The number of shares of registrant s common stock outstanding as of September 26, 2005 was: 5,151,824,100.

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EXPLANATORY NOTE

We are filing this Amendment No. 1 to our quarterly report on Form 10-Q for the period ended August 31, 2005 to modify Part I, Item 2, *Management s Discussion and Analysis of Financial Condition and Results of Operations,* in response to comments we received from the Staff of the Securities and Exchange Commission in connection with our proposed acquisition of Siebel Systems, Inc.

The changes to our MD&A (1) quantify the effect our January 2005 acquisition of PeopleSoft, Inc. had on our revenues and (2) remove non-GAAP Net Income and non-GAAP Earnings Per Share Diluted data, which eliminated purchase accounting adjustments and other significant expenses incurred in connection with acquisitions. We direct readers to the cautionary note regarding our quantification of the PeopleSoft acquisition s effect on our revenues and our presentation of supplemental disclosure related to acquisition accounting contained in the introductory paragraph under the caption Results of Operations.

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ORACLE CORPORATION

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ORACLE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of August 31, 2005 and May 31, 2005

(Unaudited)

(in millions, except per share data)	August 31, 2005	May 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,790	$ 3,894
Marketable securities	842	877
Trade receivables, net of allowances of $260 and $269	1,651	2,570
Other receivables	196	330
Deferred tax assets	476	486
Prepaid expenses and other current assets	234	291
Total current assets	7,189	8,448
Non-current assets:		
Property, net	1,404	1,442
Intangible assets, net	3,340	3,373
Goodwill	7,215	7,003
Deferred tax assets	32	32
Other assets	416	389
Total non-current assets	12,407	12,239
Total assets	$ 19,596	$ 20,687
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 1,522	$ 2,693
Accounts payable	228	230
Income taxes payable	706	904
Accrued compensation and related benefits	630	923
Accrued restructuring	117	156
Deferred revenues	2,630	2,289
Deferred tax liabilities	6	12
Other current liabilities	708	856
Total current liabilities	6,547	8,063

Non-current liabilities:		
Notes payable and long-term debt, net of current portion	157	159
Deferred tax liabilities	978	1,010
Accrued restructuring	107	120
Deferred revenues	108	126
Other long-term liabilities	368	372
Total non-current liabilities	1,718	1,787
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value authorized: 1.0 shares; outstanding: none		
Common stock, $0.01 par value and additional paid in capital authorized: 11,000 shares; outstanding: 5,149 shares at August 31, 2005 and 5,145 shares at May 31, 2005	6,792	6,596
Retained earnings	4,334	4,043
Deferred compensation	(37)	(45)
Accumulated other comprehensive income	242	243
Total stockholders equity	11,331	10,837
Total liabilities and stockholders equity	$ 19,596	$ 20,687

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended August 31, 2005 and 2004

(Unaudited)

	Three Months Ended August 31,	
(in millions, except per share data)	**2005**	**2004**
Revenues:		
New software licenses	$ 629	$ 563
Software license updates and product support	1,502	1,176
Software revenues	2,131	1,739
Services	637	476
Total revenues	2,768	2,215
Operating expenses:		
Sales and marketing	615	480
Software license updates and product support	161	136
Cost of services	562	419
Research and development	400	303
General and administrative	156	124
Amortization of intangible assets	123	9
Acquisition related	28	29
Restructuring	11	
Total operating expenses	2,056	1,500
Operating income	712	715
Interest expense	(21)	(6)
Non-operating income, net	42	29
Income before provision for income taxes	733	738
Provision for income taxes	214	229
Net income	$ 519	$ 509
Earnings per share:		
Basic	$ 0.10	$ 0.10
Diluted	$ 0.10	$ 0.10
Weighted-average common shares outstanding:		
Basic	5,148	5,154

Diluted	5,244	5,241

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended August 31, 2005 and 2004

(Unaudited)

	Three Months Ended August 31,	
(in millions)	**2005**	**2004**
Cash Flows From Operating Activities:		
Net income	$ 519	$ 509
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	57	44
Amortization of intangible assets	123	9
Deferred income taxes	(46)	(24)
Minority interests in income	8	9
Amortization of stock-based compensation	12	
In-process research and development	7	
Net investment gains related to equity securities	(2)	
Changes in assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables	913	747
Decrease in prepaid expenses and other assets	154	139
Decrease in accounts payable and other liabilities	(451)	(328)
(Decrease) increase in income taxes payable	(172)	39
Increase in deferred revenues	336	270
Net cash provided by operating activities	1,458	1,414
Cash Flows From Investing Activities:		
Purchases of investments	(789)	(3,546)
Proceeds from maturities and sale of investments	827	1,923
Acquisitions, net of cash acquired	(309)	
Capital expenditures	(52)	(34)
Proceeds from sale of property	70	
Increase in other assets	(2)	(2)
Net cash used for investing activities	(255)	(1,659)
Cash Flows From Financing Activities:		
Payments for repurchase of common stock	(250)	(543)
Proceeds from issuance of common stock	158	27
Proceeds from borrowings	5,408	
Payments of debt	(6,590)	
Distributions to minority interests	(23)	(26)
Net cash used for financing activities	(1,297)	(542)
Effect of exchange rate changes on cash and cash equivalents	(10)	(2)

Net decrease in cash and cash equivalents	(104)	(789)
Cash and cash equivalents at beginning of period	3,894	4,138
Cash and cash equivalents at end of period	$ 3,790	$ 3,349
Non-cash financing transactions:		
Fair value of options and stock issued in connection with acquisitions	$ 31	$ 12

See notes to condensed consolidated financial statements.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

(Unaudited)

1. BASIS OF PRESENTATION

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

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

2. STOCK-BASED COMPENSATION PLANS

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

	Three Months Ended August 31,	
(in millions, except per share data)	**2005**	**2004**
Net income, as reported	$ 519	$ 509
Add: Employee compensation expense included in net income, net of forfeitures and related tax effects	8	
Deduct: Stock-based employee compensation expense determined under the fair value based method for new awards, net of forfeitures and related tax effects [1]	(34)	(37)

Pro forma net income	$ 493	$ 472
Earnings per share:		
Basic as reported	$ 0.10	$ 0.10
Basic pro forma	$ 0.10	$ 0.09
Diluted as reported	$ 0.10	$ 0.10
Diluted pro forma	$ 0.09	$ 0.09

(1) Includes reversal of unearned stock compensation expense for forfeitures arising from our use of the accelerated expense attribution method, net of related tax effects, of $15.0 million and $3.1 million in the three months ended August 31, 2005 and 2004.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2005

(Unaudited)

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

	Three Months Ended August 31,	
	2005	2004
Expected life (in years)	3.50-7.50	2.28-6.54
Risk-free interest rate	3.78-4.02%	2.40-3.31%
Volatility	27%	36%
Dividend yield		
Weighted-average fair value of grants	$ 4.52	$ 3.44

The fair value of the option component of the employee purchase plan shares was estimated at the date of grant using a Black-Scholes-Merton option-pricing model in the three months ended August 31, 2004 with the following weighted-average assumptions: expected life of 0.5 years, risk-free interest rate of 1.69%, volatility of 37% and dividend yield of 0%. The weighted average fair value of employee purchase plan grants was $3.09 for the three months ended August 31, 2004. We modified the terms of our employee stock purchase plan in April 2005 to eliminate the option component associated with the plan and to reduce the discount from 15% to 5%.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2005

(Unaudited)

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

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

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

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

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

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2005

(Unaudited)

4. ACQUISITIONS

Fiscal 2006 Acquisitions

During the first quarter of fiscal 2006, we acquired two companies and acquired technology from two additional companies. The aggregate consideration for these four transactions was approximately $351 million, which includes cash paid of $320 million and the fair value of options assumed of $31 million.

We recorded approximately $242 million of goodwill, $91 million of identifiable intangible assets, $11 million of net tangible assets and $7 million of in-process research and development in connection with these acquisitions. We have included the results of operations of these transactions prospectively from the respective dates of the acquisitions. Pro forma financial information for these acquisitions has not been presented, as the effects were not material to our historical consolidated financial statements either individually or in aggregate.

Fiscal 2005 Acquisitions

PeopleSoft, Inc.

Pursuant to our Agreement and Plan of Merger with PeopleSoft Inc., a Delaware corporation, dated December 12, 2004, we acquired approximately 75% and 97% of the outstanding common stock of PeopleSoft (including shares subject to guaranteed delivery) for $26.50 per share in cash as of December 29, 2004 and January 6, 2005, respectively. On January 7, 2005, we completed the merger of our wholly-owned subsidiary with and into PeopleSoft and converted each remaining outstanding share of PeopleSoft common stock not tendered, into a right to receive $26.50 per share in cash, without interest. As of August 31, 2005, $5 million remained payable to PeopleSoft stockholders who had not submitted their shares.

The total purchase price was $11.1 billion, which consisted of $10,576 million in cash paid or payable to acquire the outstanding common stock of PeopleSoft, $492 million for the fair value of options assumed and $12 million in cash for transaction costs. In allocating the purchase price based on estimated fair values, we recorded approximately $6,459 million of goodwill, $3,384 million of identifiable intangible assets, $1,204 million of net tangible assets and $33 million of in-process research and development. The preliminary allocation of the purchase price was based, in part, upon a valuation and our estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to restructuring costs, certain legal matters, income and non-income based taxes and residual goodwill.

Pro Forma Financial Information

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

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2005

(Unaudited)

The unaudited pro forma financial information combines the historical results for Oracle with the historical results for PeopleSoft for the three months ended August 31, 2004.

(in millions, except per share data)	Three Months Ended August 31, 2004	
Total revenues	$	2,690
Net income	$	200
Basic net income per share	$	0.04
Diluted net income per share	$	0.04

Retek Inc.

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

The total purchase price was $701 million, comprised of $633 million of cash paid to acquire the outstanding common stock of Retek, $32 million of cash paid for outstanding stock options and $36 million of acquisition related transaction costs. In allocating the purchase price based on estimated fair values, we recorded approximately $430 million of goodwill, $133 million of identifiable intangible assets, $131 million of net tangible assets and $7 million of in-process research and development. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to certain legal matters as well as income and non-income based taxes. Pro forma financial information for Retek has not been presented, as the effects were not material to our consolidated financial statements.

5. RESTRUCTURING ACTIVITIES

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

Fiscal 2005 Oracle Restructuring Plan

We currently estimate total restructuring costs associated with exiting activities of pre-merger Oracle to approximate $177 million. We have incurred $158 million in restructuring expenses to date, including $11 million in the first quarter of fiscal 2006, and expect to incur the remaining $19 million within the next three months. The remaining Oracle employees that will be terminated under this restructuring plan are subject to final negotiations with local country employee worker councils. Changes to the estimates of executing the currently approved plans of restructuring the pre-merger Oracle organization will be reflected in our future results of operations. The following table reflects the activities of the fiscal 2005 Oracle restructuring plan for the three months ended August 31, 2005, total costs incurred to date and total expected program costs by operating segment:

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2005

(Unaudited)

(in millions)	Accrued Restructuring at May 31, 2005	Three Months Ended August 31, 2005 Total Costs Incurred	Three Months Ended August 31, 2005 Cash Payments	Accrued Restructuring at August 31, 2005 [3]	Total Costs Incurred to Date	Total Expected Program Costs
Employee severance						
New software licenses	$ 14	$ 2	$ (8)	$ 8	$ 38	$ 44
Software license updates and product support	1			1	6	8
Consulting	6	1	(4)	3	20	23
On Demand [1]					2	4
Education	2	3	(1)	4	6	7
Other [2]	6	5	(1)	10	65	70
Total severance	$ 29	$ 11	$ (14)	$ 26	$ 137	$ 156
Facilities						
New software licenses	$ 2	$	$	$ 2	$ 2	$ 2
Software license updates and product support	1			1	1	1
Consulting	2			2	2	2
On Demand [1]	1			1	1	1
Other [2]	15		(1)	14	15	15
Total facilities	$ 21	$	$ (1)	$ 20	$ 21	$ 21
Total Oracle restructuring	$ 50	$ 11	$ (15)	$ 46	$ 158	$ 177

(1) Formerly referred to as advanced product services.

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

(3) Accrued restructuring of $46 million at August 31, 2005 includes $27 million recorded in accrued restructuring, current and $19 million, related to long-term facilities obligations, recorded in accrued restructuring, non-current in the accompanying condensed consolidated balance sheets.

Fiscal 2005 PeopleSoft and Retek Restructuring Plan

We currently estimate total restructuring costs associated with exiting activities of PeopleSoft and Retek to approximate $403 million. The remaining PeopleSoft employees that will be terminated under this restructuring plan are subject to final negotiations with local country employee worker councils. Estimated restructuring expenses may change as management executes the approved plan. Decreases to the estimates of executing the currently approved plans associated with pre-merger activities of the companies we acquire are recorded as an adjustment to goodwill indefinitely, whereas increases to the estimates are recorded as an adjustment to goodwill during the purchase price allocation period (generally within one year of the acquisition date) and as operating expenses thereafter. The following table reflects the activities of the PeopleSoft and Retek restructuring plan for the three months ended August 31, 2005, total costs accrued to date and total expected program costs:

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2005

(Unaudited)

(in millions)	Accrued Restructuring at May 31, 2005	Three Months Ended August 31, 2005: Adjustments to Reserve [1]	Cash Payments	Translation Adjustments	Accrued Restructuring at August 31, 2005 [2]	Total Costs Accrued to Date	Total Expected Program Costs
Severance	$ 63	$ (12)	$ (22)	$ (1)	$ 28	$ 199	$ 199
Facilities	143	(4)	(9)	(1)	129	156	156
Other	20	9	(8)		21	48	48
Total PeopleSoft and Retek restructuring	$ 226	$ (7)	$ (39)	$ (2)	$ 178	$ 403	$ 403

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

(2) Accrued restructuring of $178 million at August 31, 2005 includes $90 million recorded in accrued restructuring, current and $88 million, related to long-term facilities obligations, recorded in accrued restructuring, non-current in the accompanying condensed consolidated balance sheets.

6. ACQUISITION RELATED CHARGES

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

	Three Months Ended August 31,	
(in millions)	2005	2004
In-process research and development	$ 7	$
Transitional employee related costs	7	
Stock-based compensation	3	
Professional fees	11	29
Total acquisition related charges	$ 28	$ 29

7. BORROWINGS

Borrowings consisted of the following:

(in millions)	August 31, 2005	May 31, 2005
Commercial paper notes with various maturities through November 2005, net of unamortized discount of $4	$ 996	$ 1,993
OTC Loan Facility due May 2006	526	700
Short-term borrowings and current portion of long-term debt	1,522	2,693
6.91% senior notes due February 2007	151	153
Notes payable due May 2007	6	6
Notes payable and long-term debt	157	159
Total borrowings	$ 1,679	$ 2,852

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2005

(Unaudited)

Short-Term Borrowings

In April 2005, we issued and sold unsecured short-term promissory notes with an aggregate principal face value of $2.0 billion (the CP Notes), under our $3.0 billion commercial paper program (CP Program). The CP Notes were issued and sold pursuant to a private placement exemption from the registration requirements under federal and state securities laws. The CP Notes, which were issued at a discount from their principal face value, have various maturities with different yields. The average weighted yield of the CP Notes outstanding at August 31, 2005 is 3.64%. The CP Notes are not redeemable prior to maturity and are not subject to voluntary prepayment.

In May 2005, Oracle Technology Company (OTC), a wholly-owned subsidiary, entered into an unsecured $700 million loan facility (OTC Loan Facility) with ABN AMRO Bank N.V. guaranteed by us. The effective interest rate on the OTC Loan Facility was 4.05% at August 31, 2005. All amounts under the OTC Loan Facility are due in May 2006.

$150 Million Senior Notes

We have $150 million in 6.91% senior notes due in February 2007. In February 2002, we entered into an interest-rate swap agreement that has the economic effect of modifying the interest obligations associated with these senior notes so that the interest payable on the senior notes effectively becomes variable based on the three month LIBOR set quarterly until maturity. Our interest rate swap reduced the effective interest rate on the senior notes to 5.76% as of August 31, 2005. The fair value of the interest rate swap was $1.4 million at August 31, 2005 and is included in other assets in the accompanying condensed consolidated balance sheets.

364-Day Revolving Credit Agreement

On March 18, 2005, we entered into a 364-day revolving credit agreement (Credit Agreement). The Credit Agreement is unsecured and provides a $3.0 billion credit facility (Credit Facility) to support any commercial paper we may issue and for working capital and other general corporate purposes. We may borrow, prepay and re-borrow amounts under the Credit Facility at any time under the Credit Agreement. As of August 31, 2005, we had not borrowed any funds against the Credit Agreement.

We were in compliance with all covenants at August 31, 2005, including the requirement in the Credit Facility that our total net debt to total capitalization ratio not exceed 40%.

8. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	August 31, 2005	May 31, 2005
Software license updates and product support	$ 2,366	$ 1,985
Services	194	225
New software licenses	70	79
Deferred revenues, current	2,630	2,289
Deferred revenues, non-current	108	126
Total deferred revenues	$ 2,738	$ 2,415

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

In connection with purchase price allocations related to our acquisitions in fiscal 2005 and the first quarter of fiscal 2006, we have estimated the fair values of the support obligations assumed. The estimated fair values of the support obligations assumed were determined using a cost-build up approach. The cost-build up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligations. We recorded adjustments to reduce the carrying values of the deferred software license updates and product support revenues assumed by $445 million to $297 million, which represents our estimate of the fair value of the support obligations assumed. As a result, software license updates and product support revenues related to support contracts assumed in business acquisitions in the amount of $139 million, which would have been otherwise recorded by the acquired entities, were not recognized as revenue during the three months ended August 31, 2005. As these underlying support contracts are renewed, we will recognize the revenue for the full value of the support contracts over the remaining term of the contracts, the majority of which are one year.

9. STOCK REPURCHASE PROGRAM

Our Board of Directors has approved a program to repurchase shares of our common stock to reduce the dilutive effect of our stock option and stock purchase plans. From the inception of the stock repurchase program in 1992 to August 31, 2005, a total of 1.8 billion shares have been repurchased for approximately $20.6 billion. We repurchased 18.1 million shares for $249.7 million and 50.3 million shares for $543.4 million during the quarters ended August 31, 2005 and 2004, respectively. At August 31, 2005, approximately $1.7 billion was available to repurchase shares of our common stock pursuant to the stock repurchase program.

10. INCOME TAXES

The effective tax rate in all periods is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The provision for income taxes differs from the tax computed at the federal statutory income tax rate due primarily to state taxes and earnings considered as indefinitely reinvested in foreign operations. The effective tax rate was 29.2% and 31.0% for the three months ended August 31, 2005 and 2004, respectively.

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

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Our intercompany transfer pricing is currently being reviewed by the IRS and by foreign tax jurisdictions and will likely be subject to additional audits in the future. We previously negotiated three unilateral Advance Pricing Agreements with the IRS that cover many of our intercompany transfer pricing issues and preclude the IRS from making a transfer pricing adjustment within the scope of these agreements. However, these agreements, which are effective for fiscal years through May 31, 2006, do not cover all elements of our intercompany transfer pricing issues and do not bind tax authorities outside the United States. We are currently negotiating bilateral Advance Pricing Agreements to cover the periods from June 1, 2001 through May 31, 2006.

11. EARNINGS PER SHARE

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

	Three Months Ended August 31,	
(in millions, except per share data)	**2005**	**2004**
Net income	$ 519	$ 509
Weighted-average common shares outstanding	5,148	5,154
Dilutive effect of employee stock plans	96	87
Diluted weighted-average common shares outstanding	5,244	5,241
Basic earnings per share	$ 0.10	$ 0.10
Diluted earnings per share	$ 0.10	$ 0.10
Shares subject to anti-dilutive options excluded from calculation (1)	109	150

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

12. COMPREHENSIVE INCOME

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

(in millions)	Three Months Ended August 31, 2005	Three Months Ended August 31, 2004
Net income	$ 519	$ 509
Net foreign currency translation (loss) gain	(12)	10
Unrealized gain (loss) on equity securities, net	3	(1)
Equity hedge gain (loss), net	8	(7)
Comprehensive income	$ 518	$ 511

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13. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill, which is not deductible for tax purposes, for the three months ended August 31, 2005 were as follows:

(in millions)	New Software Licenses	Software License Updates and Product Support	Services	Other	Total
Balance as of May 31, 2005	$ 1,220	$ 4,863	$ 445	$ 475	$ 7,003
Allocation of goodwill [1]	218	164	93	(475)	
Goodwill acquired	156	67	19		242
Goodwill adjustments	(6)	(22)	(2)		(30)
Balance as of August 31, 2005	$ 1,588	$ 5,072	$ 555	$	$ 7,215

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

The changes in intangible assets for the three months ended August 31, 2005 were as follows:

	Intangible Assets, Gross			Accumulated Amortization			Net Book Value		
(in millions)	May 31, 2005	Additions	Aug 31, 2005	May 31, 2005	Expense	Aug 31, 2005	May 31, 2005	Aug 31, 2005	Weighted Average Useful Life
Software support agreements and related relationships	$ 2,124	$ 10	$ 2,134	$ (88)	$ (54)	$ (142)	$ 2,036	$ 1,992	10 years
Developed technology	800	65	865	(127)	(42)	(169)	673	696	5 years
Core technology	368	12	380	(30)	(18)	(48)	338	332	5 years
Customer relationships	257	2	259	(11)	(6)	(17)	246	242	10 years
Trademarks	84	1	85	(4)	(3)	(7)	80	78	7 years
Total	$ 3,633	$ 90	$ 3,723	$ (260)	$ (123)	$ (383)	$ 3,373	$ 3,340	

The total amortization expense related to intangible assets was $123 million and $9 million for the three months ended August 31, 2005 and 2004, respectively. Estimated future amortization expense related to intangible assets is as follows:

(in millions)	Year Ended May 31,
2006 (remainder of fiscal year)	$ 375
2007	496
2008	486
2009	482
2010	384
Thereafter	1,117
Total	$ 3,340

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14. SEGMENT REPORTING

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

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

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

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

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The following table presents a summary of our businesses and operating segments [1]:

(in millions)	Three Months Ended August 31, 2005	Three Months Ended August 31, 2004
New software licenses:		
Revenues [2]	$ 628	$ 561
Sales and distribution expenses	501	384
Margin [3]	$ 127	$ 177
Software license updates and product support:		
Revenues	$ 1,641	$ 1,176
Cost of services	151	125
Margin [3]	$ 1,490	$ 1,051
Total software business:		
Revenues [2]	$ 2,269	$ 1,737
Expenses	652	509
Margin [3]	$ 1,617	$ 1,228
Consulting:		
Revenues [2]	$ 480	$ 350
Cost of services	412	306
Margin [3]	$ 68	$ 44
On Demand:		
Revenues [2]	$ 84	$ 74
Cost of services	72	61
Margin [3]	$ 12	$ 13
Education:		
Revenues [2]	$ 74	$ 54
Cost of services	54	44
Margin [3]	$ 20	$ 10
Total services business:		
Revenues [2]	$ 638	$ 478
Cost of services	538	411

Margin [3]	$ 100	$ 67
Totals:		
Revenues [2]	$ 2,907	$ 2,215
Expenses	1,190	920
Margin [3]	$ 1,717	$ 1,295

[1] For business and management evaluation purposes, the underlying structure of our operating segments change periodically. Segment data related to the prior periods have been reclassified, as required by Statement 131, to conform to the current management organizational structure.

[2] Operating segment revenues differ from the external reporting classifications due to certain software license products that are classified as service revenues for management reporting purposes. Additionally, software license updates and product support revenues for management reporting include $139 million that was not recognized on the accompanying condensed consolidated statements of operations. See the reconciliation of operating segment revenues to total revenues below.

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

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Reconciliation of operating segment revenues to total revenues

	Three Months Ended August 31,	
(in millions)	**2005**	**2004**
Total revenues for reportable segments	$ 2,907	$ 2,215
Software license updates and product support revenues	(139)	
Total revenues	$ 2,768	$ 2,215

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

	Three Months Ended August 31,	
(in millions)	**2005**	**2004**
Total margin for reportable segments	$ 1,717	$ 1,295
Software license updates and product support revenues	(139)	
Product development and information technology expenses	(466)	(371)
Marketing and partner program expenses	(95)	(82)
Corporate and general and administrative expenses	(130)	(88)
Amortization of intangible assets	(123)	(9)
Acquisition related	(28)	(29)
Restructuring	(11)	
Stock-based compensation	(9)	&nbs