ORACLE CORP /DE/
Form 10-Q
April 12, 2001

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

FORM 10-Q

[X]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2001

OR

[_]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from   to   .

Commission file number: 0-14376

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

Delaware	94-2871189
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

The number of shares of the registrant's common stock outstanding as of March 31, 2001 was 5,613,574,751.

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

(in thousands, except share data)	February 28, 2001	May 31, 2000
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$4,129,338	$ 7,429,206
Short-term cash investments	855,900	332,792
Trade receivables, net of allowance for doubtful accounts of $317,970 at February 28, 2001 and $272,203 at May 31, 2000	1,952,119	2,533,964
Prepaids and other current assets	521,685	587,372
Total current assets	7,459,042	10,883,334
Long-term cash investments	10,000	110,000

Property, net	946,268	934,455
Long-term prepaid income taxes	261,326	322,379
Intangible and other assets	774,104	826,611
Total assets	$9,450,740	$13,076,779
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 2,814	$ 2,691
Accounts payable	277,705	287,495
Accrued compensation and related benefits	535,339	725,860
Value added tax and sales tax payable	136,662	165,304
Income taxes payable	540,124	2,821,776
Other accrued liabilities	772,304	725,630
Customer advances and unearned revenues	1,040,712	1,133,482
Total current liabilities	3,305,660	5,862,238
Long-term debt	300,931	300,770
Deferred income taxes	325,220	266,130
Other long-term liabilities	194,857	186,178
Total liabilities	4,126,668	6,615,316
Stockholders' equity:		
Preferred stock, $0.01 par value--1,000,000 shares authorized; no shares issued or outstanding at February 28, 2001 or May 31, 2000	--	--
Common stock, $0.01 par value, and additional paid in capital--11,000,000,000 shares authorized; 5,609,970,317 and 5,614,671,898 shares issued and outstanding at February 28, 2001 and May 31, 2000, respectively	3,707,501	3,112,126
Retained earnings	1,729,250	3,343,857
Accumulated other comprehensive income (loss)	(112,679)	5,480
Total stockholders' equity	5,324,072	6,461,463
Total liabilities and stockholders' equity	$9,450,740	$13,076,779

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended		Nine Months Ended	
(in thousands, except per share data)	Feb. 28, 2001	Feb. 29, 2000	Feb. 28, 2001	Feb. 29, 2000
Revenues:				

Licenses and other	$1,125,083	$1,071,373	$3,050,559	$2,606,186
Services	1,549,284	1,378,045	4,545,229	4,149,632
Total revenues	2,674,367	2,449,418	7,595,788	6,755,818
Operating expenses:				
Sales and marketing	665,605	594,696	1,879,434	1,764,555
Cost of services	708,614	707,261	2,077,490	2,217,181
Research and development	301,455	255,552	818,762	739,653
General and administrative	120,570	122,188	337,937	342,780
Total operating expenses	1,796,244	1,679,697	5,113,623	5,064,169
Operating income	878,123	769,721	2,482,165	1,691,649
Net investment gains (losses) related to equity securities	(22,437)	423,882	(20,472)	415,459
Other income, net	47,745	15,727	183,862	57,947
Income before provision for income taxes	903,431	1,209,330	2,645,555	2,165,055
Provision for income taxes	320,718	446,154	939,353	780,659
Net income	$ 582,713	$ 763,176	$1,706,202	$1,384,396
Earnings per share:				
Basic	$ 0.10	$ 0.14	$ 0.30	$ 0.24
Diluted	$ 0.10	$ 0.13	$ 0.29	$ 0.23
Weighted average common shares outstanding:				
Basic	5,595,808	5,637,878	5,594,765	5,692,500
Diluted	5,851,333	5,996,378	5,886,397	5,991,260

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended	
(in thousands)	Feb. 28, 2001	Feb. 29, 2000
Cash Flows From Operating Activities:		
Net income	$ 1,706,202	$ 1,384,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	206,399	236,389
Amortization of purchase price in excess of net tangible assets acquired	53,091	56,646

Provision for doubtful accounts	115,482	79,733
Net investment (gains) losses related to equity securities	20,472	(415,459)
Changes in assets and liabilities:		
Decrease in trade receivables	432,926	324,318
Decrease in prepaid and other current assets	56,295	52,206
Decrease in long-term prepaid income taxes	59,679	59,838
Decrease in accounts payable	(7,160)	(60,698)
Decrease in accrued compensation and related benefits	(180,899)	(197,093)
Decrease in value added tax and sales tax payable	(24,734)	(44,155)
(Decrease) increase in income taxes payable	(1,669,877)	231,211
Increase in other accrued liabilities	26,566	57,990
(Decrease) increase in customer advances and unearned revenues	(74,484)	4,628
Increase (decrease) in deferred income taxes	14,042	(10,042)
Increase (decrease) in other long-term liabilities	8,891	(5,403)
Net cash provided by operating activities	742,891	1,754,505
Cash Flows From Investing Activities:		
Purchases of cash investments	(782,900)	(876,571)
Proceeds from maturities of cash investments	359,792	1,283,267
Capital expenditures	(216,689)	(219,513)
Proceeds from sale of marketable securities	126,988	441,363
Increase in intangible and other assets	(100,772)	(197,464)
Net cash provided by (used for) investing activities	(613,581)	431,082
Cash Flows From Financing Activities:		
Payments for repurchase of common stock	(3,771,737)	(2,044,526)
Proceeds from issuance of common stock	409,824	324,466
Net payments under notes payable and long-term debt	(4)	(1,160)
Net cash used for financing activities	(3,361,917)	(1,721,220)
Effect of exchange rate changes on cash	(67,261)	17,623
Net (decrease) increase in cash and cash equivalents	(3,299,868)	481,990
Cash and cash equivalents at beginning of period	7,429,206	1,785,715
Cash and cash equivalents at end of period	$ 4,129,338	$ 2,267,705

See notes to condensed consolidated financial statements.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2000.

The unaudited condensed consolidated financial statements included herein reflect all adjustments (which include only normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. 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 the fiscal year ending May 31, 2001.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. 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 by the weighted average number of common shares plus the dilutive effect of outstanding stock options and shares issuable under the employee stock purchase plan using the treasury stock method. Approximately 66.8 and 65.9 million outstanding stock options were excluded from the calculation of diluted earnings per share for the three and nine months ended February 28, 2001, respectively, because they were anti-dilutive. However, these options could be dilutive in the future.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

	Three Months Ended		Nine Months Ended	
(in thousands, except per share data)	Feb. 28, 2001	Feb. 29, 2000	Feb. 28, 2001	Feb. 29, 2000
Net income........................	$ 582,713	$ 763,176	$1,706,202	$1,384,396
Weighted average common shares outstanding......................	5,595,808	5,637,878	5,594,765	5,692,500
Dilutive effect of employee stock plans...........................	255,525	358,500	291,632	298,760
Diluted weighted average common shares outstanding...............	5,851,333	5,996,378	5,886,397	5,991,260
Basic earnings per share..........	$ 0.10	$ 0.14	$ 0.30	$ 0.24
Diluted earnings per share........	$ 0.10	$ 0.13	$ 0.29	$ 0.23

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

3. COMPREHENSIVE INCOME

Comprehensive income includes foreign currency translation gains and losses and unrealized gains and losses on equity securities that are reflected in stockholders' equity instead of net income.

The following table sets forth the calculation of comprehensive income for the periods indicated:

	Three Months Ended		Nine Months Ended	
(in thousands)	Feb. 28, 2001	Feb. 29, 2000	Feb. 28, 2001	Feb. 29, 2000
Net income......................	$ 582,713	$ 763,176	$1,706,202	$1,384,396
Net unrealized gains (losses) on equity securities...............	(2,835)	(32,033)	(49,522)	19,506
Foreign currency translation gains (losses)..................	(24,452)	108,405	(68,637)	213,211
Total comprehensive income.......	$ 555,426	$ 839,548	$1,588,043	$1,617,113

4. STOCK REPURCHASE PROGRAM

The Company's Board of Directors has approved the repurchase of its Common Stock to reduce the dilutive effect of shares issued under its various employee stock plans. During the three months ended February 28, 2001, approximately 12.6 million shares of Common Stock were repurchased for an aggregate price of approximately $350.9 million. In the first nine months of fiscal 2001, the Company repurchased approximately 108.0 million shares of Common Stock for an aggregate price of approximately $3,771.7 million. As of February 28, 2001, approximately 53.6 million shares remained available for repurchase.

5. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2000, the Emerging Issues Task Force ("EITF") issued EITF issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." During the third quarter of fiscal 2001, the Company modified its one and only outstanding forward contract covered by EITF No. 00-19 to be in compliance with its requirements. Under the forward contract, which was entered into in February 1998, the Company agreed to sell to the counterparty 36,000,000 shares of the Company's Common Stock at $4.42 per share plus accretion, subject to adjustments over time. The forward contract has a stated maturity of February 13, 2003. The modifications, which allow the Company to continue to account for such forward contract as an equity instrument instead of being classified as an asset or liability contract requiring it to be marked to fair value through earnings each period, primarily consist of a provision to permit the Company to settle in unregistered shares and the removal of collateral requirements.

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of Accounting Principles Board ("APB") Opinion No. 25" ("FIN 44.") FIN 44 clarifies the application of APB Opinion No. 25 and among other issues clarifies the following: the definition of an employee for purposes of applying APB Opinion No. 25, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequences of various modifications to the terms of previously fixed stock options or awards, and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 was effective as of July 1, 2000, but certain conclusions in FIN 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. The Company adopted FIN 44 in the first quarter of fiscal 2001 and there was no material effect on the Company's consolidated financial position, results of operations or cash flows.

In December 1999, the SEC released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," providing the staff's views in applying accounting principles generally accepted in the

5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

United States to certain revenue recognition issues. The Company is required to adopt SAB No. 101, as amended, no later than the fourth quarter of fiscal 2001. The Company does not expect that the adoption of SAB No. 101 will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In June 1998, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, will require the Company to recognize all derivatives on the balance sheet at fair value. Derivative instruments used to hedge will be identified specifically to assets, liabilities, unrecognized firm commitments or forecasted transactions. The gains or losses resulting from changes in the fair value of derivative instruments will either be recognized in current earnings or in other comprehensive income, depending on the use of the derivative and whether the hedging instrument is effective or ineffective when hedging changes in fair value or cash flows. The Company is required to adopt SFAS No. 133, as amended, no later than the first quarter of fiscal 2002. The Company does not believe that the adoption of this Statement will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

6. OTHER MATTER

In January 2001, the Company created an irrevocable trust (the "Liberate Trust") to hold all the Company's shares (the "Liberate Shares") of Liberate Technologies ("Liberate"). The trustees of the Liberate Trust must vote the Liberate Shares in the same proportion as all the other stockholders of

Liberate (determined as of the last business day prior to a Liberate Stockholders' Meeting or the earliest time thereafter that the voting results are provided to the Trustee). The Company controls the timing of the sales of the Liberate Shares, subject to a standstill agreement with Liberate and the trustee of the Liberate Trust, and receives the proceeds of any such sales. The Liberate Trust terminates only after all shares have been sold. The standstill agreement prohibits the Company from acquiring any common stock or voting shares of Liberate and limits the Company's ability to sell the Liberate Shares to (1) sales in compliance with the volume and manner of sale limitations of Rule 144 under the Securities Act, (2) sales pursuant to a firm commitment, underwritten distribution to the public, (3) sales to a person who will own 10% or less of the total voting power of Liberate Technologies after such sale or (4) sales pursuant to a tender or exchange offer to the Liberate stockholders that is not opposed by Liberate's Board of Directors. The standstill agreement terminates two years after the termination of the Liberate Trust or sooner if Liberate is dissolved, liquidated or wound up, substantially all Liberate's assets are sold or another entity acquires Liberate by merger or consolidation. Prior to the placement of such Liberate shares into the trust, the Company accounted for its interest in Liberate using the equity method of accounting. Effective February 1, 2001, the Company began to account for its ownership interest in Liberate as available for sale securities under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

7. SEGMENT REPORTING

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," established standards for reporting information about operating segments in the Company's financial statements. 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. The Company's chief operating decision maker is the Chief Executive Officer of the Company.

The Company is organized geographically and by line of business. The Company has four major line of business operating segments: license, support, education and consulting. While the Chief Executive Officer of the

7. SEGMENT REPORTING (continued)

Company evaluates results in a number of different ways, the line of business management structure is the primary basis for which allocation of resources and financial performance are assessed. The accounting policies of the line of business operating segments are the same as those described in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2000. The Company does not track assets by operating segments. Consequently, it is not practical to show assets by operating segments.

The following table presents a summary of operating segments:(/1/)

	Three Months Ended	Nine Months Ended

(in thousands)	Feb. 28, 2001	Feb. 29, 2000	Feb. 28, 2001	Feb. 29, 2000
License:				
Revenues from unaffiliated customers(/2/)..........	$ 1,119,905	$ 1,054,506	$ 3,021,578	$ 2,568,397
Distribution expenses....	(510,991)	(470,559)	(1,425,907)	(1,390,347)
Distribution margin(/3/).............	$ 608,914	$ 583,947	$ 1,595,671	$ 1,178,050
Support(/4/):				
Revenues from unaffiliated customers(/2/)..........	$ 905,774	$ 754,413	$ 2,617,238	$ 2,142,069
Distribution expenses....	(163,781)	(193,579)	(476,829)	(562,121)
Distribution margin(/3/).............	$ 741,993	$ 560,834	$ 2,140,409	$ 1,579,948
Education:				
Revenues from unaffiliated customers(/2/)..........	$ 108,316	$ 126,249	$ 336,112	$ 375,970
Distribution expenses....	(63,718)	(75,802)	(206,406)	(237,630)
Distribution margin(/3/).............	$ 44,598	$ 50,447	$ 129,706	$ 138,340
Consulting:				
Revenues from unaffiliated customers(/2/)..........	$ 540,372	$ 514,250	$ 1,620,860	$ 1,669,382
Distribution expenses....	(432,496)	(407,108)	(1,260,627)	(1,305,416)
Distribution margin(/3/).............	$ 107,876	$ 107,142	$ 360,233	$ 363,966
Totals:				
Revenues from unaffiliated customers(/2/)..........	$ 2,674,367	$ 2,449,418	$ 7,595,788	$ 6,755,818
Distribution expenses....	(1,170,986)	(1,147,048)	(3,369,769)	(3,495,514)
Distribution margin(/3/).............	$ 1,503,381	$ 1,302,370	$ 4,226,019	$ 3,260,304

(/1/) For business and management evaluation purposes, the Company from time to time changes the underlying structure for its operating segments. Although not materially different, segment data related to prior periods were restated, as required by SFAS 131, to conform to the current organizational structure.

(/2/) Operating segment revenues differ from the external reporting classifications due to certain license products which are classified as services revenues for management reporting purposes.

(/3/) The distribution margins reported reflect only the direct controllable expenses of each line of business and do not represent the actual margins for each operating segment since they do not contain an allocation for product development and information technology, marketing and partner programs, and corporate and general and administrative expenses incurred in support of the line of business.

(/4/) Support includes update rights which, in certain sectors of the software industry such as the "shrink wrap sector," would typically be classified as license revenue.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

7. SEGMENT REPORTING (continued)

Profit Reconciliation

	Three Months Ended		Nine Months Ended	
(in thousands)	Feb. 28, 2001	Feb. 29, 2000	Feb. 28, 2001	Feb. 29, 2000
Total distribution margin for reportable segments....	$1,503,381	$1,302,370	$ 4,226,019	$ 3,260,304
Product development and information technology expenses..................	(390,087)	(346,575)	(1,081,609)	(1,005,992)
Marketing and partner program expenses...........	(114,905)	(88,926)	(338,609)	(273,002)
Corporate and general and administrative expenses....	(100,600)	(75,112)	(260,408)	(233,792)
Net investment gains (losses) related to equity securities................	(22,437)	423,882	(20,472)	415,459
Other income, net(/1/)......	28,079	(6,309)	120,634	2,078
Income before provision for income taxes.........	$ 903,431	$1,209,330	$ 2,645,555	$ 2,165,055

(/1/) Other income, net differs from those stated on Condensed Consolidated Statements of Operations primarily due to the classification of goodwill amortization for management reporting purposes.

8. LEGAL PROCEEDINGS

Refer to Part II, Item 1 for a description of legal proceedings.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In addition to historical information, this Quarterly Report contains forward-looking statements. The forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors That May Affect Future Results and Market Price of Stock." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in other documents the Company files from time to time with the SEC, including the Annual Report on Form 10-K for the fiscal year ended May 31, 2000 and the Quarterly Reports on Form 10-Q filed by the Company in fiscal 2001.

Results of Operations

Total revenues increased 9% and 12% in the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods. The increases were primarily attributable to higher support and license revenues. Sales and marketing and cost of services expenses continue to represent significant portions of operating expenses. Sales and marketing as a percentage of total revenues was 25% for the third quarter and first nine months of fiscal 2001 and 24% and 26% for the respective corresponding prior year periods. Cost of services as a percentage of total revenues decreased to 26% and 27% for the third quarter and first nine months of fiscal 2001, respectively, compared to 29% and 33% for the corresponding prior year periods, respectively. Research and development expenses as a percentage of total revenues remained fairly constant at 11% for the third quarter and first nine months of fiscal 2001 and 10% and 11% for the corresponding prior year periods. General and administrative expenses as a percentage of total revenues remained fairly constant at 5% and 4% for the third quarter and first nine months of fiscal 2001 and 5% for the corresponding prior year periods. Overall, operating income as a percentage of total revenues increased to 33% for the third quarter and first nine months of fiscal 2001 compared to 31% and 25% for the respective corresponding prior year periods.

Domestic revenues increased 6% and 14% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively. The slowdown in domestic revenue growth in the third quarter of fiscal 2001 over fiscal 2000 was primarily due to uncertainty related to economic conditions in the United States of America. International revenues increased 13% and 11% for the third quarter and first nine months of fiscal 2001, respectively, over the corresponding prior year periods. International revenues were unfavorably affected during the first nine months of fiscal 2001 as a result of the U.S. dollar strengthening against certain major international currencies. Excluding the effect of currency rate fluctuations, international revenues grew 21% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods. Excluding the effect of currency rate fluctuations, total revenues grew 13% and 17% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively. International revenues represented 49% of total revenues for the third quarter and first nine months of fiscal 2001, as compared to 47% and 50% of total revenues for the corresponding prior year periods, respectively. The Company expects that its international operations will continue to generate a significant portion of total revenues, and thus, its revenues may be adversely affected if the U.S. dollar continues to strengthen relative to international currencies.

Revenues

(in thousands)	Three Months Ended Feb. 28, 2001	Three Months Ended Feb. 29, 2000	Percent Change	Nine Months Ended Feb. 28, 2001	Nine Months Ended Feb. 29, 2000	Percent Change
Licenses and other......	$1,125,083	$1,071,373	5%	$3,050,559	$2,606,186	17%
Services................	1,549,284	1,378,045	12%	4,545,229	4,149,632	10%
Total revenues........	$2,674,367	$2,449,418	9%	$7,595,788	$6,755,818	12%
Percent of Revenues:						
Licenses and other......	42%	44%		40%	39%	
Services................	58%	56%		60%	61%	
Total revenues........	100%	100%		100%	100%	

Licenses and Other Revenues. License revenues represent fees earned for granting customers licenses to use the Company's software products. Licenses and other revenues also include documentation and other miscellaneous revenues. Documentation revenues and other miscellaneous revenues constituted 2% and 3% of total licenses and other revenues for the third quarter and first nine months of fiscal 2001, respectively, as compared to 3% of total licenses and other revenues for the corresponding prior year periods. License revenues, excluding documentation and other miscellaneous revenues, increased 6% and 18% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively. Systems software license revenues, which include server and development tools revenues, increased 1% and 11% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively. Business applications revenues increased 25% and 44% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively. The slowdown in license revenues in the third quarter of fiscal 2001 was primarily due to uncertainty related to economic conditions in the United States of America, that negatively impacted demand for the Company's systems and business application products.

As a percentage of revenues, licenses and other revenues represented 42% and 40% of total revenues for the third quarter and first nine months of fiscal 2001, respectively, as compared to 44% and 39% of total revenues for the corresponding prior year periods, respectively. The decrease in licenses and other revenues as a percentage of total revenues during the third quarter of fiscal 2001 was primarily a result of an increase in support revenues, reflecting an increase in the overall customer installed base, as well as the lower license growth resulting from the uncertainty related to economic conditions. The increase in licenses and other revenues as a percentage of total revenues during the first nine months of fiscal 2001 was primarily caused by a slowdown in the consulting and education services revenue growth rates.

Services Revenues. Services revenues consist of support, consulting and education services revenues which comprised 59%, 35% and 6% of total services revenues, respectively, for the third quarter of fiscal 2001 and 58%, 36% and 6% of total services revenues, respectively, for the nine months ended February 28, 2001. Support revenues increased 20% and 22% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively, reflecting an increase in the overall customer installed base. Consulting revenues increased 6% and decreased 2% for the third quarter and first nine months of fiscal 2001 from the corresponding prior year periods, respectively. The decline in the consulting services revenue growth rates during the first nine months of fiscal 2001 was primarily a result of the following: i) a slowdown in the business applications market during the first part of fiscal 2000, ii) part of the business generated in fiscal 2000 related to Year 2000 upgrades, iii) a push towards a partner model, leveraging third party consulting firms who provide consulting services to the Company's customers, iv) a focus on higher margin business at the expense of revenue growth, and v) shorter implementation engagements for the Company's newer generation of products. Education revenues decreased 12% for the third quarter and first nine months of fiscal 2001 from the corresponding prior year periods. The decrease in education revenues in the third quarter and first nine months of fiscal 2001 was due in part to lower business applications growth experienced during the first part of fiscal 2000.

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Operating Expenses

	Three Months Ended			Nine Months Ended		
(in thousands)	Feb. 28, 2001	Feb. 29, 2000	Percent Change	Feb. 28, 2001	Feb. 29, 2000	Percent Change
Sales and marketing.....	$ 665,605	$ 594,696	12%	$1,879,434	$1,764,555	7%
Cost of services........	708,614	707,261	0%	2,077,490	2,217,181	(6%)
Research and development............	301,455	255,552	18%	818,762	739,653	11%
General and administrative.........	120,570	122,188	(1%)	337,937	342,780	(1%)
Total operating expenses.............	$1,796,244	$1,679,697	7%	$5,113,623	$5,064,169	1%
Percent of Revenues:						
Sales and marketing.....	25%	24%		25%	26%	
Cost of services........	26%	29%		27%	33%	
Research and development............	11%	10%		11%	11%	
General and administrative.........	5%	5%		4%	5%	
Total operating expenses.............	67%	69%		67%	75%	

Total Operating Expenses. Total operating expenses increased 7% and 1% for the third quarter and first nine months of fiscal 2001 from the corresponding prior year periods, respectively. Operating expenses were favorably affected during the first nine months of fiscal 2001 as a result of the U.S. dollar strengthening against certain major international currencies. Excluding the effect of currency rate fluctuations, total operating expenses increased 11% and 5% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively. Based on current business conditions, the Company expects to further control operating expenses by reducing its worldwide workforce approximately one to two percent through normal attrition and regular business performance assessments.

Sales and Marketing Expenses. The Company continues to place significant emphasis, both domestically and internationally, on direct sales through its own sales force. However, the Company also continues to market its products through indirect channels. Sales and marketing expenses increased 12% and 7% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively. As a percentage of licenses and other revenues, sales and marketing expenses were 59% and 62% for the third quarter and first nine months of fiscal 2001, respectively, compared to 56% and 68% for the corresponding prior year periods, respectively. The increase in sales and marketing expenses as a percentage of licenses and other revenues in the third quarter of fiscal 2001 was due primarily to an increase in headcount to meet an anticipated increase in demand for the Company's products, which did not materialize in the quarter due to the economic uncertainty discussed previously. The decrease in sales and marketing expenses as a percentage of licenses and other revenues in the first nine months of fiscal 2001 was due primarily to increased revenues and productivity improvements in the first half of fiscal 2001 which favorably affected headcount and headcount related expenditures.

Cost of Services. The cost of providing services consists largely of consulting, education and support personnel expenses. Cost of services expenses remained constant for the third quarter of fiscal 2001 over the corresponding prior year period and decreased by 6% in the first nine months of fiscal 2001 from the corresponding prior year period. As a percentage of services revenues, cost of services was 46% for the third quarter and first nine months of fiscal 2001, compared to 51% and 53% for the corresponding prior year periods, respectively. The decrease in cost of services as a percentage of services revenues was due primarily to support revenues, which have relatively higher margins, constituting a higher percentage of total services revenues. The decrease in cost of services in absolute terms for the nine months of fiscal 2001 over the corresponding prior year period was due to a combination of the favorable effect of currency rate fluctuations as well as increased productivity efficiencies and controls over headcount and headcount related expenditures in the support, consulting, and education lines of business.

Research and Development Expenses. Research and development expenses increased 18% and 11% for the third quarter and first nine months of fiscal 2001 over the corresponding prior year periods, respectively. As a percentage of total revenues, research and development expenses remained relatively constant at 11% for the third quarter and first nine months of fiscal 2001 compared to 10% and 11% for the third quarter and first nine months of fiscal 2000. The Company believes that research and development expenditures are essential to maintaining its competitive position and expect these costs to continue to constitute a significant percentage of revenues.

General and Administrative Expenses. General and administrative expenses decreased 1% for the third quarter and first nine months of fiscal 2001 from the corresponding prior year periods. As a percentage of revenues, general and administrative expenses remained relatively constant at 5% and 4% for the third quarter and first nine months of fiscal 2001, as compared to 5% for each of the corresponding prior year periods.

Net Investment Gains (Losses) Related To Equity Securities

Net investment losses related to equity securities for the third quarter and first nine months of fiscal 2001 were due to the Company's equity share in the results of non-consolidated investees and provision for losses related to investments in other companies, partially offset by gains realized from sales of marketable securities. Net investment gains related to equity securities for the third quarter and first nine months of fiscal 2000 primarily relate to the gain on the sale of existing shares in Liberate, partially offset by the Company's equity share in the results of non-consolidated investees. In February 2000, the Company sold 4,274,703 shares in Liberate, resulting in a gain on sale of equity securities in the amount of $431.8 million and a related tax of $166.3 million. In January 2001, the Company created an irrevocable trust to hold all the Company's shares of Liberate. Prior to the placement of Liberate shares into the trust, the Company accounted for its interest in Liberate using the equity method of accounting. Effective February 1, 2001, the Company began to account for its ownership interest in Liberate as available for sale securities under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

Other Income, Net

Other income, net consists primarily of interest income, interest expense, foreign currency exchange gains and losses, goodwill amortization and the minority interest share in the net profits of Oracle Japan. Other income, net for the third quarter and first nine months of fiscal 2001 increased 204% and 217% over the corresponding prior year periods, respectively. The increases were primarily due to higher interest income as a result of higher average cash investment balances, partially offset by an increase in the minority interest share in the net profits of Oracle Japan. The higher average cash investment balances were primarily related to the sale of shares in Oracle Japan in April 2000, partially offset by share repurchases during the first nine months of fiscal 2001.

Provision for Income Taxes

The Company's effective tax rates have historically differed from the federal statutory rate primarily because of state taxes. The effective tax rate was 35.5% for the third quarter and first nine months of fiscal 2001, as compared to 36.9% and 36.1% for each of the corresponding prior year periods. The provision for income taxes for the third quarter of fiscal 2000 includes $166.3 million of taxes on the gain on sale of marketable securities in Liberate. Excluding this transaction, the effective tax rate for the third quarter of fiscal 2000 would have been 36.0%.

Liquidity and Capital Resources:

	Nine Months Ended		
(in thousands)	Feb. 28, 2001	Feb. 29, 2000	Percent Change
Working capital.....................	$ 4,153,382	$ 2,336,036	78%
Cash and cash investments...........	$ 4,995,238	$ 2,887,601	73%
Cash provided by operating activities.........................	$ 742,891	$ 1,754,505	(58%)
Cash provided by (used for) investing activities.........................	$ (613,581)	$ 431,082	(242%)
Cash used for financing activities...	$(3,361,917)	$(1,721,220)	(95%)

Working capital as of February 28, 2001 was 78% higher than at the end of the corresponding prior year period, primarily attributable to higher cash and cash investment balances. The increase in cash and cash investments was primarily due to proceeds from the sale of stock in Oracle Japan and Liberate during the last six months of fiscal 2000, partially offset by stock repurchases since February 29, 2000.

The positive cash flows generated from operations during the first nine months of fiscal 2001 and fiscal 2000 were primarily attributable to improved profitability and a decrease in trade receivables. The decline in cash flows generated from operations in the first nine months of fiscal 2001, as compared to the first nine months of fiscal 2000, was primarily due to the payment of taxes related to the gain on sale of Oracle Japan stock that occurred in the fourth quarter of fiscal 2000.

The negative cash flows from investing activities during the first nine months of fiscal 2001 related to cash investment purchases and investments in capital expenditures, partially offset by maturities of cash investments. The positive cash flows generated from investing activities during the first nine months of fiscal 2000 primarily reflect increased maturities of cash investments, partially offset by investments in capital expenditures. The Company expects to continue to invest in capital and other assets to support its growth.

The Company incurred negative cash flows from financing activities during the first nine months of fiscal 2001 and fiscal 2000, primarily reflecting Common Stock repurchases. The Company's Board of Directors has approved the cumulative repurchase of up to 1,096.0 million shares of its Common Stock on the open market to reduce the dilutive effect of its stock plans. Pursuant to this repurchase program, the Company repurchased 108.0 million shares for approximately $3,771.7 million during the first nine months of fiscal 2001 and 133.6 million shares for approximately $2,044.5 million during the first nine months of fiscal 2000. As of February 28, 2001, the Company has repurchased, since inception, a total of approximately 1,042.4 million shares for an aggregate amount of approximately $11,497.2 million. The Company has primarily used cash flows from operations and investing activities to fund its repurchases.

During the third quarter of fiscal 1997, the Company issued $150.0 million in 6.72% Senior Notes due in the year 2004 and $150.0 million in 6.91% Senior Notes due in the year 2007. The Senior Notes are unsecured general obligations that rank on parity with all of its other unsecured and unsubordinated indebtedness that may be outstanding. As of February 28, 2001, the Company also had other outstanding debt of approximately $3.7 million, primarily in the form of other notes payable and capital leases.

The Company believes that its current cash and cash equivalents, short-term cash investments and cash generated from operations will be sufficient to meet its working capital, capital expenditure, and investment needs through at least the next 12 months.

Factors That May Affect Future Results and Market Price of Stock

The Company operates in a rapidly changing environment that involves numerous risks, some of which are beyond its control. The following discussion highlights some of these risks.

Revenue Growth and Economic Conditions. The revenue growth and profitability of the Company's business depends on the overall demand for computer software and services, particularly in the product segments in which the Company competes. Because the Company's sales are primarily to major corporate and government customers, its business also depends on general economic and business conditions. A softening of demand for computer software caused by a weakening of the economy, particularly in the United States, may result in decreased revenues and has resulted and may continue to result in lower revenue growth rates. In particular, one of the challenges the Company continues to face in promoting future growth in license revenues is the successful refocusing of its marketing and sales efforts to the Customer Relationship Management ("CRM") and Internet procurement areas of its applications business, as well as to the other products in its e-Business suite. There can be no assurances that the Company will be able to effectively promote future revenue growth in its systems software and business applications areas.

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition" which superceded SOP 91-1. SOP 97-2 was effective for the Company's fiscal year beginning June 1, 1998, as amended by SOP 98-4 and SOP 98-9, and provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. In December 1999, the SEC issued SAB No. 101, "Revenue Recognition in Financial Statements," which provides further revenue recognition guidance. The accounting profession continues to review certain provisions of SOP No. 97-2 and SAB No. 101 with the objective of providing additional guidance on implementing its provisions. Depending upon the outcome of these reviews and the issuance of implementation guidelines and interpretations, the Company may be required to change its revenue recognition policies and business practices, and such changes could have a material adverse effect on the Company's business, results of operations or financial position.

New Products. The markets for the Company's products are characterized by rapid technological advances in hardware and software development, evolving standards in computer hardware and software technology and frequent new product introductions and enhancements. Product introductions and short product life cycles necessitate high levels of expenditures for research and development. To maintain its competitive position, the Company must enhance and improve existing products and continue to introduce new products and new versions of existing products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. The Company's inability to run on new or increasingly popular operating systems, or the Company's failure to successfully enhance and improve its products in a timely manner, and position and/or price its products, could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

Significant undetected errors or delays in new products or new versions of a product, especially in the area of CRM, may affect market acceptance of the Company's products and could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. If the Company were to experience delays in the commercialization and introduction of new or enhanced products, if customers were to experience significant problems with the implementation and installation of products, or if customers were dissatisfied with product functionality or performance, this could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

There can be no assurance that the Company's new products will achieve significant market acceptance or will generate significant revenue. Additional products that the Company plans to directly or indirectly market in the future are in various stages of development.

Sales Forecasts. Management uses a "pipeline" system, a common industry practice, to forecast sales and trends in the Company's business. The Company's sales personnel monitor the status of all proposals, such as the date when they estimate that a customer will make a purchase decision and the potential dollar amount of the sale. The Company aggregates these estimates periodically in order to generate a sales pipeline. The Company compares the pipeline at various points in time to look for trends in its business. While this pipeline analysis may provide the Company with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative and may not consistently correlate to revenues in a particular quarter or over a longer period of time. A variation in the conversion of the pipeline into contracts or in the pipeline itself could cause the Company to improperly plan or budget and thereby adversely affect its business or results of operations. In particular, a slowdown in the economy may cause purchasing decisions to be delayed, reduced in amount or cancelled which will therefore reduce the overall license pipeline conversion rates in a particular period of time.

Management of Growth. The Company has a history of rapid growth. However, the Company has at times experienced slowing growth rates in a number of areas. The Company's future operating results will depend on its ability to manage growth, accurately forecast revenues and control expenses. The Company's future operating results may also be adversely impacted by external factors, such as a slowing in demand for hardware used in conjunction with its software. A decline in the growth rate of revenues without a corresponding and timely slowdown in expense growth could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows.

Pricing. Intense competition in the various markets in which the Company competes may put pressure on the Company to reduce prices on certain products, particularly in the markets where certain vendors offer deep discounts in an effort to recapture or gain market share or to sell other software or hardware products. Moreover, the Company has made changes to its pricing model and such changes to the Company's prices and pricing policies could lead to a decline or delay in sales as the Company's sales force and its customers continue to adjust to the new pricing policies. The bundling of software products for promotional purposes or as a long-term pricing strategy or guarantees of product implementations by certain of the Company's competitors could have the effect over time of significantly reducing the prices that the Company can charge for its products. Changes in the customer's use of the Company's products could also result in lower license revenues if the Company's pricing model is not adapted to such usage. Shifts toward the use of operating systems on which the Company experiences relatively greater price competition could result in lower average license prices, thereby reducing the Company's license revenues. Additionally, while the distribution of applications through application service providers may provide a new market for the Company's products, these new distribution methods could also reduce the price paid for the Company's products or adversely affect other sales of its products. Any such price reductions and resulting lower license revenues could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows if the Company cannot offset these price reductions with a corresponding increase in sales volumes or lower spending.

Competitive Environment. The computer software industry is an intensely competitive industry with several large vendors that develop and market databases, application development tools, business applications and business intelligence products. Certain of these vendors have significantly greater financial and technical resources than the Company. The introduction of new competitive products into one or more of the Company's various markets, the addition of new functionality into an existing competitive product or the acquisition by one of its competitors of a product could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. In addition, new distribution methods (e.g. electronic channels) and opportunities presented by the Internet and electronic commerce have removed many of the barriers to entry historically faced by small and start-up companies in the software industry. The Company expects to continue to face intense competition in the various markets in which it competes.

Hiring and Retention of Employees. The Company's continued growth and success depend to a significant extent on the continued service of its senior management and other key employees and the hiring of new qualified employees. Competition for highly-skilled business, product development, technical and other personnel is intense due to low overall unemployment rates and the expansion in information technology spending. Accordingly, the Company may experience increased compensation costs that may not be offset through either improved productivity or higher prices. There can be no assurances that the Company will be successful in continuously recruiting new personnel and in retaining existing personnel. In general, the Company does not have long-term employment or non-competition agreements with its employees. The loss of one or more key employees or the Company's inability to attract additional qualified employees or retain other employees could have a material adverse effect on its continued growth.

New Business Areas. The Company has in recent years expanded its technology into a number of new business areas to foster long-term growth, including on-line auctions, or exchanges, for a number of business procurement needs, Internet/electronic commerce, on-line business services, wireless initiatives and Internet computing. These areas are relatively new to the Company's product development and sales and marketing personnel. There is no assurance that the Company will compete effectively or will generate significant revenues in these new areas. The success of Internet computing and, in particular, the Company's current Internet computing software products is difficult to predict because Internet computing represents a method of computing that is new to the entire computer industry. The successful introduction of Internet computing to the market will depend in large measure on (i) the lower cost of ownership of Internet computing relative to client/server architecture, (ii) the ease of use and administration relative to client/server architecture, and (iii) how hardware and software vendors choose to compete in this market. There can be no assurances that sufficient numbers of vendors will undertake this commitment, that the market will accept Internet computing or that Internet computing will generate significant revenues for the Company.

International Sales. A substantial portion of the Company's revenues is derived from international sales and is therefore subject to the related risks, including the general economic conditions in each country, the overlap of different tax structures, the difficulty of managing an organization spread over various countries, changes in regulatory requirements, compliance with a variety of foreign laws and regulations, longer payment cycles and volatilities of exchange rates in certain countries. There can be no assurances that the Company will be able to successfully address each of these challenges. Other risks associated with international operations include import and export licensing requirements, trade restrictions and changes in tariff rates.

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar. Changes in the value of major foreign currencies relative to the value of the U.S. dollar adversely affected revenues and operating results in the first three quarters of fiscal 2001, particularly in Europe, and will continue to do so throughout fiscal 2001 if the U.S. dollar strengthens relative to foreign currencies.

Foreign currency transaction gains and losses are primarily related to sublicense fee and other agreements between the Company and its subsidiaries and selling distributors. These gains and losses are charged against earnings in the period incurred. The Company has reduced its transaction and translation gains and losses associated with converting foreign currencies into U.S. dollars by using foreign exchange forward contracts to hedge transaction and translation exposures in major currencies. The Company finds it impractical to hedge all foreign currencies in which it conducts business. As a result, the Company will continue to experience foreign currency gains and losses.

Uneven Patterns of Quarterly Operating Results and Revenues. The Company's revenues in general, and its license revenues in particular, are relatively difficult to forecast and vary from quarter to quarter due to various factors, including the (i) relatively long sales cycles for the Company's products, (ii) size and timing of individual license transactions, the closing of which tend to be delayed by customers until the end of a fiscal quarter as a negotiating tactic, (iii) introduction of new products or product enhancements by the Company or its competitors, (iv) potential for delay or deferral of customer implementations of the Company's software, (v) changes in customer budgets, (vi) seasonality of technology purchases and other general economic conditions, and (vii) changes in the Company's pricing policies or those of its competitors. Accordingly, the Company's quarterly results are difficult to predict until the end of the quarter, and delays in product delivery or closing of sales near the end of a quarter have historically caused and could cause quarterly revenues and net income to fall significantly short of anticipated levels.

The Company's license revenues in any quarter are substantially dependent on orders booked and shipped in that quarter. Because the Company's operating expenses are based on anticipated revenue levels and because a high percentage of its expenses are relatively fixed, a delay in the recognition of revenue from even a limited number of license transactions could cause significant variations in operating results from quarter to quarter and could cause net income to fall significantly short of anticipated levels.

California has recently experienced ongoing power system shortages which have resulted in "rolling blackouts," and the recent bankruptcy filing by one of the major California public utilities may increase the number and severity of these blackouts. These blackouts, blackouts in other regions or procedures implemented to avert blackouts could cause disruptions to the Company's operations and the operations of the Company's customers. Such disruptions, particularly at the end of a quarter, could adversely affect quarterly revenues and net income by delaying the closing of a number of licensing transactions.

Uncertainty of Emerging Areas. Despite tremendous growth in emerging areas such as the Internet, on-line services and electronic commerce, the impact on the Company of this growth is uncertain. There can be no assurances that the Company will be able to provide a product offering that will satisfy new customer demands in these areas. In addition, standards for network protocols, as well as other industry adopted and de facto standards for the Internet, are evolving rapidly. There can be no assurances that standards chosen by the Company will position its products to compete effectively for business opportunities as they arise on the Internet and other emerging areas.

Future Acquisitions. As part of its business strategy, the Company has made and expects to continue to make acquisitions of, or significant investments in, businesses that offer complementary products, services and technologies. Any acquisitions or investments will be accompanied by the risks commonly encountered in acquisitions of businesses. Such risks include, among other things, the possibility that the Company pays much more than the acquired company or assets are worth, the difficulty of assimilating the operations and personnel of the acquired businesses, the potential product liability associated with the sale of the acquired company's products, the potential disruption of the Company's ongoing business, the distraction of management from the Company's business, the inability of management to maximize the Company's financial and strategic position, the maintenance of uniform standards, controls, procedures and policies and the impairment of relationships with employees and clients as a result of any integration of new management personnel. These factors could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition. Consideration paid for future acquisitions, if any, could be in the form of cash, stock, stock purchase rights or a combination thereof. Dilution to existing stockholders and to earnings per share may result in connection with any such future acquisitions.

Relative Product Profitability. Certain of the Company's revenues are derived from products that, as a percentage of revenues, currently require a higher level of development, distribution and support expenditures compared to certain of its other products. To the extent that revenues generated from such products become a greater percentage of the Company's total revenues, the Company's operating margins may be adversely affected, unless the expenses associated with such products decline as a percentage of revenues.

Long-term Investment Cycle. Developing and localizing software is expensive and the investment in product development often involves a long payback cycle. The Company's plans for the fiscal year ending May 31, 2001 include significant investments in software research and development and related product opportunities from which significant revenues are not anticipated for several years.

Sales Force Restructuring. The Company historically has relied heavily on its direct sales force. In many years, the Company has restructured or made other adjustments to its sales force at least once a year. These changes have generally resulted in a temporary lack of focus and reduced productivity by the Company's sales force that may have affected revenues in a quarter. There can be no assurances that the Company will not continue to restructure its sales force or that the related transition issues associated with restructuring the sales force will not recur.

Enforcement of the Company's Intellectual Property Rights. The Company relies on a combination of copyright, patent, trademark, trade secrets, confidentiality procedures and contractual procedures to protect its intellectual property rights. Despite the Company's efforts to protect its intellectual property rights, it may be possible for unauthorized third parties to copy certain portions of the Company's products or to reverse engineer or obtain and use technology or other information that the Company regards as proprietary. There can also be no assurances that the Company's intellectual property rights would survive a legal challenge to their validity or provide significant protection for the Company. In addition, the laws of certain countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Accordingly, there can be no assurances that the Company will be able to protect its proprietary technology against unauthorized third party copying or use, which could adversely affect the Company's competitive position.

Possibility of Infringement Claims. The Company from time to time receives notices from third parties claiming infringement by the Company's products of third party patent and other intellectual property rights. The Company expects that software products will increasingly be subject to such claims as the number of products and competitors in the Company's industry segments grow and the functionality of products overlaps. In addition, the Company expects to receive more patent infringement claims as companies increasingly seek to patent their software, especially in light of recent developments in the law that extend the ability to patent software. Regardless of its merit, responding to any such claim could be time-consuming, result in costly litigation and require the Company to enter into royalty and licensing agreements that may not be offered or available on terms acceptable to the Company. If a successful claim is made against the Company and the

Company fails to develop or license a substitute technology, the Company's business, results of operations, financial condition or cash flows could be materially adversely affected.

Possible Volatility of Stock Price. The market price of the Company's Common Stock has experienced significant fluctuations and may continue to fluctuate significantly. The market price of the Company's Common Stock may be significantly affected by factors such as the announcement of new products or product enhancements by the Company or its competitors, technological innovation by the Company or its competitors, quarterly variations in the Company's or its competitors' results of operations, changes in prices of the Company's or its competitors' products and services, changes in revenue and revenue growth rates for the Company as a whole or for specific geographic areas, business units, products or product categories, changes in earnings estimates by market analysts, speculation in the press or analyst community and general market conditions or market conditions specific to particular industries. The stock prices for many companies in the technology sector have experienced wide fluctuations that often have been unrelated to their operating performance. Such fluctuations may adversely affect the market price of the Company's Common Stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosures About Market Risk

Interest Rate Risk. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company places its investments with high credit quality issuers and, by policy, limits the amount of credit exposure to any one issuer. As stated in its policy, the Company is averse to principal loss and seeks to preserve its invested funds by limiting default risk, market risk, and reinvestment risk.

The Company mitigates default risk by investing in only high credit quality securities that it believes to be low risk and by positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity.

The table below presents the principal amount, related weighted average interest rates and maturities for the Company's investment portfolio. Short-term and long-term investments are all in fixed rate instruments. The principal amount approximates fair value at February 28, 2001.

Table of Investment Securities:

(in thousands)	Principal Amount	Weighted Average Interest Rate
Cash and cash equivalents	$4,129,338	4.70%
Short term investment (0-1 year)	855,900	5.43%
Long term investment (1-2 years)	10,000	5.63%
Total cash and cash investments	$4,995,238	

Foreign Currency Risk. The Company transacts business in various foreign currencies and the Company has established a foreign currency hedging program, utilizing foreign currency forward exchange contracts ("forward contracts") to hedge certain foreign currency transaction exposures. Under this program, increases or decreases in the Company's foreign currency transactions are offset by gains and losses on the forward contracts, so as to mitigate the possibility of foreign currency transaction gains and losses. The Company does not use forward contracts for trading purposes. All foreign currency transactions and all outstanding forward contracts are marked-to-market at the end of the period with unrealized gains and losses included in other income (expense). As the foreign currency transactions are realized as cash flows against the maturing forward contracts, the realized gains and losses are recorded in net income as a component of other income (expense). The

Company's ultimate realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature. The unrealized gain (loss) on the outstanding forward contracts at February 28, 2001 was immaterial to the Company's consolidated financial statements.

The Company also hedges the net assets of certain of its international subsidiaries. The gains or losses on equity hedges are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity.

The tables below present the notional amounts (at contract exchange rates) and the weighted average contractual foreign currency exchange rates for the Company's outstanding forward contracts and equity hedges as of February 28, 2001. Notional weighted average exchange rates are quoted using market conventions where the currency is expressed in currency units per U.S. dollar, except for Australia, New Zealand, and the UK. All of these forward contracts and equity hedges mature in ninety days or less as of February 28, 2001.

Table of Forward Contracts:

(in thousands)	Notional Amount	Notional Weighted Average Exchange Rate
Functional Currency:		

Australian Dollar	$ 2,164	0.52
Canadian Dollar	37,539	1.53
Danish Krone	15,461	8.21
Euro	86,346	0.91
Japanese Yen	3,983	115.35
Korean Won	2,950	1,255.00
New Zealand Dollar	557	0.43
Norwegian Krone	10,452	9.09
Singapore Dollar	18,927	1.73
Swedish Krona	5,429	9.91
Swiss Franc	46,562	1.68
Thai Baht	11,111	42.75
UK Pound	119,421	1.44
Total	$360,902	

Table of Equity Hedges:

(in thousands)	Notional Amount	Notional Weighted Average Exchange Rate
Functional Currency:		
Japanese Yen	$14,460	110.65
UK Pound	17,456	1.45
Total	$31,916	

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Shareholder class actions were filed in the United States District Court for the Northern District of California against the Company and its Chief Executive Officer on and after March 9, 2001. The class actions are all brought on behalf of purchasers of the stock of the Company during the period December 15, 2000 through March 1, 2001. Plaintiffs allege that the defendants made false and misleading statements about the Company's actual and expected financial performance and the performance of certain of its applications products, while the individual defendant was selling Company stock, in violation of Federal securities laws. Plaintiffs further allege that the individual defendant sold Company stock while in possession of material non-public information. The Company believes that it has meritorious defenses against these actions and intends to vigorously defend them.

A shareholder derivative lawsuit was filed in the Superior Court of the State of California, County of San Mateo on March 12, 2001. Three similar shareholder derivative lawsuits were filed in the Court of Chancery in the State of Delaware in and for New Castle County. The derivative suits were brought by Company stockholders, allegedly on behalf of the Company, against all of the Company's directors. The derivative plaintiffs allege that these directors breached their fiduciary duties to the Company by making or causing to be made alleged misstatements about the Company's revenue, growth, and the performance of certain of its applications products while certain officers and directors sold Company stock and by allowing the Company to be sued in the shareholder class actions. The derivative plaintiffs seek compensatory and other damages, disgorgement of compensation received, and a declaration that the defendants breached their fiduciary duties. The Company has not yet responded to these complaints.

Shareholder class actions were filed in the Superior Court of the State of California, County of San Mateo against the Company and its Chief Financial Officer and former President and Chief Operating Officer on and after December 18, 1997. The class actions were brought on behalf of purchasers of the stock of the Company during the period April 29, 1997 through December 9, 1997. Plaintiffs allege that the defendants made false and misleading statements about the Company's actual and expected financial performance, while selling Company stock, in violation of state securities laws. Plaintiffs further allege that the individual defendants sold Company stock while in possession of material non-public information. Discovery is ongoing in these actions. The Company believes that it has meritorious defenses to these actions and is vigorously defending them.

A related shareholder derivative lawsuit was filed in the Superior Court of the State of California, County of San Mateo on November 17, 1998. The derivative suit was brought by Company stockholders, allegedly on behalf of the Company, against certain of the Company's current and former officers and directors. The derivative plaintiffs allege that these officers and directors breached their fiduciary duties to the Company by making or causing to be made alleged misstatements about the Company's revenue, growth, and financial status while certain officers and directors sold Company stock and by allowing the Company to be sued in the shareholder class actions. The derivative plaintiffs seek compensatory and other damages, disgorgement of compensation received and temporary and permanent injunctions requiring the defendants to relinquish their directorships. On January 15, 1999, the Court entered a stipulation and order staying the action until further notice.

The Company filed petitions with the United States Tax Court on July 29, 1998, challenging notices of deficiency issued by the Commissioner of Internal Revenue that disallowed certain foreign sales corporation commission expense deductions taken by the Company in its 1988 through 1991 tax years and assessed additional taxes for those years in excess of $20 million, plus interest. In a separate action filed by Microsoft Corporation, the Tax Court ruled on September 15, 2000, in favor of the Commissioner of Internal Revenue on the same legal issue presented in the Company's case. If allowed to stand and if followed by the Tax Court in the Company's case, the Microsoft ruling may be dispositive of that issue in the Company's case and could result in additional Federal and State taxes up to $130 million, plus interest accruing at applicable Federal and State rates, for the tax years at issue in the case and for the Company's subsequent tax filings. The Company filed a motion requesting the

Tax Court to certify the controlling legal issue in its case for immediate appeal to the Ninth Circuit Court of Appeals. Thereafter, the Company's case was reassigned to the judge presiding in the Microsoft action and the Tax Court issued an order staying the Company's case until a final adjudication of the same legal issue in the Microsoft action. The Company intends to defend its position vigorously and does not believe that the final outcome will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

The Company is currently party to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, the Company does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

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

ORACLE CORPORATION

Dated: April 12, 2001

/s/ Jeffrey O. Henley
By: ----------------------------------
Jeffrey O. Henley
Executive Vice President and
Chief Financial Officer

Dated: April 12, 2001

/s/ Jennifer L. Minton
By: ----------------------------------
Jennifer L. Minton
Senior Vice President and
Corporate Controller