

**ORACLE SYSTEMS**

**FORM 10-K**

(Annual Report)

Filed 08/28/00 for the Period Ending 05/31/00

Address 500 ORACLE PKWY

REDWOOD CITY, CA 94065

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CIK 0000777676

SIC Code 7372 - Prepackaged Software Industry Software & Programming

Sector Technology Fiscal Year 05/31



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ORACLE CORP /DE/

FORM 10-K

(Annual Report)

Filed 8/28/2000 For Period Ending 5/31/2000

Address

Telephone CIK

Industry Sector

Fiscal Year

500 ORACLE PKWY

REDWOOD CITY, California 94065 650-506-7000

0000777676

Software & Programming Technology

05/31



**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C., 20549

**FORM 10-K**

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

For the fiscal year ended May 31, 2000 OR

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

*Commission file number: 0-14376*

**Oracle Corporation**

(Exact name of registrant as specified in its charter)

Delaware 94-2871189

(State or other jurisdiction of (I.R.S. employer

incorporation or organization) identification no.)

500 Oracle Parkway Redwood City, California 94065

(Address of principal executive offices, including zip code)

(650) 506-7000

(Registrant's telephone number, including area code)

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

None

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

Common Stock, par value $0.01 per share Preferred Stock Purchase Rights

(Title of class)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of July 31, 2000 was $155,629,695,808. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Number of shares of common stock outstanding as of July 31, 2000: 2,814,916,653.

# Documents Incorporated by Reference:

Part III--Portions of the registrant's definitive proxy statement to be issued in conjunction with registrant's annual stockholders' meeting to be held on October 16, 2000.

|  |  |  |  |
| --- | --- | --- | --- |
|  | | **ORACLE CORPORATION**  **FISCAL YEAR 2000 FORM 10-K ANNUAL REPORT** |  |
| **TABLE OF CONTENTS** |
| PART | I. |  | Page  ---- |
| Item | 1. | Business..................................................... | 1 |
| Item | 2. | Properties................................................... | 7 |
| Item | 3. | Legal Proceedings............................................ | 7 |
| Item | 4. | Submission of Matters to a Vote of Security Holders.......... | 7 |
| Item | 4A. | Executive Officers of the Registrant......................... | 7 |
| PART  Item | II.  5. | Market for Registrant's Common Equity and Related Stockholder |  |
|  |  | Matters...................................................... | 10 |
| Item | 6. | Selected Financial Data...................................... | 10 |
| Item | 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations.................................... | 10 |
| Item | 7A. | Quantitative and Qualitative Disclosures About Market Risk... | 23 |
| Item | 8. | Financial Statements and Supplementary Data.................. | 25 |
| Item | 9. | Changes In and Disagreements with Accountants on Accounting and Financial Disclosure..................................... | 25 |
| PART  Item | III. 10. | Directors and Executive Officers of the Registrant........... | 26 |
| Item | 11. | Executive Compensation....................................... | 26 |
| Item | 12. | Security Ownership of Certain Beneficial Owners and Management................................................... | 26 |
| Item | 13. | Certain Relationships and Related Transactions............... | 26 |
| PART  Item | IV.  14. | Exhibits, Financial Statement Schedules and Reports on Form |  |
|  |  | 8-K.......................................................... | 26 |
|  |  | Signatures................................................... | 55 |

i

# Forward-Looking Statements

In addition to historical information, this Annual Report contains forward- looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these 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 Position 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 Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by the Company in fiscal year 2001.

# PART I

**Item 1. Business General**

Oracle Corporation ("Oracle" or the "Company") is the world's leading supplier of software for information management. The Company develops, manufactures, markets and distributes computer software that helps corporations manage and grow their businesses. The Company's software products can be categorized into two broad areas: Systems software and Internet business applications software. Systems software is a complete Internet platform to develop and deploy applications on the Internet and corporate Intranets, and includes database management software and development tools that allow users to create, retrieve and modify the various types of data stored in a computer system. Internet business applications software allows users to access information or use the applications through a simple Internet browser on any client computer, and automates the performance of specific business data processing functions for financial management, procurement, project management, human resources management, supply chain management, and customer relationship management. The Company's software runs on a broad range of computers, including mainframes, minicomputers, workstations, personal computers, laptop computers and information appliances (such as hand-held devices and mobile phones) and is supported on more than 85 different operating systems, including UNIX, Windows, Windows NT, OS/390 and Linux. In addition to computer software products, the Company offers a range of consulting, education, and support services for its customers. Also, for customers who choose not to install their own applications, Oracle's Business On-Line offers an online service that hosts and delivers Internet business applications across a network that can be accessed via any standard web browser.

The Company was incorporated in 1986 as a Delaware corporation and is the successor to operations originally begun in June 1977. Unless the context otherwise requires, the "Company" or "Oracle" refers to Oracle Corporation, its predecessor and its subsidiaries. The Company's principal executive offices are located in Redwood City, California. The Company's telephone number is (650) 506-7000. The Company also maintains a worldwide website at [www.oracle.com.](http://www.oracle.com/) The information posted on the Company's website is not incorporated into this annual report.

# Product Development Architecture Oracle Internet Platform

Oracle's product development platform is based on an Internet computing architecture. The Internet computing architecture is comprised of data servers, application servers and client computers or devices running a web browser. Internet computing centralizes business information and applications, allowing them to be managed easily and efficiently from a central location. End-users are provided with ready access to the most current business data and applications through a standard Internet browser. Database servers manage all business

1

information, while application servers run all business applications. These servers are managed by professional information technology managers. By contrast, the traditional, client-server computing architecture requires that each client computer run and manage its own applications, and also be updated every time an application changes. The Company believes that the design of its software for Internet computing improves network performance and data quality, and helps organizations decrease installation, maintenance and training costs associated with information technology.

# Electronic Business

The Company believes that electronic commerce (the exchange of goods and/or services electronically over the Internet) is revolutionizing businesses by providing a relatively low-cost means of distributing products and expanding markets globally, increasing efficiencies, and providing better, more personalized customer services. As organizations are changing the way employees work, communicate, share knowledge and deliver value, the Company believes that to remain competitive, they need to develop and deploy web-based business and commerce applications on the Internet.

# Research & Development

The Company continually enhances its existing products and develops new products to meet its customers' changing requirements as well as to expand its product base. Research and development expenditures were 10% of total revenues in fiscal 2000, 1999 and 1998. As a percentage of license revenues, research and development expenditures were 23% in fiscal 2000, 1999 and 1998.

# Major Product Families Systems Software

The Oracle relational database management system ("DBMS"), the key component of Oracle's Internet platform, enables storing, manipulating and retrieving relational, object-relational, multi-dimensional, and other types of data. Oracle Version 8i is a database specifically designed as a foundation for Internet development and deployment, extending Oracle's technology in the areas of data management, transaction processing and data warehousing to the new medium of the Internet. Built directly inside the database, Internet features such as Java Server (Jserver), Internet File System (iFS), Internet Directory, Internet Security, and Intermedia, allow companies to build internet applications that lower costs, enhance customer and supplier interaction, and provide global information access across different computer architectures and across the enterprise.

Oracle Lite Version 8i is the Company's mobile database for Internet computing. The Oracle Lite database management system can be used to run applications on portable devices and to temporarily store data on these devices which can be replicated back to Oracle. Oracle Lite is a complete and comprehensive platform for building, deploying and managing mobile applications that principally run on laptops and information appliances such as hand-held devices, cell phones, smart phones, pagers, smart cards and television set top boxes.

In June 2000, the Company introduced Oracle Internet Application Server Version 8i which is an open software platform for developing, deploying and managing distributed Internet software application programs. Oracle Internet Application Server 8i provides the infrastructure necessary to run Internet computing applications, and enables customers to build and deploy portals, transactional applications, and business intelligence facilities with a single product.

Oracle offers Internet Application Server (IAS) Wireless Edition formerly Portal-to-Go, which enables information and services to be accessed through wireless and other devices. These devices include smart phones, wireless personal digital assistants, standard phones connected to Interactive Voice Recognition systems, modem equipped personal organizers and television set-top boxes. Using IAS Wireless Edition, mobile operators, content providers, and wireless Internet service providers can quickly implement wireless portals (access hubs offering content formatted for small devices) for providing personalized services and content through wireless devices.

2

# Application Development Tools

The Company's Oracle Internet Developer Suite contains application development tools, enterprise portal tools and business intelligence tools.

The Company's application development tools support different approaches to software development. For a model-based approach to development, Oracle offers two products: Oracle Designer and Oracle Developer. Oracle Designer allows business processes to be visually modeled and enterprise database applications to be generated. Oracle Developer is a development tool for building database applications that can be deployed, unchanged, in both Internet and client/server based environments. For Java programmers, Oracle offers Oracle JDeveloper, a Java development tool suite for building enterprise applications for use on the Internet. The Oracle JDeveloper suite provides a complete Java development environment for developing and deploying applications from Java and HTML clients to server based business components across the enterprise.

Oracle offers Oracle iPortal to build portal sites which provide access to database applications. Oracle iPortal features a unique browser-based interface and allows portal sites to be rapidly assembled from "portlets"-- reusable information components which wrap commonly accessed pieces of information and application services. Portal sites built with Oracle iPortal may be personalized by role and customized by end-users.

Oracle's Business Intelligence tools are designed for the Internet and provide a comprehensive and integrated suite of products that enable companies to address the full range of user requirements for information publishing, data exploration, advanced analysis and data mining. Oracle Warehouse Builder is an extensible data warehouse design and deployment environment that automates the process of creating a single database for business analysis. Oracle Warehouse Builder can quickly and easily integrate historical data with the massive, daily influxes of online data from web sites. After collecting the data, Oracle Warehouse Builder cleans, transforms and loads the data into an Oracle8i-based data warehouse.

# Internet Business Applications and On Line Business Exchanges

Oracle offers the E-Business Suite Version 11i, a fully integrated and Internet enabled set of Enterprise Resource Planning ("ERP"), Supply Chain and Customer Relationship Management ("CRM") software applications for the enterprise. Oracle is the only company to offer a fully integrated suite of Internet business applications. This integrated suite, which also is available on a component basis, provides integrated enterprise information so that companies can manage their entire business cycle, from initial contact with customers through planning, production, and delivery, to post-sale service and support. This allows companies to better align strategic and tactical goals across the entire organization. Available in approximately 30 languages, Oracle's Internet business applications allow companies to operate in multiple currencies and languages, support local business practices and legal requirements, and handle business-critical operations across borders.

Oracle's ERP applications consist of integrated software modules to automate business functions such as financial management, supply chain management, procurement, manufacturing, project systems and human resources applications for large and mid-sized commercial and public sector organizations throughout the world. These applications combine business functionality with innovative technologies, such as workflow and self-service applications, and enables customers to lower the cost of their business operations by providing their customers, suppliers and employees with self service access to both transaction processing and selected business information using the Internet platform. Self service applications automate a variety of business functions such as procuring and managing inventories of goods and services, and employee expense reporting and reimbursement.

Oracle's CRM applications help automate and improve the business processes associated with managing customer relationships in the areas of sales, marketing, customer service and support, and call centers. Oracle's CRM applications allow multi-channel customer interactions over the Internet, such as through a call center,

3

I-store (an internet-based storefront used for selling products and services directly to customers over the web) and face-to-face, thereby helping to maximize the use of technology to improve customer relationships. Integrated with Oracle's ERP applications, Oracle's CRM products also allow enterprises to coordinate global sales forecasting and lead generation with order capture capabilities to help increase the overall efficiency of running a business.

OracleExchange.com is an Internet marketplace which allows contract and spot buying capabilities, online auctioning and reverse auctioning. Branded exchanges are company specific versions of OracleExchange.com, allowing businesses to take control of their supply chain. Major corporations in the same industry are partnering to bring all their suppliers online with the goal of reducing supply chain costs through increased visibility into demand. Demand that cannot be fulfilled using their existing supply chain plans can be auctioned out to exchanges. In addition to the exchange platform, Oracle provides procurement software to allow businesses to collect demand from within their organization. Oracle also provides supply chain planning software so businesses can check and reconfigure their supply chains based on demand.

# Services Consulting

In most of Oracle's sales offices around the world, the Company has trained consulting personnel who offer consulting services. Consultants supplement the Company's product offerings by providing services to assist customers in the implementation of applications based on the Company's products. Consulting revenues represented approximately 22%, 27% and 25% of total revenues in fiscal 2000, 1999 and 1998, respectively.

# Support

The Company offers a wide range of support services that include on-site, telephone or Internet access to support personnel, as well as software updates. Telephone support is provided by local offices, as well as Oracle's five global support centers located around the world. Support revenues represented approximately 29%, 27% and 25% of total revenues in fiscal 2000, 1999 and 1998, respectively.

# Education

The Company offers both media based and instructor led training to customers on how to use the Company's products. Education revenues represented approximately 5%, 5% and 6% of total revenues in fiscal 2000, 1999 and 1998, respectively.

# Marketing and Sales Key Market Segments

The Company has identified two key market segments where its products are sold; the enterprise business market and the general business market. The enterprise business market segment is defined by the Company as those businesses with total revenues of $500 million and above. In the enterprise business market segment, the Company believes that the most important considerations for customers are performance, functionality, product reliability, ease of use, quality of technical support and total cost of ownership, including the initial price and deployment costs as well as ongoing maintenance costs. The general business market segment is defined by the Company as those businesses with total revenues of less than $500 million. In the general business market segment, the Company believes that the principal competitive factors are strength in distribution and marketing, brand name recognition, price/performance characteristics, ease of use, ability to link with enterprise systems and product integration. The Company believes that it competes effectively in each of these markets, although the competition is intense in each market.

4

# Sales Distribution Channels

In the United States, the Company markets its products and services primarily through its own direct sales and service organization. Sales and service groups are based in the Company's headquarters in Redwood City, California, and in field offices that, as of May 31, 2000, were located in approximately 90 metropolitan areas within the United States.

Outside the United States, the Company markets its products primarily through the sales and service organizations of approximately 60 subsidiaries. These subsidiaries license and support the Company's products both within their local countries and certain other foreign countries where the Company does not operate through a direct sales subsidiary.

The Company also markets its products through indirect channels, which are called Oracle Alliance partners. The partners include value-added relicensors, value-added distributors, hardware providers, systems integrators and independent software vendors that combine the Oracle relational DBMS, application development tools and business applications with computer hardware, software application packages or services for redistribution.

The Company also markets its products through independent distributors in international territories not covered by its subsidiaries' direct sales organizations.

As of May 31, 2000, in the United States, the Company employed 12,485 sales, service and marketing employees, while the international sales, service and marketing groups consisted of 18,224 employees.

Revenues from international customers (including end users and resellers) amounted to approximately 48%, 49% and 50% of the Company's total revenues in fiscal 2000, 1999 and 1998, respectively. See Note 11 of Notes to Consolidated Financial Statements for a summary of the Company's operating segments and geographic information.

# Oracle Partner Program

The Oracle Partner Program allows Oracle to pursue new business opportunities with partners as well as direct customers. The types of partners in the Oracle Partner Program are consultants, education providers, Internet service providers, network integrators, resellers, independent software vendors and system integrators. Partners can join the the Oracle Technology Network (OTN), a program specifically designed for the Internet developer community. Oracle provides the technology, education, and technical support that enable a partner to effectively integrate Oracle products into its business. The combination of Oracle technology and a partner's expertise broadens the Company's exposure in new markets, such as the Internet.

# Hosted Online Services

Oracle offers Oracle Business OnLine, a service that delivers enterprise applications and technology across a network from a server that is hosted in a professionally managed environment at a remote data center. With a simple browser and network connections, companies can access Oracle's Internet business applications at costs significantly lower than a traditional deployment. While the customer owns the applications, Oracle owns the hardware, manages the application and server architecture, maintains and upgrades the software and provides technical support for the customer's operations.

# Competition

The computer software industry is intensely competitive and rapidly evolving. Historically, the Company has competed in various markets including the database, application development tools, business applications and services sectors. The principal software competitors in the enterprise DBMS marketplace are International Business Machines Corporation, Sybase, Inc. and Informix Corporation. In the workgroup and personal DBMS marketplace, the Company competes with several desktop software vendors, including Microsoft Corporation. In

5

the data warehousing market, the Company's On-Line Analytical Processing ("OLAP") products compete with those of Business Objects, S.A., Cognos, Inc. and Hyperion Solutions. In the application server market, competitors include International Business Machines Corporation and BEA Systems Inc. In the business applications software market, competitors include J.D. Edwards, Peoplesoft Inc., and SAP Aktiengeschellschaft. The Company continues to compete in these traditional markets as well as in some new, rapidly expanding markets like the CRM, procurement and supply chain marketplaces where the competition includes Siebel Systems, Ariba, Inc., Commerce One and I2 Technologies.

# Product and Services Revenues

The Company's standard end user license agreement for the Company's products provides for an initial fee to use the product in perpetuity up to a maximum number of power units (processing power of the computers in the customer's network) or a maximum number of named users. The Company also enters into other license agreement types, which allow for the use of the Company's products, usually restricted by the number of employees or the license term. Fees from licenses are recognized as revenue upon shipment, provided fees are fixed and determinable and collection is probable. Fees from licenses sold together with consulting services are generally recognized upon shipment provided that the above criteria have been met, payment of the license fees is not dependent upon the performance of the consulting services and the consulting services are not essential to the functionality of the licensed software. In instances where the aforementioned criteria have not been met, both the license and consulting fees are recognized under the percentage of completion method of contract accounting.

The Company receives sublicense fees from its Oracle Alliance partners (value- added relicensors, value-added distributors, hardware providers, systems integrators and independent software vendors) based on the sublicenses granted by the Oracle Alliance partner. Sublicense fees are typically based on a percentage of the Company's list price and are generally recognized as they are reported by the reseller.

Support revenues consist of two components: (1) updates for software products and end user documentation; and (2) technical product support services that include on-site, telephone or Internet access to support personnel. The Company prices technical product support services as a percentage of the license price, while on-site support services are based on the level of support services provided. Software subscription update rights are also priced as a percentage of the license price, and can be purchased separately from technical product support. Most customers purchase support initially and renew their support agreements annually. The Company generally bills support fees at the beginning of each support period. Support revenues are recognized ratably over the contract period.

Revenues related to consulting and education services to be performed by the Company generally are recognized over the period during which the applicable service is to be performed or on a services-performed basis.

The Company's quarterly revenues and expenses reflect distinct seasonality. See "Management's Discussion and Analysis of Financial Position and Results of Operations."

# Employees

As of May 31, 2000, the Company employed 41,320 full-time persons, including 29,564 in sales and services, 1,145 in marketing, 6,650 in research and development and 3,961 in general and administrative positions. Of these employees, 19,771 were located in the United States and 21,549 were employed in approximately 60 other countries.

None of the Company's employees are represented by a labor union. The Company has experienced no work stoppages and believes that its employee relations are good.

6

# Item 2. Properties

Oracle's properties consist primarily of owned and leased office facilities for sales, research and development, consulting and administrative personnel. The Company's headquarters facilities consist of approximately 2.3 million square feet in Redwood City, California. The Company also owns or leases office facilities in various locations in the United States and abroad.

The Company believes that its facilities are adequate for its current needs and that suitable additional or substitute space will be available as needed to accommodate expansion of the Company's operations. See Notes 2 and 5 of Notes to Consolidated Financial Statements for information regarding the Company's lease obligations.

# Item 3. Legal Proceedings

The material set forth in Footnote 12 of Item 14(a)(1) of this Form 10-K is incorporated herein by reference.

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

On May 10, 2000, the Company held a Special Meeting of Stockholders. At the meeting, the stockholders approved an amendment to the Company's Certificate of Incorporation increasing the number of authorized shares of the Company's Common Stock from 4,000,000,000 to 11,000,000,000 (with 2,139,505,227 affirmative votes, 332,952,992 negative votes, 2,750,800 votes withheld and 1,253,929 broker non-votes).

# Item 4A. Executive Officers of the Registrant

The executive officers of the Company are as follows:

Name Office(s)

---- --------

Lawrence J. Ellison..... Chief Executive Officer and Chairman of the Board

Jeffrey O. Henley....... Executive Vice President, Chief Financial Officer and Director Gary L. Bloom........... Executive Vice President

Safra A. Catz........... Executive Vice President

Sergio Giacoletto....... Executive Vice President, Europe, Middle East and Africa Jay H. Nussbaum......... Executive Vice President, Oracle Services Industries George J. Roberts....... Executive Vice President, North America Sales

Charles A. Rozwat....... Executive Vice President, Database Server

Edward J. Sanderson..... Executive Vice President, Consulting and Latin America Division Frank A. Varasano....... Executive Vice President, Oracle Products Industries

Ronald A. Wohl.......... Executive Vice President, Applications Development Daniel Cooperman........ Senior Vice President, General Counsel and Secretary Jennifer L. Minton...... Senior Vice President and Corporate Controller

Mr. Ellison, 54, has been Chief Executive Officer since he co-founded the Company in May 1977. Mr. Ellison has been Chairman of the Board since June 1995 and served as Chairman of the Board from April 1990 until September 1992. He also served as President of the Company from May 1977 to June 1996. Mr. Ellison is co-chairman of California's Council on Information Technology. He is also a director of Apple Computer, Inc., a computer company.

Mr. Henley, 55, has been Executive Vice President and Chief Financial Officer of the Company since March 1991 and has been a Director since June 1995. Prior to joining Oracle, he served as Executive Vice President and Chief Financial Officer of Pacific Holding Company, a privately held company with diversified interests in manufacturing and real estate, from August 1986 to February 1991.

Mr. Bloom, 39, has been Executive Vice President (currently responsible for server development, platform technologies, marketing, education, customer support, and corporate development) of the Company since May

7

1999 and the Executive Vice President of the System Products Division from March 1998 to May 1999. He has held various positions, including Senior Vice President of the System Products Division from November 1997 to March 1998, Senior Vice President of the Worldwide Alliances and Technologies Division from May 1997 to October 1997, Senior Vice President of the Product and Platform Technologies Division from May 1996 to May 1997, and Vice President of the Mainframe and Integration Technology Division and Vice President of the Massively Parallel Computing Division from May 1992 to May 1996. Prior to joining Oracle, Mr. Bloom worked at International Business Machines Corporation and at Chevron Corporation where he held various technical positions in their mainframe system areas.

Ms. Catz, 38, has been Executive Vice President (currently responsible for global business practices) of the Company since November 1999 and was a Senior Vice President between April 1999 and October 1999. Prior to joining Oracle, Ms. Catz was at Donaldson, Lufkin & Jenrette, a global investment bank, where she was a Managing Director from February 1997 to March 1999 and a Senior Vice President from January 1994 until February 1997 and had previously held various investment banking positions since 1986.

Mr. Giacoletto, 50, has been Executive Vice President for Europe, Middle East and Africa, since June 2000, and Senior Vice President, Business Solutions, since November 1998. He was Vice President, Alliances and Technology of the Company from March 1997 to November 1998. Before joining Oracle, he was President, AT&T Solutions for Europe, since August 1994. Previously, he spent 20 years with Digital Equipment, Inc. in various positions in marketing and services at the European level.

Mr. Nussbaum, 56, has been Executive Vice President, Oracle Service Industries since October 1998, and Senior Vice President and General Manager of the Company's Federal group since 1992. Prior to joining Oracle, Mr. Nussbaum worked at Xerox Corporation where he held various management roles during his twenty-four-year tenure, including President of Integrated Systems Operations. Mr. Nussbaum has served on several key advisory boards for George Mason University, James Madison University and the University of Maryland.

Mr. Roberts, 43, has been Executive Vice President, North America Sales since June 1999 and served as Senior Vice President, North American Sales from June 1998 to May 1999. Mr. Roberts served as Senior Vice President, Business Online from March 1998 to June 1998. He took a leave of absence from July 1997 to March 1998. Mr. Roberts joined Oracle in March 1990 and from June 1990 to June of 1997, served as Group Vice President, Central Commercial Sales.

Mr. Rozwat, 52, has been Executive Vice President, Database Server, since November 1999 and served as Senior Vice President, Database Server from December 1996 to October 1999. Mr. Rozwat served as Vice President of Development from May 1995 to November 1996.

Mr. Sanderson, 51, has been Executive Vice President, Consulting and Latin American Division since June 1999, and Senior Vice President of Consulting and the Latin American Division of the Company from July 1998 to May 1999. He served as Senior Vice President of Americas Consulting for the Company from July 1995 to July 1998. Before joining Oracle, Mr. Sanderson served as President of Worldwide Information Services for Unisys Corporation from February 1994 to June 1995. Prior to Unisys, he spent 18 years in the consulting industry at McKinsey & Company and Andersen Consulting.

Mr. Varasano, 54, has been Executive Vice President, Oracle Product Industries since October 1999. Before joining Oracle, Mr. Varasano was a Senior Partner at Booz Allen & Hamilton from October 1998 to September 1999. Mr. Varasano held several positions at Booz Allen & Hamilton, including Managing Officer United States, Global Managing Officer Engineering and Manufacturing Industries and Managing Officer, New York office. He also served on Booz Allen & Hamilton's Executive Committee and Board of Directors.

Mr. Wohl, 39, has been Executive Vice President, Applications Development, since November 1999 and served as Senior Vice President, Applications Development, from December 1992 to October 1999. From September 1989 until December 1992, Mr. Wohl was Vice President and Assistant General Manager of the Systems Product Division.

8

Mr. Cooperman, 49, has been Senior Vice President, General Counsel and Secretary of the Company since February 1997. Prior to joining Oracle, Mr. Cooperman had been associated with the law firm of McCutchen, Doyle, Brown & Enersen since October 1977, and had served there as a partner since June 1983. From September 1995 until February 1997, Mr. Cooperman was Chair of the law firm's Business & Transactions Group, and from April 1989 through September 1995, he served as the Managing Partner of the law firm's San Jose Office.

Ms. Minton, 39, has been Senior Vice President and Corporate Controller of the Company since April 2000, and Vice President and Corporate Controller since November 1998. From May 1989 to November 1998, Ms. Minton held various positions in Oracle's finance organization including Assistant Corporate Controller, and was a Vice President of the Company since August 1995. Prior to joining Oracle, Ms. Minton held various positions in the Audit Division of Arthur Andersen LLP, an international public accounting firm since December 1983.

9

# PART II

**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

The Company's Common Stock has been traded in the over-the-counter market and the nasdaq National Market since the Company's initial public offering in 1986. According to records of the Company's transfer agent, the Company had approximately 18,873 stockholders of record as of May 31, 2000. However, the majority of shares are held by brokers and other institutions on behalf of stockholders in approximately 1.4 million accounts. The number of total stockholders is less than 1.4 million due to stockholders with accounts at more than one brokerage. The following table sets forth the low and high sale price of the Company's Common Stock, based on the last sale, in each of the Company's last eight fiscal quarters.

Fiscal 2000:

Low Sale Price High Sale Price

-------------- ---------------

|  |  |  |
| --- | --- | --- |
| Fourth Quarter............................ | $62.50 | $88.44 |
| Third Quarter............................. | 35.34 | 74.25 |
| Second Quarter............................ | 18.84 | 38.72 |
| First Quarter............................. | 12.56 | 19.88 |

Fiscal 1999:

|  |  |  |
| --- | --- | --- |
| Fourth Quarter............................ | $10.72 | $19.38 |
| Third Quarter............................. | 11.64 | 20.25 |
| Second Quarter............................ | 6.36 | 12.29 |
| First Quarter............................. | 6.64 | 9.25 |

The Company's policy has been to reinvest earnings to fund future growth. Accordingly, the Company has not paid dividends and does not anticipate declaring dividends on its Common Stock in the foreseeable future.

On January 18, 2000, the Company effected a two-for-one stock split in the form of a Common Stock dividend distributed to stockholders of record as of December 30, 1999. All per share data and numbers of Common shares, where appropriate, have been retroactively adjusted to reflect the stock split.

# Item 6. Selected Financial Data

Year Ended May 31,

-------------------------------------------------------

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (in thousands, except | 2000 | 1999 | 1998 | 1997 | 1996 |
| per share data) | ----------- | ---------- | ---------- | ---------- | ---------- |
| Revenues................ | $10,130,128 | $8,827,252 | $7,143,866 | $5,684,336 | $4,223,300 |
| Operating income........ | 3,080, 160 | 1,872,881 | 1,244,200 | 1,262,985 | 904,891 |
| Net income.............. Earnings per share--  basic.................. | 6,296,803  2.22 | 1,289,758  0.45 | 813,695  0.28 | 821,457  0.28 | 603,279  0.21 |
| Earnings per share-- |  |  |  |  |  |
| diluted................ | 2.10 | 0.43 | 0.27 | 0.27 | 0.20 |
| Total assets............ | 13,076,779 | 7,259,654 | 5,819,011 | 4,624,315 | 3,357,243 |
| Short-term debt......... | 2,691 | 3,638 | 2,924 | 3,361 | 5,623 |
| Long-term debt.......... | 300,770 | 304,140 | 304,337 | 300,836 | 897 |
| Stockholders' equity.... | 6,461,463 | 3,695,267 | 2,957,558 | 2,369,712 | 1,870,449 |

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

Total revenues grew 15%, 24% and 26% in fiscal 2000, 1999 and 1998, respectively. The lower overall revenue growth rates in both fiscal 2000 and fiscal 1999 as compared to the prior corresponding periods, were primarily due to lower consulting services revenue growth rates than those experienced in prior years partially offset by higher license revenue growth. Sales and marketing expenses continue to represent a significant portion of operating expenses, constituting 26%, 30%, and 33% of revenues in fiscal 2000, 1999 and 1998, respectively,

10

while cost of services as a percentage of total revenues decreased to 29% in fiscal 2000 from 35% in fiscal 1999 and 32% in fiscal 1998. The decline in the sales and marketing and cost of services percentages in fiscal 2000 was primarily the result of increased license revenues and productivity improvements which reduced headcount and headcount related expenditures. The Company's investment in research and development amounted to 10% of revenues in fiscal 2000, 1999, and 1998. General and administrative expenses as a percentage of revenues were 5% in fiscal 2000, 1999 and 1998. Overall, operating income as a percentage of revenues was 30%, 21% and 17% (20% prior to the charges for acquired in-process research and development), in fiscal 2000, 1999 and 1998, respectively.

Domestic revenues increased 17% in fiscal 2000 and 27% in fiscal 1999, while international revenues increased 12% and 21% in fiscal 2000 and 1999, respectively. International revenues were unfavorably affected in both fiscal 2000 and 1999 when compared to the corresponding prior year periods as a result of the strengthening of the U.S. dollar against certain major international currencies. International revenues expressed in local currency increased by approximately 17% and 24% in fiscal 2000 and 1999, respectively. Revenues from international customers were approximately 48%, 49% and 50% of revenues in fiscal 2000, 1999 and 1998, respectively. Management expects that the Company's international operations will continue to provide a significant portion of total revenues. However, international revenues will be adversely affected if the U.S. dollar continues to strengthen against certain major international currencies.

Quarterly revenues reflect distinct seasonality. See "Quarterly Results of Operations" below.

# Revenues:

Fiscal Year 2000 Change Fiscal Year 1999 Change Fiscal Year 1998 (in thousands) ---------------- ------ ---------------- ------ ----------------

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Licenses and Other...... | $ 4,446,795 | 21% | $3,688,366 | 15% | $3,193,490 |
| Percentage of revenues.. | 43.9% |  | 41.8% |  | 44.7% |
| Services................ | $ 5,683,333 | 11% | $5,138,886 | 30% | $3,950,376 |
| Percentage of revenues.. | 56.1% |  | 58.2% |  | 55.3% |
| Total Revenues........ | $10,130,128 | 15% | $8,827,252 | 24% | $7,143,866 |

Licenses and Other Revenues. License revenues represent fees earned for granting customers licenses to use the Company's software products. License and other revenues also include documentation revenues and other miscellaneous revenues, which constituted 3% of total license and other revenues in fiscal 2000, 1999 and 1998. License revenues, excluding other revenues, grew 20% and 16% in fiscal 2000 and fiscal 1999. Systems software license revenues, which include server and development tools revenues, grew 15% and 16% in fiscal 2000 and fiscal 1999, respectively. Business applications license revenues grew 42% and 16% in fiscal 2000 and fiscal 1999, respectively. The higher license revenue growth rate experienced in fiscal 2000 is primarily due to stronger demand for the Company's business applications products, and the introduction and market positioning of new internet business application products and versions which have stimulated demand for the Company's products.

Services Revenues. Services revenues consist of support, consulting and education services revenues which comprised 52%, 40% and 8% of total services revenues, respectively, during fiscal 2000. Support revenues grew 27% and 31% in fiscal 2000 and fiscal 1999, respectively, reflecting an increase in the overall customer installed base. The support revenue growth rate will continue to be affected by the overall license revenue growth rates. Consulting revenues declined 4% in fiscal 2000, as compared to a 34% growth rate in fiscal 1999. The decline in the consulting services revenues experienced in fiscal 2000 is primarily due to a decrease in the demand for these services as a result of the following: i) a slowdown in the business applications market in fiscal 1999, ii) the Company's strategy to focus only on profitable business, iii) a push towards a partner model, leveraging third party consulting firms who provide consulting services to the Company's customers and iv) shorter implementation engagements for Oracle's newer generation of products. Education revenues, which grew 4% and 12% in fiscal 2000 and fiscal 1999, respectively, were also affected by the lower business applications growth rate experienced in fiscal 1999 and will continue to be affected by the overall mix in the systems and applications

11

license revenue growth rates. Consulting and education revenue growth rates are expected to increase in fiscal 2001 as compared to the prior year corresponding period due to the increased demand for the Company's business applications products experienced in fiscal 2000.

# Operating Expenses:

Fiscal Year 2000 Change Fiscal Year 1999 Change Fiscal Year 1998 (in thousands) ---------------- ------ ---------------- ------ ----------------

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sales and Marketing..... | $2,616,749 | 0 % | $2,622,379 | 11% | $2,371,306 |
| Percentage of revenues.. | 25.8% |  | 29.7% |  | 33.2% |
| Cost of Services........ | $2,942,679 | (4)% | $3,064,148 | 35% | $2,273,607 |
| Percentage of revenues.. Research and  Development............ | 29.0%  $1,009,882 | 20 % | 34.7%  $ 841,406 | 17% | 31.8%  $ 719,143 |
| Percentage of revenues.. General and  Administrative......... | 10.0%  $ 480,658 | 13 % | 9.5%  $ 426,438 | 16% | 10.1%  $ 368,556 |
| Percentage of revenues.. Acquired In-Process | 4.7% |  | 4.8% |  | 5.2% |
| Research and |  |  |  |  |  |
| Development............  Percentage of revenues.. | --  -- |  | --  -- | \* $ 167,054  2.3% | |

\*Not meaningful

International expenses were favorably affected in both fiscal 2000 and fiscal 1999 when compared to the corresponding prior year periods due to the strengthening of the U.S. dollar against certain major international currencies. The net impact on operating margins, however, was unfavorable, since the negative effect on revenues was greater than the positive effect on expenses.

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 as well. Sales and marketing expenses as a percentage of both total revenues and license revenues decreased in both fiscal 2000 and fiscal 1999 as compared to the corresponding prior year periods. As a percentage of license and other revenues, sales and marketing expenses decreased to 59% in fiscal 2000 from 71% in fiscal 1999 and 74% in 1998. These decreases were primarily related to increased license revenues and productivity improvements which favorably affected headcount and headcount related expenditures.

Cost of Services. The cost of providing services consists largely of consulting, support and education personnel expenses. As a percentage of services revenues, cost of services decreased to 52% in fiscal 2000 from 60% in fiscal 1999. The decrease in cost of services as a percentage of services revenues in fiscal 2000 was due primarily to support revenues, which have relatively higher margins, constituting a higher percentage of total services revenues, improved consulting utilization rates, increased productivity efficiencies and controls over headcount and headcount related expenditures as the Company continued to focus on margin improvement. As a percentage of services revenues, cost of services increased to 60% in fiscal 1999 from 58% in fiscal 1998, primarily due to lower consulting and education utilization rates as a result of lower than anticipated revenue growth.

Research and Development Expenses. Research and development expenses were 10% of total revenues in fiscal 2000, 1999 and 1998. Research and development expenses increased 20% and 17% in fiscal 2000 and 1999, respectively, when compared to corresponding prior year periods. The higher expense growth rate in fiscal 2000 was due to planned increases in research and development headcount in fiscal 2000. The Company believes that research and development expenditures are essential to maintaining its competitive position and expects these costs to continue to constitute a significant percentage of revenues.

General and Administrative Expenses. General and administrative expenses as a percentage of revenues remained flat at 5% in fiscal 2000, 1999 and 1998.

12

Acquired In-Process Research and Development. In the first quarter of fiscal 1998, the Company completed the acquisition of Treasury Services Corporation ("TSC") for approximately $110,000,000 in cash, and converted the outstanding options to purchase TSC stock to options to purchase the Company's stock at a value of approximately $8,967,000. In addition, the Company also merged its subsidiary, Liberate Technologies ("Liberate"), previously Network Computer, Inc., with Navio Communications, Inc. ("Navio"), a development stage company, in a stock-for-stock exchange valued at approximately $77,000,000. Both of these acquisitions were accounted for using the purchase method. In connection with these acquisitions, the Company recorded acquired in-process research and development charges of $91,500,000 for TSC and

$75,554,000 for Navio. The Company is primarily responsible for estimating the fair value of acquired in- process research and development. There were no acquisitions involving acquired in-process research and development charges in fiscal 2000 and 1999 (See Note 6 of Notes to Consolidated Financial Statements for further details on acquisitions).

# Overall Valuation Methodology

Independent valuations of TSC and Navio were performed and used as an aid in determining the fair value of the identifiable assets and in allocating the purchase price among the acquired assets, including the portion of the purchase price attributed to acquired in-process research and development ("R&D"). Assets identified for each transaction varied slightly, but generally included in-process R&D, developed technology, assembled workforce, installed customer base, and goodwill. TSC and Navio are collectively referred to as the "Acquired Companies".

The valuation techniques employed in the appraisals were designed to properly reflect all intellectual property rights in the intangible assets, including core technology. The value of the developed technology was derived from direct sales of existing products including their contribution to in-process R&D. In this way, value was properly attributed to the engineering know-how embedded in the existing products that will be used in developmental products. The appraisals also considered the fact that the existing know-how diminishes in value over time as new technologies are developed and changes in market conditions render current products and methodologies obsolete.

Assets were identified through on-site interviews with management and a review of data provided by the Company and the Acquired Companies' management concerning the acquired assets, technologies in development, costs necessary to complete the in-process R&D, market potential, historical financial performance, estimates of future performance, and the assumptions underlying these estimates.

The following table presents the purchase price allocations associated with these acquisitions:

TSC Navio

(in thousands) -------- -------

In-process R&D............................................ $ 91,500 $75,554

Developed Technology...................................... 11,400 --

Other Intangible Assets................................... 24,700 1,750

Installed Customer Base and Trade Names................... 7,200 -- Assembled Workforce....................................... 1,700 350

-------- ------- Total Intangible Assets................................. 136,500 77,654

Net Tangible Assets....................................... (17,533) (654)

-------- ------- Total Purchase Price.................................... $118,967 $77,000

======== =======

Purchased incomplete R&D projects were identified through extensive interviews and detailed analysis of development plans provided by management concerning the following:

. Uniqueness of developmental work and the costs incurred

. Critical tasks required to complete the project

. Opportunities which were expected to arise from the project

. Degree of leverage of the new technology on legacy technology

13

. Risks associated with project completion

. Assessment of types of efforts involved (hardware development & software development)

. Length of time project was expected to be useful, and

. Timing related to completion of projects and resources allocated to completion, including associated expenses

None of the in-process R&D value was associated with routine on-going efforts to enhance or otherwise improve on the qualities of the existing products. The Acquired Companies' engineers were developing advanced, next generation technologies that involved creating product designs and disparate technologies to form superior products. The in-process R&D value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. Rates used to discount net cash flows ranged from 20% to 50% considering the uncertainty surrounding the successful development of the purchased in-process technology, the useful life of such technology, the profitability levels of such technology, and the uncertainty of technological advances that were indeterminable at that time.

# Stage of Completion

The appraisals included the valuation of each specific R&D project underway at the respective acquisition dates. In the months leading up to the purchases, the Acquired Companies had made significant progress in their R&D programs. However, due to the substantial time and effort necessary to produce these products in accordance with functional specifications, technological feasibility of the R&D projects had not yet been achieved. The acquired projects included next-generation versions of TSC's product family, as well as planned new products and technologies, and development work associated with Navio's Internet browser software. The efforts required to develop the purchased in-process technology of the Acquired Companies into commercially viable products principally related to the completion of planning, designing, prototyping, verification and testing activities that were necessary to establish that the software could be produced to meet its design specifications, including functions, features, and technical performance requirements. Anticipated completion dates for the projects in-process ranged from six to thirty-six months for TSC projects, and three to thirty-six months for Navio projects, at which dates the Acquired Companies expected to begin selling the developed software products. Remaining R&D expenditures were projected to be approximately $83,000,000 through the year 2001 ($49,000,000 for TSC and $34,000,000 for Navio).

The resulting net cash flows from such projects were based on management's estimates of product revenues, operating expenses, R&D costs, and income taxes from such projects. The revenue projections used to value the in-process R&D were based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by the Company and its competitors. The Company's projections may ultimately prove to be incomplete or inaccurate, and unanticipated events and circumstances are likely to occur. Therefore, no assurance can be given that the underlying assumptions used to forecast revenues and costs to develop such projects will transpire as estimated.

In the case of TSC, changing market requirements and evolving Internet standards forced TSC to undertake R&D projects to re-develop its product line using a more flexible, three-tier software architecture. If successful, these R&D projects would provide innovative functionality that would allow TSC a substantial market advantage over its competition. As of the acquisition date, TSC had re-engineered the interface components between its products and completed preliminary designs and verification of the new architecture. Costs incurred on the in-process R&D projects over the 12 months preceding the acquisition date were approximately $10,000,000. Costs in periods prior to the twelve months preceeding the acquisition date, for the acquired R&D projects were immaterial. TSC was not able to leverage its developed technology to a large extent due to limitations in the existing software's structure that required fundamental re-development of all its software modules.

Navio's development team had made significant technological and creative strides in the development of its experimental Internet technologies as of August 1997. Navio had expended in excess of $9,000,000 on the

14

acquired R&D since its inception in February 1996. As of the acquisition date, Navio was a development stage company with minimal product revenues and large net losses. Navio was entering the testing phase for two of its developmental products, NC Navigator 3.0 and TV Navigator

1.1. Historical revenues represented services and limited sales of a Netscape product sold as a test network computer browser on an experimental basis. This product was superseded by Navio's NC Navigator 3.0.

# Alternative Future Use

Before the Company made the decision not to capitalize the value ascribed to in-process R&D, the projects were evaluated individually to determine if technological feasibility had been achieved and if there were any alternative future uses. Such evaluation consisted of a specific review of the efforts, including the overall objectives of the project, progress toward the objectives, and uniqueness of the development efforts.

The Acquired Companies' technical activities were concentrated on the development of new product knowledge having specific commercial objectives, and efforts were focused on translating those applied research findings and other scientific know-how into commercially viable software products. In the case of TSC, the acquired R&D was related to software applications using proprietary code and routines designed specifically for the respective products. Likewise, Navio was developing experimental Internet technologies for which no market existed at the time of the acquisition. Due to their specialized nature, the in-process R&D projects had no alternative future uses, either for re-deployment elsewhere in the business or in liquidation, in the event the projects failed.

# Continuing Efforts

The Company expects that the remaining acquired in-process R&D will be successfully developed, however, there can be no assurance that commercial viability of these projects will be achieved. If these projects are not successfully developed, future revenue and profitability of the Company may be adversely affected and the value of the intangible assets relating to the acquisitions may become impaired. Commercial results will also be subject to uncertain market events and risks that are beyond the Company's control, such as trends in technology, government regulations, market size and growth, and product introduction or other actions by competitors.

# Other Income, net:

Fiscal Year 2000 Change Fiscal Year 1999 Change Fiscal Year 1998 (in thousands) ---------------- ------ ---------------- ------ ----------------

Net Investment Gains Related to Marketable

|  |  |  |
| --- | --- | --- |
| Securities............. | $6,936,955 \* $24,457 | \* $ 4,300 |
| Percentage of revenues.. | \* 0.3% | 0.1% |
| Other Income, net....... | $ 106,319 25% $84,740 | 1% $79,319 |
| Percentage of revenues.. | 1.0% 1.0% | 1.1% |

\*Not meaningful

In February 1999, subsequent to the initial public offering of Oracle Japan, the Company sold 250,000 of its existing shares of Oracle Japan's Common Stock at approximately $99 per share resulting in a gain on sale of marketable securities in the amount of $24,457,000.

In February 2000, Liberate Technologies ("Liberate"), issued and sold 2,890,000 shares of Common Stock at approximately $108 per share in a public offering. Separately, the Company sold 4,274,703 shares in Liberate Technologies, resulting in a gain on sale of marketable securities in the amount of $431,846,000.

In April 2000, Oracle Japan issued and sold 250,000 shares of Common Stock at approximately $772 per share in a public offering. Separately, the Company sold 8,700,000 shares in Oracle Japan, resulting in a gain on sale of marketable securities in the amount of $6,466,378,000.

15

In addition to the above mentioned transactions, the net investment gains related to marketable securities include gains on sale of other marketable securities, and the Company's equity share in the results of non-consolidated subsidiaries.

Other income, net includes interest income and expense, foreign currency exchange gains and losses as well as the minority interest share in the income or loss of consolidated subsidiaries. Other income in fiscal 1998 includes the minority interest's share of a one-time acquired research and development charge for Navio. Excluding this credit of $25,726,000, other income for fiscal 1998 was $53,593,000. Other income increased in both fiscal 2000 and fiscal 1999, primarily due to increased net interest income related to higher cash and investment balances.

# Provision for Income Taxes:

Fiscal Year 2000 Change Fiscal Year 1999 Change Fiscal Year 1998 (in thousands) ---------------- ------ ---------------- ------ ----------------

Provision for Income

Taxes.................. $3,826,631 453% $692,320 35% $514,124

Percentage of revenues.. 37.8% 7.8% 7.2%

The Company's effective tax rates have historically differed from the federal statutory rate primarily because of state taxes. See Note 10 of Notes to Consolidated Financial Statements. The effective tax rate was 37.8% in fiscal 2000, 35% in fiscal 1999 and fiscal 1998 (excluding the effect of the acquired research and development charges for the TSC and Navio transactions, net of the credit of $25,726,000 for minority interest). The provision for income taxes for fiscal 2000 includes $166,261,000 and $2,515,421,000 of taxes on the gain on sale of marketable securities in Liberate and Oracle Japan, respectively. Excluding these transactions, the effective tax rate for fiscal 2000 would have been 35.5%.

# Net Income and Earnings Per Share:

(in thousands, except Fiscal Year 2000 Change Fiscal Year 1999 Change Fiscal Year 1998 per share data) ---------------- ------ ---------------- ------ ----------------

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Net Income.............. | $6,296,803 | 388% | $1,289,758 | 59% | $813,695 |
| Percentage of revenues.. Earnings Per Share--  Basic.................. | 62.2%  $ 2.22 | 393% | 14.6%  $ 0.45 | 62% | 11.4%  $ 0.28 |
| Earnings Per Share-- |  |  |  |  |  |
| Diluted................ | $ 2.10 | 388% | $ 0.43 | 61% | $ 0.27 |

# Quarterly Results of Operations

The Company believes that quarterly revenues and expenses are affected by a number of seasonal factors, including the Company's sales compensation plans. The Company believes that these seasonal factors are common in the computer software industry. Such factors historically have resulted in first quarter revenues in any year being lower than revenues in the immediately preceding fourth quarter. The Company expects this trend to repeat in the first quarter of fiscal 2001. In addition, the Company's European operations generally provide lower revenues in the summer months because of the generally reduced economic activity in Europe during the summer.

16

The following table sets forth selected unaudited quarterly information for the Company's last eight fiscal quarters. The Company believes that all necessary adjustments (which consisted only of normal recurring adjustments) have been included in the amounts stated below to present fairly the results of such periods when read in conjunction with the consolidated financial statements and related notes included elsewhere herein.

Fiscal 2000 Quarter Ended

--------------------------------------------

February

|  |  |
| --- | --- |
| (in thousands, except per | August 31 November 30 29 May 31 |
| share data) | ---------- ----------- ---------- ---------- |
| Revenues..................... | $1,984,517 $2,321,883 $2,449,418 $3,374,310 |
| Operating income............. | $ 345,863 $ 576,065 $ 769,721 $1,388,511 |
| Net income................... | $ 236,736 $ 384,484 $ 763,176 $4,912,407 |
| Earnings per share--basic.... | $ 0.08 $ 0.13 $ 0.27 $ 1.74 |
| Earnings per share--diluted.. | $ 0.08 $ 0.13 $ 0.25 $ 1.63 |
| Shares outstanding--basic.... | 2,860,920 2,858,890 2,818,939 2,818,928 |
| Shares outstanding--diluted.. | 2,982,402 3,006,300 2,998,189 3,004,793 |

Fiscal 1999 Quarter Ended

--------------------------------------------

February

(in thousands, except per August 31 November 30 28 May 31 share data) ---------- ----------- ---------- ---------- Revenues..................... $1,749,110 $2,055,944 $2,078,919 $2,943,278

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Operating income............. | $ 277,837 $ | 382,067 | $ 406,679 $ | 806,299 |
| Net income................... | $ 195,002 $ | 274,076 | $ 293,261 $ | 527,420 |
| Earnings per share--basic.... | $ 0.07 $ | 0.09 | $ 0.10 $ | 0.18 |
| Earnings per share--diluted.. | $ 0.07 $ | 0.09 | $ 0.10 $ | 0.18 |
| Shares outstanding--basic.... | 2,918,682 2,891,520 | | 2,880,704 2,873,796 | |
| Shares outstanding--diluted.. | 2,967,447 2,949,810 | | 2,990,922 2,965,618 | |

Liquidity and Capital Resources

Fiscal Year Ended May 31,

--------------------------------------------------

|  |  |  |  |
| --- | --- | --- | --- |
| 2000 | Change 1999 | Change | 1998 |
| (in thousands) ----------- | ------ ---------- | ------ | ---------- |
| Working capital......... $ 5,021,096 | 109% $2,400,851 | 31% | $1,838,885 |
| Cash and cash |  |  |  |
| investments............ 7,871,998 | 180% 2,812,311 | 34% | 2,105,710 |

Cash provided by

operating activities... 2,923,564 62% 1,807,099 12% 1,610,279 Cash provided by (used

for) investing

activities............. 6,893,057 \* (802,244) (13%) (918,221)

Cash used for financing

activities............. (4,183,236) 763% (484,713) 71% (282,846)

* Not meaningful

Working capital increased in fiscal 2000 and fiscal 1999 over the corresponding prior year periods, due primarily to increased cash flow from operations and cash received from the sale of Oracle Japan and Liberate Common Stock (See Note 7 of Notes to Consolidated Financial Statements), partially offset by cash used for the repurchase of the Company's Common Stock and cash used for other long-term investing activities.

The Company generated higher positive cash flows from operations in fiscal 2000 and fiscal 1999 over the corresponding prior year periods due to increased operating profitability.

Cash provided by investing activities increased in fiscal 2000 as compared to the corresponding prior year period primarily due to cash generated from the sale of Oracle Japan and Liberate Common Stock, as well as changes in the levels and maturities of cash investments and lower investments in capital expenditures. The Company expects to continue to invest in capital and other assets to support its growth.

The Company's Board of Directors has approved the repurchase of up to 548,000,000 shares of Common Stock to reduce the dilutive effect of the Company's stock plans. Pursuant to this repurchase program, the Company has repurchased a total of 467,182,575 shares for approximately

$7,725,489,000. In fiscal 2000, 1999 and 1998,

17

the Company purchased 145,370,927, 109,313,038, and 55,338,318 shares of the Company's Common Stock, respectively. The amounts paid were $5,306,771,000, $1,086,953,000 and $489,823,000, in fiscal 2000, 1999 and 1998, respectively. The Company used cash flow from operations and investing activities to repurchase the Company's Common Stock and to invest in working capital and other assets to support its growth.

The Company, as part of its authorized stock repurchase program, has sold put warrants and purchased call options through private placements with institutional investors. The transactions were exempt under Section 4(2) of the Securities Act of 1933. The put warrants, if exercised, would entitle the holder to sell one share of Common Stock to the Company at a specified price. Similarly, the call options entitle the Company to buy, on a specified day, one share of the Company's Common Stock at a specified price. As of May 31, 2000, the Company has a maximum potential obligation under the put warrants to buy back 4,000,000 shares of its Common Stock for a price of $9.70 per share for an aggregate price of approximately $38,800,000. The put warrants will expire at various dates through October 2000. As of May 31, 2000, the Company had the right to purchase, under the call options, up to a maximum of 2,000,000 shares of its Common Stock at a price of $13.03 per share for an aggregate price of approximately $26,060,000. The call options will expire at various dates through October 2000. During fiscal 2000, the Company exercised call options for 38,136,000 shares at an average price of $10.28, which are included in the stock repurchases discussed above.

During fiscal 1997, the Company issued $150,000,000 in 6.72% Senior Notes due in the year 2004 and $150,000,000 in 6.91% Senior Notes due in the year 2007. The Senior Notes are unsecured general obligations of the Company that rank on parity with all other unsecured and unsubordinated indebtedness of the Company that may be outstanding. At May 31, 2000, the Company also had other outstanding debt of approximately $3,461,000, primarily in the form of other notes payable and capital leases.

The Company had no significant commitments for capital expenditures at May 31, 2000. The Company anticipates that current cash balances, as well as anticipated cash flows from operations, will be sufficient to meet its working capital and capital expenditure needs at least through May 31, 2001.

# 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 the Company's 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, the Company's business also depends on general economic and business conditions. A softening of demand for computer software caused by a weakening of the economy may result in decreased revenues or lower 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 CRM and Internet procurement areas of its applications business. There can be no assurances that the Company will be able to effectively promote future license revenue growth in its applications business.

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition" which superseded SOP No. 91-1. SOP No. 97-2 was effective for the Company's fiscal year beginning June 1, 1998, as amended by SOP No. 98-4 and SOP No. 98-9, and provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. Based on the Company's interpretation of the requirements of SOP No. 97-2, as amended, application of this statement did not and is not expected to have a material impact on the Company's revenue. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 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 101 with the objective of providing additional guidance on implementing its provisions. Depending upon the outcome of

18

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 port to or 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 or financial position.

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 or financial position. 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 or financial position.

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.

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 recently changed its pricing model and any broadly based 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 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 license revenues for the Company.

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 the Company's products. Any such price reductions and resulting lower license revenues could have a material adverse effect on the Company's business, results of operations or financial position if the Company cannot offset these price reductions with a corresponding increase in sales volumes or lower spending.

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 becoming more intense due to lower overall unemployment rates, the boom in information technology spending and private companies that can offer equity incentives that provide the potential of greater compensation in connection with an initial public offering. Accordingly, the Company expects to 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

19

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 the continued growth of the Company.

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 the Company's competitors of a product could have a material adverse effect on the Company's business, results of operations or financial position. 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 face increasing competition in the various markets in which it competes.

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 in the near term. 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 second, third and fourth quarters of fiscal 2000, 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 selling distributors and subsidiaries. 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 forward foreign exchange 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. 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 pricing policies of the Company or 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 the Company's 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.

20

Management of Growth. The Company has a history of rapid growth. However, the Company has experienced slowing growth rates in a number of areas, including consulting and education services. The Company's future operating results will depend on management's ability to manage growth, continuously hire and retain significant numbers of qualified employees, accurately forecast revenues and control expenses. 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 or financial position.

Sales Force Restructuring. The Company historically has relied heavily on its direct sales force. For the past several 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 temporarily 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.

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 financial and strategic position of the Company, 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 or financial position, particularly in the case of a larger acquisition. Consideration paid for future acquisitions, if any, could be in the form of cash, stock, rights to purchase stock 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 which, 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 its 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.

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 assurance 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 assurance 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.

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 exchanges for a number of business procurement needs, Internet/electronic commerce, interactive media, on-line business services 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.

21

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. See "New Products."

Sales Forecasts. The Company 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. Management aggregates these estimates periodically in order to generate a sales pipeline. Management compares the pipeline at various points in time to look for trends in the Company's business. While this pipeline analysis may provide some guidance to management in business planning and budgeting, these pipeline estimates are necessarily speculative and may not 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.

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 assurance 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 which 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 or financial position 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 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 which often have been unrelated to their operating performance. Such fluctuations may adversely affect the market price of the Company's Common Stock.

22

# Item 7a. 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 May 31, 2000.

# Table of Investment Securities:

Average Principal Amount Interest Rate

---------------- -------------

|  |  |  |
| --- | --- | --- |
| Cash and cash equivalents..................... | $7,429,206 | 5.84% |
| Short term investment (0-1 years)............. | 332,792 | 5.57% |
| Long term investment (1-2 years).............. | 110,000 | 5.89% |
|  | ---------- |  |
| Total cash and investment securities........ | $7,871,998 |  |
|  | ========== |  |

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 May 31, 2000 was immaterial to the Company's consolidated financial statements.

23

The Company also hedges the net assets of certain of its international subsidiaries. The net gains on equity hedges are recorded as a component of accumulated foreign currency translation adjustments in stockholders' equity. The Company's outstanding forward contracts and equity hedges as of May 31, 2000 are presented in the tables below.

The tables present the notional amounts (at contract exchange rates) and the weighted average contractual foreign currency exchange rates. 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, Ireland, New Zealand and the UK. All of these forward contracts and equity hedges mature in ninety days or less as of May 31, 2000.

# Table of Forward Contracts:

Notional Weighted Average

Functional Currency Notional Amount Exchange Rate

------------------- --------------- ----------------

|  |  |  |
| --- | --- | --- |
| Australian Dollar......................... | $ 19,246,725 | 0.57 |
| Canadian Dollar........................... | 84,544,606 | 1.50 |
| Danish Krone.............................. | 4,792,673 | 7.97 |
| Euro...................................... | 112,297,200 | 0.94 |
| Irish Punt................................ | 2,107,298 | 1.17 |
| Japanese Yen.............................. | 1,907,611 | 105.32 |
| New Zealand Dollar........................ | 2,490,455 | 0.45 |
| Norwegian Krone........................... | 7,331,674 | 8.92 |
| Singapore Dollar.......................... | 9,372,999 | 1.72 |
| Swedish Krona............................. | 21,143,112 | 8.96 |
| Swiss Franc............................... | 6,692,943 | 1.68 |
| Thai Baht................................. | 13,117,284 | 38.88 |
| UK Pound.................................. | 64,361,745 | 1.48 |
|  | ------------ |  |
|  | $349,406,325 |  |
|  | ============ |  |

# Table of Equity Hedges:

Notional Weighted Average

Functional Currency Notional Amount Exchange Rate

------------------- --------------- ----------------

|  |  |  |
| --- | --- | --- |
| Japanese Yen............................. | $29,893, 925 | 103.70 |
| Singapore Dollars........................ | 16,843,972 | 1.69 |
| Swedish Krona............................ | 4,613,610 | 8.67 |
| UK Pound................................. | 14,210,550 | 1.58 |
|  | ------------ |  |
|  | $65,562,057 |  |
|  | ============ |  |

Equity Price Risk. The Company, as part of its authorized stock repurchase program, has sold put warrants and purchased call options through private placements with institutional investors. The transactions were exempt under

Section 4(2) of the Securities Act of 1933. The put warrants, if exercised, would entitle the holder to sell one share of Common Stock to the Company at a specified price. Similarly, the call options entitle the Company to buy, on a specified day, one share of the Company's Common Stock at a specified price.

As of May 31, 2000, the Company has a maximum potential obligation under the put warrants to buy back 4,000,000 shares of its Common Stock for a price of $9.70 per share for an aggregate price of approximately $38,800,000. The put warrants will expire at various dates through October 2000.

As of May 31, 2000, the Company had the right to purchase, under the call options, up to a maximum of 2,000,000 shares of its Common Stock at a price of $13.03 per share for an aggregate price of approximately $26,060,000. The call options will expire at various dates through October 2000.

24

During fiscal 2000, the Company exercised call options for 38,136,000 shares at an average price of $10.28.

The table below presents the shares, the weighted average strike prices, the contract amount and the estimated fair value of the put warrants and call options at May 31, 2000:

Estimated

2000 Fair Maturity Value

(in thousands, except per share data) -------- --------- Put Warrants:

Shares.................................................. 4,000

Weighted average stock price............................ $ 9.70

Contract amount......................................... $38,800 $ 0

Call Options: Shares.................................................. 2,000

Weighted average stock price............................ $ 13.03

Contract amount......................................... $26,060 $118,410

# Item 8. Financial Statements and Supplementary Data

The response to this item is submitted as a separate section of this Form 10-K. See Item 14.

# Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

25

# PART III

**Item 10. Directors and Executive Officers of the Registrant**

The information regarding directors and executive officers required by Item 10 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting to be held on October 16, 2000.

# Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting to be held on October 16, 2000. The information specified in Item 402 (k) and (l) of Regulation S-K and set forth in the Company's definitive proxy statement for its annual stockholders' meeting to be held on October 16, 2000 is not incorporated herein by reference.

# Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting to be held on October 16, 2000.

# Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is incorporated by reference from the Company's definitive proxy statement for its annual stockholders' meeting to be held on October 16, 2000.

# PART IV

**Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a) 1. Financial Statements

The following financial statements are filed as a part of this report:

Page

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Report of Independent Public Accountants 29

Consolidated Financial Statements:

Balance Sheets as of May 31, 2000 and 1999 30

Statements of Operations for the years ended May 31, 2000, 1999 and 1998 31

Statements of Stockholders' Equity for the years ended May 31, 2000,

1999 and 1998 32

Statements of Cash Flows for the years ended May 31, 2000, 1999 and 1998 33

Notes to Consolidated Financial Statements 34

(a) 2. Financial Statement Schedules

The following financial statement schedule is filed as a part of this report:

Page

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II Valuation and Qualifying Accounts 54

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

26

1. 3. Exhibits

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the Commission. The Company shall furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request.

Exhibit

Number Exhibit Title

------- -------------

3.01(13) Restated Certificate of Incorporation of the Company filed with the Delaware Secretary of State on January 11, 2000.

3.02 The Company's Bylaws, as adopted October 30, 1986, and amendments dated January 13, 1989 and December 3, 1990.

3.03(1) Specimen Certificate of Registrant's Common Stock.

3.04 Certificate of Amendment of Restated Certificate of Incorporation of the Company filed with the Delaware Secretary of State on June 5, 2000.

4.01(8) Indenture between Oracle Corporation and State Street Bank and Trust Company of California, N.A., dated February 24, 1997.

4.02(9)\* Oracle Corporation 1993 Deferred Compensation Plan, as amended and restated as of January 1, 1998.

4.03(10) Amended and Restated Preferred Shares Rights Agreement, dated March 31, 1998.

4.04(11) Amendment Number One to the Amended and Restated Preferred Shares Rights Agreement, dated March 22, 1999.

10.01(2)\* The Company's Stock Option Plan (1985), as amended to date, and related documents.

10.02(3)\* 1990 Directors' Stock Option Plan, as adopted July 30, 1990, and related documents.

10.03(4)\* 1990 Executive Officers' Stock Option Plan, as adopted October 15, 1990, and related documents.

10.04(5)\* Oracle Systems Corporation Employee Stock Purchase Plan (1992), as adopted August 24, 1992.

10.05(6)\* 1993 Directors' Stock Option Plan, as adopted May 24, 1993. 10.06(7)\* Amendment to 1993 Directors' Stock Option Plan, as adopted May 31,

1994.

10.07(12)\* Amendment to the Employee Stock Purchase Plan (1992). 10.08(13)\* The 1991 Long-Term Equity Incentive Plan, as amended through

October 18, 1999.

* 1. \* Amendment to the 1991 Long-Term Equity Incentive Plan, dated January 7, 2000.
  2. \* Amendment to the 1991 Long-Term Equity Incentive Plan, dated June 2, 2000.

21.01 Subsidiaries of the Registrant.

23.01 Consent of Arthur Andersen LLP.

27.01 Financial Data Schedule.

* Indicates management contract or compensatory plan or arrangement.
  1. Incorporated by reference to the Form S-1 Registration Statement filed March 27, 1987, File No. 33-12941.
  2. Incorporated by reference to the Form S-8 Registration Statement filed February 24, 1986, File No. 33-3536, as amended.
  3. Incorporated by reference to the Form 10-K filed on August 27, 1990.
  4. Incorporated by reference to the Form 10-K filed on August 28, 1991.
  5. Incorporated by reference to the Form 10-Q filed on January 7, 1993.
  6. Incorporated by reference to the Form 10-K filed on July 22, 1993.
  7. Incorporated by reference to the Form 10-K filed on July 27, 1994.
  8. Incorporated by reference to the Form 10-Q filed on April 10, 1997.

27

* 1. Incorporated by reference to the Form S-8 filed on December 10, 1997.
  2. Incorporated by reference to the Form 8-A/A filed on March 31, 1998.
  3. Incorporated by reference to the Form 8-A/A filed on March 22, 1999.
  4. Incorporated by reference to the Form 10-K filed on August 30, 1999.
  5. Incorporated by reference to the Form 10-Q filed on January 14, 2000.

1. Reports on Form 8-K None.

28

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

**To Oracle Corporation:**

We have audited the accompanying consolidated balance sheets of Oracle Corporation, a Delaware corporation, and subsidiaries as of May 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended May 31, 2000. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oracle Corporation and subsidiaries as of May 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed under Item 14(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

# Arthur Andersen LLP

San Jose, California June 16, 2000

29

# ORACLE CORPORATION CONSOLIDATED BALANCE SHEETS

As of May 31, 2000 and 1999 (in thousands, except share data)

CURRENT ASSETS

ASSETS

May 31,

---------------------- 2000 1999

----------- ----------

|  |  |  |
| --- | --- | --- |
| Cash and cash equivalents............................ | $ 7,429,206 | $1,785,715 |
| Short-term cash investments.......................... | 332,792 | 777,049 |
| Trade receivables, net of allowance for doubtful |  |  |
| accounts of $272,203 in 2000 and $217,096 in 1999... | 2,533,964 | 2,238,204 |
| Other receivables.................................... | 256,203 | 240,792 |
| Prepaid and refundable income taxes.................. | 212,829 | 299,670 |
| Prepaid expenses and other current assets............ | 118,340 | 105,844 |
|  | ----------- | ---------- |
| Total current assets............................... | 10,883,334 | 5,447,274 |
| LONG-TERM CASH INVESTMENTS............................. | 110,000 | 249,547 |
| PROPERTY, net.......................................... | 934,455 | 987,482 |
| INTANGIBLE AND OTHER ASSETS............................ | 1,148,990 | 575,351 |
|  | ----------- | ---------- |
| Total assets....................................... | $13,076,779 | $7,259,654 |
|  | =========== | ========== |

CURRENT LIABILITIES

LIABILITIES AND STOCKHOLDERS' EQUITY

Notes payable and current maturities of long-term debt................................................ $ 2,691 $ 3,638

Accounts payable..................................... 287,495 283,896

Income taxes payable................................. 2,821,776 277,700

Accrued compensation and related benefits............ 725,860 693,525 Customer advances and unearned revenues.............. 1,133,482 1,007,149 Value added tax and sales tax payable................ 165,304 128,774 Other accrued liabilities............................ 725,630 651,741

----------- ----------

Total current liabilities.......................... 5,862,238 3,046,423

LONG-TERM DEBT......................................... 300,770 304,140

OTHER LONG-TERM LIABILITIES............................ 186,178 77,937

DEFERRED INCOME TAXES.................................. 266,130 135,887

COMMITMENTS (Note 5)................................... -- -- STOCKHOLDERS' EQUITY

Preferred stock, $0.01 par value--authorized,

1,000,000 shares; outstanding: none................. -- --

Common stock, $0.01 par value, and additional paid in capital--authorized, 11,000,000,000 shares;

outstanding: 2,807,572,142 shares in 2000 and

2,862,267,330 shares in 1999........................ 3,112,126 1,475,763

Retained earnings.................................... 3,343,857 2,266,915

Accumulated other comprehensive income (loss)........ 5,480 (47,411)

----------- ----------

Total stockholders' equity......................... 6,461,463 3,695,267

----------- ----------

Total liabilities and stockholders' equity......... $13,076,779 $7,259,654

=========== ==========

See notes to consolidated financial statements.

30

# ORACLE CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS

**For the Years Ended May 31, 2000, 1999 and 1998**

(in thousands, except per share data)

Year Ended May 31,

-----------------------------------

|  |  |  |
| --- | --- | --- |
| 2000 | 1999 | 1998 |
| ----------- | ---------- | ---------- |

REVENUES

|  |  |  |  |
| --- | --- | --- | --- |
| Licenses and other...................... | $ 4,446,795 | $3,688,366 | $3,193,490 |
| Services................................  Total revenues........................ | 5,683,333  ----------- 10,130,128  ----------- | 5,138,886  ---------- 8,827,252  ---------- | 3,950,376  ---------- 7,143,866  ---------- |
| OPERATING EXPENSES  Sales and marketing..................... | 2,616,749 | 2,622,379 | 2,371,306 |
| Cost of services........................ | 2,942,679 | 3,064,148 | 2,273,607 |
| Research and development................ | 1,009,882 | 841,406 | 719,143 |
| General and administrative..............  Acquired in-process research and development............................ | 480,658  -- | 426,438  -- | 368,556  167,054 |
| Total operating expenses.............. OPERATING INCOME.......................... | ----------- 7,049,968  ----------- 3,080,160  ----------- | ---------- 6,954,371  ---------- 1,872,881  ---------- | ---------- 5,899,666  ---------- 1,244,200  ---------- |

OTHER INCOME (EXPENSE)

Net investment gains related to

|  |  |  |  |
| --- | --- | --- | --- |
| marketable securities.................. | 6,936,955 | 24,457 | 4,300 |
| Interest income......................... | 141,904 | 118,486 | 85,986 |
| Interest expense........................ | (18,894) | (21,424) | (16,658) |
| Other...................................  Total other income (expense).......... | (16,691)  ----------- 7,043,274  ----------- | (12,322)  ---------- 109,197  ---------- | 9,991  ----------  83,619  ---------- |
| INCOME BEFORE PROVISION FOR INCOME TAXES.. | 10,123,434 | 1,982,078 | 1,327,819 |
| Provision for income taxes.............. NET INCOME................................  EARNINGS PER SHARE | 3,826,631  -----------  $ 6,296,803  =========== | 692,320  ----------  $1,289,758  ========== | 514,124  ----------  $ 813,695  ========== |
| Basic................................... | $ 2.22 | $ 0.45 | $ 0.28 |
| Diluted................................. | $ 2.10 | $ 0.43 | $ 0.27 |
| SHARES OUTSTANDING Basic................................... | 2,839,419 | 2,891,176 | 2,932,798 |
| Diluted................................. | 2,997,921 | 2,968,450 | 2,999,176 |

See notes to consolidated financial statements.

31

# ORACLE CORPORATION

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**For the Years Ended May 31, 2000, 1999 and 1998**

(in thousands, except share data)

Common Stock and Additional Paid in

Capital

|  |  |  |
| --- | --- | --- |
|  | Accumulated |  |
| Other |  |
| Retained | Comprehensive |  |
| Earnings | Income (Loss) | Total |

-------------------------

Comprehensive Number of

Income Shares Amount

------------- ------------- ---------- ----------- ------------- ----------- BALANCES, May 31, 1997.. $ -- 2,933,910,958 $ 696,018 $ 1,686,170 $(12,476) $ 2,369,712

Common stock issued under stock option

plans.................. -- 25,107,132 72,432 -- -- 72,432

Common stock issued under stock purchase

|  |  |  |
| --- | --- | --- |
| -- | 16,329,766 | 131,860 |
| -- | (55,338,318) | (16,280) |

plan...................

Repurchase of common stock..................

Equity adjustments related to acquisitions...........

Effect of common stock dividend...............

Tax benefits from stock plans..................

Foreign currency translation

-- -- 131,860

(473,543) -- (489,823)

47,350

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| -- | -- | 47,350 | -- | -- |
| -- | -- | 3,266 | (3,266) | -- |
| -- | -- | 41,629 | -- | -- |

-- 41,629

adjustments............ (29,325) -- -- -- (29,325) (29,325)

Unrealized gain/(loss)

-- 28 28

|  |  |  |  |
| --- | --- | --- | --- |
| on equity securities... | 28 | -- | -- |
| Net income.............. | 813,695 | -- | -- |
|  | ---------- |  |  |
| Comprehensive income.... | $ 784,398 | -- | -- |

813,695 -- 813,695

BALANCES, May 31, 1998..

Common stock issued under stock option plans..................

Common stock issued under stock purchase plan...................

Repurchase of common stock..................

Effect of common stock

========== ------------- ----------

-- -- --

|  |  |  |
| --- | --- | --- |
| -- | 2,920,009,538 | $ 976,275 |
| -- | 33,511,560 | 159,754 |
| -- | 18,059,270 | 146,668 |
| -- | (109,313,038) | (45,859) |

|  |  |  |
| --- | --- | --- |
| ----------- | -------- | ----------- |
| $ 2,023,056 | $(41,773) | $ 2,957,558 |

-- -- 159,754

-- -- 146,668

(1,041,094) -- (1,086,953)

dividend............... -- -- 4,805 (4,805) -- --

Equity adjustments related to subsidiary equity transactions....

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| -- | -- | 178,120 | -- | -- | 178,120 |
| -- | -- | 56,000 | -- | -- | 56,000 |

Tax benefits from stock plans..................

Foreign currency translation

adjustments............ (5,614) -- -- -- (5,614) (5,614)

Unrealized gain/(loss)

on equity securities... (24) -- -- -- (24) (24)

Net income.............. 1,289,758 -- -- 1,289,758 -- 1,289,758

----------

Comprehensive income.... $1,284,120 -- -- -- -- --

========== ------------- ---------- ----------- -------- ----------- BALANCES, May 31, 1999.. -- 2,862,267,330 $1,475,763 $ 2,266,915 $(47,411) $ 3,695,267

Common stock issued under stock option

plans.................. -- 50,410,940 298,118 -- -- 298,118

Common stock issued under stock purchase

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| plan................... | -- | 13,028,606 | 185,613 | -- | -- | 185,613 |
| Exercise of warrants.... | -- | 27,000,000 | 457,866 | -- | -- | 457,866 |

Repurchase of common

stock.................. -- (145,370,927)

|  |  |  |
| --- | --- | --- |
| (101,071) | (5,205,700) | -- |
| 14,161 | (14,161) | -- |

Effect of common stock

dividend............... -- --

Equity adjustments related to subsidiary equity transactions....

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| -- | -- | 288,676 | -- | -- | 288,676 |
| -- | -- | 493,000 | -- | -- | 493,000 |

Tax benefits from stock plans..................

Foreign currency translation

(5,306,771)

--

adjustments............ (720) -- -- -- (720) (720)

Unrealized gain/(loss)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| on equity securities... | 53,611 | -- | -- | -- | 53,611 | 53,611 |
| Net income.............. | 6,296,803 | -- | -- | 6,296,803 | -- | 6,296,803 |
|  | ========== |  |  |  |  |  |
| Comprehensive income.... | $6,349,694 | -- | -- | -- | -- | -- |
|  | ========== | ------------- | ---------- | ----------- | -------- | ----------- |
| BALANCES, May 31, 2000.. |  | 2,807,335,949 | $3,112,126 | $ 3,343,857 | $ 5,480 | $ 6,461,463 |
|  |  | ============= | ========== | =========== | ======== | =========== |

See notes to consolidated financial statements.

32

# ORACLE CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS

**For the Years Ended May 31, 2000, 1999 and 1998**

(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Year Ended May 31,

------------------------------------- 2000 1999 1998

----------- ----------- -----------

Net income............................. $ 6,296,803 $ 1,289,758 $ 813,695

Adjustments to reconcile net income to

|  |  |  |  |
| --- | --- | --- | --- |
| net cash provided by operating |  | | |
| activities: |
| Depreciation and amortization......... | 314,315 | 319,823 | 286,318 |
| Amortization of purchase price in |  |  |  |

excess of net tangible assets

acquired............................. 76,610 55,561 42,245

Write-off of acquired in-process

research and development............. -- -- 167,054 Provision for doubtful accounts....... 135,312 96,989 106,915 Gain on sale of marketable

securities........................... (6,936,955) (24,457) (4,300)

Changes in assets and liabilities, net of effects of acquisitions:

|  |  |  |  |
| --- | --- | --- | --- |
| Increase in trade receivables........  (Increase) decrease in prepaid and refundable income taxes.............  Increase in other current assets..... | (421,513) | (486,431) | (464,994) |
| 87,398 | (39,683) | 10,370 |
| (27,578) | (62,856) | (52,301) |
| Increase in accounts payable......... | 2,839 | 45,098 | 58,680 |
| Increase in income taxes payable.....  Increase in customer advances and unearned revenues................... | 3,036,143  122,145 | 153,376  134,317 | 12,640  292,323 |
| Increase in accrued compensation and related benefits....................  Increase in value added tax and sales tax payable......................... | 29,758  35,646 | 154,465  10,076 | 159,127  2,534 |
| Increase in other accrued liabilities......................... | 81,167 | 136,703 | 123,832 |
| Increase in long-term liabilities.... | 108,202 | 3,993 | 33,055 |

Increase (decrease) in deferred

income taxes........................ (16,728) 20,367 23,086

----------- ----------- -----------

Net cash provided by operating

activities............................. 2,923,564 1,807,099 1,610,279

----------- ----------- -----------

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of cash investments.......... (886,571) (1,250,501) (1,196,066)

Proceeds from maturities of cash

investments........................... 1,470,375 1,055,938 803,402

Capital expenditures................... (263,443) (346,592) (328,358)

Proceeds from sale of marketable

securities............................ 7,047,298 24,969 6,268

Increase in intangible and other assets

net of cash acquired in acquisitions.. (474,602) (286,058) (203,467)

----------- ----------- -----------

Net cash provided by (used for)

investing activities................... 6,893,057 (802,244) (918,221)

----------- ----------- -----------

CASH FLOWS FROM FINANCING ACTIVITIES

Net borrowings (payments) under notes

payable and long-term debt............ (4,757) 17 2,685

Proceeds from common stock issued...... 941,597 306,422 204,292 Proceeds from subsidiaries' stock

offerings............................. 186,695 295,801 --

Repurchase of common stock............. (5,306,771) (1,086,953) (489,823)

----------- ----------- -----------

Net cash used for financing activities.. (4,183,236) (484,713) (282,846)

----------- ----------- -----------

EFFECT OF EXCHANGE RATE CHANGES ON

CASH................................... 10,106 (8,108) (25,693)

----------- ----------- -----------

Net increase in cash and cash

equivalents........................... 5,643,491 512,034 383,519 CASH AND CASH EQUIVALENTS

Beginning of year...................... 1,785,715 1,273,681 890,162

----------- ----------- -----------

End of year............................ $ 7,429,206 1,785,715 $ 1,273,681

=========== =========== ===========

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Common stock dividend.................. $ 14,161 $ 4,805 $ 3,266

=========== =========== ===========

See notes to consolidated financial statements.

33

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

May 31, 2000

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

# Organization

Oracle develops, manufactures, markets and distributes computer software products with a wide variety of uses, including database management, application development, business intelligence and Internet business applications. The Company also offers consulting, education, support and hosting services in support of its customers' use of its software products.

# Basis of Financial Statements

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances between the companies have been eliminated.

# Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# Foreign Currency Translation

In general, the functional currency of a foreign operation is deemed to be the local country's currency. Consequently, assets and liabilities of operations outside the United States are generally translated into United States dollars using current exchange rates, and the effects of foreign currency translation adjustments are included as a component of stockholders' equity.

The Company hedges certain portions of its exposure to foreign currency fluctuations through a variety of strategies and financial instruments. The primary hedging instruments are forward foreign exchange contracts. At May 31, 2000, the Company had approximately $349,406,000 of forward foreign exchange contracts outstanding as hedges of intercompany accounts of certain of its international subsidiaries. An additional

$65,562,000 of forward contracts were outstanding as hedges of net assets of certain of its international subsidiaries. The fair value of foreign currency contracts is estimated based on the spot rate of the various hedged currencies as of the end of the period. Gains and losses associated with currency rate changes on forward foreign exchange contracts used to hedge intercompany accounts are recorded currently in income, as they offset corresponding gains and losses on the foreign currency-denominated assets and liabilities being hedged. Net foreign exchange transaction losses and expenses were $9,413,000, $5,466,000 and $8,752,000 in fiscal 2000, 1999, and 1998, respectively, and are included in other income and expense. Net gains (losses) on equity hedges were ($1,964,000), ($979,000), and $6,668,000 in fiscal 2000, 1999, and 1998, respectively. These net gains (losses) on equity hedges were recorded as a component of stockholders' equity.

As of May 31, 2000, and 1999, the balances related to foreign currency translation adjustments and net gains (losses) on equity hedges contained in accumulated other comprehensive income (loss) in stockholders' equity were net losses of $48,136,000 and $47,416,000, respectively.

34

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

As of May 31, 2000, the contract amount and fair value of outstanding foreign forward exchange contracts were as follows:

Contract Fair

Amount Value

(in thousands) -------- --------

Intercompany account hedges............................... $349,406 $348,142

Equity hedges............................................. $ 65,562 $ 63,134

At May 31, 2000, maturities of the Company's forward foreign exchange and equity hedge contracts were twelve months or less in term.

# Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB"), issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and for Hedging Activities". SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 also requires that changes in the derivatives fair value be recognized currently in earnings unless specific hedge accounting criteria are met and that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000 and cannot be applied retroactively. The Company is currently evaluating this statement, but does not expect that it will have a material impact on the Company's financial position or results of operations.

# Supplemental Statements of Cash Flows Data

The Company paid income taxes in the net amount of $975,977,000, $642,007,000 and $430,245,000 during fiscal years ended 2000, 1999 and 1998, respectively. Interest payments approximated interest expense in the amount of $18,894,000, $21,424,000 and $16,658,000 during the fiscal years ended 2000, 1999 and 1998, respectively. The Company purchased equipment under capital leases in the amount of $412,000,

$536,000 and $736,000 in fiscal 2000, 1999 and 1998, respectively.

Substantially all of the Company's cash and cash equivalents at May 31, 2000 consisted of highly liquid investments in time deposits of major world banks, commercial paper, money market mutual funds and taxable municipal securities with original maturities or put options of 90 days or less. The Company considers such investments to be cash equivalents for purposes of the statements of cash flows. Cash investments at May 31, 2000 primarily consisted of taxable municipal securities, commercial paper and U.S. Government Agency Paper with original maturities or put options of 91 days or more. No individual investment security equaled or exceeded 2% of total assets.

# Investments in Debt and Equity Securities

In accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities", and based on the Company's intentions regarding these instruments, the Company has classified all marketable debt securities and long-term debt investments as held-to-maturity and has accounted for these investments at amortized cost. All of the Company's long-term investments mature within 30 months.

35

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

At May 31, 2000 and 1999, the amortized cost basis, aggregate fair value and gross unrealized holding gains and losses by major security type were as follows:

Amortized Aggregate Unrealized Unrealized Cost Basis Fair Value Gains Losses

(in thousands) ---------- ---------- ---------- ----------

Fiscal 2000:

Debt securities issued by states

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| of the United States and |  | | | |
| political subdivisions of the |
| states.......................... | $ 178,475 | $ 176,325 | $ -- | $(2,150) |
| Corporate debt securities........ | 264,317 | 263,211 | 42 | (1,148) |
|  | ---------- | ---------- | ------ | ------- |
| Total cash investments......... | $ 442,792 | $ 439,536 | $ 42 | $(3,298) |
|  | ========== | ========== | ====== | ======= |

Fiscal 1999:

Debt securities issued by states

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| of the United States and |  | | | |
| political subdivisions of the |
| states.......................... | $ 201,130 | $ 199,990 | $ 167 | $(1,307) |
| Corporate debt securities........ | 825,466 | 820,943 | 1,232 | (5,755) |
|  | ---------- | ---------- | ------ | ------- |
| Total cash investments......... | $1,026,596 | $1,020,933 | $1,399 | $(7,062) |
|  | ========== | ========== | ====== | ======= |

The following represents the maturities of investments in debt securities as of May 31:

Amortized Cost Basis

------------------- 2000 1999

(in thousands) -------- ----------

Due in 0-1 year........................................ $332,792 $ 777,049

Due in 1-2 years....................................... 110,000 249,547

-------- ---------- Total................................................ $442,792 $1,026,596

======== ==========

The Company has classified its marketable equity securities as available-for- sale (included in "Intangible and Other Assets" in the accompanying consolidated balance sheets) and recorded net unrealized holding gains in stockholders' equity of $53,616,000 and $5,000 as of May 31, 2000 and 1999, respectively, which were included in "Accumulated Other Comprehensive Income

(Loss)" in the accompanying consolidated balance sheets.

# Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash investments and trade receivables. The Company has cash investment policies that limit investments to investment grade securities. The Company performs ongoing credit evaluations of its customer's financial position and the risk with respect to trade receivables is further mitigated by the fact that the Company's customer base is highly diversified.

# Transfer of Financial Assets

The Company offers its customers the option to acquire its software and services through payment plans, financing or leasing contracts. In general, the Company transfers future payments under these contracts to financing institutions on a non-recourse basis. The Company records such transfers as sales of the related accounts receivable when it is considered to have surrendered control of such receivables under the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

36

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

# Property

Property is stated at cost. Capital leases are recorded at the present value of the future minimum lease payments at the date of acquisition. Depreciation is computed using the straight-line method based on estimated useful lives of the assets which range from two to forty years. Capital leases and leasehold improvements are amortized over the estimated useful lives or lease terms, as appropriate.

In fiscal 2000, 1999 and 1998, the Company purchased approximately $27,000, $590,000 and $13,000, respectively, in computer equipment and maintenance services from nCUBE Corporation, the principal shareholder of which is Lawrence J. Ellison, Chief Executive Officer of the Company, for a variety of internal development and production purposes.

# Software Development Costs

The Company capitalizes internally generated software development costs in compliance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." As of May 31, 2000 and 1999, net capitalized software development costs were $94,609,000 and $98,870,000, respectively, and are included in Intangible and Other Assets in the accompanying consolidated balance sheets.

# Deferred Revenues

Deferred revenues primarily relate to support agreements which have been paid for by customers prior to the performance of those services.

# Long-Term Debt

Based on the borrowing rates currently available to the Company for loans similar in terms and average maturities, the stated value of long- term debt approximated market value at May 31, 2000.

# Revenue Recognition

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition" which superseded SOP No. 91-1. SOP No. 97-2, as amended, was adopted by the Company in the fiscal year beginning June 1, 1998. SOP No. 97-2 provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. Based on the Company's interpretation of the requirements of SOP No. 97-2, as amended, application of this statement did not have a material impact on the Company's revenues, results of operations or financial position.

The Company generates several types of revenue including the following:

License and Sublicense Fees. The Company's standard end user license agreement for the Company's products provides for an initial fee to use the product in perpetuity up to a maximum number of power units (processing power of the computers in the customer's network) or a maximum number of named users. The Company also enters into other license agreement types, which allow for the use of the Company's products, usually restricted by the number of employees or the license term. Fees from licenses are recognized as revenue upon shipment, provided fees are fixed and determinable and collection is probable. Fees from licenses sold together with consulting services are generally recognized upon shipment provided that the above criteria have been met, payment of the license fees is not dependent upon the performance of the consulting services and the consulting services are not essential to the functionality of the licensed software. In instances where the

37

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

aforementioned criteria have not been met, both the license and consulting fees are recognized under the percentage of completion method of contract accounting.

The Company receives sublicense fees from its Oracle Alliance partners (value- added relicensors, value-added distributors, hardware providers, systems integrators and independent software vendors) based on the sublicenses granted by the Oracle Alliance partner. Sublicense fees are typically based on a percentage of the Company's list price and are generally recognized as they are reported by the reseller.

Support Agreements. Support agreements generally call for the Company to provide technical support and software updates to customers. Revenue on technical support and software update rights is recognized ratably over the term of the support agreement and is included in services revenue in the accompanying statements of operations.

Consulting and Education Services. The Company provides consulting and education services to its customers. Revenue from such services is generally recognized over the period during which the applicable service is to be performed or on a services-performed basis.

# Accounting for Stock-Based Compensation

Effective June 1, 1996, the Company adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with the provisions of SFAS No. 123, the Company applies Accounting Principles Board Opinion 25 and related interpretations in accounting for its employee stock option plans. In April 2000, the FASB issued FASB Interpretation No. 44 ("FIN No. 44"), "Accounting for Certain Transactions Involving Stock Compensation:

An Interpretation of APB No. 25". The Company has adopted the provisions of FIN No. 44, and such adoption did not materially impact the Company's results of operations. See Note 9 for a summary of the pro forma effects on reported net income and earnings per share for fiscal 2000, 1999, and 1998 based on the fair value of options and shares granted as prescribed by SFAS No. 123.

# Income Taxes

Deferred income taxes are provided for timing differences in recognizing certain income, expense and credit items for financial reporting purposes and tax reporting purposes. Such deferred income taxes primarily relate to the timing of recognition of certain revenue items, the timing of the deductibility of certain reserves and accruals for income tax purposes, and the timing of recognition of subsidiary equity transactions.

# Reclassifications

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

38

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

1. PROPERTY Property consists of:

Year Ended May 31,

------------------------ 2000 1999

(in thousands) ----------- -----------

Computer equipment............................... $ 991,254 $ 967,784

Buildings and improvements....................... 698,291 633,078

Furniture and fixtures........................... 316,933 303,377

Land............................................. 108,096 109,758

Automobiles...................................... 10,456 9,450

----------- ----------- Total.......................................... 2,125,030 2,023,447

Accumulated depreciation and amortization........ (1,190,575) (1,035,965)

----------- ----------- Property, net.................................... $ 934,455 $ 987,482

=========== ===========

During fiscal 1994, the Company purchased $85,100,000 in mortgage notes. These notes are the obligations of IV Centrum Associates, a real estate limited partnership, which owns two buildings leased by the Company at its headquarters site. The Company also became a 74% limited partner in IV Centrum Associates by making a capital contribution of approximately $4,000,000. The Company has the right to leave the partnership and to take full title to both buildings without making further capital contributions. As a result of the original note purchases and capital contribution, the Company capitalized the two building leases, and the $89,100,000 in payments have been classified as buildings and improvements.

Additionally, during fiscal 1994, the Company entered into an arrangement whereby it leased an office building adjacent to its headquarters site and concurrently acquired the land under the building and all outstanding mortgage notes for a total of $22,100,000. The Company has various options to extend the lease and to purchase the building at various times during the lease term. As a result of the land and note purchases, the Company has capitalized the building lease, and the $22,100,000 in payments have been classified as land and buildings and improvements.

In fiscal 1997, the Company became a 74% limited partner in III Centrum Associates Limited Partnership, a real estate limited partnership, which owns one of the buildings leased by the Company at its headquarters site, by making a capital contribution of $2,500,000. Additionally, in fiscal 1997, the Company loaned the partnership $60,400,000 in the form of a promissory note secured by a deed of trust which was used to pay off a mortgage on a building owned by the partnership. Pursuant to the Company's right under the partnership agreement, the Company left the partnership on May 30, 2000, and obtained title to the building without making further capital contributions. The $62,900,000 in payments have been classified as building and improvements.

Equipment under capital leases included in property at May 31, 2000 and 1999 was $39,948,000 and $27,615,000, respectively. Accumulated amortization of leased equipment at such dates was $26,860,000 and $27,213,000, respectively.

39

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

As of May 31, 2000, future minimum annual lease payments under capital leases together with their present value were:

Year Ended May 31,

------------------ (in thousands)

2001........................................................ $ 407

2002........................................................ 476

2003........................................................ 295

2004........................................................ 105

------

Total minimum lease payments.............................. 1,283

Amount representing interest................................ (213)

------

Present value of minimum lease payments................... $1,070

======

1. NOTES PAYABLE AND CURRENT MATURITIES OF LONG-TERM DEBT

At May 31, 2000 and 1999, the Company had unsecured short-term borrowings from banks which were payable on demand in the amounts of

$2,371,000 and $3,092,000, respectively. The Company also had current maturities of long-term debt of $320,000 and $546,000 at May 31, 2000 and 1999, respectively.

1. LONG-TERM DEBT Long-term debt consists of:

Year Ended May 31,

------------------ 2000 1999

(in thousands) -------- --------

Senior notes........................................... $300,000 $300,000

Capital lease obligations (See Note 2)................. 1,070 686

Other.................................................. 20 4,000

-------- -------- Total................................................ 301,090 304,686

Current maturities..................................... (320) (546)

-------- -------- Long-term debt......................................... $300,770 $304,140

======== ========

During fiscal 1997, the Company issued $150,000,000 in 6.72% Senior Notes due in the year 2004 and $150,000,000 in 6.91% Senior Notes due in the year 2007. The Senior Notes are unsecured general obligations of the Company that rank on a parity with all other unsecured and unsubordinated indebtedness of the Company that may be outstanding.

1. COMMITMENTS

In December 1996, the Company entered into a seven year master lease facility which provides for the construction or purchase of up to

$150,000,000 of property and improvements to be leased to the Company. In May 1998, this facility was increased by $32,000,000 to a total of

$182,000,000. Rent is payable quarterly in arrears over a term of seven years. The Company's obligations under the lease facility currently are collateralized by a forward contract to sell 18,000,000 shares of the Company's Common Stock at $8.84 per share plus accretion, subject to adjustments over time. The forward contract has a stated maturity of February 13, 2003. The buyer may complete the sale on February 13, 2001 (or for a fifteen day period thereafter) or in certain other circumstances as defined by the forward contract. The Company may, at its option, anytime during the lease term substitute other collateral such as U.S. treasury securities. The Company may, at its option, purchase the leased

40

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

properties during the term of the lease at approximately the amount expended by the lessor to construct or purchase such properties. In the event that the Company does not exercise its purchase option, the Company has agreed to guarantee that the properties will have a specified residual value which will be determined at the lease inception date for each property. As of May 31, 2000, approximately $167,648,000 of the master lease facility had been utilized. As of May 31, 2000, the general terms of the $182,000,000 master lease facility call for a residual guarantee of the leased property equal to 85% of its original cost. As the net present value of the minimum lease payments, including this 85% residual guarantee, was less than 90% of the fair value of the lease property at the inception of the lease, these leases have been classified as operating leases.

As of May 31, 2000, future minimum annual lease payments of the master lease facility on completed properties are as follows:

Year Ended May 31,

------------------ (in thousands)

2001........................................................ $10,729

2002........................................................ 10,729

2003 ....................................................... 5,365

------- Total..................................................... $26,823

=======

Additional facilities and certain furniture and equipment are leased under operating leases. As of May 31, 2000, future minimum annual lease payments (excluding the master lease facility discussed above and the lease payments related to capitalized facilities discussed in Note 2) are as follows:

Year Ended May 31,

------------------ (in thousands)

2001........................................................ $114,335

2002........................................................ 94,517

2003 ....................................................... 80,696

2004 ....................................................... 60,850

2005 ....................................................... 43,936

Thereafter.................................................. 76,603

-------- Total..................................................... $470,937

========

Rent expense was $259,884,000, $240,434,000 and $206,108,000, for fiscal years 2000, 1999 and 1998, net of sublease income of approximately $1,855,000, $3,963,000 and $3,169,000, respectively. Certain of the Company's lease agreements contain renewal options providing for an extension of the lease term. Generally, the renewal lease rates range between 85% and 100% of the fair market lease rates as determined at the end of the initial lease period.

1. ACQUISITIONS

On August 29, 1997, the Company acquired the shares of Treasury Services Corporation ("TSC") for approximately $110,000,000 in cash and the conversion of outstanding TSC options to options to purchase the Company's stock. As a result of this conversion, the Company recorded a credit to stockholders' equity of approximately $8,967,000 related to the value of the stock options. The Company received an appraisal of certain intangible assets which indicated that $91,500,000 of the acquired intangible assets consisted of in-process research and development ("R&D"). In the opinion of management and the appraiser, the acquired in-process R&D had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Company recorded a special charge of $91,500,000 in the first quarter of fiscal 1998. The remaining intangible assets acquired, with an assigned value of approximately $45,000,000, were included in "Intangible and Other Assets" in the accompanying consolidated balance sheets, and are being amortized over a five year period.

41

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

On August 11, 1997, the Company completed the merger of its subsidiary, Liberate Technologies ("Liberate"), and Navio Communications, Inc. ("Navio"), a development stage company, in a stock for stock exchange valued at approximately $77,000,000. After the date of the merger, the Company owned approximately 60% of the entity, with the remaining 40% owned by the minority interest shareholders. As of the acquisition date, the Company's interest in the increased net assets of the combined entity was recorded as a credit to stockholders' equity in the amount of $46,076,000, with the balance recorded as minority interest. Subsequent to the acquisition, the Company acquired stock directly from certain of the minority shareholders which, net of stock option exercise proceeds and the amount previously recorded as minority interest, was recorded as a debit to stockholders' equity in the amount of $7,693,000. The net balance of $38,383,000 is included in the accompanying consolidated statement of stockholders' equity. As a result of the merger and the above transactions, the Company's interest in Liberate was increased to 66%. The Company received an appraisal of certain intangible assets which indicated that $75,554,000 of the acquired intangible assets consisted of in- process R&D. In the opinion of management and the appraiser, the acquired in- process R&D had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Company recorded a special charge of $75,554,000 in the first quarter of fiscal 1998. The remaining intangible assets acquired, with an assigned value of approximately $2,100,000, were included in "Intangible and Other Assets" in the accompanying consolidated balance sheets, and are being amortized over a three year period.

No pro forma financial statements for the periods prior to the acquisitions have been provided due to the amounts being immaterial.

1. SUBSIDIARY STOCK TRANSACTIONS

# Oracle Japan

In November 1997, Oracle Corporation Japan ("Oracle Japan"), a majority-owned subsidiary, issued and sold 944,200 shares of its common stock at approximately $26 per share to a third party. As part of the stock purchase agreement, the third party was given an option to put these shares back to the Company in the event that an initial public offering did not take place before December 1999. The put price was equal to the purchase price plus interest, as defined in the stock purchase agreement. As a result of the original put option, the Company recorded the proceeds from the sale as an increase to minority interest, which is included in "Other Long-term Liabilities" in the accompanying consolidated balance sheets. In conjunction with the initial public offering of Oracle Japan, discussed in the following paragraph, the put option expired and the Company recorded a credit to stockholders' equity in the amount of $18,129,000, net of deferred taxes of $10,000,000, reflecting the increase in its share of the net assets of Oracle Japan related to this and other equity transactions entered into with minority shareholders in Oracle Japan.

In February 1999, Oracle Japan issued and sold 4,570,000 shares of common stock at approximately $57 per share in an initial public offering in Japan. In connection with this offering, Oracle Japan received cash proceeds of $248,811,000, net of issuance costs of $13,833,000. The Company's ownership interest in Oracle Japan was reduced from 90.78% to 84.94% following the issuance and sale of the aforementioned shares. The Company recorded a credit to stockholders' equity of $133,100,000, net of deferred taxes of $73,700,000, reflecting the increase in its share of the net assets of Oracle Japan related to the stock offering.

In February 1999, subsequent to the initial public offering, the Company sold 250,000 of its existing shares of Oracle Japan's common stock at approximately $99 per share. In connection with this sale, the Company received cash proceeds of $24,969,000. The Company's ownership interest in Oracle Japan was reduced from 84.94% to 84.59% following the sale of the aforementioned shares. The Company recorded a gain from this sale of $24,457,000 which is included in net investment gains related to marketable securities in the accompanying consolidated statements of operations.

42

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

In April 2000, Oracle Japan issued and sold 250,000 shares of its common stock at approximately $772 per share in a public offering. As a result of the issuance of new shares and the sale of existing shares, the Company's ownership interest in Oracle Japan was reduced from 84.59% to 74.16%. The Company has recorded a credit to stockholders' equity in the amount of $88,741,000, net of deferred taxes of

$48,837,000, reflecting the increase in its share of the net assets of Oracle Japan related to the stock offering. Separately, the Company sold 8,700,000 shares in Oracle Japan, resulting in a gain on sale of marketable securities in the amount of $6,466,378,000 and related taxes of

$2,515,421,000.

# Liberate Technologies

In April 1999, Liberate, a then majority-owned subsidiary of the Company, issued and sold 5,208,326 shares of its preferred stock at approximately $9.60 per share to third parties. Liberate received cash proceeds of $46,990,000, net of issuance costs of $3,010,000. The Company's ownership interest in Liberate was reduced from 70.11% to 59.20% following the offering. In conjunction with this sale, the Company recorded a credit to stockholders' equity in the amount of $26,891,000, net of deferred taxes of $17,611,000, reflecting the increase in its share of the net assets of Liberate related to the stock offering.

In July 1999, Liberate issued and sold 6,701,050 shares of common stock at approximately $16 per share in an initial public offering. In connection with this offering, Liberate received cash proceeds of $98,042,000, net of issuance costs of $9,175,000. The Company's ownership interest in Liberate was reduced from 59.20% to 48.24% following the offering. As a result of the offering, the Company recorded a credit to stockholders' equity in the amount of $31,522,000, net of deferred taxes of $19,733,000, reflecting the increase in its share of the net assets of Liberate related to the stock offering. In addition, effective July 1, 1999, the Company began to account for its ownership interest in Liberate Technologies using the equity method of accounting.

In February 2000, Liberate issued and sold 2,890,000 shares of common stock at approximately $108 per share in a public offering. As a result of the offering, the Company recorded a credit to stockholders' equity in the amount of $73,579,000, net of deferred taxes of $46,061,000, reflecting the increase in its share of the net assets of Liberate related to the stock offering. Separately, the Company sold 4,274,703 shares in Liberate Technologies, resulting in a gain on sale of marketable securities in the amount of $431,846,000 and related taxes of $166,261,000.

During fiscal 2000, Liberate and another of the Company's subsidiaries entered into a number of other equity transactions that resulted in an increase in the Company's share in their net assets. As a result of these transactions, the Company recorded an additional credit to stockholders' equity, net of deferred taxes, in the amount of $94,834,000.

1. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of Common shares outstanding plus the dilutive effect of outstanding stock warrants, stock options and the employee stock purchase plan using the "treasury stock" method.

On January 18, 2000, the Company effected a two-for-one stock split in the form of a Common Stock dividend to stockholders of record as of December 30, 1999. All per share data and numbers of Common shares, where appropriate, have been retroactively adjusted to reflect the stock split.

43

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

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

Year Ended May 31,

------------------------------- 2000 1999 1998

(in thousands, except per share data) ---------- ---------- ---------

Net income.................................... $6,296,803 $1,289,758 $ 813,695

========== ========== =========

Weighted average shares outstanding........... 2,839,419 2,891,176 2,932,798 Dilutive effect of stock warrants, employee

stock options and stock purchase plan........ 158,502 77,274 66,378

---------- ---------- ---------

Diluted shares outstanding.................... 2,997,921 2,968,450 2,999,176

========== ========== =========

Basic earnings per share...................... $ 2.22 $ 0.45 $ 0.28

Diluted earnings per share.................... $ 2.10 $ 0.43 $ 0.27

The net investment gains related to marketable securities in fiscal 2000, 1999 and 1998 in the amounts of $6,936,955,000, $24,457,000 and

$4,300,000 relate primarily to sale of existing shares in Oracle Japan and Liberate. Excluding the effects of these transactions on the fiscal years, the diluted earnings per share would have been $0.69, $0.43 and $0.27, respectively.

1. STOCKHOLDERS' EQUITY

# Stock Option Plans

The Company's 1985 Stock Option Plan provided for the issuance of incentive stock options to employees of the Company and non-qualified options to employees, directors, consultants and independent contractors of the Company. Under the terms of this plan, options were generally granted at not less than fair market value, became exercisable as established by the Board of Directors (generally ratably over four to five years), and generally expire ten years from the date of grant. As of May 31, 2000, options to purchase 789,566 shares were outstanding and vested. As of May 31, 2000, there were no options for shares of Common Stock available for future grant under this plan.

In fiscal 1991, the Company adopted both the 1990 Directors Stock Option Plan and the 1990 Executive Officers Stock Option Plan which provide for the issuance of non-qualified stock options to directors and non-qualified or incentive stock options to executive officers of the Company, respectively. Under the terms of these plans, options to purchase up to 43,335,000 shares of Common Stock were reserved for issuance, generally are granted at not less than fair market value, become exercisable as established by the Board of Directors (generally ratably over four years), and generally expire ten years from the date of grant. As of May 31, 2000, options to purchase 174,386 shares of Common Stock were outstanding and vested. Options for 10,391,788 shares were available for future grant under these plans at May 31, 2000.

In fiscal 1992, the Company adopted the 1991 Long-term Equity Incentive Plan which provides for the issuance of non-qualified stock options and incentive stock options, as well as stock purchase rights, stock appreciation rights (in connection with options), and long-term performance awards to eligible employees, officers, directors who are also employees or consultants, and advisors of the Company. Under the terms of this plan, options to purchase 101,250,000 shares of Common Stock were reserved for issuance, generally are granted at not less than fair market value, become exercisable as established by the Board of Directors (generally ratably over four years), and generally expire ten years from the date of grant. An additional 81,000,000 shares of Common Stock were reserved for issuance under the plan in each of fiscal 1994 and fiscal 1996. In fiscal 2000, 1999 and 1997, an additional 140,000,000, 150,000,000 and 153,000,000 shares of Common Stock were reserved for issuance under the plan, respectively. As of May 31, 2000, options to purchase 292,754,196 shares of Common Stock

44

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

were outstanding, of which 94,641,594 shares were vested. Options for 261,757,035 shares were available for future grant under the plan at May 31, 2000. To date, the Company has not issued any stock purchase rights, stock appreciation rights or long-term performance awards under this plan.

In fiscal 1993, the Company's Board of Directors adopted the 1993 Directors Stock Option Plan (the "1993 Directors Plan") which provides for the issuance of non-qualified stock options to outside directors. Under the terms of this plan, options to purchase 10,125,000 shares of Common Stock were reserved for issuance, are granted at not less than fair market value, become exercisable over four years, and expire ten years from the date of grant. Under the terms of the 1993 Directors Plan, all grants of options to purchase shares of the Company's Common Stock are automatic and nondiscretionary. Each individual who becomes an outside director shall automatically be granted options to purchase 150,000 shares. The 1993 Directors Plan also provides for subsequent stock option grants. On May 31 of each year, each outside director will be granted options to purchase 54,000 shares of the Company's Common Stock, provided that on such date the outside director has served on the Company's Board of Directors for at least six months. In addition, in lieu of the grant of an option to purchase 54,000 shares of Common Stock, each outside director who has served as the Chairman of the Executive or Finance and Audit Committee of the Company's Board of Directors will be granted options to purchase 120,000 shares of Common Stock on May 31 of each year, provided that the outside director has served as a Chairman of any such committee for at least one year. In addition, an outside director who is the Chairman of the Compensation Committee of the Company's Board of Directors and who has served on the Compensation Committee for at least one year, will be granted options to purchase 75,000 shares of Common Stock on May 31 of each year beginning May 31, 1998. As of May 31, 2000, options to purchase 2,488,369 shares of Common Stock were outstanding, of which 1,235,119 were vested. Options for 5,586,682 shares were available for future grant under this plan at May 31, 2000.

In December 1997, the Company reduced the exercise price of approximately 20% of the outstanding Common Stock options held by the Company's employees to the fair market value per share as of the date of the reduction in price. The Company repriced these employee stock options in an effort to retain employees at a time when a significant percentage of employee stock options had exercise prices that were above fair market value. The Company believes that stock options are a valuable tool in compensating and retaining employees. Executive officers and directors were excluded from this repricing.

The following table summarizes stock option plan activity:

Shares

Under Weighted Average Option Exercise Price

----------- ----------------

Balance, May 31, 1997........................ 196,334,042 $ 5.00

Granted.................................... 93,548,602 9.91

Exercised.................................. (25,107,132) 2.89

Canceled................................... (57,387,648) 11.11

-----------

Balance, May 31, 1998........................ 207,387,864 $ 5.78

Granted.................................... 84,006,716 8.94

Exercised.................................. (33,511,560) 4.68

Canceled................................... (17,692,010) 7.66

-----------

Balance, May 31, 1999........................ 240,191,010 $ 6.90

Granted.................................... 128,659,609 30.74

Exercised.................................. (50,410,940) 5.97

Canceled................................... (22,233,162) 11.21

-----------

Balance, May 31, 2000........................ 296,206,517 $17.09

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45

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

As of May 31, 2000, the Company had reserved 573,942,022 shares of Common Stock for the exercise of options. The range of exercise prices for options outstanding at May 31, 2000 was $0.23 to $84.00. The range of exercise prices for options is due to the fluctuating price of the Company's stock over the period of the grants.

The following table summarizes information about stock options outstanding at May 31, 2000:

Number Number Weighted Average

Range of Outstanding Weighted Average Weighted Exercisable Exercise Price Exercise as of Remaining Average as of of Exercisable

Price 5/31/00 Contractual Life Exercise Price 5/31/00 Options

-------- ----------- ---------------- -------------- ----------- ----------------

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| $ 0.23-$ 3.37 | 28,469,268 | 2.24 | $ 1.39 | 27,455,241 | $ 1.41 |
| $ 3.40-$ 7.53 | 34,831,103 | 5.77 | $ 6.26 | 29,639,341 | $ 6.07 |
| $ 7.54-$ 8.15 | 54,037,638 | 7.25 | $ 7.82 | 16,776,865 | $ 7.71 |
| $ 8.17-$ 8.35 | 21,154,599 | 8.11 | $ 8.23 | 3,790,583 | $ 8.23 |
| $ 8.36-$12.09 | 31,453,534 | 7.11 | $ 9.52 | 18,134,745 | $ 9.31 |
| $12.44-$13.75 | 84,373,259 | 8.96 | $13.73 | 461,513 | $12.87 |
| $14.58-$29.09 | 9,806,501 | 9.13 | $21.22 | 582,377 | $15.94 |
| $31.03-$78.44 | 2,845,650 | 9.66 | $54.31 | 0 | $ 0.00 |
| $81.63-$81.63 | 29,121,365 | 9.78 | $81.63 | 0 | $ 0.00 |
| $81.94-$84.00 | 113,600 | 9.80 | $82.93 | 0 | $ 0.00 |
|  | ----------- |  |  | ---------- |  |
| $ 0.23-$84.00 | 296,206,517 | 7.46 | $17.09 | 96,840,665 | $ 5.82 |
|  | =========== |  |  | ========== |  |

# Stock Purchase Plan

In October 1987, the Company adopted an Employee Stock Purchase Plan (the "1987 Purchase Plan") and reserved 162,000,000 shares of Common Stock for issuance thereunder. In September 1992, the plan was amended to reserve an additional 5,062,500 shares of Common Stock. The 1987 Purchase Plan was terminated on September 30, 1992 and the remaining shares became available for issuance under the 1992 Purchase Plan.

In August 1992, the Company adopted the Employee Stock Purchase Plan (1992) (the "Employee Stock Purchase Plan") and reserved 40,500,000 shares of Common Stock for issuance thereunder. An additional 90,000,000, 31,500,000 and 40,500,000 shares of Common Stock were reserved for issuance under the plan in fiscal 1999, fiscal 1997, and fiscal 1994 respectively. Under the stock purchase plan, the Company's employees may purchase shares of Common Stock at a price per share that is 85% of the lesser of the fair market value as of the beginning or the end of the semi-annual option period. Through May 31, 2000, 115,003,638 shares had been issued and 87,496,362 shares were reserved for future issuances under this plan.

During fiscal 2000, 1999, and 1998, the Company issued 13,028,606, 18,059,270, and 16,329,766 shares, respectively, under the Employee Stock Purchase Plan. If the Company had elected to recognize the compensation cost based on the fair value of the employee's purchase rights, the cost would have been estimated using the Black-Scholes model, with the following assumptions for each of the two six-month periods in fiscal 2000, 1999, and 1998: (i) dividend yield of zero percent for all periods, (ii) expected life of one-half year for all periods, (iii) expected volatility of 67%, 48%, and 39%, and (iv) risk- free interest rates within a range of 5.28%-6.72%. The weighted-average fair value of each purchase right granted in fiscal 2000, 1999, and 1998 was $6.20, $3.20 and $3.11 per share, respectively.

# Shareholder Rights Plan

On December 3, 1990, the Board of Directors adopted a Shareholder Rights Plan. The Shareholder Rights Plan was amended and restated on March 31, 1998 and amended on March 22, 1999. Pursuant to the Shareholder

46

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

Rights Plan, the Company distributed Preferred Stock Purchase Rights as a dividend at the rate of one Right for each share of the Company's Common Stock held by stockholders of record as of December 31, 1990. The Board of Directors also authorized the issuance of Rights for each share of Common Stock issued after the record date, until the occurrence of certain specified events. The Shareholder Rights Plan was adopted to provide protection to stockholders in the event of an unsolicited attempt to acquire the Company. As a result of a stock split effected by the Company, each share of Common Stock now has associated with it one-third of a right.

The Rights are not exercisable until the earlier of (i) ten days (or such later date as may be determined by the Board of Directors) following an announcement that a person or group has acquired beneficial ownership of 15% of the Company's Common Stock or (ii) ten days (or such later date as may be determined by the Board of Directors) following the announcement of a tender offer which would result in a person or group obtaining beneficial ownership of 15% or more of the Company's outstanding Common Stock, subject to certain exceptions (the earlier of such dates being called the "Distribution Date.") The Rights are initially exercisable for one-six thousand seven hundred fiftieth of a share of the Company's Series A Junior Participating Preferred Stock at a price of $125 per one-six thousand seven hundred fiftieth of a share, subject to adjustment. However, if (i) after the Distribution Date the Company is acquired in certain types of transactions, or (ii) any person or group (with certain exceptions) acquires beneficial ownership of 15% of the Company's Common Stock, then holders of Rights (other than the 15% holder) will be entitled to receive upon exercise of the Right, Common Stock of the Company (or in the case of acquisition of the Company, Common Stock of the acquirer) having a market value of two times the exercise price of the Right.

The Company is entitled to redeem the Rights, for $0.00148 per Right, at the discretion of the Board of Directors, until certain specified times. The Company may also require the exchange of Rights, at a rate of one and one-half shares of Common Stock, for each Right, under certain circumstances. The Company also has the ability to amend the Rights, subject to certain limitations.

# Stock Repurchases

The Company's Board of Directors has approved the repurchase of up to 548,000,000 shares of Common Stock to reduce the dilutive effect of the Company's stock plans. Pursuant to this repurchase program, the Company purchased 145,370,927 shares of the Company's Common Stock for approximately $5,306,771,000 in fiscal 2000, 109,313,038 shares of the Company's Common Stock for approximately $1,086,953,000 in fiscal 1999, 55,338,318 shares of the Company's Common Stock for approximately $489,823,000 in fiscal 1998 and 157,160,292 shares of the Company's Common Stock for approximately $841,942,000 prior to fiscal 1998.

# Stock Warrants

During fiscal 1997, the Company sold 27,000,000 warrants, each of which entitled the holder to purchase one share of Common Stock at prices between $17.11 and $17.24. These warrants were exercised in May 2000 for total proceeds of approximately $457,866,000. Included in the stock repurchase amounts above are shares that were repurchased to offset the dilutive effect of the warants.

During fiscal 1999 and fiscal 1998, the Company, as part of its authorized stock repurchase program, sold put warrants and purchased call options through private placements. As of May 31, 2000, the Company has a maximum potential obligation under the put warrants to buy back 4,000,000 shares of its Common Stock for a price of $9.70 per share for an aggregate price of approximately $38,800,000. The put warrants will expire at various dates through October 2000. As of May 31, 2000, the Company had the right to purchase, under the call options, up to a maximum of 2,000,000 shares of its Common Stock at a price of $13.03 per share for an aggregate price of approximately $26,060,000. The call options will expire at various dates through October

47

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

2000. During fiscal 2000, the Company exercised call options for 38,136,000 shares at an average price of $10.28, which are included in the stock repurchases discussed above.

# Accounting for Stock-Based Compensation

Pro forma information regarding net income and earnings per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock purchase plan and employee stock options granted subsequent to May 31, 1996 under the fair value method of that statement.

The fair value of options granted for fiscal years ending May 31, 2000, 1999, and 1998 reported below has been estimated at the date of grant using a Black- Scholes option pricing model with the following weighted average assumptions:

Year Ended May 31,

------------------------------

Employee Stock Options 2000 1999 1998

---------------------- ---------- --------- ---------

Expected life from vest date (in years): Employees................................ 0.45 0.59 0.45

Officers and Directors................... 0.52-6.31 0.66-6.17 0.43-6.14

Risk-free interest rates................... 5.28-6.72% 4.5-5.7% 5.6-6.6%

Volatility................................. 67.0% 48.0% 39.0%

Dividend yield............................. -- -- --

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company's options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Based upon the above assumptions, the weighted average fair value of employee stock options granted during fiscal 2000, 1999, and 1998 was $15.67, $3.46, and $3.11 per share, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. Had the Company's stock option and stock purchase plan been accounted for under SFAS No. 123, net income and earnings per share would have been reduced to the following pro forma amounts:

Year Ended May 31,

------------------------------ 2000 1999 1998

(in thousands, except per share data) ---------- ---------- -------- Net income:

As reported.............................. $6,296,803 $1,289,758 $813,695

Pro forma................................ $5,737,161 $1,095,969 $656,711

Earnings per share:

|  |  |  |  |
| --- | --- | --- | --- |
| Basic.................................... $ | 2.22 $ | 0.45 $ | 0.28 |
| Diluted.................................. $ | 2.10 $ | 0.43 $ | 0.27 |
| Proforma basic........................... $ | 2.02 $ | 0.38 $ | 0.23 |
| Proforma diluted......................... $ | 1.91 $ | 0.37 $ | 0.22 |

The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 2000, 1999, and 1998 are not likely to be representative of the pro forma effects on net income and earnings per share in future years for the following reasons: 1) the number of future shares to be issued under these plans is not known, 2) the effect of an additional year of vesting on options granted prior to the effective date of SFAS No. 123 is not considered in the assumptions as of May 31, 2000 and 3) the assumptions used to determine the fair value can vary significantly.

48

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

1. INCOME TAXES

The following is a geographical breakdown of the Company's income before taxes:

Year Ended May 31,

----------------------------------- 2000 1999 1998

(in thousands) ----------- ---------- ----------

Domestic............................ $ 9,269,069 $1,301,712 $ 799,814

Foreign............................. 854,365 680,366 528,005

----------- ---------- ----------

Total............................. $10,123,434 $1,982,078 $1,327,819

=========== ========== ==========

The provision for income taxes consists of the following:

Year Ended May 31,

----------------------------------- 2000 1999 1998

(in thousands) ----------- ---------- ----------

Current payable:

Federal........................... $ 3,002,644 $ 306,558 $ 230,421

State............................. 543,936 96,161 54,035

Foreign........................... 313,245 287,321 179,206

----------- ---------- ----------

Total current................... 3,859,825 690,040 463,662

----------- ---------- ----------

Deferred payable (prepaid):

Federal........................... (5,160) 29,468 45,116

State............................. (21,652) (13,700) (9,369)

Foreign........................... (6,382) (13,488) 14,715

----------- ---------- ----------

Total deferred.................. (33,194) 2,280 50,462

----------- ---------- ----------

Total............................... $ 3,826,631 $ 692,320 $ 514,124

=========== ========== ==========

The provision for income taxes differs from the amount computed by applying the federal statutory rate to the Company's income before taxes as follows:

Year Ended May 31,

-----------------------------------

|  |  |  |
| --- | --- | --- |
| 2000 | 1999 | 1998 |
| (in thousands) ----------- | ---------- | ---------- |
| Tax provision at statutory rate..... $ 3,543,202 | $ 693,727 | $ 464,737 |
| State tax expense, net of federal |  |  |
| benefit............................ 339,485 | 42,589 | 34,367 |

Nondeductible write-off of acquired in-process research and

development........................ -- -- 49,274

Other, net.......................... (56,056) (43,996) (34,254)

----------- ---------- ----------

Provision for income taxes.......... $ 3,826,631 $ 692,320 $ 514,124

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49

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

The components of the deferred tax assets and liabilities, as reflected on the balance sheet, consist of the following:

Year Ended May 31

------------------------------ 2000 1999 1998

(in thousands) --------- --------- --------

Deferred tax liabilities:

Capitalized software development

costs................................. $ (35,179) $ (39,794) $(38,051)

Unrealized gain on stock............... (291,211) (98,547) -- Other.................................. -- (23,640) (10,787)

--------- --------- --------

Total deferred tax liabilities....... (326,390) (161,981) (48,838)

--------- --------- --------

Deferred tax assets:

|  |  |  |  |
| --- | --- | --- | --- |
| Reserves and accruals.................. | 228,682 | 182,311 | 117,705 |
| Differences in timing of revenue |  |  |  |
| recognition........................... | 163,961 | 59,264 | 77,335 |
| Depreciation and amortization.......... | 91,688 | 70,682 | 55,550 |
| Employee compensation and benefits..... | 57,661 | 59,720 | 35,602 |
| Other tax assets....................... | 66,198 | 77,996 | 53,479 |
|  | --------- | --------- | -------- |
| Total deferred tax assets............ | 608,190 | 449,973 | 339,671 |
| Valuation allowance.................... | (12,723) | (14,730) | (6,986) |
|  | --------- | --------- | -------- |
| Net.................................. | $ 269,077 | $ 273,262 | $283,847 |
|  | ========= | ========= | ======== |

Recorded as:

Prepaid and refundable income taxes.... $ 212,829 $ 299,670 $260,624 Deferred income taxes.................. (266,130) (135,887) (15,856)

Other assets........................... 322,378 109,479 39,079

--------- --------- --------

$ 269,077 $ 273,262 $283,847

========= ========= ========

The Company provides U.S. income taxes on the earnings of foreign subsidiaries, unless they are considered permanently invested outside the

U.S. As of May 31, 2000, the cumulative amount of earnings upon which U.S. income taxes have not been provided are approximately

$850,961,000. At May 31, 2000, the unrecognized deferred tax liability for these earnings is approximately $148,699,000.

Certain foreign subsidiaries of the Company have net operating loss carry- forwards at May 31, 2000, totaling approximately $67,880,000, which may be used to offset future taxable income. These carry-forwards expire at various dates; $3,450,000 in 2002, $8,171,000 in 2003,

$9,601,000 in 2004, $1,609,000 in 2005, $26,419,000 in 2006, $724,000 in 2007 and the remaining balance has no expiration.

The Company's federal tax returns have been examined by the Internal Revenue Service for all years through 1995. The IRS has assessed taxes for years 1988 through 1995 that the Company is contesting in Tax Court. The IRS is examining the Company's U.S. income tax returns for 1996 through 1999. Management does not believe that the outcome of these matters will have a material adverse effect on the Company's consolidated results of operations or consolidated financial position.

1. SEGMENT INFORMATION

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," in fiscal 1999. SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products and services, and

50

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

geographic areas. 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. The Company also evaluates certain subsets of business segments by product categories. While the Chief Executive Officer of the Company evaluates results in a number of different ways, the line of business management structure is the primary basis for which financial performance is assessed and resources allocated.

The license line of business is engaged in the licensing of information management software. Information management software can be classified into two broad categories: systems software and Internet business applications software. Systems software includes database management software and development tools. Internet business applications software includes both Enterprise Resource Planning and Customer Relationship Management applications. The support line of business provides customers with a wide range of support services that include on-site support, telephone or internet access to support personnel, as well as software updates. The education line of business provides both media-based and instructor-led training to customers on how to use the Company's products. The consulting line of business assists customers in the implementation of applications based on the Company's products.

The accounting policies of the line of business operating segments are the same as those described in the summary of significant accounting policies. 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:

License Support(3) Education Consulting Total (in thousands) ---------- ---------- --------- ---------- ----------- 2000

----

Revenues from unaffiliated customers

(1).................... $4,383,037 $2,978,772 $529,297 $2,239,022 $10,130,128

Depreciation expense.... 39,129 22,456 9,889 35,482 106,956

Distribution expenses... 2,065,498 722,677 300,473 1,684,686 4,773,334

---------- ---------- -------- ---------- -----------

Distribution margin

(2).................... $2,278,410 $2,233,639 $218,935 $ 518,854 $ 5,249,838

========== ========== ======== ========== ===========

1999

----

Revenues from unaffiliated customers

(1).................... $3,648,335 $2,342,318 $497,888 $2,338,712 $ 8,827,253

Depreciation expense.... 40,602 20,047 12,820 33,963 107,432

Distribution expenses... 2,132,007 622,662 339,245 1,827,814 4,921,728

---------- ---------- -------- ---------- -----------

Distribution margin

(2).................... $1,475,726 $1,699,609 $145,823 $ 476,935 $ 3,798,093

========== ========== ======== ========== ===========

1998

----

Revenues from unaffiliated customers

(1).................... $3,158,093 $1,791,760 $435,154 $1,758,859 $ 7,143,866

Depreciation expense.... 38,136 15,799 12,963 27,199 94,097

Distribution expenses... 1,951,447 452,686 319,309 1,367,778 4,091,220

---------- ---------- -------- ---------- -----------

Distribution margin

(2).................... $1,168,510 $1,323,275 $102,882 $ 363,882 $ 2,958,549

========== ========== ======== ========== ===========

1. Operating segment revenues differ from the external reporting classification due to certain license products which are classified as services revenues for management reporting purposes.

51

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

1. 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 marketing, general and administrative, corporate, development and other expenses incurred in support of the line of business.
2. 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.

# PROFIT RECONCILIATION

Year Ended May 31,

-----------------------------------

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2000 | 1999 | 1998 |
| (in thousands) | ----------- | ---------- | ---------- |
| Total Distribution Margin............. | $ 5,249,838 | $3,798,093 | $2,958,549 |
| Corporate & General and |  |  |  |
| Administrative....................... | (610,707) | (587,167) | (449,695) |
| Product Development................... | (1,092,992) | (902,867) | (753,372) |
| Marketing & Alliances................. | (382,652) | (375,398) | (301,428) |
| Other Income (Expenses)............... | 22,991 | 24,960 | (126,235) |
| Gain on Sale of Investments........... | 6,936,956 | 24,457 | -- |
|  | ----------- | ---------- | ---------- |
| Income Before Taxes................. | $10,123,434 | $1,982,078 | $1,327,819 |
|  | =========== | ========== | ========== |

LICENSE REVENUES BY PRODUCT:

Year Ended May 31,

----------------------------------- 2000 1999 1998

(in thousands) ----------- ---------- ----------

Systems software...................... $ 3,391,825 $2,939,826 $2,526,781

Internet business applications........ 923,204 651,042 562,280

Other revenues (1).................... 68,008 57,467 69,032

----------- ---------- ----------

Total license revenues.............. $ 4,383,037 $3,648,335 $3,158,093

=========== ========== ==========

(1) Other revenues include documentation and miscellaneous other revenues.

# GEOGRAPHIC INFORMATION:

Year Ended May 31,

------------------------------------------------------------------ 2000 1999 1998

---------------------- --------------------- ---------------------

Long Lived Long Lived Long Lived Revenues Assets Revenues Assets Revenues Assets

(in thousands) ----------- ---------- ---------- ---------- ---------- ---------- USA..................... $ 5,270,869 $1,256,228 $4,485,924 $1,022,527 $3,546,119 $ 901,301 United Kingdom.......... 779,672 201,436 847,587 204,456 709,977 160,731

Germany................. 473,118 6,440 452,720 4,462 374,237 6,144

Japan................... 603,687 52,780 436,756 41,871 356,882 38,993

France.................. 304,581 8,044 301,855 10,652 227,515 11,610

Canada.................. 243,273 8,939 230,690 7,783 194,228 7,585

Other Foreign

Countries.............. 2,454,928 454,969 2,071,720 161,594 1,734,908 143,961

----------- ---------- ---------- ---------- ---------- ---------- Total................. $10,130,128 $1,988,836 $8,827,252 $1,453,345 $7,143,866 $1,270,325

=========== ========== ========== ========== ========== ==========

52

# ORACLE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

May 31, 2000

1. LEGAL PROCEEDINGS

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 the former Chief Operating Officer on and after December 18, 1997. The class actions are 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. The Company believes that it has meritorious defenses to these actions and intends to vigorously defend 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 is subject to various other 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, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated results of operations or consolidated financial position.

53

# SCHEDULE II

**ORACLE CORPORATION VALUATION AND QUALIFYING ACCOUNTS**

Balance at Additions Balance at

Beginning of Charged to Translation End of Classification Period Operations Write-offs Adjustments Period

-------------- ------------ ------------ ------------ ----------- ------------

Allowance for Doubtful Accounts Year Ended:

May 31, 1998.......... $127,840,000 $106,915,000 $(34,407,000) $(4,739,000) $195,609,000

============ ============ ============ =========== ============ May 31, 1999.......... $195,609,000 $ 96,989,000 $(73,736,000) $(1,766,000) $217,096,000

============ ============ ============ =========== ============ May 31, 2000.......... $217,096,000 $135,125,000 $(71,973,000) $(8,045,000) $272,203,000

============ ============ ============ =========== ============

54

# SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 28, 2000.

# Oracle Corporation

*/s/ Lawrence J. Ellison*

*By: Lawrence J. Ellison, Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

|  |  |  |
| --- | --- | --- |
| Name | Title | Date |
| ---- | ----- | ---- |

/s/ Lawrence J. Ellison Chief Executive Officer and August 28, 2000

Chairman of the Board of Lawrence J. Ellison Directors (Principal Executive

Officer)

/s/ Jeffrey O. Henley Executive Vice President, Chief August 28, 2000

Financial Officer and Director Jeffrey O. Henley (Principal Financial Officer)

/s/ Jennifer L. Minton Senior Vice President and August 28, 2000

Corporate Controller (Principal

|  |  |  |
| --- | --- | --- |
| Jennifer L. Minton  /s/ Jeffrey Berg | Accounting Officer)  Director | August 28, 2000 |
| Jeffrey Berg  /s/ Michael J. Boskin | Director | August 28, 2000 |
| Michael J. Boskin  /s/ Jack F. Kemp | Director | August 28, 2000 |
| Jack F. Kemp  /s/ Kay Koplovitz | Director | August 28, 2000 |
| Kay Koplovitz  /s/ Donald L. Lucas | Director | August 28, 2000 |
| Donald L. Lucas  /s/ Richard A. McGinn | Director | August 28, 2000 |
| Richard A. McGinn |  |  |
|  | 55 |  |

4290-10K00

# ORACLE CORPORATION INDEX OF EXHIBITS

Exhibit No. Exhibit Titles

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3.02 The Company's Bylaws, as adopted October 30, 1986, and amendments dated January 13, 1989 and December 3, 1990.

3.04 Certificate of Amendment of Restated Certificate of Incorporation of the Company filed with the Delaware Secretary of State on June 5, 2000.

* 1. Amendment to the 1991 Long-Term Equity Incentive Plan dated January 7, 2000.
  2. Amendment to the 1991 Long-Term Equity Incentive Plan dated June 2, 2000.

21.01 Subsidiaries of the Registrant.

23.01 Consent of Arthur Andersen LLP.

27.01 Financial Data Schedule.

# Exhibit 3.02

**BYLAWS OF**

**ORACLE SYSTEMS CORPORATION**

(a Delaware corporation)

# Adopted October 30, 1986

As Amended by the Board of Directors December 3, 1990

Article I - STOCKHOLDERS 1

|  |  |  |  |
| --- | --- | --- | --- |
| Section | 1.1: | Annual Meetings........................................... | 1 |
| Section | 1.2: | Special Meetings.......................................... | 1 |
| Section | 1.3: | Notice of Meetings........................................ | 1 |
| Section | 1.4: | Adjournments.............................................. | 1 |
| Section | 1.5: | Quorum.................................................... | 1 |
| Section | 1.6: | Organization.............................................. | 2 |
| Section | 1.7: | Voting; Proxies........................................... | 2 |
| Section | 1.8: | Fixing Date for Determination of Stockholders of Record... | 2 |
| Section | 1.9: | List of Stockholders Entitled to Vote..................... | 3 |
| Section | 1.10: | Action by Consent of Stockholders......................... | 3 |
| Article II - | BOARD | OF DIRECTORS.............................................. | 4 |
| Section | 2.1: | Number; Qualifications.................................... | 4 |
| Section | 2.2: | Election; Resignation; Removal; Vacancies................. | 4 |
| Section | 2.3: | Regular Meetings.......................................... | 4 |
| Section | 2.4: | Special Meetings.......................................... | 4 |
| Section | 2.5: | Telephonic Meetings Permitted............................. | 4 |
| Section | 2.6: | Quorum; Vote Required for Action.......................... | 4 |
| Section | 2.7: | Organization.............................................. | 5 |
| Section | 2.8: | Written Action by Directors............................... | 5 |
| Section | 2.9: | Powers.................................................... | 5 |
| Section | 2.10: | Compensation of Directors................................. | 5 |

Article III - COMMITTEES 5

Section 3.1: Committees 5

Section 3.2: Committee Rules 6

[Article IV - OFFICERS 6](#_TOC_250001)

Section 4.1: Generally 6

Section 4.2: President 6

Section 4.3: Vice President 6

Section 4.4: Treasurer 7

Section 4.5: Secretary 7

Section 4.6: Delegation of Authority 7

Section 4.7: Removal 7

[Article V - STOCK 7](#_TOC_250000)

Section 5.1: Certificates 7

Section 5.2: Lost, Stolen or Destroyed Stock Certificates;

Issuance of New Certificates 7

Section 5.3: Other Regulations 7

Article VI - INDEMNIFICATION 8

|  |  |  |
| --- | --- | --- |
| Section 6.1: | Indemnification of Officers, Directors and Employees...... | 8 |
| Section 6.2: | Advance of Expenses....................................... | 8 |
| Section 6.3: | Non-Exclusivity of Rights................................. | 8 |
| Section 6.4: | Indemnification of Contracts.............................. | 8 |
| Section 6.5: | Insurance................................................. | 9 |
| Section 6.6: | Effect of Amendment....................................... | 9 |

Article VII - NOTICES 9

Section 7.1: Notice 9

Section 7.2: Waiver of Notice 9

Article VIII - INTERESTED DIRECTORS 9

Section 8.1: Interest and Directors; Quorum 9

Article IX - MISCELLANEOUS 10

Section 9.1: Fiscal Year 10

Section 9.2: Seal 10

Section 9.3: Form of Records 10

Section 9.4: Reliance Upon Books and Records 10

Section 9.5: Certificate of Incorporation Governs 10

Section 9.6: Severability 11

Article X - AMENDMENT 11

Section 10.1: Amendments 11

# BYLAWS OF

**ORACLE SYSTEMS CORPORATION**

(a Delaware corporation)

# Adopted October 30, 1986

**Amended by the Board of Directors December 3, 1990 Article I - STOCKHOLDERS**

Section 1.1: Annual Meetings. An annual meeting of stockholders shall be held for the election of directors at such date, time and place, either within or without the State of Delaware, as the Board of Directors shall each year fix. Any other proper business may be transacted at the annual meeting.

Section 1.2: Special Meetings. Special meetings of stockholders for any purpose or purposes may be called at any time by the Chairman of the Board, the President, the Board of Directors or stockholders holding shares representing not less than twenty percent of the outstanding votes entitled to vote at the meeting. Special meetings may not be called by any other person or persons.

Section 1.3: Notice of Meetings. Written notice of all meetings of stockholders shall be given stating the place, date and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise required by applicable law or the Certificate of Incorporation of the Corporation, such notice shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 1.4: Adjournments. Any meeting of stockholders may adjourn from time to time to reconvene at the same or another place, and notice need not be given of any such adjourned meeting if the time, date and place thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At the adjourned meeting the Corporation may transact any business that might have been transacted at the original meeting.

Section 1.5: Quorum. At each meeting of stockholders the holders of a majority of the shares of stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum, except where otherwise required by law. If a quorum shall fail to attend any meeting, the chairman of the meeting or the holders of a majority of the shares entitled to vote who are present, in person or by proxy, at the meeting may adjourn the meeting. Shares of the Corporation's stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation or any other corporation to vote any of the Corporation's stock held by it in a fiduciary capacity.

Section 1.6: Organization. Meetings of stockholders shall be presided over by such person as the Board of Directors may designate, or, in the absence of such a person, the Chairman of the Board, or, in the absence of such person, the President of the Corporation, or, in the absence of such person, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, at the meeting. Such person shall be chairman of the meeting and shall determine the order of business and the procedure at the meeting,

including such regulation of the manner of voting and the conduct of discussion as seems to him or her to be in order. The Secretary of the Corporation shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 1.7: Voting; Proxies. Unless otherwise provided by law, and subject to the provisions of Section 1.6 of these Bylaws, each stockholder shall be entitled to one vote for each share of stock held by such stockholder. Each stockholder entitled to vote at a meeting of stockholders, or to express consent or dissent to corporate action in writing without a meeting, may authorize another person or persons to act for such stockholder by proxy. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors unless such is demanded by a stockholder or stockholders holding shares representing at least one percent of the votes entitled to vote at such meeting, or by such stockholder's or stockholders' proxy. If a vote is to be taken by written ballot, each such ballot shall state the name of the stockholder or proxy voting and such other information as the chairman of the meeting deems appropriate, and the ballots shall be counted by one or more inspectors appointed by the chairman of the meeting. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. All other elections and questions, unless otherwise provided by law or these Bylaws, shall be decided by the vote of the holders of a majority of the shares of stock entitled to vote thereon present in person or by proxy at the meeting.

Section 1.8: Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no record date is fixed by the Board of Directors, then the record date shall be as provided by law. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date for such consent. Such request shall include a brief description of the action proposed to be taken. The Board of Directors shall, within 10 days after the date on which such a request is received, adopt a resolution fixing the record date. Such record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors within 10 days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or any officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts the resolution taking such prior action.

Section 1.9: List of Stockholders Entitled to Vote. A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the

meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

Section 1.10: Action by Consent of Stockholders. Unless otherwise restricted by the Certificate of Incorporation, and except as set forth in Section 1.8 above, any action required or permitted to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

# Article II - BOARD OF DIRECTORS

Section 2.1: Number; Qualifications. The Board of Directors shall consist of three or more members. The initial number of directors shall be three, and thereafter shall be fixed from time to time by resolution of the Board of Directors. Directors need not be stockholders.

Section 2.2: Election; Resignation; Removal; Vacancies. The Board of Directors shall initially consist of the person or persons elected by the incorporator. Each director shall hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified, or until his or her earlier resignation or removal. Any director may resign at any time upon written notice to the Corporation. Subject to the rights of any holders of Preferred Stock then outstanding, (i) any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors, and (ii) any vacancy occurring in the Board of Directors for any cause, and any newly created directorship resulting from any increase in the authorized number of directors to be elected by all stockholders having the right to vote as a single class, may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, or by the stockholders. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 2.3: Regular Meetings. Regular meetings of the Board of Directors may be held at such places, within or without the State of Delaware, and at such times as the Board of Directors may from time to time determine. Notice of regular meetings need not be given if the date, times and places thereof are fixed by resolution of the Board of Directors.

Section 2.4: Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President or the Board of Directors and may be held at any time, date or place, within or without the State of Delaware, as the person or persons calling the meeting shall fix. Notice of the time, date and place of such meeting shall be given by the person or persons calling the meeting to all directors at least four days before the meeting if the notice is mailed, or at least two days before the meeting if such notice is given by telephone, hand delivery, telegram, telex, mailgram, facsimile or similar communication method. Unless otherwise indicated in the notice, any and all business may be transacted at a special meeting.

Section 2.5: Telephonic Meetings Permitted. Members of the Board of Directors, or any committee of the Board, may participate in a meeting of the Board or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to conference telephone or similar communications equipment shall constitute

presence in person at such meeting.

Section 2.6: Quorum; Vote Required for Action. At all meetings of the Board of Directors a majority of the total number of authorized directors shall constitute a quorum for the transaction of business. Except as otherwise provided herein or required by law, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 2.7: Organization. Meetings of the Board of Directors shall be presided over by the Chairman of the Board, or in his or her absence by the President, or in his or her absence by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.8: Written Action by Directors. Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 2.9: Powers. The Board of Directors may, except as otherwise required by law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

Section 2.10: Compensation of Directors. Directors, as such, may receive, pursuant to a resolution of the Board of Directors, fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors

# Article III - COMMITTEES

Section 3.1: Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the committee, the member or members thereof present at any meetings and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in a resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in subsection (a) of

Section 151 of the Delaware General Corporation Law, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution and distribution of assets of the Corporation, or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation, or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation under Sections 251 or 252 of the Delaware General Corporation Law, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the Bylaws of the Corporation; and unless the resolution of the Board of Directors expressly so provides, no such committee shall have the power or authority to declare a dividend, authorize the issuance of stock or adopt a certificate of ownership and merger pursuant to

Section 253 of the Delaware General

# Corporation Law.

Section 3.2: Committee Rules. Unless the Board of Directors otherwise provides, each committee designated by the Board may make, alter and repeal rules for the conduct of its business. In the absence of such rules each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article II of these Bylaws.

# Article IV - OFFICERS

Section 4.1: Generally. The officers of the Corporation shall consist of a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers, including a Chairman of the Board of Directors, as may from time to time be appointed by the Board of Directors. Officers shall be elected by the Board of Directors. Each officer shall hold office until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any number of offices may be held by the same person. Any officer may resign at any time upon written notice to the Corporation. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled by the Board of Directors.

Section 4.2: President. Unless otherwise designated by the Board of Directors, the President shall be the chief executive officer of the Corporation. Subject to the provisions of these Bylaws and to the direction of the Board of Directors, he or she shall have the responsibility for the general management and control of the business and affairs of the Corporation and shall perform all duties and have all powers that are commonly incident to the office of chief executive or that are delegated to him or her by the Board of Directors. He or she shall have power to sign all stock certificates, contracts and other instruments of the Corporation that are authorized and shall have general supervision and direction of all of the duties, employees and agents of the Corporation.

Section 4.3: Vice President. Each Vice President shall have such powers and duties as may be delegated to him or her by the Board of Directors. A Vice President may be designated by the Board to perform the duties and exercise the powers of the President in the event of the President's absence or disability.

Section 4.4: Treasurer. The Treasurer shall have the responsibility for maintaining the financial records of the Corporation and shall have custody of all monies and securities of the Corporation. He or she shall make such disbursements of the funds of the Corporation as are authorized and shall render from time to time an account of all such transactions and of the financial condition of the Corporation. The Treasurer shall also perform such other duties as the Board of Directors may from time to time prescribe.

Section 4.5: Secretary. The Secretary shall issue or cause to be issued all authorized notices for, and shall keep, or cause to be kept, minutes of, all meetings of the stockholders and the Board of Directors. He or she shall have charge of the corporate books and shall perform such other duties as the Board of Directors may from time to time prescribe.

Section 4.6: Delegation of Authority. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

Section 4.7: Removal. Any officer of the Corporation may be removed at any time, with or without cause, by the Board of Directors. Such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation.

# Article V - STOCK

Section 5.1: Certificates. Every holder of stock shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman of the Board of Directors, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Corporation, certifying the number of shares owned by such stockholder in the Corporation. Any or all of the signatures on the certificate may be a facsimile.

Section 5.2: Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates. The Corporation may issue a new certificate of stock in the place of any certificate previously issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 5.3: Other Regulations. The issue, transfer, conversion and registration of stock certificates shall be governed by such other regulations as the Board of Directors may establish.

# Article VI - INDEMNIFICATION

Section 6.1: Indemnification of Officers, Directors and Employees. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative, is or was a director, officer or employee of the Corporation (including any constituent corporation absorbed in a merger) or is or was serving at the request of the Corporation (including any such constituent corporation) as a director, officer or employee of another corporation, or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by the Delaware General Corporation Law, as the same exists or may hereafter be amended, against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes and penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that the Corporation shall indemnify any such person seeking indemnity in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

Section 6.2: Advance of Expenses. The Corporation shall pay all expenses incurred by such a director, officer or employee in defending any such proceeding as they are incurred in advance of its final disposition; provided, however, that if the Delaware General Corporation Law then so requires, the payment of such expenses incurred by a director, officer or employee in advance of the final disposition of such proceeding shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director, officer or employee, to repay all amounts so advanced if it should be determined ultimately that such director, officer or employee is not entitled to be indemnified under this Article VI or otherwise; and provided further that the Corporation shall not be required to advance any expenses to a person against whom the Corporation brings a claim, in a proceeding, for breach of the duty of loyalty to the Corporation, for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law or for any transaction from which such person derived an improper personal benefit.

Section 6.3: Non-Exclusivity of Rights. The rights conferred on any person in this Article VI shall not be exclusive of any other right that such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote or consent of stockholders or disinterested directors or

otherwise.

Section 6.4: Indemnification of Contracts. The Board of Directors is authorized to cause the Corporation to enter into a contract with any director, officer or employee of the Corporation, or any person serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, providing for indemnification rights equivalent to or, if the Board of Directors so determines, greater than, those provided for in this Article VI.

Section 6.5: Insurance. The Corporation shall maintain insurance, at its expense, to the extent it determines such to be reasonably available, to protect itself, its officers and directors and any other persons the Board of Directors may select, against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

Section 6.6: Effect of Amendment. Any amendment, repeal or modification of any provision of this Article VI by the stockholders or the Directors of the Corporation shall be prospective only, and shall not adversely affect any right or protection conferred on a person pursuant to this Article VI and existing at the time of such amendment, repeal or modification.

# Article VII - NOTICES

Section 7.1: Notice. Except as otherwise specifically provided herein or required by law, all notices required to be given pursuant to these Bylaws shall be in writing and may in every instance be effectively given by hand delivery (including use of a courier service), by depositing such notice in the mail, postage prepaid, or by sending such notice by prepaid telegram, telex, mailgram or facsimile. Any such notice shall be addressed to the person to whom notice is to be given at such persons address as it appears on the records of the Corporation. The notice shall be deemed given (i) in the case of hand delivery, when received by the person to whom notice is to be given or by any person accepting such notice on behalf of such person, (ii) in the case of delivery by mail, when deposited in the mail, and (iii) in the case of delivery via telegram, mailgram, telex, or facsimile, when dispatched.

Section 7.2: Waiver of Notice. Any written waiver of notice, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice.

# Article VIII - INTERESTED DIRECTORS

Section 8.1: Interest and Directors; Quorum. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board or committee thereof that authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose if: (i) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes

of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; (ii) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof, or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

# Article IX - MISCELLANEOUS

Section 9.1: Fiscal Year. The fiscal year of the Corporation shall be determined by resolution of the Board of Directors.

Section 9.2: Seal. The Board of Directors may provide for a corporate seal, which shall have the name of the Corporation inscribed thereon and shall otherwise be in such form as may be approved from time to time by the Board of Directors.

Section 9.3: Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

Section 9.4: Reliance Upon Books and Records. A member of the Board of Directors of the Corporation, or a member of any committee designated by the Board of Directors, shall, in the performance of his or her duties, be fully protected in relying in good faith upon the books of account or reports made to the Corporation by any of its officers, or by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors or by any such committee, or in relying in good faith upon other records of the Corporation.

Section 9.5: Certificate of Incorporation Governs. In the event of any conflict between the provisions of the Corporation's Certificate of Incorporation and Bylaws, the provisions of the Certificate of Incorporation shall govern.

Section 9.6: Severability. If any provision of these Bylaws shall be held to be invalid, illegal, unenforceable or in conflict with the provisions of the Corporation's Certificate of Incorporation, then such provision shall nonetheless be enforced to the maximum extent possible consistent with such holding and the remaining provisions of these Bylaws (including without limitation, all portions of any section of these Bylaws containing any such provision held to be invalid, illegal, unenforceable or in conflict with the Certificate of Incorporation) that are not themselves invalid, illegal, unenforceable or in conflict with the Certificate of Incorporation shall remain in full force and effect.

# Article X - AMENDMENT

Section 10.1: Amendments. The shareholders of the Corporation shall have the power to adopt, amend or repeal Bylaws. The Board of Directors of the Corporation shall also have the power to adopt, amend or repeal Bylaws of the Corporation, except Bylaws adopted by the shareholders that specify that they

cannot be amended or repealed by the Board of Directors.

# Exhibit 3.04

**CERTIFICATE OF AMENDMENT OF**

**RESTATED CERTIFICATE OF INCORPORATION**

Oracle Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is Oracle Corporation, and the date of filing of its original Certificate of Incorporation with the Secretary of State was October 29, 1986.
2. The first paragraph of Article 4, Section A of the Restated Certificate of Incorporation is amended to read, in full, as follows:
   1. The total number of shares of stock of all classes which the Corporation has the authority to issue is 11,001,000,000, consisting of 11,000,000,000 shares of Common Stock with a par value of $0.01 per share (the "Common Stock"), and 1,000,000 shares of Preferred Stock with a par value of $0.01 per share (the "Preferred Stock").
3. This Certificate of Amendment of Restated Certificate of Incorporation has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Oracle Corporation has caused this Certificate to be signed and attested by its duly authorized officers as of this 2nd day of June, 2000.

# ORACLE CORPORATION,

a Delaware corporation

*By: /s/ Daniel Cooperman*

*-------------------------------*

*Daniel Cooperman Senior Vice President,*

*General Counsel & Secretary*

*ATTEST:*

*By: /s/ Thomas Theodores*

*------------------------*

*Thomas Theodores Assistant Secretary*

# Exhibit 10.09

1. The first sentence of Section 10(b) of the Plan is amended and restated in its entirety as follows:

"(b) Stock Withholding. When a Participant incurs tax liability in connection with the exercise or vesting of any Option, Right or Long- Term Performance Award, which tax liability is subject to tax withholding under applicable tax laws, and the Participant is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Participant may satisfy the withholding tax obligation by electing to have the Company withhold from the Shares to be issued that number of Shares having a Fair Market Value equal to the amount required to be withheld, determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date"); provided however that the Company shall not allow withholding of Shares upon exercise or vesting of any Option, Right or Long-Term Performance Award in an amount which exceeds the minimum statutory withholding rates for federal and state tax purposes, including

payroll taxes."

# Exhibit 10.10

1. Section 6(k)(iv) of the Plan is amended and restated in its entirety as follows:

(iv): A Participant's employment relationship shall be considered to have terminated, and the Participant to have ceased to be employed by the Company, on the earliest of:

1. the date on which the Company, or any Parent, Subsidiary or Affiliate of the Company, as appropriate, delivers to the Participant notice in a form prescribed by the Company that the Company, or such other entity, is thereby terminating the employment relationship (regardless of whether the notice or termination is lawful or unlawful or is in breach of any contract of employment),
2. the date on which the Participant delivers notice in a form prescribed by the Company, to the Company, or any Parent, Subsidiary or Affiliate of the Company, as appropriate, that he or she is terminating the employment relationship (regardless of whether the notice or termination is lawful or unlawful or is in breach of any contract of employment),
3. the date on which the Participant ceases to provide services to the Company, or any Parent, Subsidiary or Affiliate of the Company, as appropriate, except where the Participant is on an authorized leave of absence, or
4. the date on which the Participant ceases to be considered an "employee" under applicable law.

The Committee shall have discretion to determine whether Participant has ceased to be employed by the Company or any Parent, Subsidiary or Affiliate of the Company and the effective date on which such employment terminated or whether such

Participant is on an authorized leave of absence.

# EX-21.01

**SUBSIDIARIES OF THE REGISTRANT**

Exhibit 21.01

Subsidiary Country of Incorporation

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Oracle Argentina, S.A. Argentina

Oracle Corporation (Australia) Pty. Ltd. Australia

Oracle Australia Property Pty. Ltd. Australia

One Meaning Pty. Ltd. Australia

Oracle GmbH Austria

Oracle (Barbados) Foreign Sales Corporation Barbados

Oracle Belgium N.V. Belgium

Oracle do Brasil Sistemas Limitada Brazil

Oracle Corporation Canada Inc. Canada La Societe D'Informatique Oracle du Quebec Inc. Canada

Oracle Caribbean, Inc. Puerto Rico

Oracle Holding Cayman Cayman Islands

Oracle International Holding Company Cayman Islands

Sistemas Oracle de Chile, S.A. Chile

Centro de Capacitacion Oracles Ltda. Chile Beijing Oracle Software Systems Company Limited China Oracle Colombia Limitada Colombia

Oracle de Centroamerica S.A. Costa Rica

Oracle Software d.o.o. Croatia

Oracle Czech s.r.o. Czech Republic

Oracle Danmark ApS Denmark

Oracle Ecuador, S.A. Ecuador

Oracle Egypt Ltd. Egypt

Oracle Finland OY Finland

Oracle France, S.A.S. France

Expansion, S.A. France

Concentra S.A. France

Oracle Deutschland GmbH Germany

Concentra GmbH Germany

Oracle Hellas, S.A. Greece

Oracle Systems Hong Kong Limited Hong Kong

Oracle Systems China (Hong Kong) Limited Hong Kong

Oracle Hungary Kft. Hungary

Oracle Software India Ltd. India

PT Oracle Indonesia Indonesia

Oracle EMEA Limited Ireland

Oracle Technology Company Ireland

Oracle Software Systems Israel Limited Israel

Oracle Italia S.R.L. Italy

Oracle Corporation Japan Japan

Oracle Systems (Korea), Ltd. Korea

Oracle Corporation Malaysia Sdn. Bhd. Malaysia

Oracle Mexico, S.A. de C.V. Mexico

Oracle Nederland B.V. The Netherlands

Oracle Distribution B.V. The Netherlands

Oracle Licensing B.V. The Netherlands

Tinoway Nederland B.V. The Netherlands

Tinoway International B.V. The Netherlands

Oracle Holding Antilles N.V. Netherlands Antilles

Oracle New Zealand, Ltd. New Zealand

Oracle Norge AS Norway

Oracle del Peru, S.A. Peru

Oracle Philippines, Inc. Philippines

Oracle Polska, Sp.z.o.o. Poland

Oracle Portugal - Sistemas de Informacao Lda. Portugal Saudi Oracle Limited Saudi Arabia

Oracle Corporation Singapore Pte. Ltd. Singapore

Oracle Slovensko spol. s.r.o. Slovakia

Oracle Software d.o.o., Ljubljana, Slovenia Slovenia Oracle Corporation (South Africa)(Pty) Limited South Africa Oracle Iberica, S.R.L. Spain

Oracle Svenska AB Sweden

Oracle Software (Switzerland) LLC Switzerland

Oracle AG Switzerland (ECEMEA territory)

Oracle Corporation (Thailand) Co. Ltd. Thailand Oracle Bilgisayar Sistemleri Limited Sirketi Turkey

Oracle Systems Limited United Arab Emirates

Oracle Corporation UK Limited UK

Oracle Corporation Nominees Limited UK

Oracle Resources Ltd. UK

Oracle Corporation OLAP, Ltd. UK

Oracle EMEA Management Ltd. UK

One Meaning, Ltd. UK

Concentra Limited UK

Versatility UK Ltd. UK

Versatility Virgin Islands, Inc. U.S. Virgin Islands

Oracle Uruguay, S.A. Uruguay

Oracle de Venezuela, C.A. Venezuela

Oracle Vietnam Pty. Ltd. Vietnam

BusinessOnline, Inc. Delaware

Concentra Corporation Delaware

CTRA Holdings Corporation Massachusetts

Datalogix International, Inc. New York

Delphi Asset Management Corporation Nevada

Drutt Corporation Delaware

E-Travel, Inc. Delaware

Graphical Information, Inc. Florida

Loandata LLC Massachusetts

One Meaning, Inc. Delaware

Oracle Cable, Inc. Delaware

Oracle China, Inc. California

Oracle Complex Systems Corporation Delaware

Oracle Credit Corporation California

Oracle Holdings, Inc. Delaware

Oracle International Investment Corporation California Oracle Japan Holding, Inc. Delaware

Oracle Taiwan, Inc. California

Oracle Tutor Corporation California

OracleMobile, Inc. Delaware

RSIB, Inc. Delaware

Treasury Services Corporation California

Versatility, Inc. Delaware

Wisdom Systems, Inc. Delaware

# EXHIBIT 23.01

**CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

As independent public accountants, we hereby consent to the incorporation of our report dated June 16, 2000 included in this Form 10-K into the Company's previously filed Registration Statements (File No.'s 33-3536, 33-16749, 33- 33564, 33-44702, 33-51754, 33-53349, 33-53351,

33-53355, 333-18997, 333-19001, 333-41935, 333-63315, 333-74973, 333-74977, 333-75607, 333-75679, 333-83299, 333-83305, 333-96035,

333-34022 and 333-43836) on Form S-8.

# Arthur Andersen LLP

San Jose, California August 28, 2000

# ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS CONTAINED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED MAY 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.

MULTIPLIER: 1,000

|  |  |
| --- | --- |
| PERIOD TYPE | 12 MOS |
| FISCAL YEAR END | MAY 31 2000 |
| PERIOD START | JUN 01 1999 |
| PERIOD END | MAY 31 2000 |
| CASH | 7,429,206 |
| SECURITIES | 332,792 |
| RECEIVABLES | 2,806,167 |
| ALLOWANCES | 272,203 |
| INVENTORY | 9,235 |
| CURRENT ASSETS | 10,883,334 |
| PP&E | 2,125,030 |
| DEPRECIATION | 1,190,575 |
| TOTAL ASSETS | 13,076,779 |
| CURRENT LIABILITIES | 5,862,238 |
| BONDS | 0 |
| PREFERRED MANDATORY | 0 |
| PREFERRED | 0 |
| COMMON | 28,076 |
| OTHER SE | 6,433,387 |
| TOTAL LIABILITY AND EQUITY | 13,076,779 |
| SALES | 0 |
| TOTAL REVENUES | 10,130,128 |
| CGS | 0 |
| TOTAL COSTS | 2,942,679 |
| OTHER EXPENSES | 0 |
| LOSS PROVISION | 135,125 |
| INTEREST EXPENSE | 18,894 |
| INCOME PRETAX | 10,123,434 |
| INCOME TAX | 3,826,631 |
| INCOME CONTINUING | 6,296,803 |
| DISCONTINUED | 0 |
| EXTRAORDINARY | 0 |
| CHANGES | 0 |
| NET INCOME | 6,296,803 |
| EPS BASIC | 2.22 |
| EPS DILUTED | 2.10 |

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