***Oracle* Systems *Corporation***

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n August 1990 Lawrence J. Ellison, CEO of Oracle Systems Corporation, was fac­ing increasing pressure from analysts about the method the company used to recog­nize revenue in its financial reports. Analysts' major concerns were clearly articulated by a senior technology analyst at Hambrecht 6c Quist, Inc. in San Francisco:

*Under Oracle's current set of accounting rules, Oracle can recognize any rev­enue they believe will be shipped within the next twelve months. ... Many other software firms have moved to booking only the revenue that has been shipped.*

Given its aggressive revenue-recognition policy and relatively high amount of accounts receivable, many analysts argued that Oracle's stock was a risky buy. As a result, the company's stock price had plummeted from a high of *$56* in March to around $27 in mid-August. This poor stock performance concerned Larry Ellison for two reasons. First, he worried that the firm might become a takeover candidate, and second that the low price made it expensive for the firm to raise new equity capital to finance its future growth.'

ORACLE'S BUSINESS AND PERFORMANCE

Since its formation in California in June 1977, Oracle Systems Corporation has grown rapidly to become the world's largest supplier of database management soft­ware. Its principal product is the ORACLE relational database management system, which runs on a broad range of computers, including mainframes, minicomputers, microcomputers, and personal computers. The company also develops and distributes a wide array of products to interface with its database system, including applications in financial reporting, manufacturing management, computer aided systems engineer­ing, computer network communications, and office automation. Finally, Oracle offers extensive maintenance, consulting, training, and systems integration services to sup­port its products.

Oracle's leadership in developing software for database management has enabled it to achieve impressive financial growth. As reported in Exhibit 1, the company's sales grew from $282 million in 1988 to $971 million two years later. Larry Ellison was proud of this rapid growth and committed to its continuance. He often referred to Genghis Khan as his inspiration in crushing competitors and achieving growth.

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/. Cnoltfiicna Silvfsu/ and Professor *Paul M* Heafy t>rei>ared this case at the AWT Sloan School of Management The case is intended *solely* as the basis for class discussion and is not intended to serve as an endorsement, source of/irimary data, or illustration of effective or ineffective management

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*The* primary factors underlying Oracle's strong performance have been its suc­cesses in R&D and its committed sales force. The firm's R&D triumphs are proudly noted in the *1*990 annual report:

*\n 1979, we delivered ORACLE, the world's first relational database manage­ment system and the first product based on SQL. In 1983, ORACLE was the first database management system to run on mainframes, minicomputers, and PCs. In 1986, ORACLE was the first database management system with distrib­uted capability, making access to data on a network of computers as easy as access on a single computer.*

*We continued our tradition of technology leadership in 1990, with three key achievements in the area of client-server computing. First, we delivered software that allows client programs to automatically adapt to the different graphical user interfaces on PCs, Macintoshes, and workstations. Second, we delivered our com­plete family of accounting applications running as client programs networked to an ORACLE database server. Third, the ORACLE database server set per­formance records of over 400 transactions per second on mainframes, 200 traits-actions per second on minicomputers, and 20 transactions per second on* PCs.

Oracle's sales force has also been responsible for its success. The sales force is com­pensated on the basis of sales, giving it a strong incentive to aggressively court large corporate customers. In some cases salespeople even have been known to offer extended payment terms to a potentially valuable customer to close a sale.

Oracle's growth slowed in early 1990. In March the firm announced a 54 percent jump in quarterly revenues (relative to 1989's results)—but only a 1 percent rise in earnings (see Exhibit 2 for quarterly results for 1989 and 1990). Management explained that several factors contributed to this poor performance. First, the com­pany had recently redrawn its sales territories and, as a result, for several months salespeople had become unsure of their new responsibilities, leaving some customers dissatisfied. Second, there were problems with a number of new products, such as Oracle Financials, which were released before all major bugs could be fixed. How­ever, the stock market was unimpressed by these explanations, and the firm's stock price dropped by 31 percent with the earnings announcement.

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REVENUE RECOGNITION

The deterioration in its financial performance prompted analysts to question Oracle's method of recognizing revenues. For example, one analyst commented:

*Oracle's accounting practices might have played a role in the low net income results. The top line went up over* 50%, *though the net bottom line did not do so well, because Oracle's running more cash than it should be as a result of financial mismanagement. The company's aggressive revenue-recognition pol­icy and relatively high amount of accounts receivables make the stock risky.*

Oracle's major revenues come from licensing software products to end users, and from sublicensing agreements with original equipment manufacturers (OEMs) and software value-added relicensors (VARs). Initial license fees for the ORACLE data­base management system range from $199 to over $5,500 on micro- and personal computers, and from $5,100 to approximately $342,000 on mini- and mainframe computers. License fees for Oracle Financial and Oracle Government Financial prod­ucts range from $20,000 to $513,000, depending on the platform and number of

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users. A customer may obtain additional licenses at the same site at a discount.

Oracle recognizes revenues from these licenses when a contract has been signed with i ',5

a financially sound customer, even though shipment of products has not occurred.

OEM agreements are negotiated on a case-by-case basis. However, under a typi­cal contract Oracle receives an initial nonrefundable fee (payable either upon signing the contract or within 30 days of signing) and sublicense fees based on the number of copies distributed. Under VAR agreements the company charges a development license fee on top of the initial nonrefundable fee, and it receives sublicense fees based on the number of copies distributed. Sublicense fees are usually a percentage of Oracle's list price. The initial nonrefundable payments and development license fees under these arrangements are recorded as revenue when the contracts are signed. Sublicense fees are recorded when they are received from the OEM or VAR.

Oracle also receives revenues from maintenance agreements under which it pro­vides technical support and telephone consultation on the use of the products and problem resolution, system updates for software products, and user documentation. Maintenance fees generally run for one year and are payable at the end of the main­tenance period. They range from *7.5* percent to 22 percent of the current list price of the appropriate license. These fees are recorded as unearned revenue when the main­tenance contract is signed and are reflected as revenue ratably over the contract period.

The major questions about Oracle's revenue recognition concern the way the firm recognizes revenues on license fees. There is no currently accepted standard for accounting for these types of revenues.2 However, Oracle tends to be one of the more aggressive reporters. The firm's days receivable exceeds 160 days, substantially higher than the average of 62 days receivable for other software developers (see Exhibit 3 for a summary of days receivable for other major software developers in *\* 989 and 1990). As a result, some analysts argue that the firm should recognize revenue when software is delivered rather than when a contract is signed, consistent with the accounting treatment for the sale of products. In addition, the collectibility of license fees is considered questionable by some analysts, who have urged the firm to recognize revenue only when there is a reasonable basis for estimating the degree of collectibility of a receivable. Estimates by Oracle's controller indicate that if Oracle were to change to a more conservative revenue recognition policy, the firm's days receivable would fall to about 120 days.

MANAGEMENT'S CONCERNS

Oracle's management was concerned about analysts' opinions and the downturn in the firm's stock. The company had lost credibility with investors and customers due to its recent poor performance and its controversial accounting policies.

One of the items on the agenda at the upcoming board meeting was to consider proposals for changing the firm's revenue recognition method and for dealing with its communication challenge. Ellison knew that his opinion on this question would be influential. As he saw it, the company had three alternatives. One was to modify the recognition of license fees so that revenue would be recognized only when sub­stantially all the company's contractual obligations had been performed. However, he

2. *The financial Accounting Standards Board* wos *considering* tne issue of revenue recognition *for software developers at this* time. *It was widely expected* that the Board *would make a pronouncement on the topk early in 1991.*



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worried that such a change would have a negative impact on the firm's bottom line and further depress the stock price. A second possibility was to wait until the FASB announced its position on software revenue recognition before making any changes. Finally, the company could make no change and vigorously defend its current accounting method. Ellison carefully considered which alternative made the most sense for the firm.

QUESTIONS

1. What factors might have led analysts to question Oracle Systems' method of revenue
recognition in mid-1990? Are these legitimate concerns?
2. Estimate the earnings impact for Oracle from recognizing revenue at delivery, rather
than when a contract is signed.
3. What accounting or communication changes would you recommend to Oracle's Board
of Directors?

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EXHIBIT I

Oracle Systems Corporation—Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

As of May 31,1990 and 1989 (in $000, except per share data)

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|  |  |  |
| --- | --- | --- |
|  | 1990 | 1989 |
| ASSETS |  |  |
| CURRENT ASSETS: |  |  |
| Cash and cash equivalents | $44,848 | $44,848 |
| Short-term investments | 4,980 | 4,500 |
| Receivables |  |  |
| Trade, net of allowance for doubtful accounts of $28,445 in 1 990 |  |  |
| and $16,829 in 1989 | 468,071 | 261,989 |
| Other | 28,899 | 16,175 |
| Prepaid expenses and supplies | 22,459 | 9,376 |
| Total current assets | 569,257 | 336,933 |
| PROPERTY, net | 171,945 | 94,455 |
| COMPUTER SOFTWARE DEVELOPMENT COSTS, net of |  |  |
| accumulated amortization of $ 1 4,365 in 1 990 and $6, 1 80 in 1 989 | 33,396 | 13,942 |
| OTHER ASSETS | 12,649 | 14,879 |
| TOTAL ASSETS | $787,247 | $460,209 |
| LIABILITIES AND STOCKHOLDERS' EQUITY |  |  |
| CURRENT LIABILITIES: |  |  |
| Notes payable to banks | $3 1 ,236 | $9,747 |
| Current maturities of long-term debt | i 1 ,265 | 1 3,587 |
| Accounts payable | 64,922 | 51,582 |
| Income taxes payable | 18,254 | 14,836 |
| Accrued compensation and related benefits | 61,164 | 39,063 |
| Customer advances and unearned revenues | 42,121 | 15,403 |
| Other accrued liabilities | 32,417 | 23,400 |
| Sales tax payable | 22,193 | 8,608 |
| Deferred income taxes | — | 2,107 |
| Total current liabilities | 283,572 | 178,333 |
| LONG-TERM DEBT | 89,129 | 33,506 |
| OTHER LONG-TERM LIABILITIES | 4,936 | 5,702 |
| DEFERRED INCOME TAXES | 22,025 | 12,114 |
| STOCKHOLDERS' EQUITY: |  |  |
| Common stock, $.0 1 par value-authorized, 200,000,000 shares; |  |  |
| outstanding: 131,1 38,302 shares in 1 990 |  |  |
| and 126,933,288 shares in 1989 | 388 | 346 |
| Additional paid-in capital | 118,715 | 84,931 |
| Retained earnings | 267,475 | 150,065 |
| Accumulated foreign currency translation adjustments | 1,007 | (4,788) |
| Total stockholders' equity | 387,585 | 230,554 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $787,247 | $460,209 |

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CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended May 31,1990 to 1988 (in $000, except per share data)

|  |  |  |  |
| --- | --- | --- | --- |
|  | 1990 | 1989 | 1988 |
| REVENUES |  |  |  |
| Licenses | $689,898 | $417,825 | $205,435 |
| Services | 280,946 | 165,848 | 76,678 |
| Total revenues | 970,844 | 583,673 | 282,113 |
| OPERATING EXPENSES |  |  |  |
| Sales and marketing | 465,074 | 272,812 | 124,148 |
| Cost of services | 1 60,426 | 100,987 | 51,241 |
| Research and development | 88,291 | 52,570 | 25,708 |
| General and administrative | 67,258 | 34,344 | 17,121 |
| Total operating expenses | 781,049 | 460,713 | 218,218 |
| OPERATING INCOME | 189,795 | 122,960 | 63,895 |
| OTHER INCOME (EXPENSE): |  |  |  |
| Interest income | 3,772 | 2,724 | 2,472 |
| Interest expense | (12,096) | (4,318) | (1,540) |
| Other income (expense) | (8,811) | (1,121) | 152 |
| Total other income (expense) | (17,135) | (2,715) | 1,084 |
| INCOME BEFORE PROVISION FOR INCOME |  |  |  |
| TAXES | 172,660 | 120,245 | 64,979 |
| PROVISION FOR INCOME TAXES | 55,250 | 38,479 | 22,093 |
| NET INCOME | $117,410 | $81,766 | $42,886 |
| EARNINGS PER SHARE | $.86 | $.61 | $.32 |
| NUMBER OF COMMON AND COMMON |  |  |  |
| EQUIVALENT SHARES OUTSTANDING | 136,826 | 135,066 | 132,950 |

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CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended Hay 31,1990 to 1988 (in $000)

|  |  |  |  |
| --- | --- | --- | --- |
|  | 1990 | 1989 | 1988 |
| CASH FLOWS FROM OPERATING ACTIVITIES |  |  |  |
| Net income | $117,410 | $81,766 | $42,886 |
| Adjustments to reconcile net income to net cash |  |  |  |
| provided by operating activities: |  |  |  |
| Depreciation and amortization | 44,078 | 23,156 | 12,973 |
| Provision for doubtful accounts | 16,625 | 9,211 | 4,839 |
| Increase in receivables | (227,046) | (149,900) | (74,777) |
| Increase in prepaid expenses & supplies | (12,834) | (5,684) | (1,458) |
| Increase in accounts payable | 12,491 | 25,236 | 12,854 |
| Increase income taxes payable | 3,002 | 6,821 | 7,940 |
| Increase in other accrued liabilities | 42,166 | 38,057 | 21,420 |
| Increase in customer advances |  |  |  |
| and unearned revenues | 25,786 | 6,496 | 5,682 |
| Increase (decrease) in deferred taxes | 7,728 | (10,857) | 8,170 |
| increase (decrease) in other non-current liabilities | (766) | 1,938 | — |
| Net cash provided by operating activities | 28,640 | 26,240 | 40,529 |
| CASH FLOWS FROM INVESTING ACTIVITIES |  |  |  |
| Increase in short-term investments | (480) | 2,998 | (7,498) |
| Capital expenditures | (89,275) | (68,428) | (30,959) |
| Capitalization of computer software development costs | (27,639) | (10,526) | (4,447) |
| increase in other assets | (1,116) | (2,084) | (481) |
| Purchase of a business | — | (6,650) | — |
| Net cash used for investing activities | (118,510) | (84,690) | (43,385) |
| CASH FLOWS FROM FINANCING ACTIVITIES |  |  |  |
| Notes payable to banks | 21,156 | 10,305 | (169) |
| Proceeds from issuance of long-term debt | 68,530 | 37,539 | 1,445 |
| Payments of long-term debt | (34,239) | (6,205) | (3,638) |
| Proceeds from common stock issued | 18,460 | 11,060 | 4,712 |
| Tax benefits from stock options | 15,366 | 10,593 | 3,992 |
| Net cash provided by financing activities | 89,273 | 63,292 | 6,342 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 552 | (1,061) | 69 |
| NET INCREASE (DECREASE) IN CASH | (45) | 3,781 | 3,555 |
| CASH: BEGINNING OF YEAR | 44,893 | 41,112 | 37,557 |
| Cash: end of year | $44,848 | $44,893 | $41,112 |

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EXCERPTS FROM NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**/. Organization and Significant Accounting *Policies* Organization**

Oracle Systems Corporation (the Company) develops and markets computer software products used for database management, applications development, decision support, programmer tools, com­puter network communication, end user applications, and office automation. The Company offers maintenance, consulting, and training services in support of its clients' use of its software products.

**Basis of Financial Statements**

The consolidated financial statements include the Company and its subsidiaries.AII transactions and balances between the companies are eliminated.

**Business Combination**

In November 1988, the Company's subsidiary, Oracle Complex Systems Corporation, acquired all of the outstanding shares of Falcon Systems, Inc., a systems integrator, for $13,714,000 in cash and $4,600,000 in notes which become due November I, 1991.The acquisition was accounted for as a purchase and the excess of the cost over the fair value of assets acquired was $5,648,000, which is being amortized over 5 years on a straight-line method. Pro forma results of operations, assuming the acquisition had taken place June I, 1987, would not differ materially from the Company's actual results of operations.

**Software Development Costs**

Effective June 1, 1986, the Company began capitalizing internally generated software development costs in compliance with Statement of Financial Accounting Standards No. 86,"Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Capitalization of computer software development costs begins upon the establishment of technological feasibility for the prod­uct. Capitalized software development costs amounted to $27,639,000, $ 10,526,000, and $4,447,000 in fiscal 1990,1989, and 1988, respectively.

Amortization of capitalized computer software development costs begins when the products are available for general release to customers, and is computed product by product as the greater of: (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues for the product, or (b) the straight-line method over the remaining esti­mated economic life of the product. Currently, estimated economic lives of 24 months are used in the calculation of amortization of these capitalized costs. Amortization amounted to $8,185,000, $3,504,000, and $2,345,000 for fiscal years ended May 31,1990, 1989, and 1988,respectively, and is included in sales and marketing expenses.

**Statements of Cash Flows**

The Company paid income taxes in the amount of $33,731,000, $29,006,000, and $711,000 and interest expense of $8,026,000, $4,274,000 and $ 1,540,000 during the fiscal years ended 1990,1989, and 1988, respectively. The Company purchased equipment under capital lease obligations in the amount of $ 17,616,000, $4,692,000, and $4,108,000 in fiscal 1990, 1989, and 1988, respectively.

**Revenue Recognition**

The Company generates several types of revenue including the following:

**License and** Sublicense **fees.** The Company licenses ORACLE products to end users under license agreements. The Company also has entered into agreements whereby the Company licenses Oracle

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products and receives license and sublicense fees from original equipment manufacturers (OEMs) and software value-added relicensors (VARs). The minimum amount of license and sublicense fees spec­ified in the agreements is recognized either upon shipment of the product or at the time such agree­ments are effective (which in most instances is the date of the agreement) if the customer is creditworthy and the terms of the agreement are such that the amounts are due within one year and are nonrefundable.and the agreements are noncancellable.The Company recognizes revenue at such time as it has substantially performed all of its contractual obligations. Additional sublicense fees are subsequently recognized as revenue at the time such fees are reported to the Company by the OEMs and VARs.

**Maintenance Agreements.** Maintenance agreements generally call for the Company to provide technical support and certain systems updates to customers. Revenue related to providing technical support is recognized proportionately over the maintenance period, which in most instances is one year, while the revenue related to systems updates is recognized at the beginning of each maintenance period.

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**Consulting, Training, and Other Services.** The Company provides consulting services to its customers; revenue from such services is generally recognized under the percentage of completion method.

**2. Short-Term Debt**

Short term debt (in $000) consists of:

Year Ended May 31
1990 1989

Unsecured revolving lines of credit $ 18,198 $5,955

Other 13,038 3,792

Total $31,236 $9,747

At May 31,1990, the Company had short-term unsecured revolving lines of credit with two banks providing for borrowings aggregating $42,000,000, of which $ 18,198,000 was outstanding. These lines expire in September 1990 ($2,000,000), November 1990 ($10,000,000), and January 1991 ($30,000,000). Interest on these borrowings is based on varying rates pegged to the banks' prime rate, cost of funds, or LIBOR. The Company also had other unsecured short-term indebtedness to banks of $13,038,000 at May 31, 1990, payable upon demand. The average interest rate on short-term borrowings was 9.4% at May 31,1990.

The Company is required to maintain certain financial ratios under the line of credit agreements. The Company was in compliance with these financial covenants at May 31,1990.

**3. Long-Term Debt**

At May 31,1990, the Company had long-term unsecured revolving lines of credit with four banks pro­viding for borrowings aggregating $135,000,000, of which $61,460,000 was outstanding. Of the $61,460,000 outstanding, $58,210,000 was classified as long-term debt and $3,250,000 was classified as current maturities of long-term debt-These lines of credit expire in December 1991 ($60,000,000), March 1992 ($ 15,000,000), July 1992 ($20,000,000), January 1991 ($20,000,000), and March 1991 ($20,000,000).The Company has the option to convert $20,000,000 of its line expiring in January of 1991 and $8,000,000 of that expiring in March of 1991 into two term loans which would mature in 1993. Interest on these borrowings vary based on the banks' cost of funds rates.At May 31,1990 the interest rate on outstanding domestic and foreign currency borrowings ranged from 8.6% to 15.6%. The aggregate amount available under these lines of credit at May 31,1990 was $73,540,000.

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Under the line-of-credit agreements, the Company is required to maintain certain financial ratios. At May 31,1990 the Company was in compliance with these financial covenants.

Subsequent to May 31,1990, the Company obtained two additional unsecured revolving lines of credit, one which expires May 1992 ($20.000,000) and one which expires January 1991 ($20,000,000).

**4. *Stockholders'Equity* Stock Option Plan**

The Company's stock option plan provides for the issuance of incentives stock options to employ­ees of the Company and nonqualified options to employees, directors, consultants, and independent contractors of the Company. Under the terms of this plan, options to purchase up to 23,335,624 shares of Common Stock may be granted at not less than fair market value, are immediately exer-cisable, become vested as established by the Board (generally ratably over four to five years), and gen­erally expire ten years from the date of grant. The Company has the right to repurchase shares issued upon the exercise of unvested options at the exercise price paid by the stockholder should the stockholder leave the Company prior to the scheduled vesting date. At May 31, 1990,271,300 shares of Common Stock outstanding were subject to such repurchase rights. Options to purchase 5,005,720 common shares were vested at May 31,1990.

**Non-Plan Options**

In addition to the above option plan, nonqualified stock options to purchase a total of 5,712,000 common shares have been granted to employees and directors of the Company. These options were granted at the fair market value as determined by the Board of Directors, became exercisable immediately, vest either immediately (for directors) or ratably over a period of up to five years (for individuals other than directors) and generally expire ten years from the date of grant. The Company has the right to repurchase shares issued upon the exercise of unvested options at the exercise price paid by the stockholder should the stockholder leave the Company prior to the scheduled vesting date. Options to purchase 160,000 common shares were vested as of May 31,1990.

As of May 31,1990, the Company had reserved 11,135,194 shares of Common Stock for exer­cise of options.

**Stock Purchase Plan**

In October 1987, the Company adopted an Employee Stock Purchase Plan and reserved 8,000,000 shares of Common Stock for issuance there under. Under this 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 31,1990,2,326,772 shares have been issued and 5,673,228 shares are reserved for future issuances under this plan.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Oracle Systems Corporation:

We have audited the accompanying consolidated balance sheets of Oracle Systems Corporation (a Delaware corporation) and subsidiaries as of May 31,1990 and 1989 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 1990. These financial statements are the responsibility of the company's manage­ment. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards. 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 Systems Corporation and subsidiaries as of May 31,1990 and 1989 and the results of their operations and their cash flows for each of the three years in the period ended May 31, 1990, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed under Item I4(a)2. are presented for purposes of complying with the Securities and Exchange Commission’s rules and are not part of the basic financial state­ments. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

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ARTHUR ANDERSEN & CO. SAN JOSE, CALIFORNIA JULY 9,1990

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EXHIBIT 2

Oracle Systems Corporation—Review of Quarterly Results in Fiscal 1989 and 1990 (in $000 except per share data)

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| Fiscal 1 990 Quarter Ended |
|  | Aug. 31 | Nov. 30 | Feb. 28 | May 31 |
|  | (989 | 1989 | 1990 | 1990 |
| Revenues | $175,490 | $209,023 | $236,165 | $350,166 |
| Net income | 11,679 | 28,491 | 24,282 | 52.958 |
| Earnings per share3 | $.09 | $.21 | $.18 | $.39 |
|  |  | Fiscal 1989 | Quarter Ended |  |
|  | Aug. 31 | Nov. 30 | Feb. 28 | May 31 |
|  | 1988 | 1988 | 1989 | 1989 |
| Revenues | $90,639 | $123,745 | $153,354 | $215,935 |
| Net income | 7,067 | 17,189 | 23,964 | 33,546 |
| Earnings per share\* | $.05 | .13 | $.18 | $.25 |

*"Adjusted* to *reflect the two-for-one stock splits in the third* quarter *of fiscal 1988 and* the *first quarter of fiscal 1990.*

*EXHIBIT 3*

Days' Receivable for Selected Companies in the Software Industry for 1989-1990

Company

Borland International Corp. Lotus Development Corp. Microsoft Corp. NovellCorp.

Average

1989

49 64

51 85

62

1990

45 64 56 81

62

