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CORPORATE PARTICIPANTS

Larry Ellison
Oracle - CEO

Kathy Evans
Oracle

PRESENTATION

Moderator

All right, everybody. I'd like to welcome you to the second surfside chat, lunchtime keynote. We are very fortunate today to have the CEO of Oracle, Mr. Larry Ellison, joining us.

But first, before we start the fun, we do have to read the obligatory Safe Harbor statement. [Kathy Evans] from Oracle will let us know what we have to be careful of. (LAUGHTER).

Kathy Evans - *Oracle*

This discussion may include predictions, estimates or other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned not to place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this presentation. Please keep in mind that we're not obligating ourselves to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events.

Throughout today's discussion, we will attempt to present some important factors relating to our business that may affect our predictions. You should also review our most recent Form 10-K and Form 10-Q for a more complete discussion of these factors and other risks, particular under the heading "Factors That May Affect Our Future Results or the Market Price of Our Stock". Thank you.

Moderator

Well, I think we all feel safer now! (LAUGHTER). Absolutely, so whenever I say, just ignore it! (LAUGHTER).

Larry, thanks for coming into Santa Monica. I appreciate it.

Larry Ellison - *Oracle - CEO*

It's a pleasure to be here.

Moderator

Well, one of the questions that investors kept pushing me and saying, when you get up onstage with Larry, you have to ask him about Microsoft. Well, of course, we're going to talk about Microsoft. So, everybody wants to know. Did you buy an Xbox 360 (LAUGHTER) or are you actually going to wait for PlayStation 3?

Larry Ellison - *Oracle - CEO*

Actually, I have seen the PlayStation 3, and it's very interesting that Microsoft last time, last round, said, you know, Sony got up their first -- to me the better product -- but they got out there first; they got all the games; they got the momentum. This time, we're not going to make that mistake; we're going to get out there first. It looks like you can't win -- you know, the PlayStation3 is a dramatically better box, much better graphics (LAUGHTER). It really is; I invite you to look at it. So, I think Sony is going to beat them again. Microsoft will hang in there, but the PlayStation 3 really has spectacular graphics.

Moderator

I am a PlayStation guy at heart, too, so I'm waiting; I'm waiting. (LAUGHTER). I think that's in my -- (multiple speakers).

Larry Ellison - *Oracle - CEO*

(multiple speakers) -- have the Japanese economy recover. (LAUGHTER)

Moderator

So, (indiscernible). I think one of these major -- speakers) does Microsoft still make commercial software, or are they just mainly -- (LAUGHTER) -- (multiple speakers) games! Integrated hardware, software now -- (indiscernible) specialty device manufacturer.

Larry Ellison - *Oracle - CEO*

It's going to be nice.

Moderator

Joystick on Word I understand is coming out. (LAUGHTER). I've just been now kicked off all the Microsoft calls for the last time, so it's good to choose your sides.

You know, things seem to be going pretty well at Oracle. PeopleSoft and Retek integration have gone well. Siebel looks like that will be pretty smooth. Our database in the U.S. and Asia were up double digits last quarter. Kind of walk us through -- what are the, in your eyes, the underappreciated parts of Oracle's business? Because the stock price right now doesn't seem to reflect a lot of enthusiasm.

Larry Ellison - *Oracle - CEO*

I think -- I'm going to blame it on you guys; I'm going to blame it on the analysts. No, but I think it's very difficult. Oracle is a mature software company, and the way I think you look at a mature software company -- and we have some slightly different models and very different than you way you look at it, kind of an up-and-comer. So every time I read a quarterly report, I always hear that the all-important new license revenue number, where it's some kind of leading indicator.

Okay, I think new license revenue is an interesting number, but I think you've got to remember, we are -- our business is largely a subscription-renewal business. In other words, the bulk of our revenue, the largest business is not our "what new license or new subscriber" business. By far, our largest business and by far our most profitable business are existing subscribers that renew their subscriptions every year.

So, we do (indiscernible) it wouldn't be uncommon for us to go to General Electric and say, GE for $30 million a year -- I'm just picking a number out of the sky. For $30 million a year, we will give you all the database you can need every year. So they pay that $30 million as an annual subscription fee. There is no new license revenue associated with that. More and more, what we're trying to do is turn our largest customers into all-you-can-eat customers. Now, that's very different than Oracle ten years ago, or up-and-coming software companies. This is a wholly different model. We will do, in terms of subscription renewals, this coming fiscal year, over $7 billion, of which more than 6.5 billion is profit.

So, that, versus new license revenue, where the profitability is about 50%, and it's a smaller business. Now, it's an important business, and I think, if you break down new license revenue across the board, new license revenue is much more important to Oracle in middleware, where the middleware portion of our business is not as mature as, let's say, database. But again, that subscription renewal rate, which is running about 96% right now, is an enormously profitable business. We have a subscription model.

Let me give you another example. Siebel Company we just bought. [Com] and the Siebel management were very much focused because analysts are focused on new license revenue. When you walk in to make a deal and you say, well, okay I've got $1 million to spend; I can give it to you; I will give you $1 million now or I can give you -- you know, (indiscernible) new license revenue, and just pay me 5% a year for support. Siebel did a lot of 5% and 10% a year support deals. We never do that. Our support deals are always 22%.

If we take a large chunk of money upfront, we will actually not take it as new license but we will actually -- journal entry. We will take the cash upfront but we will take the revenue ratably at 22% a year in out years. So, we recognize the revenue differently. When there's a choice, we are heavily biased towards building our recurring revenue stream rather than a new license stream, because it's just much more profitable business. There's more money in it. So we have a very different strategy in terms of how we go out and sell. I don't think that's widely understood.

But I know people keep asking, why is it that Oracle's profit margins are so keep -- are crazy high and keep getting higher, compared to all the other software companies? What do we do? How is that possible? Are you gouging your customers on renewals or things like that, you're raising support? No. We're just focused on support revenue stream. That support stream (indiscernible) -- remember that local's database business grew in double digits. Well, what's normally meant by that is Oracle's new license revenue database business grew double digits in North America. People don't even analyze or look at where we make all the money. It's absolutely striking to me; it's interesting. I'm tired of [winging] about it on the stock price. Because we're not the only company that suffers through that. PeopleSoft suffered through that; Siebel suffered through that. So we're going out and buying those undervalued assets where the obsession with new license revenue really creates arbitrage opportunities and investing in us, and that's what we're doing; we are buying up. But Siebel made sense financially; PeopleSoft made sense financially. But also to our advantage, it also made sense strategically. So we win twice. In fact, you can argue we win three times. It's a good financial play; it's a good strategic play in that we gain more heft and more scale in the apps business. We also get a larger opportunity to sell our middleware and database into that customer base. So, these acquisitions work out very well. We really have three opportunities to get paid, versus an LPO, where they have just the one, just the financial (indiscernible). So I think that's misunderstood, because over the 20 or so years enterprise software has been followed, or 25 years, most of the software -- all the companies have been these high-growth -- relatively small high-growth companies, and there haven't been large enterprise software companies around until us and SAP.

Moderator

You know, I think if you look at the economics of the software industry, the dynamics are changing. I mean, the amount of money it takes to actually generate that new license revenue. Ultimately it's obviously not the same profit margin you get off the support and maintenance. So in a lot of ways, some of the trends around On Demand computing and open source I think are helping exacerbate that.

Larry Ellison - *Oracle - CEO*

Well, the interesting thing is On Demand and open source drive the analysts crazy because there's no new license revenue on Open Source, and there's no new license revenue on On Demand. So insofar as we are moving aggressively into Open Source, we are embracing it; we're not going to fight this trend. We think it's an important trend. We think if we are clever, we can make it work to our advantage. We've been a big supporter of Linux early on. As a result, as Linux rose in popularity, there's a platform that we dominate. We have an 80% share of database on Linux. Our number one competitor at the low end, Microsoft, doesn't even play there, so Linux has helped us tremendously -- Open Source. We think there are different ways we can exploit Open Source.

But if you are analyzing Red Hat's new license revenue, I can tell you exactly what it will be next quarter. Once again, it will be 0. If you are analyzing salesforce.com and you're looking for new license revenue, once again it will be 0.

We're building up our On Demand business; we're building up -- we believe in the subscription model very much, and we believe in that subscription model for a very, very long time, whether it's for On Demand or whether it's for Open Source, or whether it's for our conventional software stock.

Moderator

Let's talk a little bit about the Open Source, because obviously Oracle I think can, in a lot of ways, be credited for the success of Linux in terms of driving adoption. On the database side, you released and XE product, which in a lot of ways you could almost look at that as a moral equivalent of an Open Source product, right, to the low end of the market. So let me talk a little bit about XE and how you can grow the database pie, and then also talk about, on the job application service side; that seems like that's another area that would be fairly ripe for Open Source.

Larry Ellison - *Oracle - CEO*

We now have the free version of the Oracle database, so if you want to use Linux, the same LANs(indiscernible) collection -- you know, Linux, Apache, MySequel and PHP -- you have an alternative at no cost to use Oracle instead as MySequel. Oracle is probably at least a decade ahead of MySequel I think -- (technical difficulty). I mean, it really is a tiny product with a very small development team in Sweden and the core engine that runs it is owned by Oracle in ODB. So I think MySequel is a $40 million a year business. Out of eight round numbers, a $8 billion database marketplace.

But we believe that easy acquisition -- everybody says Open Source is free; one of the really attractive things about Open Source, it's free. It's also just ease of acquisition. If you are in General Electric and you want to download MySequel, you can do that no fuss, no muss. If you want to download Oracle, you've got to fill out some forms, get a purchase order, get something. We are trying to make it very, very easy for developers to just take a copy of Oracle off our Web site, load it up on Linux and start building applications Web sites that will compete with a far superior product to MySequel. Then during the deployment phase, the customer of that developer, whether it's their employer or their contractor or their customer, end-user customer -- it's very easy if they want to upgrade to a system that is faster, or has better security. They could very easily do that by buying one of Oracle's for-purchase products. It's 100% compatible, I mean, literally the upgrade is a one-button upgrade. So we think that's something we have to do.

By giving away the low end, by the way, it tends not to hurt Oracle; it tends to hurt Sequel server. It's what -- Microsoft intends to hurt MySequel. But Oracle makes its money on the high-end, not on the low end and not even in the midrange.

Moderator

Let's talk a little bit about some of the high-end capabilities around clustering and partitioning. Obviously, as you generate more unit growth of low-end products, there is a bigger, if you will, opportunity to form that base and see those sites grow into bigger deployment. Where do you think we are at in terms of Rack adoption in some of these other higher-end options that actually are going to drive, if you will, share for you on the database side?

Larry Ellison - *Oracle - CEO*

I think Rack is still relatively -- or in the early phases of adoption. But we think it's going to be all of our customers, 100% of our customers at some point in time. Rack or grid computing is something we think is as important as On Demand or Open Source. It's kind of a next generation of computing in terms of infrastructure, rather than buying one big mainframe or really big UNIX from Sun or IBM or whomever. You go out and your buy a 64 or 16 through 64 cube processor Dell machine, and the Oracle software creates the illusion that those 16 to 64 machines, those grids -- that grid -- is really one computer. That's what Rack does. Real application (indiscernible) or grid computing does.

MySequel can't do that -- no surprise. Sequel server can't do that -- no surprise. IBM DB2 can't do that. The maximum grid size for IBM DB2, our high-end competitor, is 1. So, how minicomputers can IBM use to run SAP's application if you run DB2? They can put up to one computer. They've got a maximum of one computer running that SAP implementation. We can have 64. If one of those 64 machines fails, the other 63 keep running. Or if 10 fail, the other 54 keep running. So it is a [far] tolerant architecture. It's also capacity on demand. As you need more performance, you just plug in another machine.

The components are very, very low-cost. Those Dell machines cost 3 to $5000. So it's very, very low-cost, it's very high-performance, capacity on demand and absolutely [far] tolerant with commodity competing parts. SAP is our largest reseller. SAP is our number one competitor and our largest reseller of the Oracle database. It's very interesting when the company that hates you most is your largest reseller. That's the kind of testimonial that I think is pretty good evidence that that database must be good. I mean I don't think SAP is reselling it because they love us. But it is a much better piece of software than anything from IBM or Microsoft or the boys in Sweden who give it away for nothing. So, we think we are in great shape as far as the database -- that we are technologically years ahead and we are really on the leading edge of this move towards great computing, where IBM and Sequel Server are nowhere, as of right now. There architecture really doesn't allow for that. So we think that's a huge competitive differentiator, a huge advantage for us to allow. It's going to allow us to grow share, especially on the high-end where performance and reliability is very, very important. But we think the low end is going to be commoditized anyway, and therefore, we have very low priced products on the low end. But we think it's a real virtue having one compatible (indiscernible) GE for the -- can use the free version; GE can use the standard edition and GE can use Enterprise edition and enterprise grid all the way up, but they can have one database standard throughout their entire organization to meet all of their database needs. The federal government said, we think, in database, our franchise is safe for a long time.

Moderator

Let's talk about the middleware business and a couple of the trends going on there. Open Source starting to get some traction -- could basically be that low end opportunity for the high-end middleware business. Is that a similar trajectory, if you will, to what's going on in the database?

Larry Ellison - *Oracle - CEO*

Well, the Open Source product, virtually all of the Open Source products adhere to industry standards. By the way, Oracle is also slavishly committed to industry standards. That puts us in direct competition with Open Source. So a company like JBoss, in terms of their Java container, as it gets better, we think our Java container is much better than JBoss'. However, for some applications, it's just fine. So our view is rather than fight this trend, we've architected our middleware so that we can unplug

our Java container. Don't want use our Java container? Use JBoss and plug it in. It's called a hot plugable. So we can mix and match our middleware stack with Open Source components. So customers get to choose what Java container they want to run, and we embrace it. But around that JBoss container, we can sell our identity management and our BPEL engine for integration and also other components. So rather than trying to fight this trend, the Open Source trend, we think it's important we figure out ways to make it work to our advantage.

Moderator

This is an interesting point maybe. We can segue into some of the competitive dynamics with SAP. Your middleware business, hot plugable, you actually support WebSphere of all people?

Larry Ellison - *Oracle - CEO*

Right.

Moderator

It's a little peculiar, I have to admit.

Larry Ellison - *Oracle - CEO*

And BEA.

Moderator

And BEA. When you look at what you are doing in the middleware layer, you are obviously announcing SAP come down from the application stack-down with NetWeaver.

Larry Ellison - *Oracle - CEO*

Right.

Moderator

Maybe talk a little bit about the differences between Oracle Fusion middleware and the SAP Java [ABA] (indiscernible).

Larry Ellison - *Oracle - CEO*

It was very interesting. I mean, SAP made a very big deal about NetWeaver up until about two months ago, whereas now they said they really don't want to talk about it, because we decided to run competitive, you know, compare side-by-side comparison apps between Oracle and NetWeaver. It turns out that NetWeaver is not on a current version of Java, is missing most of the standard things you think -- it has nonstandard workflow where we have standard BPEL; it has a nonstandard portal. It doesn't adhere to any standards. It's (indiscernible) proprietary stack, it's this incomplete, proprietary, out-of-date stack if you analyze this. In fact, it gets worse, because 70% of SAP's customers use Oracle Fusion middleware, not NetWeaver. It has almost 0 adoption. But Shia Agassi, who became a prominent spokesman for SAP, is not an applications person. He's a technology guy from Israel, and he just loved stalking the technology, so he's just really pushing NetWeaver. We were very surprised to see SAP

adopt this strategy of competing with Oracle, saying, let's go fight Oracle in middleware, where Oracle has got very strong middleware offering. I mean, we have a standards-based portal; we have standards-based business -- process execution language. We have the latest version of the Java container. We have very fancy security around our middleware. We have clustering for reliability and tolerance. They don't have any of that. Nothing. So, we've run these side-by-side ads and now Shia Agassi from Palo Alto is no longer do the talking; Henning Kagermann from Germany is doing the talking and saying, there's no new technology. What's important about applications is application functionality, which is the position I think SAP should take. I don't think SAP wants to get in a technology war with Oracle.

SAP has got -- the foundation of SAP is really quite old and it is proprietary. It's not surprising. The market leader was IBM in the old days, Microsoft these days, SAP in applications. For whatever reason, they feel they can ignore industry standards because they are the leader, and they can go off in their own proprietary direction. All of the rest of us then kind of follow standard -- industry standards.

It's interesting. That's just kind of the history of our industry. SAP writes all of their software in a programming language called ABAP, the a 25-year-old programming language embedded in Walldorf, Germany. That's only used inside SAP, their own custom programming language. They don't use Java -- well, the use Java a little bit, but very, very little. When we announced our Fusion, our next generation application, and we said it's based 100% on Java, 100% on open SOA, service-oriented architecture, all standards-based portals, standards-based workflow called BPEL, everything standards-based, SAP said "Fusion is really confusion; Oracle is taking a huge risk by moving to all of this modern -- by rewriting their applications on this modern technology. We are going to -- we're not going to take this silly risk."

I guess what I will submit to you in there's more risk in not moving to modern standards-based architecture than there is in moving to standards-based architecture. We think we are taking the less-risky approach. We rewrite our applications every five years anyway; everyone does. SAP, they finally came out with R2, R3, My SAP, and now they have this thing called Project Vienna. I think that's an internal code name for their SOA-based system. But they are just not adopting industry standards. We are. We think it's quite interesting that they are not. They are saying, "Oracle is taking a huge risk by adopting these -- by moving to these standards." We think SAP is taking a huge risk by not moving to these standards.

Moderator

I think this is probably one of the perceptions in the marketplace, that for better or worse, this created a bit of an overhang on Oracle, which is the perception of risk with Fusion. So can you maybe just walk through some of the variables in terms of what the next generation application suite is going to look like? How do you bring PeopleSoft and Siebel and these applications together?

Larry Ellison - *Oracle - CEO*

Yes. A lot of people think that we're going to merge the People -- we are merging the PeopleSoft code with the Oracle code or the Siebel code with the Oracle, and that's just complete nonsense; that can't be done. What we're doing is taking the -- take in CRM. We are starting with the Siebel CRM design specification, what their applications currently look like, and they've got a design for their next version, and we are just rewriting the code so it's completely in Java. Siebel is going to rewrite it, by the way. They already had a plan to rewrite it in something called Nexis. They already had a plan to completely rewrite it. Everyone does this; everyone rewrites their software periodically. There's nothing unusual about this at all.

So, we are -- the Siebel team is really in charge of -- Ed Abbo, again, from Siebel and now runs Oracle CRM development -- is taking that specification and using it as his implementation language, his programming language, and is reprogramming it in Java.

By the way, writing application programs -- programming is not the hard part. The hard part is figuring out what the program should do. It's the design. What does the user interface look like? Exactly what does the program do? What's the function? That's the hard part. Actually writing the code is not so hard and it's not a time-consuming part of the process. It's learning about what functions should go into the application, learning how to build the user interface so it's relatively easy and intuitive to use the application. Writing the code, moving from [FEE] to Java or whatever your -- what Oracle forms to Java is not a big, risky issue at all.

So, on our next generation CRM, it will kind of look like next generation Siebel; our next generation HRMS is going to look like next generation PeopleSoft, and next generation of financials and manufacturing look like next generation Oracle. It will just all be written in modern technology on a single database (indiscernible) and run on a common database. This is all going to be standards-based.

By the way, by going to standards -- going these standards and going to our standard stack, our standard middleware and our standard database, we suddenly inherit all the advantages of grid; we inherited automatically all of the security features built into Oracle middleware and the Oracle database, which SAP doesn't get. So, we think this gives us huge, huge security and performance advantages over SAP.

SAP -- when people want to modify the SAP applications or enhance the SAP applications, they have to find ABAP programmers. Well, if you go to MIT or the Indian Institute of Technology, you don't learn ABAP; you learn Java. So they are really going out their own road thinking that, again, I think it's the kind of hubris that comes with market leadership, and we think that they are making a tremendous mistake. They think we are taking these huge risks by modernizing; we think they are taking a huge risk by not. Time will tell.

Moderator

Let's talk a little bit about some of the changes also in the applications market. You are in the interesting position. We had Zach Nelson from NetSuite yesterday; he gave us a -- he told me to tell you -- he gave us a full, live demo of the NetSuite system. It's very cool stuff, very cool stuff! I mean, this is firing up a browser. He's assessing all of his applications. So obviously, you've got a personal tie to the fortunes of NetSuite.

Larry Ellison - *Oracle - CEO*

Yes, I started the company! (LAUGHTER)

Moderator

Just one of your other former guys, Mark, has done a great job at SalesForce.

Larry Ellison - *Oracle - CEO*

Right.

Moderator

So it's clear -- (multiple speakers).

SalesForce was started six months after NetSuite, by the way. When Mark found out what Evan Goldberg was doing at NetSuite, Mark said, ah, that's a good idea, but I will build a simpler application,, which was the SalesForce automation (indiscernible) yes.

So, this market you know is coming; you see the benefits. There's Oracle outsourcing. [Kim Cho] is here. We had him talking earlier about what he was doing four years ago. How does Oracle transition or embrace this disruptive On Demand model with your traditional enterprise software model?

Larry Ellison - *Oracle - CEO*

It's interesting. I'm not -- we've embraced On Demand for a long time. We have a larger On Demand business -- I would say, it's about the same size as Sales Force's On Demand business. Because Oracle is a very big company (LAUGHTER), it doesn't look very big but a couple of hundred million dollars doing On Demand. With the acquisition of Siebel On Demand, we pick up another 50,000 users with Siebel On Demand, which is certainly behind SalesForce. But we think it's extremely important; we think On Demand model -- I've been going around for -- I don't know if it's been ten years -- but nearly ten years saying that every customer, you know, goes out and buying a computer -- well, what computer do I buy? What operating system do I buy? How do I install the software? Running this (indiscernible) -- just because they want to do accounting, or just because they want to keep -- it's just the stupidest thing I'd ever heard in my life. You should be buying these services over the net. Oracle has been in this business, again walking up that learning curve, for On Demand for about the same length of time as SalesForce has been in it and NetSuite has been in it. We've been doing it with our own software, aiming at the midmarket and the high end of the market where NetSuite has been aiming at the low end. And Mark started at the low-end, SalesForce started at the low end and has now gone very, very high end.

So we believe it's a key portion of our future. We've been doing it for a very long time. We think -- again, I started NetSuite between seven and eight years ago. So, it's not that we didn't see this coming -- (indiscernible) pioneering (indiscernible) but the adoption is very slow, is very, very slow in the beginning. Even the giant right now, [Mark Benninghaus], who had a couple of hundred million dollars. You know, we're -- I don't know -- speakers) $17 billion, 16 billion, $16 billion. So, our $200 million On Demand business doesn't look very large, but we have learned an awful lot about it and we think more and more of our customers over time will start doing it because until recently, it wasn't conventional wisdom that On Demand is something you should look at, the customers were really being very cautious. Suddenly On Demand has gotten very fashionable, and fortunately, we've put in the seven years learning about it, so we should be able to take full advantage of it, unlike an SAP or a PeopleSoft and or Siebel -- well, Siebel did it reluctantly after SalesForce showed the way.

Moderator

Well, with the Siebel acquisition, that was one of the pieces that you did pick up.

Larry Ellison - *Oracle - CEO*

It's a terrific -- it's a very important piece, and I think the way we are going to compete with SalesForce is we are going to tightly couple our sales application to the Oracle back-end and the PeopleSoft back-end and the JD Edwards back-end. So we think that the pre-integrated out-of-the-box one-stop shopping is really going to help us compete against SalesForce. But they are going to be number one in that market for a while.

Moderator

Do you see the market in On Demand evolving similar to the traditional client/server market, where you had the best-of-breed point solution guys come in and make hay with an easy products, and then --?

Larry Ellison - *Oracle - CEO*

Yes, exactly, exactly. The big argument we had -- I had with Evan Goldberg -- it was a very short argument; it lasted about an hour (LAUGHTER). But we decided to do a -- for NetSuite a low-end suite, all of SalesForce automation, service automation, accounting, Web stores, the whole thing which, from the engineering standpoint, was a much more challenging task but I think now that we've had that, NetSuite is the only suite; it's the first suite competitor in the low-end On Demand. then the low-end On Demand is even more important than the high end, because small companies can't afford DBAs and applications experts and all of it.

Moderator

When you look at what SalesForce is doing with app exchange, which is clearly an answer to expand the footprint from a product standpoint, would Oracle do something similar around your own ecosystem of applications that you have to try to encourage third-party development, or what do think of that in general, the concept of what he is doing? (multiple speakers)?

Larry Ellison - *Oracle - CEO*

I think (indiscernible) is wacky. I think, you know, it's the first time Mark has been innovative from a technology standpoint (LAUGHTER) and that's just not what he does. He was a sales manager at Oracle Corporation, not an engineer. I just think it's a very wacky idea. I don't know how much detail you want me to go into.

Moderator

Keep going!

Larry Ellison - *Oracle - CEO*

(LAUGHTER) But it doesn't matter. (LAUGHTER). Well let me say, from an investment standpoint, it just doesn't matter, because I think SalesForce has a long way to run just doing what it's doing. But they are trying to expand the -- I don't know, there was a while ago, Jason, they announced their invoicing edition, or what was it, order management edition? They announced this big thing to compete with NetSuite and they were going to certainly have order management and that was big; it was all over their Web site for about two years, and then suddenly it vanished because they couldn't do it. This is another one of those kind of wacky ideas.

But ignoring these little wacky diversions, their core business is real, is right on and I think they've got such a strong brand and such momentum in the marketplace, that company would do very well for some time to come and this little app exchange thing doesn't matter.

Moderator

SAP jumped into the -- well, they sort of kind of with IBM, with their (indiscernible) -- (multiple speakers) what do you make of isolated tenancy? (LAUGHTER)

Larry Ellison - *Oracle - CEO*

I think SAP has the least cost-sensitive customers in the world, right, so maybe General Motors should be (indiscernible) but. --

Moderator

Different conversation.

Larry Ellison - *Oracle - CEO*

Yes. They automate some of the largest companies in the world. I want to come back to that, because there are certain industries where SAP is very strong; there are certain industries where we just kill SAP, like banking. (indiscernible) how we ever beat SAP? We're not even looking. That's not the right question. The question is where -- if we own banking around the world, you know, that's a very, very profitable marketplace. There's no such thing as an applications marketplace; SAP is number one in application. It doesn't break down that way. The question is, who's number one in automobile manufacturing? Who's number one in consumer packaged goods? Who's number one in retail banking? Who's number one in telecommunications? That's the way it's all going to shake out.

By the way, that's the way the old mainframe industry shook out; I don't know if you remember [Burrows] did fairly well in banking, NCR did fairly well in retail, and they survived and none of you are old enough to remember any of this. But as the market matures, the software eventually gets more and more functional, more and more capable, and you end up tackling -- the winner take all companies industry by industry, and we think we are so far ahead of SAP in banking, they can never catch up. We are so far ahead of SAP in retail, they could never catch up. We are so far ahead of SAP in telecommunications, they could never catch up. The way we look at the marketplace is we need to be number one to make money. But it's not number one in this kind of amorphous application -- there is a database market that is truly amorphous; it's all companies that use database. Whether you are the Central Intelligence Agency or Wal-Mart, what you do is kind of (indiscernible). Well, not exactly, but from an information management standpoint.

In the case of banking, and you know, we have systems that do demand deposit accounting. We have Internet banking systems. We have lease management systems. SAP doesn't even have those applications. We are really focused on banking -- and retail, and merchandising systems. We have profit management systems. We have a whole bunch of things. SAP doesn't even do that, for example. That's the way the industry is going to shake out or it is going to be -- you know, we are going -- they are going to dominate certain industries; we are going to dominate certain industries. Where you are dominant, you can have -- you can become very profitable, because you can info afford to invest the R&D dollars to extend the footprint in that industry market. If you're number two, or worse yet, number three, you simply can't get a return on the investment because you have to -- (indiscernible) you compete, you have to -- that is the same number of R&D dollars and you're getting a third of the revenue; it just does not compute. So we think the way we beat SAP is to beat SAP in government and telecommunications, in retail and banking, and the rest of financial-services. We think we're doing that.

Moderator

Yes, vertical by vertical.

Larry Ellison - *Oracle - CEO*

Yes.

Moderator

Let's talk a little bit about acquisitions and use of cash. Oracle actually just closed a recent fairly large debt financing. Investors are concerned about the acquisitions, given the perception of risk over development. How should people think about Oracle's acquisition strategy? Would there be an option, at some point, to maybe even look at taking some of the cash and buying back stock, given the fact that it is so cheap and undervalued?

Larry Ellison - *Oracle - CEO*

Yes, we are certainly going to buy back stock. People don't realize, because we had a combination of stock/cash deal for Siebel, we've been forced out of the market to buy back our stock. So we plan to go back in. Certainly, we've repurchased all the stock that was part of the Siebel deal and repurchased all the stock in terms of dilution because of stock options, but beyond that, continue to the purchases at similar levels we've had in previous years. We are going to buy back stock.

The acquisition strategy is really quite simple. We don't buy things in areas where we don't think we can end up as the number one software company. The number one software company in every segment makes all the money. The number two player is just not terribly interesting. You know, Jack [Welch] said "number one, number two in software". It's simpler than that; it's number one or it's over. So, if you look at our acquisitions in retail, for example, we've bought a bunch of retail companies; we bought Retek; we bought ProfitLogic and 360 Systems, which is a point-of-sale system. We decided we were going to be the number one company in the retail vertical, period. Therefore, we are going to make an investment to get that number-one position where we can dominate that industry and get a return on our investment.

We don't buy anything where we can't be number one. We bought i-flex in banking because we can -- because we are number one in banking and we can increase and strengthen our number-one position. We never buy anything where we don't -- where it doesn't put us in the number-one position or it puts us in such a strong number-two position we think we could get to number one very quickly, quickly being the operative word.

PeopleSoft made us number one in HRMS. PeopleSoft made us overwhelmingly number one in the North American marketplace. PeopleSoft (indiscernible) overwhelmingly number one in banking. Siebel, similarly, very, very strong in banking and financial services. So, all of these plays and applications are designed to go after specific verticals, where we are number one and hopefully the overwhelmingly number one in those markets, where we think we -- and it's the number one where scale is important, and being number one is important. You want a big business where you are overwhelmingly number one, and that's where the lion's share of the profit goes. That's why Microsoft makes so much money. That's why we make so much money. If you look at it, there's not a lot of big horizontal application markets left. I mean, that market is pretty much consolidated.

In terms of other markets that you could sort of say are horizontal and still big, middleware -- you've got a big presence already, and we're certainly not number one in middleware. I think you'll see us makes some acquisitions; we've already made some acquisitions of several of the smaller acquisitions in middleware. But we think -- we are number one in database, and if we are playing in middleware, we feel we have to be the number-one player. So you'll see us do a variety of things to get us into that number-one position, including acquisitions.

The other market that -- (multiple speakers) -- by the way, that includes business intelligence and a variety of other things. So we look at the middleware space to include business intelligence, everything from the most commoditized piece, the Java container, out to the most exotic portion, which is BI. We picked up (indiscernible) some terrific business intelligence technology when we bought Siebel. They've had made an acquisition in business intelligence, and it really is the -- it's a group of guys that spun off from Cognos and Business Objects. We think it's going to be the Next Generation business intelligence technology -- (multiple speakers).

Moderator

Can Oracle take the (indiscernible) the formal nQuire acquisition that Siebel did -- can you take that technology and get scale with your sales force?

Larry Ellison - *Oracle - CEO*

Well, that's exactly what we're doing when we have the separate -- as a result of that, we actually kind of moved it away from Siebel and we have a business intelligence sales force that we're going global with right now. So that technology is being put on top of the Oracle applications and the PeopleSoft applications, the JD Edwards applications, but also being just sold as part of our middleware suite. So our middleware sales force is selling it, and our applications sales force is selling it. Then we have a specialized sales force that is global that helps them with that. So we think, suddenly, we are very, very competitive in business intelligence. But we want to be number one in business; we want to be number one in all the segments. For the very simple reason that this is not vanity, if you're not number one, you don't make much money.

QUESTIONS AND ANSWERS

Moderator

We've got a little bit of time left here. We could open up for some questions maybe? We've got a couple of mics here; we will open it up to the audience and see what's on people's minds. Just raise your hand if you have a question.

James, here in the front? A particularly shy crowd today.

Larry Ellison - *Oracle - CEO*

Of course.

Unidentified Audience Participant

I'd be interested in your comments and your reaction to SAP's link-up with Microsoft (indiscernible) and how you respond to that competitively. Because (indiscernible) comments -- (multiple speakers) -- it doesn't sound -- (multiple speakers).

Larry Ellison - *Oracle - CEO*

(multiple speakers) -- well, we're doing exactly the same thing, so we are building -- we have built a lot of those interfaces. We think we are actually ahead of them. But we have -- you can make journal entries right now in our [Geo] using Excel; you can update your sales forecast using Excel. You can get report -- you can use Microsoft Word as a style sheet for designing reports. So the integration with Office is table space. So I think we believe we have to do it, we have been doing it for some time and we will continue to do it. Microsoft is no longer in a position to withhold interfaces from anybody. So, we don't need their active cooperation to build all of those components, but we're doing essentially the same that SAP is doing.

Moderator

With that, I think, unfortunately, we have run out of time. Did you have one question over there?

Unidentified Audience Participant

(Inaudible question -- microphone inaccessible) -- multiple of maintenance that makes sense for you, in terms of a maintenance stream?

Larry Ellison - *Oracle - CEO*

One of the most interesting things we've noticed is, like some of the competitors for these deals are private equity capital. My dear friend David [Rue] is looking at the same thing we're looking at. And that's a good sign that they think it's a good deal. So, the -- but it's easy to figure out. It will pay slight -- we will pay slightly more than David will pay, and he knows that, because we get -- we can cut costs better than he can cut costs. It's not that we even have to consider the strategic advantage of the acquisition, but purely on the financial side, let's say we are just purely -- I have no idea what they do. It's not strategic; it's just numbers, right? We are buying company X. Because we can eliminate their back office, because we are integrating with a much larger company, we get much more cost savings as a result of the integration, so we can afford to pay somewhat of a premium. But again, if those are our competitors, those are the price competitors, we think we did quite well in buying Siebel and did quite well, which is in excess of a $500 maintenance stream, and with absolute strategic -- they are the category leader in CRM, period. We've got 1.4 billion in maintenance. So we think Siebel and PeopleSoft worked as pure financial plays. Plus, we just became number one in the category, and then we had huge synergies in terms of merging development teams and merging the back offices and so on. So, we don't -- the answer is not how much we will pay, but how much do we have to pay? There aren't a lot of buyers out there, other than private equity capital, that we see.

It's a consolidating industry, but try to find the buyers. A lot of sellers, not a lot of buyers. We are pretty excited about that.

Moderator

We've got one more here.

Unidentified Audience Participant

In the book soft war, you are very, very negative about the strategy employed in the late '90s, where you would do a best-of-breed link-up and you'd tie a bunch of applications together. Just, there's an argument out there that that's kind of happening again. It's just all the best-of-breed companies are inside of Oracle and not so much on the Siebel and PeopleSoft aspect but more with, like, the ProfitLogics and Teteks, etc..

Larry Ellison - *Oracle - CEO*

Well, by buying the companies, we can reengineer the products and engineer them to fit together. What you can't do is take 12 different components that were designed by different people using different technology stacks and are revved -- and you know, using a different technology. Bug fixes come in different cycles; releases come in different cycles. We tried that, by the way. It's not that Oracle didn't try that. We had something called the CPG suite where we sold, were Oracle was a reseller of technology from five or six different companies, and it was very expensive. We discovered through the process of trial and error. It was monumentally expensive to integrate these components at customer sites. That's exactly what customers did. It's monumentally expensive to them; it was monumentally expensive for us. So we thought that had huge problems; it took too long; it cost too much. Because there was so much labor associated with it, labor is error-prone, and you have deficient quality. Then just when you get the suite finished, one or two of the companies have their next version. What do you do? You know, integrating best-of-breed is the gift that keeps on giving. I mean, you're never done. So, we think it's just not affordable.

Moderator

Well that's it. I appreciate it.

Larry Ellison - *Oracle - CEO*

Thank you. (multiple speakers). Always a pleasure. (APPLAUSE)