Transcript Call Date: 09/16/2010

Q1 2011 Earnings Call Transcript
Oracle Corporation ORCL

Executives

Ken Bond: VP, IR

Jeff Epstein: EVP and CFO

Lawrence J. Ellison: President

Safra A. Catz: President

Mark V. Hurd: President

Analysts

Adam Holt: Morgan Stanley

John DiFucci: JPMorgan

Heather Bellini: ISI Group

Sarah Friar: Goldman Sachs

Kash Rangan: Merrill Lynch

Philip Winslow: Credit Suisse

Jason Maynard: Wells Fargo

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Operator: Good day everyone, and welcome to today's Oracle Corporation Quarterly Conference Call. Today's conference is being recorded. At this time, I'd like to introduce Ken Bond, Vice President of Investor Relations for Oracle. Please go ahead sir.

Ken Bond - VP, IR: Thank you Ruthy. Good afternoon everyone, and welcome to Oracle's first quarter fiscal year 2011 earnings conference call. With us on the call today, our Chief Executive Officer, Larry Ellison; President, Safra Catz; President, Mark Hurd; and Chief Financial Officer, Jeff Epstein.

As a reminder, today's discussion will include forward-looking statements including predictions, expectations, estimates, or other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, these statements are also subject to the risks and uncertainties that may cause actual results to differ materially from statements being made today. Throughout today's discussion, we will attempt to present some important factors relating to our business, which may potentially affect these forward-looking statements.

We encourage you to review our most recent reports on Form 10-K and 10-Q, any applicable amendments for a complete discussion of these factors, and other risks that may affect our future results or the market price of our stock. As a result, we caution you against placing undue reliance on these forward-looking statements, which reflect our opinion only as of today, and as a reminder, we are not obligating ourselves to revise or publicly release any revisions of these forward-looking statements in light of new information or future events.

A copy of the press release and financial tables, which includes a GAAP to non-GAAP reconciliation and other supplemental financial information, can be viewed and downloaded from our Investor Relations website. We will begin the call with a few prepared remarks before taking questions from the audience.

With that, I'd like to turn the call over to Jeff for his opening remarks.

Jeff Epstein - EVP and CFO: Thank you, Ken, and welcome, Mark. Good afternoon, everyone, and thank you for joining us. I will review our non-GAAP financial results, focusing on U.S. dollar growth rates unless otherwise stated. This quarter, foreign exchange rates weren't much of a factor in our overall results compared to our guidance of a negative 2% currency effect to new license revenue, and a negative 3% currency effect to total revenue.

We beat the high end of our guidance range for new license revenue, total revenue and earnings per share with a record earnings per share for the first quarter. On a constant dollar basis, we also beat our guidance ranges for new license revenue, total revenue and earnings per share. In short, Q1 was an excellent quarter for Oracle.

In the first quarter, new license revenues were $1.3 billion, up 25%. The Americas grew 33%; EMEA was up 12% and Asia was up 26%. With each region up double-digits on a constant dollar basis as well, our results continue to underscore the strength and diversity of our business and the quarter was not dependent on any unusually large deals.

Technology new license revenues were $937 million, up 32% as the Americas grew 44%, EMEA was up 25% and Asia was up 19%. Applications new license revenues were $349 million, up 10% from last year. The Americas grew 14%, EMEA was down 19% and Asia was up 54%.

Our software license updates and product support revenues were $3.5 billion, up 11% from last year. Customer support attach and renewal rates continue at the usual high levels. Revenues from our hardware systems products were $1.1 billion while revenue from hardware system support were $680 million. Our services revenues were $1.1 billion, up 18% as we continue to manage this business to profitable margins. Our total revenues were $7.6 billion, up 50% from last year.

Non-GAAP operating income was $2.9 billion, up 27%. The non-GAAP operating margin was 39% for the quarter. Our tax rate for the first quarter was 24.7% as we saw some one-time benefits to our tax rate. Our Q1 non-GAAP earnings per share were $0.42, $0.05 above the high-end of our EPS guidance range of $0.35 to $0.37. Earnings per share were up 38% from last year.

In Q1, we repurchased 10.8 million shares at an average price of $23.13 per share for total of $250 million. As we have previously discussed, the rate of our stock buyback will fluctuate each quarter taking into account alternative uses for our cash and our stock price.

Turning to the balance sheet, we have $23.6 billion in cash and investments. Our day sales outstanding improved again, to 45 days compared to 46 days last year and is a testament to the quality of our receivables, the quality of our customers and the effectiveness of our collection efforts. Finally, we generated $8.5 billion in free cash flow during the last four quarters.

Now, I'll I turn the call over to Safra.

Safra A. Catz - President: Thanks, Jeff. I'm going to just make a few brief comments on Q1 and then I'll review the guidance for Q2 and turn the call over to Larry and Mark.

Obviously, we are extremely pleased with our Q1 result, which follows a pretty great FY 2010. Our software license growth was frankly outstanding. It was more than double the high-end of our guidance actually and as I said in the past, what's really going on is, we have a lot of company specific momentum in each line of business, both software and hardware systems.

Our customers are realizing that it's far better to buy open and integrated solutions from us rather than discrete components from half a dozen separate vendors. Clearly, the benefits of engineered systems are obvious to them.

We are just seeing more opportunities involving more of our products and deal seem to be getting a little bigger. Customers are buying our applications including industry-specific applications and of course they are deploying those applications on our Middleware suite, database and operating systems, both Solaris and Linux, and now they are seeing real benefit to deploying those applications and technologies on our optimized hardware systems. So, discrete product competitors are just becoming less and less relevant.

Our hardware system revenue also came in, as you can see better than we had expected particularly, since this is the first time the Sun guys have had an August close. Because I actually do read what you guys write, I want to repeat something I've said on previous calls regarding Sun's hardware business and how we changed it.

First, we've ended numerous reselling agreements, accounting for hundreds of millions of dollars of hardware revenue that usually came to Sun at little or no profit at all. Secondly, Sun lost a lot of money chasing commodity server share, but never really had the volume to actually compete effectively on price. We are not going to chase highly unprofitable revenues.

Thirdly, we have redirected the hardware business to the part of the market, where we have a competitive advantage. Think Exadata, there is a reason we talk about it all the time. We are focused on a sweet spot of the market for us, where we can deliver unique value for our customers. So, comparing hardware revenue to Sun's historical revenue is just not terribly meaningful.

Now you can see all this show up in our gross margins for systems, which was over 48%, higher than last quarter, which was 46%, when even though our volumes are much lower in Q1. So, in addition to our strong top line performance in both hardware and software, we delivered very strong operating margins as usual.

With Sun included for the full quarter; our operating margin was 39%, substantially higher than our peers, including IBM and SAP. Actually, our 39% operating margin is 10% higher than SAP, even though we are also selling hardware. So, let me get through the guidance, and we do believe this guidance I'm giving is realistic though conservative. I want to emphasize that our pipelines are very strong in both software and hardware.

For the coming quarter, assuming exchange rates remain at current levels, which right now is a negative 3% currency effect on license growth and a negative 4% on total revenue growth, with that our guidance for Q2 is as follows.

New software license revenue growth is expected to range from 9% to 19% in constant currency, and 6% to 16% at current exchange rates. Hardware product revenues are expected to be between $1 billion and $1.1 billion in constant currency or $1.1 billion to $1.2 billion at current exchange rate, and that does not include the hardware support revenue.

Total revenue growth on a non-GAAP basis is expected to range from 43% to 47% in constant currency and 39% to 43% at current exchange rates. On a GAAP basis, we expect total revenue at somewhere between 42% to 47% growth in constant currency, and 38% to 43% at current exchange rates.

Non-GAAP EPS is expected to be $0.45 to $0.47 in constant currency, and $0.44 to $0.46, up from $0.39 last year, assuming current exchange rates. GAAP EPS for the second quarter is expected to be $0.28 to $0.30 assuming constant currency, $0.27 to $0.29 at current exchange rates.

Now my guidance assumes a GAAP tax rate of 30.5 and a non-GAAP tax rate of 28.5%. Now, of course, it may end up being different and of course, our Board again declared a dividend of $0.05.

With that, I turn it over to Larry for his comments.

Lawrence J. Ellison - President: Thank you Safra. I know there has been a lot of concern about Oracle going into the hardware business, and so I'm going to focus my comments about the Sun hardware business, how we found it and what we've done to try to make it better. Let's see. There are two fundamental goals in the Sun hardware business.

First, to make it profitable and quoting one of our great Presidents, mission accomplished. We now have a very, very profitable hardware business that made a substantial contribution to our overall profitability in Q1. We have a profitable business, and we think it's going to be become more profitable throughout the fiscal year.

Again, I want to emphasize, the Sun software business is clearly profitable. I'm going to focus on the Sun hardware business, and I'm saying, it's already making a substantial contribution to our profitability. Since, we took over Sun we've improved the gross margins to 48.4%. That's up from a (NADR) of around 38% when Sun was running things, and we think there is more to go.

I don't know if we can get to 60, but 60 is a target that depends on our product mix and its not going to happen overnight, but again, I think we can very substantially improve those gross margins. So again, we're profitable. We want to make it more profitable, going to get better throughout the year.

Once profitable, and we are profitable, we've got to grow the size of that business, and we think we can double it. Again, it's going to take some time, but again, we think we can double the size of that hardware business and we think, we have to. We have to dug up and gradually take share from IBM and our other hardware competitors.

All right, to make the Sun business more profitable, what have we done and what are we going to do? The first thing and easiest thing to do was to stop pursuing business that was not profitable, so as Safra pointed out. Let's stop chasing revenue and start chasing profits. So we're not selling Hitachi disks any more. It's a terrific product, but we don't make any money reselling it. We're not selling Veritas NetBackup anymore.

We are not pursuing these high-performance computing deals which are big deals and very prestigious, but again I don't know anyone makes any money on these things. So, we're out of those businesses and that I think a lot of people will be looking at our top line and saying that we're not growing. Our top line is growing, but that growth has been offset by dumping these unprofitable lines of business. We've filled in with other businesses which are more profitable.

The other thing we are, so that's done. We don't resell things that are unprofitable. We don't pursue business that's unprofitable. The other thing we're doing is trying to optimize operations over there. We will be to a single integrated computer system for order management, for support, for dispatch for field service, we'll have all of that guiding around January. So that's a pretty good record level.

Oracle and Sun will be on a single unified global system in January. Everything, HR, payroll, accounting, service, order management, inventory, everything is going to be in place in January and that's going to be a big help. That will make our operations more efficient and more profitable.

We're reducing the number of contract manufacturers and reducing the number of contract manufacture location. So, we're simplifying that, and by doing that we're able to negotiate better deals with those contract manufacturers. We're directly shipping from those manufacturers to our customers, which we hadn't been doing before, which will lower our cost and get our customers their products sooner.

We had seven or 11, I can't remember which parts of depot locations in the bay area alone and we're reducing that to a couple. So, we're simplifying and optimizing the operations again. We think this is going to have impact throughout this fiscal year but we'll be in pretty good shape by the end of this fiscal year and that's going to help the profitability of our business and the responsiveness of our business to our customers.

The other thing, in terms of growing the top line of Sun business is, we've got to innovative in the area of interesting new products and we inherited some new products from Sun which are terrific like the ZFS Storage Appliance and again the unique thing about ZFS Storage Appliance, it's a Solaris disk system that integrates hardware and software, with the hardware and software is engineered to fit together. So, we love their product that was done at Sun.

We have been working with Sun to other engineered hardware software combinations. Exadata being the best know. My quote in the release was the Exadata pipeline for the full fiscal year is now up to $1.5 billion and growing rapidly.

We think this is going to be a huge business for us and we're going to be introducing more hardware software combinations at OpenWorld next week. That's a big focus for us, which is to leverage our advantage which is being both a software company and a hardware company, engineering all the pieces so they fit together and work together well.

We think that's going to make customers life a lot easier. They will get systems that are easier to operate, more reliable and faster. That's certainly true of Exadata and it will be true with the other products we announced in this area. We're upgrading our SPARC processors.

We think we can build processors as faster as than anybody else. I mean with the IBM's got a perfect processor, Intel's got a perfect processor and we think we will have terrific processor. We got a way to go yet, but I think we're making really good progress building the team and building the next generation SPARC processors.

That's kind of on the technology side of the Sun hardware business, where I think we're making good progress and we will continue to invest in that area. The other thing is in distribution. Sun had been going from direct sales from the old Advanta days, if you remember that name, where Sun had one of the great sales forces in the industry.

To virtually laying off both of their sales force and going through partners and that's not the kind of Company we are. We sell directly to very large customers, where we offer them technology and the services to exploit that technology effectively and we already have those direct relationship with the big customers in software and we need the same relationships both on the sales side and on the service side in the hardware part of the business, because again, we see that as a unified business.

There really is no such thing as the hardware business or the software business. The business that we're in is a systems business and we have to provide support in the systems business. We have to sell systems. It's really one business and since we're direct in software, we need to be direct in hardware, that's going to improve our margins, that's going to increase our penetration, that's going to increase our top line. We are adding about 2,000 sales people, which includes not just sales men, but also includes sales engineers and service engineers.

We're doing that with basically no net increase in overall Sun division headcount, and we are eliminating or we have eliminated about 2,000 positions of non-revenue producing, non-technical people, replacing them with revenue producing people and technical people. So, we expect we can grow that business. We can double that business.

We can deliver better products at higher quality of services to our largest customers. We're very excited about this. We fully expect to exceed that target of $1.5 billion in operating profit in the full fiscal year and $2 billion in the following year.

With that, I'll turn it over to Mark Hurd and Mark, welcome to board.

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Mark V. Hurd - President: Thanks, Larry. It's great to be here with Larry and Safra. Over the last 25 years, I've competed against and partnered with Oracle and I can tell you that Oracle has amassed the most enviable portfolio of technology in the industry. What led me to come to join Oracle is not what Oracle has accomplished in the past, but the clear growth opportunities I see going forward.

The Company is well-positioned to where the industry and where customers are headed. I don't believe there is any other Company in the industry better positioned than Oracle. Oracle is obviously the leading Database and Middleware Company at a time when data and digitization are increasing exponentially. So, we essentially get to monetize the growth in data occurring around the globe.

Oracle is way ahead of the competition in engineered systems and Exadata is really just the beginning, and Oracle is defining that market. The growth opportunities with highly optimized engineered systems are just starting and there is really no one else in the market with the software and hardware assets that can match Oracle.

In addition, I think there is a large unappreciated opportunity in industry verticals, telecom, banking, utilities, insurance, life sciences and others. These industries can no longer afford to do their own software development.

Many of these vertical markets individually are larger than ERP in its entirety. We have a huge lead in industry-specific applications with our global business units, and the fact is no other large software company has even started addressing these markets.

Last, Oracle is a large global platform in a time when much of the growth is going to occur outside of United States and we're well-positioned to take advantage of that growth. What really gives me confidence in Oracle's growth is the sheer size of our R&D investments and our financial capacity to execute.

We generated $8.5 billion in free cash flow over the past 12 months, and we expect that we will spend over $4 billion this year on R&D. We are going to spend all next week at OpenWorld explaining just how we're spending that money. Without giving anything away let me assure you, it's well spent. So I'm going to speak quickly.

I'm really excited about the opportunities, which I have just touched a few. Let me turn to our Q1 results, I'm been doing this for long time. 25% license growth in a Company of this size it's a big number, especially for Company that closes in August.

Again I've been doing this for long time, I've been selling for over 30 years, but I personally never had to close the books in August. So the credit for this really has to go to the sales organization. This is a fantastic performance.

This quarter we have several end-to-end Oracle wins, which were, sold products from applications to technology and systems. An example is Vivo, the largest mobile telephone operator in the Southern Hemisphere. We replaced their in-house legacy customer system with the Siebel system, running on top of our Middleware database operating system in Sun M9000 servers, top to bottom Oracle technology.

We had a particularly strong quarter in technology, both Database and Middleware, with growth of 32% and double-digit growth in every single region. In database, we continue to see a strong migration of customers to 11gR2, which also benefits our database options, such as Advanced Compression and Database Vault, where key database went along with Active Data Guard Option at the New York Police Department to help with their counter-terrorism efforts.

In Middleware our basic customers is now approaching 100,000. Fusion Middleware 11g, which we released last year, continues to do very well, with the fastest adoption curve we've seen over any of our previous releases.

This quarter, we released a major new release of Oracle Business Intelligence 11g, while the product is very new, we're seeing strong interest and had competitive wins for example, at the Parliament of Victoria in Australia and at the State of Nevada. On the application side, we had key wins against SAP at Mayan Resorts in Mexico and Molina Healthcare of California.

Shifting to systems, we saw growth again this quarter for the Sun products. On the high end, we saw great wins with the M9000 at

Banco Itaú in Brazil against IBM and also at Centrelink in Asia-Pac, where we beat IBM again in the M9000 systems. In the mid-range, we beat IBM in winning the big deal of Telefónica in Spain in both M and T-Series products and we had a significant win at NTT in Japan.

In storage, we had a key win at Centerlink to modernize their TAPE Infrastructure. We also saw storage wins at Banco do Brasil, in the State of New York and Branch Banking & Trust. Overall, a very strong quarter for Oracle, and with that, I'll turn it back to Ken.

Ken Bond - VP, IR: Thank you, Mark. Ruthy, we are now ready for the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator: Adam Holt, Morgan Stanley.

Q: Adam Holt: I wanted to drill on a little bit on the database technology business, up over 30%, one of the best numbers we've seen in a long time. Mark talked a little bit about the impact of Fusion Middleware, but was there anything else that stood out in the quarter that was particularly strong and what's the outlook in that line item in particular for the next quarter?

A: Lawrence J. Ellison: Well, I think Exadata, people think of Exadata as a hardware sale and of course it's a combined hardware software sale, and whenever we sell Exadata, we sell database licenses unless the customers already has database licenses and we sell storage server licenses. For example, let me name my favorite Exadata sale which was, we put three Exadata racks into SoftBank and replaced 60 Teradata racks. About half of that sale was hardware and half of that sale was software, but that was – imagine this, 60 19-inch rack, kind of a room full of gear. The Teradata's machine out it goes, but SoftBank is Teradata's biggest customer in Japan and in goes three Exadata machines. By the way, the three Exadata machines way outperform those 60 Teradata racks. A sale like that is reflected in both our hardware line and our software line, and that really, Exadata, really is helping our technology software growth substantially.

Operator: Heather Bellini, ISI Group.

Q: Heather Bellini: Just looking at how you've retooled the hardware business. I was wondering if you could help us think down the road. Is this something given the margin improvement that you've had that we could see get even better and kind of think about it in the likes of Cisco and EMC who have gross margins in the 55% to 60% range?

A: Lawrence J. Ellison: Yeah, when we first took over the business we set an internal target of around 50% which is one would at least get to that point which is reasonable and we are just about there. In Q1 we are at 48.4% and I think in Q2 we will cross the 50% mark. I think 60% is absolutely reasonable in gross margin and can we do better. It depends on the product mix, I mean how many Exadata and how their engineered systems, ZFS Storage Appliance versus some of the other systems that are T-Series which has a little bit lower margin, but I think depending on the mix, we can get to 60% or better and we can just as importantly double the top line. So, we can dramatically improve margins and double the top line.

Operator: Sarah Friar, Goldman Sachs.

Q: Sarah Friar: A more strategic question, just given the comments on the opportunity in vertical industries and just given some of the Mark actions at HP, is the natural next step to have a bigger IT services component or Larry are you still have the belief that you're cannibalizing services and that's the right shift for customers?

A: Lawrence J. Ellison: I think again, I don't think we are going to end up, again IBM is a great company and I appreciate the kind words from Sam Palmisano about us as being their number one competitor now actually I mean that sincerely. I think, Oracle's flattered, we've worked very hard. We look at IBM as our number one competitor and we're thrilled that they look at us as their number one competitor now and we are going to work. We know we have to work very hard to be successful in the competition. IBM's services business seems to be the dominant part of their business and the product business is important but secondary to the services business if you will. We look at it just reverse. We look at our products being the dominant part of our business, and one of the things we are trying to do with our products is obviate the need for services. So we do a very good job of integrating our applications together and making them easier to install and easier to upgrade, you don't need as much servicing. So our goal again, if we engineer these hardware, software systems together like Exadata where the storage and the network and the servers and the operating system, the database and all those stuff is in one box, you don't need as much integration services. So, we're trying to attack the – to reduce the amount of services required to take advantage of these systems. Having said that, our customers, especially in the big verticals, which Mark mentioned. In banking, we got big banks going through transformations and – we can't limit all the services, that's a fantasy. We can eliminate some of the stuff, but we're going to, you'll see us engaging with our customers and providing services because they want us to. We also have to be prepared to partner with other service oriented companies, but one of which is IBM, we've actually got a very good relationship with IBM in services, which we're trying to expand, let's say in banking. IBM got a terrific presence in banking. We've got some great banking products. IBM doesn't sell banking software and we look for IBM to become expert in using our software to transform banks. Again, our partnership with these service companies is absolutely critical though. The American companies, Accentric, the IBM, and the Indian companies the work process – I know that Mark knows lot more about it than I do, so, I'm going to let him comment.

A: Mark V. Hurd: Well, I think Larry is exactly right. I mean, listen, when you're running a big services company, the biggest issue is labor and you've got a lot of incidents that occur and you got a lot of labor trend to deal with those incidents of customers. The secret to services in the future is the way to automate those incidents and you automate them through software. So, the future of services is software. When you automate a process, you not only reduce the labor, you actually eliminate the labor, and you actually raise the service level simultaneously. So the R&D that we have in fact it's a supplement if you will, to the services capability, and as we get to more of these engineered systems, where we can build something once and sell it many, many times, and do that work remote and do it in an automated way, it is frankly a replacement for what you today think that's very labor-based services. I think as a product company, we want to be supporting those labor-based service companies though, and partner with them, when it makes sense. So, I think our strategy is to do both, to automate those processes, to be able to sell those automated capabilities and then to partner with the services companies, as it makes sense.

Operator: Jason Maynard, Wells Fargo.

Q: Jason Maynard: I've got a question for Larry and then a follow-up for Safra. Firstly, with these Exadata results in the pipeline that you're talking about, it's pretty clear that this is becoming a big winning product for you. Can you maybe layout the vision for how this can expand other workloads, like custom developed and packaged applications, and what does that mean for your opportunity to get more datacenter share spend?

A: Lawrence J. Ellison: Please come to Oracle OpenWorld on Sunday. It's a very good idea. It's something we certainly have thought about and makes complete sense and I think we'll be announcing some very interesting things on Sunday in that area.

Q: Jason Maynard: So I have to wait I guess. I was going to follow may be with Safra, real quick. These results for August were clearly better than we expected, but the environment actually hasn't been that great for IT spending. When you look at what's going on out there, do you need the IT spending market to pick up much or can you continue to put up these type of results to sort of status quo environment?

A: Safra A. Catz: The truth is we've been actually putting up these kinds of results through really much of this environment. The reality is that what we've got going is really very company-specific. We are taking share from others, as Larry described in the SoftBank case, that type of thing is really happening every where. Customers are looking at us as they're and really frankly their most important vendor. Since they are buying so many things from us, many of them, more and more are just doing with what you know is Oracle first. If we have it, they will buy it from us. They can't afford to be putting all these little pieces together from dozens and dozens of vendors. We do it better. We spend more on R&D than anybody else does. We make it our business and our job to make sure these things work together, so that customers don't have to figure out how to do it themselves. This is both sort of intuitively appealing, and obvious, to our customers who otherwise have to run very, very complex systems, and that's why our deals, though we had no mega deals in the quarter or anything like that, but just deals are getting little bit bigger, a little bit more products in every case. As they buy from us, so we're obviously taking share from everybody else. So, in this environment, as you can see, we are doing just magnificently and that's because customers are just buying it from us and buying more.

Operator: John DiFucci, JPMorgan.

Q: John DiFucci: I have a question for Safra. Safra, as Jason said, this is a really strong quarter and very clean across all the geographies, but I just have a question on Europe, and not so much regarding Oracle. Your comments about company-specific momentum, seems to ring true, at least historically and meeting up into this quarter. But especially things that are happening in Europe and in Europe, it seems to be anyway that there is a much greater percentage of IT spending that comes from government spending, whether that's direct or indirect through healthcare or however its done. I'm just curious of what you're seeing in this region, and I'm not just, the apps license number was down year-over-year, but that's not different from what we're seeing from other company, so I'm not ticking on that at all, but I'm just trying to – we cover a lot of companies, right Jason was trying to get to that. What are you seeing in that region and how did that affect your guidance this quarter?

A: Safra A. Catz: The truth is a number of the governments have been struggling for a number of quarters and as we sell to governments. But to us, Europe, Middle East and Africa, is a lot of countries. There is a lot of potential there for us. Our overall license in constant currency was 18% growth, which most folks would have thought it's impossible. Yet, what's really happening with the same momentum we have in other geographies we have is it true that some of these governments are struggling and then if they weren't, we sell even more, absolutely, of course, but as it is, we have so many products. We have so much still opportunity. I'll tell you in addition, I think our competitors are absolutely falling out of that. So as a result, we are both the safe choice and we're the obvious choice, and to the extent that they've got that they have budget, they use it with us. Secondly, I mean the truth of the matter is these companies cannot just stop and these governments cannot just stop buying our software. They need it, they use it, and they ultimately have to go ahead and buy it, and they are doing that. So it's true, 18% growth in this kind of a quarter in the summer in Europe, I'd say that's pretty darn good. We expect, actually Europe, apps number we mentioned, they actually had a very tough compare compared to everybody else and I expect, all around, I expect some very reasonable numbers, through the numbers out of Europe.

A: Lawrence J. Ellison: I can comment about the European apps number. We've been tracking, we track our apps business especially in Europe as a percentage of SAP because SAP is stronger in Europe than they are any place else in the world, and clearly certain countries like Germany, Switzerland, Austria, they have a virtual monopoly, closing in on 100% share in those countries, which makes it very difficult. We're up to about 60% of the size of SAP in Europe now in applications. That's the toughest market, and we are bigger than they are in North America, for example which is our home territory. So we think things are going pretty well in applications in Europe albeit, it can be a bit lumpy, Q1s are our smallest license quarter, and you point out that this is the one deal, we've got missed one deal closed the first day of this quarter or Q1 apps would've looked a lot better in Europe. But we think overall, over the last four quarters, we've done very well in Europe against SAP taking share from SAP in their home market. We have a number of deals especially in books which I think Mark rightly emphasizes. We are a large software Company and we have a lot of software that's industry-specific for retail, for telecommunications. We are winning all of the retail deals in Germany against SAP, all of them and let me repeat that, 100% of them. So, we are very happy on how things are going overall looking back over the last four quarters with our most important software competitor in Europe which is SAP.

Operator: Kash Rangan, Merrill Lynch.

Q: Kash Rangan: Larry, it was good to see you talk about the goals for doubling the hardware business. I am wondering, could you just use a little bit more color, how should we think about this to keep the – to double the revenue and then get the margins up to 55%, 60%? It almost seems like you're going to be out of the low end business, looks like it is almost as big as the IBM mainframe business that you're looking to create or may be potentially larger than that. How do you create that position given where Sun has been operating and if we have time for Mark, what would be your key priorities as you step into Oracle?

A: Lawrence J. Ellison: I will make some opening comments and I'll turn it over to Mark. I think that the big thing is these engineered systems, Exadata being one example and another we will be announcing some more systems in Oracle OpenWorld, the ZFS Storage Appliance. We have to have products that offer unique value in the marketplace like IBM Mainframes. I mean, IBM offers unique value with those products. Those Mainframes run software that doesn't run on other computers, so it's going to be unique value proposition. With Exadata, we got to run the Oracle database 10 times faster than on any other kind of machine and we do that. With other things we have to have very substantial performance advantages, reliability advantages, security advantages and cost advantages to go out and compete and if we have those advantages, so we have very highly differentiated, engineered products to combine hardware and software. We think we can improve our margins and grow our shares dramatically. Rather than mucking around kind of trying to sell a low-end server on price against Dell, we're partnering with Dell, we think Dell is a great company and we love partnering with them, but we don't want to compete in that space. We are very good at that. Mark?

A: Mark V. Hurd: Sure. I'll just add to it some priority perspective. First, this is a very well run company. We wanted to grow and we want to grow profitably. We want to take share, we want to be in a position where we can delight our customers and earn more of their spending and that's my priority. When you look at the R&D and the things we'll be announcing next week, we want to have the best sales force on the planet, earn customers respect everyday and we want to deliver the best service on the planet and those are the things I'm working on.

Operator: Phil Winslow, Credit Suisse.

Q: Philip Winslow: Just got two questions. First one is for Safra. Obviously, we talked a little bit about your applications rebound and while database is driving away and overall license growth. When you look at the apps business, what's really driving it there, are we talking about core ERPs seeing a rebound or is it still these EDGE applications where you're getting traction? Also, Larry, just as a follow-up here on database, obviously, doing phenomenally well, but we've seen some competitive announcements in the database market with SAP buying Sybase, talking about in-memory, EMC buying Greenplum, just curious your take on this?

A: Safra A. Catz: Remember, with us our numbers are so big, but we still got to sell ERP every quarter to do well, but the HS connections are doing very, very, very well also and I mean it's going very well all around. I mean, as far as big ERP wins, a lot of people are not necessarily changing their ERP systems, but they're buying more for their current systems, they're buying additional modules into their systems. For us, it's really all around going really quite well. Performance Managements doing very well, things like that. So, it's really the EDGE applications and the basic business remains solid.

A: Lawrence J. Ellison: In terms of database technology announcements, Greenplum, SAP In-Memory, and those things, we're pretty good at this database side. I would use dismissive of SAP's In-Memory Database and SAP took that and Hasso Palttner did a movie, where he interviewed himself. If you haven't seen it on SAP's website, it's really worth watching, he interviewed himself. He's played two characters and he talked about the SAP In-Memory Database. Now I never said we didn't believe In-Memory databases, I said, I thought, it was peculiar that SAP would choose to compete with us, in the arena of database technology. I mean they compete with us in ERP and they've got their first date, they were ahead of us and they have done quite well and they are the leaders there. But to compete with us in Database just seem like a peculiar choice especially, if all of you can recall NetWeaver with their attempt to compete in Middleware. So, they try to compete with us in Middleware and we're not very successful and they hardly ever talk about NetWeaver. So, after a failure in Middleware through them to immediately move on to -- well let's go tackle them in database, and with the two prong strategy let's buy Sybase, which does not run SAP, and then let's build our own In-Memory Database technology kind of trumping Oracle in R&D and getting to Oracle market before them. Let me announce today, I'll make the announcement now that Oracle has had underdevelopment for some time In-Memory Database it's part of the Oracle database, and we will deliver that to the market before SAP delivers theirs. So, we'll be out in the market with our technology. This is not radically new technology. There are number of university projects, there are tons of research papers, we've been following this for a very, very long time. We don't live under a rock. We've been working on this for a very, very long time and we'll deliver our product well in advance to their product. I believe that Oracle will do a better job of delivering In-Memory Database technology, which is primarily for query optimization and it's based on a variety of different kinds of compression and it's basically hybrid columnar compression, I'm going to out with what the technology is, but we've been working on it for a long time. We'll be in the market before SAP. I believe just like we beat them badly in Middleware, where Fusion Middleware beat NetWeaver, they have even less of a chance to beat us in database technology, than they had to beat us in Middleware technology. I just think there was a colossal mistake to take us on in Middleware. It's a bigger mistake to take us on in database. In the meantime, they've got this all new product called Business ByDesign, which is aimed at, I don't know, companies of four people, between four and a hundred people or something like that, which is floundering horribly and they've done nothing new in their core ERP business for 25 years. They still built an ADAP. So this, I guess, which will come as surprise to nobody, so after five years of development, next week in Oracle OpenWorld, we'll be announcing our Fusion application suite, all the ERP products, all the CRM products, all the HRMS products have been redone, 100% in JAVA, all with integrated social networking Web 2.0 interface, brand new stuff from the ground up and SAP is going to go and compete with us using their 25 year old technology and so rather than focusing on their applications and upgrading their applications like we did with Fusion, they said, Oh no, I have a better idea. You got to watch the video where a (indiscernible) interviews – it's called 'hostile acts hostile' or something like that. You got to watch it. Instead of competing with us in applications and modernizing their applications, they say, oh, no, let's go kill Oracle and database technology. Good luck.

Operator: Ladies and gentlemen, that does conclude our question-and-answer session. I'll turn the conference back to our speakers for any closing remarks they may have.

A: Ken Bond: A telephonic replay of this conference call will be available for 24 hours. The replay number is 888-203-1112 or 719-457-0820 and the pass code for both numbers is 421-0287. Also a webcast replay will be available through the close of market on September 23 and could be found on the Investor Relations website. Please call the Investor Relations department with any follow-up questions from this call and we look forward to speaking with you. Thank you all for joining us on today's conference. With that, I will now turn the call back to the operator for closing.

Operator: Once again ladies and gentlemen, this does conclude our conference. We appreciate your participation.