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Financial Accounting Standards Board MP&T Director – File Reference No. 1102-00 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

By email: director@fasb.org

Letter of Comment No. 160 File Reference: 1102-001 Date Received: 1-3/-03

Dear Sir or Madam:

Thank you for the opportunity to allow Oracle Corporation ("Oracle") to submit comments on the Financial Accounting Series Invitation To Comment, Accounting for Stock-Based Compensation: A comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-Based Payment, dated November 18, 2002 (the "Invitation to Comment"). Our comments will focus on certain of the issues identified in the Invitation to Comment.

Oracle is the world's largest enterprise software company. Oracle has historically used broad-based stock option plans to attract, motivate, reward and retain talented employees. By giving employees at many levels a chance to share in Oracle's financial success through equity ownership, broad-based stock option plans boost our productivity and are essential to Oracle's competitiveness and growth.

Fair Value Accounting for Employee Stock Options

We understand that the Financial Accounting Standards Board is not seeking comments on issues related to whether stock options granted to employees should be measured at something other than fair value or whether the fair value of employee stock options can be reliably measured. However, Oracle would like to provide the Board with its views on these extremely important issues. Oracle fundamentally disagrees with an accounting standard for employee stock options that mandates the use of the fair value method based on the following reasons:

- Current option pricing models were designed to value freely tradable options. These
 models do not properly account for the impact that nontransferability, forfeiture or "quiet
 period" trading restrictions have on the fair value of employee stock options. The true
 cost of employee stock options cannot be reliably or meaningfully measured with the
 current option pricing models.
- The true economic cost of employee stock options is the potential dilution of shares held by existing stockholders. Employee stock options do not decrease the economic value of a company but reallocate the value held by stockholders and option holders. The real cost of employee stock options is the impact to existing stockholders in the form of potential dilution. The potential impact of employee stock options is already reflected in diluted earnings per share. A requirement to reflect an expense for the estimated fair value of employee stock options would result in a double counting of the true impact of employee stock options.

• The fair value method of accounting for stock options can be misleading. If the fair value method were used, the capital gain or loss related to the contingent liability resulting from the stock option would have to be considered as well. As an example, assume Oracle grants an option today where the market price of the common stock and the strike price of the option are equal to \$40, the Black-Scholes valuation for the option is \$20 and the option vests ratably over the next 4 years. If the market price of the common stock falls to \$10 per share in year 2, Oracle would still be required to reflect a compensation charge for the option of \$5 in its income statement in year 2, even though the option would be worth, at most, a few cents. If the capital gain or loss related to the contingent option liability were included, as theoretically correct, earnings would be quite volatile, heavily reflecting these swings due to movements in the share price. If the capital gains or losses were not included, the accounting result would be wrong unless the share price remained unchanged.

Based upon the above factors, current option pricing models do not provide an accurate fair valuation of employee stock options. Accordingly, we believe that the current approach to elect to use either the intrinsic method and disclose detailed information related to the fair value method or to use the fair value method of accounting for employee stock options, as set forth in Statement No. 123, is appropriate. In addition, the disclosure requirements of Statement No. 123, as well as the additional disclosure requirements of Statement No. 148, provide financial statement users with the comprehensive information on the impact of employee stock options needed to make an informed investment decision.

Invitation to Comment

Notwithstanding our comments above, the following are Oracle's comments with respect to certain of the issues discussed in the Invitation to Comment. For your convenience, this comment letter has been organized to list each issue we are responding to in bold text, followed by Oracle's response.

Oracle supports financial statement presentations that are useful and transparent to investors and other financial statement users. Oracle also believes that financial statement presentations must be consistent and promote comparability between companies. The accounting and disclosure requirements for stock based compensation should follow these same principles by providing:

- a methodology that accurately determines the fair value,
- more guidance regarding the variables used to determine fair value to enhance consistency and comparability between companies and
- enhanced disclosures to provide financial statement users with greater clarity of the effect
 of stock based compensation on reported results.

Issue 2(a): Do you believe that an accounting standard should mandate the use of an optionpricing model for measurement purposes? If not, what other approaches do you believe would provide more consistent and reliable estimates of the fair value of employee stock options granted and why?

The accounting standard should mandate the use of an option-pricing model for the purposes of measuring fair value. A standard model is needed to ensure consistency and comparability between companies, which will assist financial statement users in understanding the effect of stock-based compensation on reported results. Given the complexity of option-pricing models,

the lack of a standard measurement method would confuse financial statement users and potentially produce wide-ranging fair values for similar options and therefore distort comparability.

Issue 2(b): If you agree that an accounting standard should mandate the use of an option-pricing model, do you believe that a particular model should be mandated? If so, which model should be required to be used and why?

Oracle believes that currently, there are no option-pricing models that can determine an appropriate fair value for employee stock options, and thus, should not be mandated at the present time. Again, consistent with our comments on Issue 2(a), mandating an appropriate option-pricing model will ensure consistency and comparability between companies and will assist financial statement users in understanding the effect of stock based compensation on reported results. While there is wide acceptance in the financial community for the Black-Scholes option-pricing model, we believe, as discussed in our comment to Issue 2(d) below, that certain modifications are required to the outcomes of the Black-Scholes option-pricing model to determine an appropriate fair value for employee stock options.

Issue 2(d): Statement 123 and the Proposed IFRS require that certain modifications be made to the outcome of an option-pricing model to address certain features of employee stock options. If you believe that other modifications should be made to improve the consistency and reliability of those outcomes, please describe those modifications and why they should be required.

Statement 123, paragraph 115 states that "The standard Black-Scholes and binomial optionpricing models were designed to estimate the value of transferable stock options not subject to forfeiture and that the value of transferable stock options is more than the value of employee stock options at the date they are granted...". Transferable stock options can be sold, while employee stock options are not transferable and can only be exercised.

Statement 123, paragraph 116 states that "...the estimated value of an employee stock option is based on its expected life rather than its maximum term, which may be considerably longer." Statement 123 concludes that the use of the expected life rather than its maximum term was sufficient to deal with the nontransferability of employee stock options.

Oracle believes that the use of expected life only partially adjusts the fair value for the lack of transferability, forfeiture provisions and "quiet period" trading restrictions. The Black-Scholes model is predicated on the assumption that risk can be limited through hedging. The risk associated with employee options is higher than with transferable options because the employee cannot effectively hedge them, and they cannot be sold to a third party. Higher risk implies greater return and a lower price.

Reducing the maximum life of an option to the expected life fails to discount value for the forfeiture of vested options. If an employee leaves after vesting and the stock price is unchanged or lower than at the grant date the employee option is typically canceled unexercised. This cancellation does not affect the calculation of expected life, but it does transfer value back to the option issuer. The Black-Scholes option model does not estimate the value of this potential value transfer back to the issuer.

Oracle believes that additional consideration and research needs to be completed to develop an option pricing model which considers the impact of nontransferability, forfeiture and trading restrictions on employee stock options to ensure the fair values determined are as accurate as is reasonably possible.

Issue 2(e): Do you believe that additional guidance for selecting the factors used in optionpricing models is necessary to provide added consistency and comparability of reported results? If so, what types of guidance should be provided and in which areas?

Oracle believes that additional guidance is needed related to the methodology for determining the expected life of options and expected volatility of the underlying stock given that these factors have the greatest impact on the fair value of options. Additional guidance related to the expected life is needed in situations where the historical experience for similar options is not believed to be representative. Additional guidance is also needed to adjust historical volatility to the expected volatility over the estimated life of the option. For example, Oracle believes using the implicit volatility in its publicly traded options with similar lives is an appropriate means of determining expected volatility of its common stock.

Issue 15: Do you believe that all of the tax benefits derived from stock-based compensation arrangements should be recognized in the income statement? If so, why? If not, why not?

Oracle does not believe that all of the tax benefits derived from stock-based compensation arrangements should be recognized in the income statement. Oracle believes that the approach under Statement No. 123 should be followed in which the tax benefits related to stock-based compensation is measured by the cumulative compensation cost recognized in the income statement. Oracle agrees with the conclusion reached in Statement No. 123 that (a) this approach is less complex to apply than an approach based upon changing intrinsic values, (b) will produce less volatility in reported net income and (c) is consistent with the assertion that the tax benefits resulting from the exercise of employee stock options represent equity. Requiring all of the tax benefits from stock-based compensation to be recognized in the income statement would result in significant fluctuations in the tax rate, which would distort operating results and comparability.

Issue 16: As discussed in paragraph 83 of this Invitation to Comment, the Proposed IFRS expands on the disclosure requirements in Statement 123. Do you believe that those expanded disclosures would be more informative to users of financial statements? If so, why? If not, why not? (Which of the disclosure requirements should be eliminated or modified in that case?

Oracle supports the requirements under Statement No. 148 to require quarterly disclosures of information related to employee stock options. As discussed above, Oracle believes that financial statement users should have timely, accurate and meaningful information about employee stock options in order to make informed investment decisions, especially if options are required to be expensed.

Oracle supports the additional disclosures in the Proposed IFRS related to the following:

- providing an explanation of and difference between historical volatility and expected volatility.
- disclosing assumptions made with regard to vesting conditions,
- providing a comparison of the estimated versus actual percentage of stock options that vested and
- · providing a comparison of the estimated versus actual option life.

Oracle believes these additional disclosures will enhance financial statement users' understanding of how these variables were determined and the impact these variables have on the calculation of the fair value of the employee stock options. In addition, these additional disclosures would enhance the comparability of the impact of the fair value of employee stock options.

Issue 17: Please describe any additional disclosures that you believe should be required in order to inform a user of financial statements about the economics of stock-based compensation arrangements.

Oracle believes the following additional disclosures should be considered to more clearly illustrate the impact employee stock options have on the results of operations and cash flows:

- "Above water" and "underwater" option information as of the reporting date (i.e., options
 that have an exercise price below a company's current share price, as well as options with
 an exercise price above the company's current share price).
- Information related to dilution, enabling shareholders to see the potential impact of new
 option grants on the total number of common shares outstanding. For example,
 disclosure of the annual and cumulative dilution over a 3 or 5-year period should be
 provided. In addition, disclosure of the maximum dilution, determined by including all
 outstanding stock options, as of the end of the reporting period should also be provided.
- Although not within the rule making authority of the Board, the Securities and Exchange Commission should consider mandatory filing requirements (i.e., Form 8-K) when a material number of options are granted. For instance, many companies have annual employee stock option grant programs. We believe that if employee stock options granted within a three-month period are material (for example, if option grants exceed more than 0.5% or 1% of total outstanding common shares), mandatory disclosure should be required. In addition, timely mandatory filings should also be required in connection with a repricing or exchange related to employee stock options.

Oracle believes these additional suggested disclosures would provide investors with a more comprehensive and accurate view of a company's employee stock option activity. These additional disclosures would assist the Board in its stated goals of ensuring consistency and comparability of financial statements and providing greater clarity of the effect of stock based employee compensation on reported results.

We appreciate the opportunity to offer these comments and would be available to discuss any aspect of our letter with you.

Sincerely, /s/ Jeffery O. Henley Executive Vice President and Chief Financial Officer

Copies to: Members of the Finance and Audit Committee of the Board of Directors of Oracle Corporation