

History of Oracle Corporation

Oracle Corporation is the number one supplier of information management software, and the second largest independent software firm in the world. Government agencies and corporations, large and small, use Oracle's database management software for an ever increasing range of business applications. Oracle also provides an array of services, from product support to consulting and educational tools in its quest to provide innovative global business solutions. Oracle continually updates its proprietary software, researches and develops new applications, and even publishes two magazines--the aptly named Oracle and Profit--to supply its customers with the latest and best data collection and management systems possible.

Databases for the CIA: 1977-81

Oracle Corporation traces its roots to 1977 when two computer programmers, Lawrence J. Ellison and Robert N. Miner, teamed up to start a new software firm. Ellison had been a vice-president of systems development at Omex Corporation and a member of a pioneering team at Amdahl Corporation, which developed the first IBM-compatible mainframe computer. Miner had served as Ellison's former supervisor at another computer company, Ampex Corporation. Both men had significant experience designing customized database programs for government agencies, and the pair persuaded the Central Intelligence Agency (CIA) to let them pick up a lapsed \$50,000 contract to build a special database program. Ellison and Miner then pooled \$1,500 in savings to rent office space in Belmont, California, and start Oracle for the purpose of developing and marketing database management systems (DBMS) software. Ellison became president and chief executive and took charge of sales and marketing for the new company, while Miner supervised software development. The pair of entrepreneurs sought out well known private venture capitalist Donald L. Lucas to become chairman of the board.

While working on the CIA project, Ellison continued monitoring technical documents published by IBM, a practice he had established while working as a programmer at Amdahl. Ellison noticed the computer giant was interested in new types of speedy, efficient, and versatile database programs, called relational databases, that were projected to one day allow computer users to retrieve corporate data from almost any form. What was expected to make this possible was an IBM innovation called the Structured Query Language (SQL), a computer language that would tell a relational database what to retrieve and how to display it.

Banking on what later proved to be a correct hunch--that IBM would incorporate the new relational database and SQL into future computers--Ellison and Miner set out to provide a similar program for digital minicomputers and other types of machines. In 1978 Miner developed the Oracle RDBMS (relational database management system), the world's first relational database using SQL, which would allow organizations to use different-sized computers from different manufacturers but use standardized software. A year after its pioneering development, Oracle became the first company to commercially offer a relational database management system, two years before IBM debuted its own RDBMS system.

After its initial innovation, Oracle quickly became profitable and by 1982 the company, then with 24 employees and a mainframe and minicomputer customer base of 75, reported annual revenues of nearly \$2.5 million. In the same year, the company expanded internationally with the creation of Oracle Denmark. About one-fourth of 1982 revenues were poured back into research and development, leading to a 1983 Oracle innovation, the first commercially available portable RDBMS. The portable RDBMS enabled companies to run their DBMS on a range of hardware and operating systems--including mainframes, minicomputers, workstations, and personal computers--and helped Oracle double revenues to over \$5 million in 1983.

Expansion, Competition, Going Public: 1984-86

By the early 1980s Oracle began jousting with new entrants in the DBMS market. However, the company's reputation for innovations and its aggressive advertising style, which mentioned

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competitors' products by name, helped to push Oracle's sales upward. By 1985 the company brought in more than \$23 million in revenues. The following year annual sales more than doubled to a record \$55.4 million.

The year 1986 proved to be transitional and historic for Oracle in a number of respects. In March, Oracle made its first public offering of stock, selling one million common shares, then lauded itself as the fastest-growing software company in the world, having recorded 100 percent-or-better growth in revenues in eight of its first nine years. Much of this growth came from Oracle's targeted end users--multinational companies with a variety of what had previously been incompatible computer systems. By 1986 Oracle's customer base had grown to include 2,000 mainframe and minicomputer users represented by major international firms operating in such fields as the aerospace, automotive, pharmaceutical, and computer manufacturing industries, as well as a variety of government organizations.

To serve these customers, by 1986 Oracle had established 17 international marketing subsidiaries based in Australia, Canada, China, Europe, and the United Kingdom to market its products in a total of 39 countries. By the same time Oracle had also expanded the scope of its business operations to include related customer support, education, and consulting services. One of the principal reasons for Oracle's success was the 1986 emergence of SQL as the industry's standard language for relational database management systems, which in turn led to increased market acceptance of Oracle's SQL-compatible RDBMS.

In 1986 Oracle expanded its RDBMS product line and debuted another industry first, a distributed DBMS based on the company's SQL*Star software. Under the distributed system, computer users could access data stored on a network of computers in the same way and with the same ease as if all a network's information were stored on one computer. Although initially limited to operating principally on IBM and IBM-compatible computers, the Oracle SQL*Star software was the first commercially available software of its kind and was soon expanded to include dozens of additional computer brands and models.

Setting the Standard: 1987-90

By 1987 Oracle had emerged as the relational DBMS choice of most major computer manufacturers, allowing the company to expand the scope of hardware brands on which its products could operate. Largely as a result of such acceptance, Oracle achieved two major milestones in 1987 by topping \$100 million in sales and becoming the world's largest database management software company with more than 4,500 end users in 55 countries.

During the late 1980s Oracle expanded its development, sales, and support partnerships with computer hardware manufacturers. Its partnerships with software manufacturers also began to blossom, and in 1987 the number of software companies using Oracle products grew fivefold. In order to maximize the benefits of these partnerships, Oracle established its VAR (Value-Added Reseller) Alliance Program, aimed at building cooperative selling and product-planning alliances with other software manufacturers.

Oracle continued its tradition of innovation and firsts in 1988 when it introduced a line of accounting programs for corporate bookkeeping, including a database for personal computers to work in conjunction with the Lotus Development Corporation's top-selling Lotus 1-2-3 spreadsheet program. The company also introduced its Oracle Transaction Process Subsystem (TPS), a software package designed to speed processing of financial transactions. Oracle's TPS opened a new market niche for the company, targeting customers such as banks needing to process large numbers of financial transactions in a short period of time.

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In 1988 Oracle unveiled its initial family of computer-aided systems engineering (CASE) application development tools, including its CASE Dictionary, a multiuser shared repository for items pertaining to a computer application development project; and CASE Designer products, a graphical "workbench" of computer tools that enabled computer application analysts and designers to develop diagrams directly on a computer screen and automatically update the CASE Dictionary.

During Oracle's first decade of operations its relational database system was expanded for use on about 80 different hardware systems. Extending its alliances with hardware manufacturers, Oracle introduced its first version of a database management system program to run on Macintosh personal computers in 1988. The company also formed a new subsidiary, Oracle Complex Systems Corporation (OCSC), adding systems-integration services to its line of customer services. Shortly after the subsidiary was formed, OCSC purchased Falcon Systems, Inc., a systems integrator company.

In 1989 Oracle's emergence as a major player in the software industry was recognized by Standard & Poor Corporation, which added Oracle to its index of 500 stocks. Additionally, Oracle relocated from Belmont to a new, larger office complex in nearby Redwood Shores, California. Seeking to break into new markets, Oracle formed a wholly owned subsidiary, Oracle Data Publishing, in December 1989 to develop and sell reference material and other information in electronic form. Oracle closed its books on the 1980s posting annual revenues of \$584 million, netting \$82 million in profit.

Oracle Stumbles: 1990-92

Oracle entered the 1990s anticipating continued high growth and in January 1990 the company decided to seek \$100 million in public financing to support its expansion. But the company's expectations were misplaced and its image as a darling of Wall Street soon began to tarnish. In March 1990 Oracle announced a record 54 percent jump in quarterly revenues but a paltry 1 percent rise in net earnings. The company's first flat earnings quarter, attributed to an accounting glitch, shook Wall Street out of its long love affair with Oracle; the day after the earnings announcement the company's stock plummeted \$7.88 to \$17.50 in record one-day volume with nearly 21 million of the company's 129 million shares changing hands.

In April 1990 a dozen shareholders brought suit against Oracle, charging the company had made false and misleading earnings forecasts. On the heels of this lawsuit, Oracle announced it would conduct an internal audit and immediately restructure its management team with Lawrence Ellison assuming the additional post of chairman, while Lucas remained a director. Oracle also formed a separate domestic operating subsidiary, Oracle USA, aimed at addressing its domestic management and financial problems, which the company attributed to poor earnings. Gary D. Kennedy was named president of the new subsidiary.

For the fiscal year ending May 31, 1990, Oracle initially posted record sales of \$970.8 million and profits of \$117.4 million; but these results were below Oracle's own estimates. The company's stock price fell to \$19.88 then plunged to \$11.62 in August after an internal audit forced the company to restate earnings for three of its four fiscal quarters. As a result, Oracle negotiated a \$250 million revolving line of credit from a bank syndicate. A few weeks later the company reported its first-ever quarterly loss of nearly \$36 million with expenses outpacing revenues by 20 percent; the stock tumbled once again, having lost more than \$2.7 billion in market value in six months.

In response to widespread criticism concerning overzealous sales techniques, accounting methods, poor management controls, and miscalculations of market strength, Oracle underwent another management shakeup. After less than four months on the job, Kennedy was replaced as president of Oracle USA by Michael S. Fields, a company vice-president. Oracle also moved to reduce its annual growth rate goals from 50 to 25 percent; laid off 10 percent of its domestic workforce of 4,000; consolidated Oracle USA's financial and administrative operations; and folded various international units into a single division.

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Despite Oracle's most turbulent year in its history, 1990 was not without its firsts--with communism bowing out in Eastern Europe, Oracle formed an Eastern European subsidiary to serve its first customer sites in Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and what was then the Soviet Union. Chief Executive Ellison was also lauded for his accomplishments, being named Entrepreneur of the Year for 1990 by the Harvard School of Business. Oracle began 1991, however, on a sour note--reporting quarterly losses of \$6.7 million in early January despite a 29 percent increase in revenue. The report again sent shock waves rippling through Wall Street, and Oracle's stock fell to \$6.62. By the middle of January 1991 Oracle's bankers had cut the company's line of credit from \$170 million to \$80 million while granting the company much-relaxed loan covenants.

Oracle announced in March 1991 it would restate prior financial results because of accounting errors and named a new chief financial officer, Jeffrey Henley. As part of its restatement, Oracle adopted a change in accounting methods requiring sales be booked when software was delivered, not when a contract was signed as previously allowed. Oracle's restatement of 1990 figures lowered annual revenue more than \$50 million to \$916 million and decreased earnings to \$80 million. The increased need to use reserve funds for accounts receivable put Oracle in violation of its loan agreements and for the second time in as many fiscal quarters the company sought a waiver of loan requirements.

Oracle's sales growth continued to decline from previous years and the company finally admitted it had expanded too rapidly. For 1991 Oracle topped the \$1 billion sales plateau for the first time in history and at the same time posted its first annual loss of \$12.4 million. In October the company secured a new \$100 million revolving line of credit from another bank syndicate. Two months later Oracle negotiated an agreement for \$80 million in financing from Nippon Steel Corporation, which also agreed to sell Oracle products in Japan. In return, Nippon was given rights to purchase as much as 25 percent of Oracle's marketing subsidiary in Japan, duly named Oracle Japan.

By the end of its 1992 fiscal year, Oracle's balance sheet had improved as sales inched modestly upward and earnings rebounded, with the company reaching \$1.18 billion in sales and \$61.5 million in profits. Oracle entered 1993 with no bank debt, solid long-term financing in place, and in an improved financial position controlled by a revamped management team. Ellison told Forbes magazine in 1991: "You pay a price for growing too rapidly."

Oracle 7 and the Promise of Interactive TV: 1993-95

The release of Oracle 7 in the early 1990s seemed to signal the end of Oracle's brief taste of corporate mortality. The program supported a larger number of users than previous versions, handled more transactions, allowed data to be shared between multiple computers across a network, and improved application development features. It won industry praise, and in 1993 Ellison began talking up Oracle's role in a new technology to expand the role of databases even further. In a partnership with British Telecom and Apple Computer, Oracle used its software to deliver video on demand to a test group of interactive TV users in Great Britain.

By early 1994 Ellison's new push to develop a consumer market for Oracle's databases had evolved into the "media server alliance," in which the company's Oracle Media Server would be the database engine supplying interactive TV viewers with, for example, movies ordered through a library of digital multimedia. The hardware motor for this future super media service would be massive parallel computers made by nCube, a company in which Ellison was the principal shareholder. With his typical ebullience, Ellison declared, "I believe the sheer impact of the interactive network into the home will rival that of the electric light, the telephone, and the television."

By mid-1994 Oracle's sales had reached \$2 billion, its consulting services accounted for a healthy 20 percent of sales, and it fueled corporate America's switch from the mainframe to the client/server computing model. The year also saw the release of Oracle 7's version 7.1, an improved program that supported slow or unreliable network environments; the copying of data between different locations;

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and the processing of data on multiple processors--an application increasingly favored in the so-called "data warehouses" used by large corporations. To serve the data warehouse market better, in 1995 Oracle acquired the product line of Information Resources, Inc. (IRI), whose online analytical processing (or OLAP) software enabled users to perform sophisticated business analyses in data warehouses. IRI's products also allowed users to incorporate video into their data warehouses, and when Oracle released version 3 of Oracle 7 in late 1995, these new video and data-crunching capabilities enhanced its claim of having the most powerful and most multimedia-ready database product on the market.

With its share of the data management market now at 40 percent, Oracle unveiled Oracle Workgroup/2000, a forerunner of Oracle 8 to enable users to run and access databases on laptops as well as larger computers. By retooling its products to work with smaller computers, Oracle hoped to exploit the transition underway to more localized client/server computing environments: because these client and server computers were by definition more numerous than the huge and expensive mainframe computers, Oracle stood ready to enjoy a potentially vast increase in sales. Oracle's traditional rivals, Sybase and Informix, were dropping back in market share, and Microsoft--whose enormous resources enabled it to absorb the cost of pricing its own database programs below its competitors--was positioning its SQL Server database to eventually compete head on with Oracle.

The Network Computer and Oracle 8: 1996-97

As Oracle readied Oracle 8 for release, it introduced its WebSystem software in late 1995 to take advantage of the growing popularity of the Internet and its small-scale in-house cousins, the corporate intranet. WebSystem promised to enable corporations to organize and distribute their data over the Internet. With Oracle's revenues topping \$4 billion, in May 1996 Ellison took on the "Wintel" (Microsoft Windows software plus Intel's processing hardware) monolith by unveiling the "Network Computer" (NC). Joining with such partners as Sun Microsystems and Netscape, Ellison offered to free corporations from the costly upgrades Intel and Microsoft forced on them with every new release of Windows and the x86 family of processors. Using Ellison's \$500 NC--a kind of stripped-down PC with no hard drive and therefore no applications--data and applications could be stored and accessed as needed via the World Wide Web or remote server computers, equipped, naturally, with Oracle's databases. Since corporations would no longer have to buy storage and applications for each computer, they could save millions with no loss in functionality, and Oracle would have a vast new market for its database products. By late 1996 this strategy had evolved into the "Network Computing Architecture," a complicated new three-tier world for corporate computing consisting of a client computer (the computer accessed by the user), an applications (such as word processing software) server, and a database server.

In June 1997 Oracle 8 was launched with much fanfare, and combined Oracle's longtime relational database features and bundled with new technology related to the Network Computer project. With annual sales of \$5.7 billion, a ten-year annual growth rate of 30 percent, and 50 percent of the world's relational database market, Oracle seemed to be in a position to confidently believe Oracle 8 and the NC heralded "nothing less than a new era in computing." Since Ellison's announcement of the inexpensive NC a year before, however, rivals Microsoft and Intel had reacted quickly to the Oracle/Sun/Netscape threat. Microsoft had purchased WebTV, a manufacturer of an NC-like computer-television hybrid that had actually come to market, and Intel had slashed processor prices to bring powerful full-featured personal computers below the \$1,000 price mark. Since Oracle's NC computers were not scheduled to reach users until late 1997 at the earliest, Ellison's multimillion-dollar NC marketing campaign seemed premature.

Because the Asian and Pacific Rim countries accounted for 15 percent of Oracle's sales and were its fastest-growing market, when their economies began to collapse in late 1997 Oracle felt the brunt. In December 1997 Ellison announced Oracle's earnings, though still expanding at a 35 percent annual

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rate, would be lower than projected. A record 172 million Oracle shares changed hands on the news, sending Oracle's stock price down 30 percent and wiping out more than \$9 billion in equity.

Speaking Softer: 1998-2001

Ellison took a conciliatory tone in a press conference in early 1998 when he admitted Oracle had erred in talking up the NC before the product had been realized. "We just could not deliver network computing," he admitted. Oracle's public statements began to focus less on the NC and more on other products such as its first database with Java support and its updated database management software, Oracle 8. While Oracle 8 experienced increasing competition from Microsoft's SQL Server database product, it nevertheless won several IT awards. In mid-1998 Oracle released an updated Oracle 8 to meet the Microsoft challenge head on. At the close of its 1998 fiscal year in May, Oracle could take solace in quarterly sales of \$2.4 billion--a 26 percent increase over the previous year.

In 1999 Oracle teamed up with Hewlett-Packard Company to integrate the computer giant's e-business applications with its database management software, and partnered with Ford Motor Company to form AutoXchange, an Internet-based purchasing program. AutoXchange's design connected Ford and its numerous suppliers, who would pay fees based on the size and volume of their transactions. Oracle and Ford projected these fees could top \$1 billion in less than two years; the two firms intended to split any earnings.

In early 2000 Oracle established multiple joint ventures, including one with Texas-based Entrust Technologies, Inc. for a new database program called Oracle Advanced Security. The program included the latest technological advances in online encryption and authentication. Other partnerships involved Novistar, which teamed up with Oracle to provide broad-based e-business software to the energy industry, and Sears Roebuck & Company and Carrefour S.A. signed with Oracle to produce a worldwide business-to-business e-commerce marketplace for retailers. Called GlobalNet-Exchange, the Internet system was intended to replace the electronic data interchange (EDI) used by retailers. Sears CEO and Chairman Arthur Martinez commented to Women's Wear Daily (February 29, 2000), "This is a revolution in retail. It will forever redefine supply-chain processes, increase collaboration with suppliers and reduce supply-chain costs." Sears and Carrefour owned majority stakes in GlobalNet-Exchange, Oracle held only a minority share of the startup.

Oracle finished fiscal 2000 with revenues of \$10.2 billion and earnings at an all-time high of \$6.3 billion due to an extra \$4 billion from selling shares in Oracle Japan. By the following year, Oracle prospered like its former self of the 1980s with soaring sales, new product releases, and a myriad of new ventures both in the United States and abroad. The company finished the year with sales close to \$11 billion and \$2.6 billion in earnings.

Courting Controversy: 2002 and Beyond

For the early 2000s Oracle concentrated on doing what it did best: creating new software management systems for the world's businesses. In 2001 the company's Oracle Small Business Suite was considered "Best of the Web" by Forbes magazine; while Pipeline magazine declared Oracle the "Best International IT Company" of the year. Ellison received an award himself in 2002 from the Executive Club of Chicago, which deemed him International Executive of the Year. Honors and awards aside, Oracle was determined to stay at the top of its game; to this end, the company increased its research and development spending from 11 percent in 2002 (just under \$1.1 billion on revenues of \$9.7 billion) to 13 percent in 2004 (almost \$1.3 billion), which it considered "essential to maintaining our competitive position."

Another facet of Oracle's competitive edge was its consulting and educational businesses, which were not faring as well as hoped. Oracle, however, could afford to give these segments time to develop further, since its software division (both new product licensing and updates) continued to bring in the

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lion's share of revenues at 73 percent for 2002 (\$7.1 billion), 76 percent for 2003 (\$7.2 billion), and 79 percent (\$8.1 billion) for 2004.

In mid-2003 Oracle initiated a hostile takeover of PeopleSoft Inc. for \$5.1 billion. The Pleasanton, California-based PeopleSoft, was in the process of acquiring J.D. Edwards & Company and was not amused by Oracle's takeover bid, no matter how attractive the offer. For its part, Oracle raised its offer several times in the succeeding months, to as high as \$9.4 billion, only to be met by a storm of controversy. Few, it seemed, save Ellison were in favor of the takeover--shareholders of both firms were unhappy and the Department of Justice got involved over antitrust issues. By the end of 2003, Ellison appeared determined to win the battle whatever the cost. This single-mindedness echoed the hubris of the last decade when Oracle went from being the darling of Wall Street to a pariah. Stock prices fluctuated from a low of \$10.53 in the third quarter to a high of \$13.26 in the fourth, and year-end revenues fell for the second year in a row to \$9.5 billion.

In 2004 most mentions of Oracle were followed by comments over its bid to buy PeopleSoft. Despite the imbroglio, however, it was business as usual. Other innovations included the latest version of its database management software, Oracle 10g, which was released with built-in self-diagnostics and fine-tuning measures. Oracle 10g, like its predecessors, won awards from a number of IT magazines and organizations. Oracle Customer DataHub was also making news as the first program capable of providing a single customer view from several different databanks. In addition, Oracle partnered with Dell Inc. to have its database software bundled with Dell's PowerEdge servers for small and midsized companies, and with bitter rival Microsoft for limited integration between Oracle 10g and Windows.

In late 2004 Oracle was still hoping to bring PeopleSoft into its fold. Not only were there injunctions and suits in the way, but PeopleSoft had poison pill measures in place. While awaiting a resolution, Oracle shuffled its top management by separating the roles of CEO and chairman. Ellison remained chief executive and a director, while Executive Vice-President and CFO Jeff Henley, who had been with the company since 1991, moved up to chairmanship. Further, after three years of falling revenues, Oracle rebounded in fiscal 2004 with sales of \$10.2 billion and earnings of \$2.7 billion, with stock prices reaching a high of \$14.89 in the third quarter to a low of \$11.23 in the fourth quarter.

Oracle was in flux in late 2004 and early 2005; acquiring PeopleSoft would add dramatically to its software capabilities but at a very steep price. Oracle already had 55 marketing and sales offices throughout the United States and 70 international locations; if combined with PeopleSoft the assets of the two companies would indeed control a significantly larger portion of the database management and related software markets.

Principal Subsidiaries: Datalogix International, Inc.; Oracle Credit Corporation; Oracle China, Inc.; Oracle Corporation Canada, Inc.; Oracle Corporation Ireland Ltd.; Oracle Corporation Japan; Oracle Corporation United Kingdom Limited (U.K.); Oracle Danmark ApS; Oracle Deutschland GmbH (Germany); Oracle do Brasil (Brazil); Oracle France S.A.; Oracle Corporation South Africa Proprietary Ltd.; Oracle Iberica S.R.L.; Oracle Kft; Oracle Mexico S.A. de C.V.; Oracle Nederland B.V. (Netherlands); Oracle Norge A.S. (Norway); Oracle Portugal Sistemas de Informacao Lda.; Oracle Publishing; Oracle Svenska AB (Sweden); Oracle Systems China (Hong Kong) Limited.

Principal Competitors: IBM Corporation; Microsoft Corporation; Borland Software Corporation; Business Objects S.A.; Cognos Incorporated; Hyperion Solutions Corporation; NCR Corporation; PeopleSoft, Inc.