



Oracle posts profit decline, but sales rise 17%

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By John Letzing, MarketWatch

SAN FRANCISCO (MarketWatch) -- Oracle Corp. reported a dip in fiscal third-quarter profit Thursday, but sales rose 17% as the company benefited from a pick-up in spending on business software and contributions from recently-acquired Sun Microsystems Inc.

In addition, the company forecast a profit for its current, fourth quarter at the high end of Wall Street estimates.

Redwood Shores, Calif.-based Oracle (ORCL **25.45**, -0.24, -0.93%) said its third-quarter net income fell to \$1.2 billion, or 23 cents a share, from \$1.3 billion, or 26 cents a share in the same period last year. Revenue for the period ended in February rose to \$6.4 billion from \$5.5 billion. Excluding special items, Oracle said earnings for the quarter were 38 cents a share.

Analysts had been expecting Oracle to post third-quarter earnings excluding items of 38 cents a share, and \$6.35 billion in revenue, according to Thomson Reuters.

Oracle said that not accounting for the integration of Sun, which Oracle acquired in January for \$7.4 billion, quarterly sales would have only increased 7%.

"They're taking Sun in stride, and really haven't missed a beat," said Edward Jones analyst Andy Miedler.

Shares of Oracle fell more than 1% to \$25.65 in after-hours trading, following the earnings announcement.

Oracle said that new software license sales, a key measure of new business as opposed to sales to existing customers, rose 13% compared to the period last year, to \$1.7 billion.

Oracle had previously said it expected new software license sales to range between a 1% decline and 8% growth in quarter.

Miedler said the surprisingly-strong new software license sales figure is a positive sign both for the company, and the technology industry as a whole. "Oracle is certainly quite a bellwether," Miedler said.

Excluding contributions from Sun, however, new software license sales grew 10%.

In addition, Oracle absorbed an extraordinary increase in costs related in part to integrating Sun. The company reported that its restructuring costs, including employee severance and other items, jumped to \$306 million in the quarter, compared to \$15 million in the period last year.

Primary Global Research analyst Laxmi Poruri said Oracle's new license sales are likely the result of pent-up demand built up during the downturn. "It's delayed spending," she said, and "nothing special to Oracle."

"People had reached the end of the line in terms of waiting to upgrade," Poruri said.

License update and support revenue rose 13% in the third quarter, to \$3.3 billion, Oracle said.

Oracle has been able to rely on a steady stream of revenue from the maintenance of software throughout the downturn.

For its current, fourth quarter, Oracle said it expects earnings excluding items to be between 52 and 56 cents a share.

Analysts have been looking for fourth-quarter earnings excluding items of 53 cents a share for Oracle, according to Thomson Reuters.

"We actually are seeing some pretty optimistic customers," Oracle President Safra Catz said during a conference call with analysts.

Oracle said new software license sales should grow between 3% and 13% in the fourth quarter, while sales of hardware should range between \$1.2 billion and \$1.3 billion.

Traditionally a software powerhouse, Oracle acquired a significant hardware business with the purchase of Sun.