CtW Investment Group

September 25, 2013

Bruce R. Chizen
Presiding Director and Chairman of the Compensation Committee
Oracle Corporation
500 Oracle Parkway
Redwood City, CA 94065

Dear Mr. Chizen,

In light of the board's failure to significantly alter either the composition of the Compensation Committee or the pay practices which resulted in a 59% shareholder vote against Oracle' Say on Pay proposal last year, we urge you and your fellow directors to commit to:

- Reconstitute the Compensation Committee by adding at least one new, independent director over the next year.
- Change Oracle's equity compensation practices by indexing options to an industry-specific benchmark, and by tying the number of options granted to a meaningful measure of shareholder value, such as return on equity.
- Address Oracle's top-heavy compensation culture by immediately initiating disclosure of the company's CEO-to-median-employee Pay Ratio ("CEO Pay Ratio") in a manner consistent with the SEC's draft proposal for Rule 953b, and establishing a limit on stock-based compensation grants to named executive officers at 10% of the total annual equity grants to all employees.

Absent a commitment to make noticeable changes in response to shareholder discontent with the board's pay practices, we will oppose this year's Say On Pay proposal, and will consider opposing the re-election of the current members of the Compensation Committee. Given the short timeline to this year's annual meeting, we expect to hear your response by October 2, 2013.

The CtW Investment Group works with union sponsored pension funds to enhance long-term shareholder returns through active ownership. These funds have $250 billion in assets under management, and are substantial Oracle shareholders.

Oracle's Failure to Respond to Shareholder Opposition
For two years running, the Oracle board of directors has failed to respond to large votes against its Management Say On Pay proposals. In 2011, only 66.6% of shareholders voted in support of this proposal, in a year when nearly three quarters of companies received approval of 90 percent or higher, and an additional 18 percent of companies received support between 70 and 90 percent. Table 1 looks specifically at the peer companies listed in Oracle's most recent proxy statement. We see that Oracle's 2011 vote was far below the average of these peers, and that Oracle received the second smallest level of support among its peers in 2011.

Table 1: Oracle vs. Peer Company Say on Pay Votes in Favor

Company	2011	2012
Accenture	90.3%	93.2%
Amazon	98.6%	NA
Apple	98.3%	83.2%

Cisco	95.8%	96.1%
Dell	97.3%	98.1%
eBay	73.4%	97.3%
EMC	98.3%	96.6%
Google	97.6%	NA
HP	48.7%	78.8%
IBM	93.0%	96.2%
Intel	95.9%	97.3%
MSFT	98.9%	94.1%
Oracle	*66.6%*	*40.9%*
Qualcomm	95.1%	68.8%
Texas Instruments	97.0%	95.6%
Average	89.7%	87.4%

We note that Mr. Ellison personally owned approximately 22% of Oracle shares at the time of the 2011 annual meeting, implying that only 56% of public shareholders voted in favor of the 2011 compensation plan.

Despite this strong show of shareholder concern, in the 2012 proxy statement, the board claimed that "the outcome of the Say-on-Pay vote signals our stockholders' support of our compensation approach."[1] Given the large gap between Oracle's Say on Pay result and that of its peers, we find this conclusion rather astonishing. We would have expected the board to acknowledge a significant degree of concern on the part of shareholders, and to have taken steps to address these concerns, particularly with respect to Mr. Ellison's large option grants, the element of Oracle's pay practices that, as we will shortly see, stands out most dramatically in contrast to the company's peers. Indeed, we note that the Conference Board suggested that any company receiving less than 70 percent approval in 2011 "[is] likely to be as motivated as those that lost their votes to understand proxy adviser and shareholder concerns and to address any executive compensation issues with their shareholders." [2]

No doubt in part as a result of the board's unduly sanguine response to the 2011 vote, at last year's annual meeting just under 42% of shareholders voted in support of Oracle's Say on Pay proposal. Given that Mr. Ellison at this time owned nearly 23% of Oracle shares, this implies that as much as 80% of public shareholders cast votes opposing Oracle's existing pay practices. Even without adjusting for the ownership stakes of Mr. Ellison and other executives, Oracle received the 5th lowest vote among S&P 500 companies during 2012. Moreover, all three Compensation Committee members received significant votes against their re-elections: you were supported by only 61% of voting shareholders, while Mr.Conrades and Ms. Seligman each received approximately 66% support. We note that when directors at peer companies face opposition to their re-election in the range of 40-45% of votes cast – as happened to two directors at Hewlett-Packard this year - they typically submit their resignations and are replaced by new, independent directors.

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[1] Oracle 2012 Proxy statement on Form DEF14A, issued September 21, 2012, pg. 32.

[2] http://www.lw.com/upload/pubContent/_pdf/pub4251_1.pdf

Unfortunately, as the proxy statement just issued illustrates, neither the board nor the Compensation Committee seem to grasp the depth of shareholder frustration with Oracle's pay practices. While the Committee notes that it was "disappointed" with the 2012 vote, and explains that it engaged in "substantial internal discussions and deliberations," as well as discussions with some large institutional shareholders, nevertheless the committee concluded that "significant changes to our executive compensation program were not warranted." [3] While the named executive officers did eschew the cash bonuses to which they would have been entitled, this decision had only a small effect on total compensation for these executives. Moreover, this change fails to address long-standing shareholder concerns with the size of Mr. Ellison's stock-option grants, Oracle's reliance on un-indexed stock options, and the disproportionate size of Oracle's named executive officer compensation compared to its peers. We now turn to consider Oracle's executive compensation practices, its divergence from its industry peers, and the sources of shareholder opposition to Oracle's pay program.

Oracle's Top-Heavy Pay Practices

Oracle's executive pay practices stand-out in comparison with its industry peers in several respects, including:

- An apparently fixed (i.e. not varying with performance) number of stock options granted annually to Chairman and CEO Lawrence J. Ellison.
- High pay for the named executive officers as a group, particularly when compared to reported net income.
- Large, unusual, and hard to explain perquisite payments to executives.
- Very large share of total stock-based compensation going to named executive officers, combined with reports of significant turnover among lower-level employees and failure of Oracle to appear among Fortune's "100 Best Companies to Work For in America" list.

Since 2005, Oracle Chairman and CEO Ellison has received an annual grant of 7 million stock options. This annual grant is both quite large (shareholder advisor ISS describes it as a "mega-grant"), and clearly does not vary with Oracle's performance. Consequently, we disagree with the Compensation Committee's claim that base salary represents "the only fixed component"[4] of compensation at Oracle, and contend that the level of consistency suggests that for Mr. Ellison these grants have become a de facto "fixed component" of pay. While the Compensation Committee emphasizes that Mr. Ellison receives only a nominal $1 salary (and is not accepting the cash bonus to which he would be entitled this year), our concerns are not assuaged: several other CEOs at major technology firms receive only nominal salaries and bonuses (including Larry Page at Google and the late Steve Jobs at Apple) without receiving annual equity grants anywhere near the size of those awarded to Mr. Ellison.

Indeed, Mr. Ellison's pay far outstrips that of the highest paid executive at the companies Oracle has identified as peers for compensation purposes, as Table 2 below illustrates:

Table 2: Oracle CEO Pay Compared to Peer Companies

Company	CEO	2008	2009	2010	2011	2012	2013
Oracle	*Larry Ellison*	*$84,598,700*	*$84,501,759*	*$70,143,075*	*$77,559,820*	*$96,160,696*	*78,440,657*
Cisco	John Chambers	$17,051,649	$9,158,123	$18,871,875	$12,886,125	$11,687,666	
Google	Multiple	$7,630,642	$26,319,685	$22,606,868	$23,187,553	$51,145,868	

[3] Oracle 2013 Proxy Statement on Form DEF14A, issued September 20, 2013, pg. 33.
[4] Oracle 2012 Proxy Statement on Form DEF14A, issued September 21, 2012, pg. 37.

HP	Multiple	$42,525,170	$29,465,175	$23,863,744	$30,412,776	$15,362,142	
Intel	Paul S. Otellini	$12,407,800	$14,581,900	$15,652,500	$17,491,900	$18,991,300	
IBM	Samuel J. Palmisano	$24,512,150	$24,313,795	$31,718,608	$31,798,918	$37,074,273	
Microsoft	Multiple	$7,643,713	$ 14,392,076	$7,354,016	$9,277,141	$10,683,671	
Accenture	William D. Green	$15,576,355	$20,625,253	$15,315,546	$16,104,847	$13,160,905	
Amazon	Multiple	$7,721,905	$1,781,840	$7,190,700	$1,681,840	$17,727,806	
Apple	Multiple	$27,087,310	$13,996,589	$59,092,572	$377,996,537	$85,540,637	
Dell	Multiple	$30,004,879	$12,855,294	$17,258,085	$10,119,091	$16,138,498	$13,896,912
eBay	John J. Donohue	$24,029,564	$10,132,748	$12,382,486	$16,456,528	$29,705,081	
EMC	Multiple	$6,255,954	$11,709,822	$12,436,161	$13,238,857	$17,675,554	
Qualcomm	Paul E. Jacobs	$18,567,015	$17,430,888	$17,626,939	$21,722,333	$20,730,873	
SAP	Multiple	$6,036,750	$9,602,436	$5,929,869	$8,539,656	$11,574,527	
Texas Instruments	Richard K. Templeton	$9,660,182	$9,865,657	$12,213,420	$14,055,767	$13,316,639	
	Average	*$21,331,859*	*$19,420,815*	*$21,853,529*	*$42,658,106*	*$29,167,259*	

Mr. Ellison's total compensation is far in excess of that of his peers nearly every year since 2008: only Tim Cook's large equity grant in 2011, when he succeeded to the CEO position at Apple follow Mr. Job's death, exceeds Mr. Ellison's pay, and only for that one year. Every year, Mr. Ellison has been paid far in excess of the average of Oracle's self-identified peers, typically receiving three or four times that average.

In this year's proxy statement, the Compensation Committee attempts to rebut criticisms of its pay practices by pointing out that the potential realizable value of these option grants fluctuate with Oracle's share price, such that at the end of fiscal 2013 (May 31, 2013), Mr. Ellison's 2013 grant was worth substantially less that the reported intrinsic value. However, as ISS noted last year, the effects of stock price changes on option-grant values cut both ways: during fiscal 2012 Mr. Ellison cashed in 2.2 million options with a grant date fair value of $6.2 million, but realized $31 million in proceeds from these transactions. We note that according to the proxy statement, Mr. Ellison cashed in a further 7.2 million options in fiscal 2013, realizing a gain of $151.4 million. Given that Oracle's share price declined by approximately 4% during its 2013 fiscal year, and that Mr. Ellison was able to cash in approximately one year's worth of options for much more than the reported grant-date intrinsic value from any past year, we suspect that whether calculated on a grant-date fair-value basis, or on a realized-value basis, Mr. Ellison's pay would be far in excess of his peer CEOs.

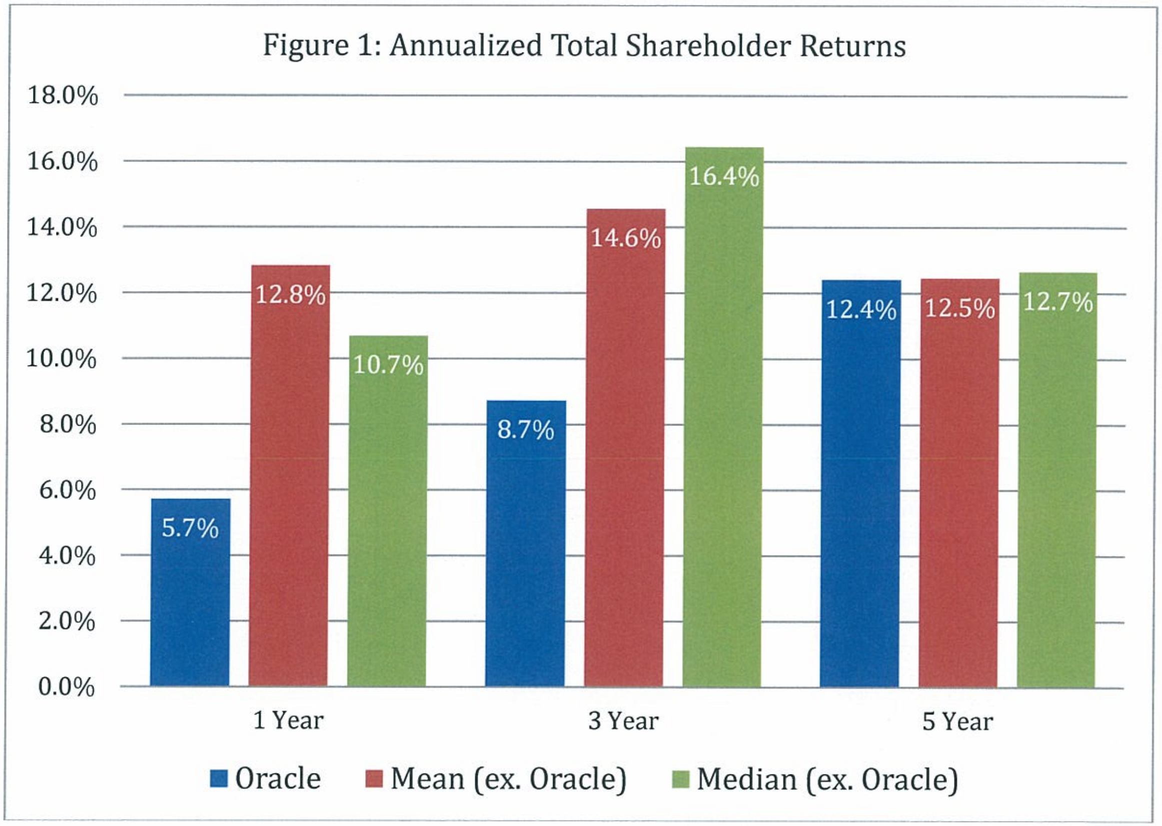
Extraordinary Pay Without Extraordinary Performance

Nor is the Compensation Committee's largess limited to Mr. Ellison: Oracle's other named executive officers both this year and in years past have received pay packages well in excess of their peers. Table 3 below shows that since 2008, Oracle has paid far more to its executives than the average of its peer group, and had paid more than every single peer each year except for Apple in 2011 and 2012.

Table 3: Oracle Top 5 Named Executive Officer Pay Compared to Peer Companies

Company	2008	2009	2010	2011	2012	2013
Oracle	*$165,361,304*	*$190,232,806*	*$182,911,077*	*$282,932,050*	*$252,979,118*	*$213,031,987*
Cisco	$54,871,074	$41,716,672	$65,414,585	$59,941,051	$36,332,877	
Google	$21,560,277	$81,587,139	$73,805,272	$160,780,759	$128,817,458	
HP	$138,147,199	$72,302,494	$59,616,676	$87,468,276	$65,190,130	
Intel	$31,066,400	$38,717,100	$51,958,100	$53,682,600	$81,970,600	
IBM	$50,473,457	$47,173,966	$58,716,023	$64,219,451	$88,215,656	
Microsoft	$28,105,951	$34,234,910	$33,034,802	$27,602,750	$33,601,092	
Accenture	$52,368,199	$51,229,714	$39,198,519	$49,094,616	$47,649,062	
Amazon	$26,070,155	$3,392,714	$28,825,745	$2,570,909	$51,291,918	
Apple	$63,076,052	$18,273,945	$178,017,228	$436,607,111	$295,988,615	
Dell	$63,659,836	$63,471,226	$34,251,614	$48,567,390	$64,266,470	$53,068,930
eBay	$65,215,703	$28,407,784	$40,398,121	$65,409,883	$63,625,937	
EMC	$24,552,315	$35,253,051	$36,933,822	$39,354,896	$84,234,124	
Qualcomm	$72,551,453	$53,518,646	$47,685,879	$58,656,911	$59,340,785	
SAP	$35,034,725	$49,992,691	$23,029,030	$31,427,347	$42,269,101	
Texas Instruments	$24,786,759	$25,595,964	$34,102,338	$37,841,579	$40,427,532	
Average	*$57,306,304*	*$52,193,801*	*$61,743,677*	*$94,134,849*	*$89,762,530*	

Such large rewards for executives could only be justified by truly extraordinary returns for shareholders. But far from outstripping its peers, Oracle has at best only matched the performance of the industry since 2008: Figure 1 illustrates the annualized total shareholder return for Oracle and its peer companies over the past year (to September 23, 2013), three year, and five year periods.



Far from outperforming its peers, Oracle's total shareholder returns only just matched the peer median and mean over the past five years, and have substantially lagged average peer performance over the past year and three years. This analysis strongly reinforces one of our central concerns with the use of stock options at Oracle: even performance that only matches the industry average will be rewarded with outsize gains for executives unless the options are indexed. Moreover, research has shown that "CEOs rewarded predominantly with stock options relative to restricted stock were more likely to make poor acquisitions, had more hits and misses that led to more volatile financial results, and were even identified as having more accounting irregularities."[5]

Additionally, we considered whether Oracle might be enjoying unusually large profits that for some reason the market has failed to reward: Figure 2 presents the total compensation paid to named executive officers as a percentage of reported net income for Oracle and its peers for each company's fiscal year from 2008-2012. For 2013, we note that Oracle's reported pay for its executives is 1.9% of fiscal 2013 net income, well above the mean and median of its peer group for every year reported below.

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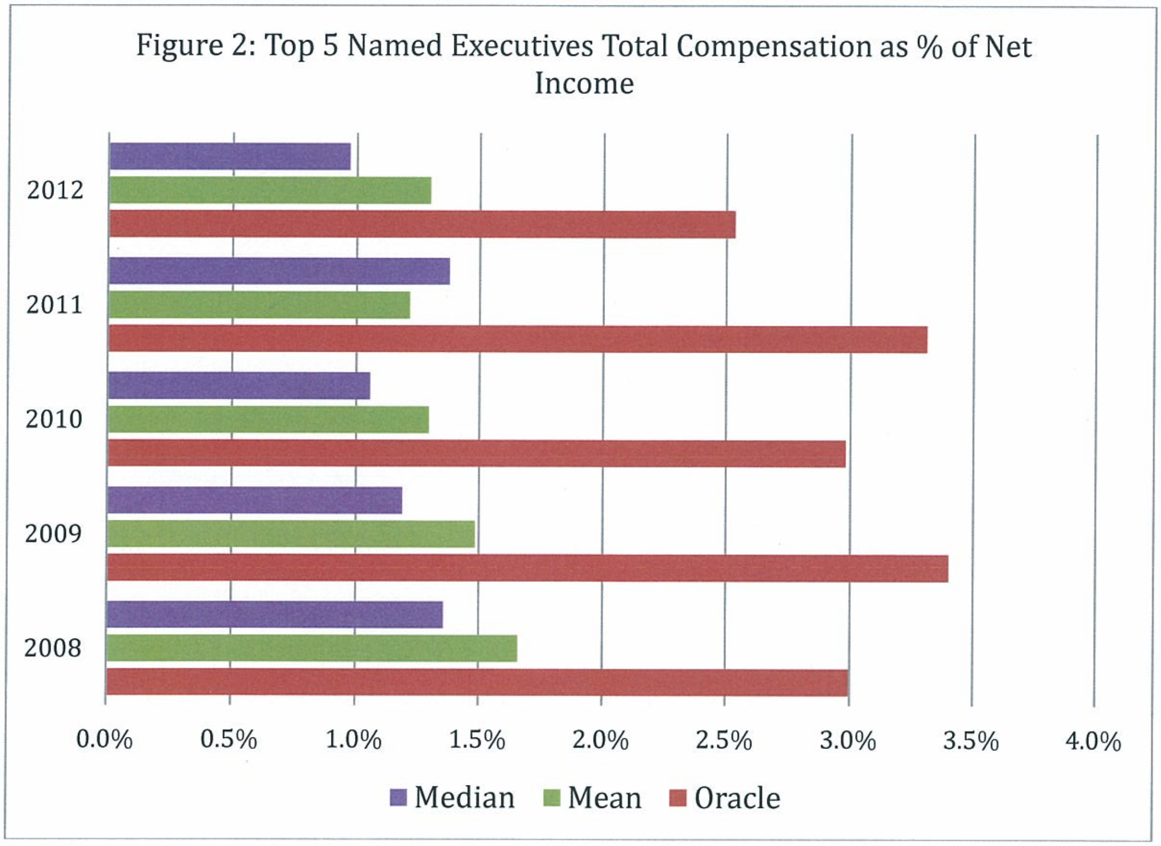
[5] Sydney Finkelstein, "Rethinking CEO Stock Options" Bloomberg Businessweek April 17, 2009.



We believe that this analysis suffices to demonstrate that, contrary to the Compensation Committee's assertions, Oracle's executive pay program has not been well aligned with either the company's underlying performance or its record for creating shareholder value.

Is Oracle Neglecting Human Capital Management?

Moreover, we are concerned that Oracle's excessive executive pay practices demonstrate a failure to properly manage human capital, which of course is an essential input into Oracle's products and services. Our concern is motivated by several facts. First, over the past year, there have been reports that important lower-level employees have been leaving Oracle in large numbers, such that Oracle President Mark V. Hurd felt compelled to assert on an analyst call in June that "our attrition rates are down." Nevertheless, reports of veteran salespeople leaving continued, culminating in the departure of 17 year veteran Tony Fernicola in August. Second, in contrast to its peer group, Oracle has not appeared as one Fortune magazine's "100 Best Companies to Work For in America", at least since 1998. Of the 15 peer companies Oracle identifies in its 2013 proxy, 9 have appeared at least twice on this list in the past decade and a half. While there may be an innocent explanation for this, we note that this particular list of employers has been shown to be strongly related to superior and surprising long-term shareholder returns, suggesting that it does reliably measure the effectiveness of human capital management.[6]

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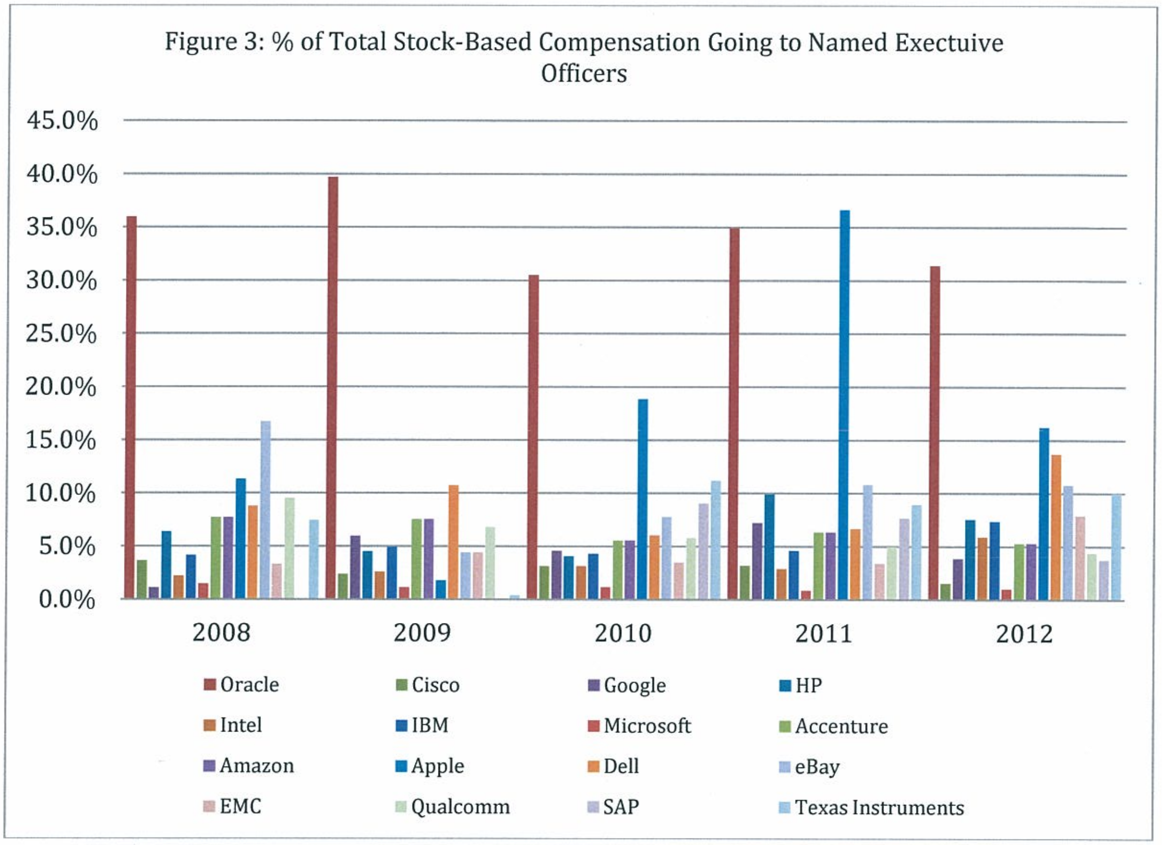
[6] Alex Edmans, "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices" *Journal of Financial Economics*; Alex Edmans, "The Link Between Job Satisfaction and Firm Value, With Implications for Corporate Social Responsibility" *Perspectives*, Academy of Management November 2012.

Finally, Oracle has a particularly top-heavy approach to equity grants: as Figure 3 shows, Oracle regularly grants over 1/3 of its total stock-based compensation to its top executives, far above its peers for every year other than Apple in 2011.



While we are willing to believe that stock-option grants can be an effective tool in motivating employees, we are convinced that they work best when distributed broadly across an organization, helping to sustain morale and commitment by giving a wide range of employees a clear stake in the company's success. We are concerned that the Compensation Committee has been too focused on rewarding top executives, and has not adequately considered the impact of its pay decisions throughout the company. In order to better focus the Committee's attention on the management of human capital throughout the company, we urge you to promptly begin disclosure of Oracle's CEO Pay Ratio, in a manner consistent with the draft of Rule 953b just issued by the SEC, and taking into account the role of equity grants to non-executive employees.

Finally, we note that despite quite explicit criticism from proxy analysts, Oracle has continued to provide significant perquisites to its executives, including over $1.5 million for a personal security detail for Mr. Ellison. We concur with ISS that "Given CEO Ellison's multi-million dollar pay package, it appears that he is adequately compensated to pay for his own personnel security and that additional cost should not be borne by shareholders."[7]

[7] ISS Report on Oracle Corporation, October 18, 2012, pg. 16.

Conclusion

Oracle's compensation practices have not been materially changed, nor has the Compensation Committee which approved the pay program that shareholders rejected last year. Instead of adopting changes such as tying the size of option grants to performance, capping the portion of the total equity pool going to named executive officers, issuing indexed options, or reducing reliance on stock options, Oracle's board and Compensation Committee has stubbornly refused to take shareholder criticisms to heart. As a result, we are calling on you and your fellow directors to commit now to the significant changes in compensation practices that you have failed to make over the past year. Barring such changes, we will oppose the Management Say on Pay resolution at this year's annual meeting, and may also oppose your re-election to the board as well as that of the other members of the Compensation Committee.

Sincerely,

Dieter Waizenegger
Executive Director, CtW Investment Group