Oracle's fiscal 3Q to provide gauge on technology

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Oracle's latest quarterly earnings should provide a peak at just how confident companies have become in the economy by their willingness to spend money on new technology.

WHAT TO WATCH FOR: The report, due out after the stock market closes Tuesday, covers Oracle's fiscal third quarter - a period spanning December through February. That coincided with the biggest three-month hiring spurt in the U.S. during the past two years. The trend could signal companies aren't as worried about the threat of another recession, encouraging them to increase spending in other areas.

That would be good news for Oracle Corp, which sells software and computer hardware to large companies and government agencies throughout the world.

Oracle stumbled in the quarter the ended in November, largely because several prospective customers decided to delay their purchases. The skittishness raised fears that companies were clamping down on their budgets as government debt problems in Europe threatened to topple a still-fragile economy.

Now that it looks like the economy is in better shape than it was three months ago, analysts and investors will be looking for any signs of other problems that could undercut Oracle's earnings growth. The concerns that Oracle could be grappling with issues that extend beyond the economy have grown since other business technology vendors such as

IBM Corp., VMware Inc. and EMC Corp., has posted solid results for their most recent quarters.

Oracle is facing tougher competition from longtime rival SAP, as well as from feisty upstarts such as Salesforce.com Inc. and Workday that are changing the way that companies buy and use software. Salesforce and Workday are among a crop of software makers that offer applications as a subscription service that can be accessed on any device with an Internet connection. The online approach to software, nicknamed "cloud computing," is a departure from the industry's long-established practice of licensing and installing applications on individual machines kept in the buyer's offices.

After initially dismissing cloud computing rivals as an inconsequential novelty, Oracle has started to invest heavily in the concept. Oracle completed a $1.5 billion acquisition of Salesforce.com rival RightNow Technologies in January and has proposed buying Workday rival Taleo Corp. in a $1.9 billion deal expected to close later this year. SAP also has hopped on the cloud-computing bandwagon with a $3.4 billion acquisition of SuccessFactors.

JMP Securities analyst Ross MacMillan isn't convinced Oracle's cloud-computing acquisitions will be enough to prevent a significant number of its customers from defecting to Salesforce.com and Workday. That's one of the reasons he recently lowered his price target on Oracle's stock from $35 to $32.

Oracle shares have been hovering around $30 so far this month.

Oracle can only hope its cloud-computing deals work out better than its $7.3 billion acquisition of Sun Microsystems Inc. By acquiring Sun's line of computer servers in 2010, Oracle hoped to create a one-stop shop for business software and hardware. So far, though, the idea hasn't been

widely embraced, partly because some companies don't want to become too dependent on Oracle for all their technology.

The expansion into computer hardware also has soured Oracle's relationship with IBM and Hewlett-Packard Co., which used to promote Oracle's software more enthusiastically. The situation with HP has gotten even worse since its former CEO, Mark Hurd, went to work for Oracle in 2010 after resigning from HP in an ethics scandal.

Coming off the earnings letdown at the end of last year, Oracle management set the bar low for the December-February period.

The company, which is based in Redwood Shores, Calif., warned its sales of new software licenses might be unchanged from the same time last year. At best, Oracle predicted its software sales would increase by 10 percent. New software licenses are closely watched by investors because they generate future revenue for maintenance and upgrades.

Oracle forecast its sales of hardware products would fall by 5 percent to 15 percent from last year.

WHY IT MATTERS: Oracle is the biggest maker of database software, which helps other companies organize information. It also sells many of the applications that help companies do everything from process their payroll to manage their relationships with their customers and partners.

WHAT'S EXPECTED: Analysts polled by FactSet expect earnings of 56 cents per share, excluding charges for past acquisitions and other costs, on revenue of $9.02 billion.

LAST YEAR'S QUARTER: In its fiscal third quarter last year, Oracle posted adjusted earnings of 54 cents per share on revenue of $8.76 billion.

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