ORACLE CORP
Form 10-Q
March 19, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended February 28, 2015

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________to ________

Commission File Number: 001-35992

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware	**54-2185193**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
500 Oracle Parkway **Redwood City, California** **(Address of principal executive offices)**	**94065** **(Zip Code)**

(650) 506-7000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of registrant s common stock outstanding as of March 12, 2015 was: 4,367,070,000.

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ORACLE CORPORATION

FORM 10-Q QUARTERLY REPORT

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Cautionary Note on Forward-Looking Statements

For purposes of this Quarterly Report, the terms Oracle, we, us and our refer to Oracle Corporation and its consolidated subsidiaries. This Quarterly Report on Form 10-Q contains statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or otherwise contain forward-looking statements within the meaning of Section 21 of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These include, among other things, statements regarding:

- our expectation to continue to acquire companies, products, services and technologies;
- our beliefs regarding our investments and innovations helping us achieve our long-term strategic plans;
- our expectation that our software and cloud business total revenues generally will continue to increase;
- our belief that software license updates and product support revenues and margins will grow;
- our expectation that our hardware business will have lower operating margins as a percentage of revenues than our software and cloud business;
- our international operations providing a significant portion of our total revenues and expenses;
- our expectation to continue to make significant investments in research and development and related product opportunities, including those related to hardware products and services, and our belief that research and development efforts are essential to maintaining our competitive position;
- the sufficiency of our sources of funding for acquisitions, dividends, stock repurchases and other matters;
- our belief that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits and that any tax settlement will not have a material adverse effect on our consolidated financial position or results of operations;
- our belief that the outcome of certain legal proceedings and claims to which we are a party will not, individually or in the aggregate, result in losses that are materially in excess of amounts already recognized, if any;
- our expectations regarding the timing and amount of expenses relating to the Fiscal 2015 Oracle Restructuring Plan and the improved efficiencies in our operations that such Plan will have;
- the timing and amount of our stock repurchases;

our expectation that to the extent customers renew support contracts or cloud software-as-a-service and platform-as-a-service contracts, we will recognize revenues for the full contracts values over the respective renewal periods;

our ability to predict quarterly hardware systems revenues;

the timing of customer orders and delays in our ability to manufacture or deliver a few large transactions substantially affecting the amount of hardware systems products revenues, expenses and operating margins that we will report;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may be preceded by, followed by or include the words expects, anticipates, intends, plans, believes, seeks, estimates, will, designed to and similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Risk Factors included in documents we file from time to time with the U.S. Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for our fiscal year ended May 31, 2014 and our other Quarterly Reports on Form 10-Q filed by us in our fiscal year 2015, which runs from June 1, 2014 to May 31, 2015.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this Quarterly Report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this Quarterly Report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

ORACLE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of February 28, 2015 and May 31, 2014

(Unaudited)

(in millions, except per share data)	February 28, 2015	May 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,701	$ 17,769
Marketable securities	30,076	21,050
Trade receivables, net of allowances for doubtful accounts of $258 and $306 as of February 28, 2015 and May 31, 2014, respectively	4,178	6,087
Inventories	285	189
Deferred tax assets	931	914
Prepaid expenses and other current assets	2,123	2,129
Total current assets	51,294	48,138
Non-current assets:		
Property, plant and equipment, net	3,335	3,061
Intangible assets, net	6,842	6,137
Goodwill	34,328	29,652
Deferred tax assets	674	837
Other assets	2,343	2,519
Total non-current assets	47,522	42,206
Total assets	$ 98,816	$ 90,344
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable, current	$ 1,999	$ 1,508
Accounts payable	626	471
Accrued compensation and related benefits	1,564	1,940
Income taxes payable	318	416
Deferred revenues	6,443	7,269
Other current liabilities	2,842	2,785
Total current liabilities	13,792	14,389
Non-current liabilities:		
Notes payable, non-current	30,258	22,667
Income taxes payable	4,297	4,184
Other non-current liabilities	1,937	1,657

Total non-current liabilities	36,492	28,508
Commitments and contingencies		
Oracle Corporation stockholders equity:		
Preferred stock, $0.01 par value authorized: 1.0 shares; outstanding: none		
Common stock, $0.01 par value and additional paid in capital authorized: 11,000 shares; outstanding: 4,373 shares and 4,464 shares as of February 28, 2015 and May 31, 2014, respectively	22,694	21,077
Retained earnings	26,165	25,965
Accumulated other comprehensive loss	(764)	(164)
Total Oracle Corporation stockholders equity	48,095	46,878
Noncontrolling interests	437	569
Total equity	48,532	47,447
Total liabilities and equity	$ 98,816	$ 90,344

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended February 28, 2015 and 2014

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions, except per share data)	**2015**	**2014**	**2015**	**2014**
Revenues:				
New software licenses	$ 1,982	$ 2,128	$ 5,397	$ 5,647
Cloud software-as-a-service and platform-as-a-service	372	287	1,069	800
Cloud infrastructure-as-a-service	155	121	448	327
Software license updates and product support	4,661	4,564	14,161	13,511
Software and cloud revenues	7,170	7,100	21,075	20,285
Hardware systems products	712	725	2,007	2,108
Hardware systems support	587	598	1,791	1,800
Hardware systems revenues	1,299	1,323	3,798	3,908
Services revenues	858	884	2,647	2,762
Total revenues	9,327	9,307	27,520	26,955
Operating expenses:				
Sales and marketing(1)	1,839	1,829	5,443	5,326
Cloud software-as-a-service and platform-as-a-service(1)	203	112	517	318
Cloud infrastructure-as-a-service(1)	88	76	254	224
Software license updates and product support(1)	300	286	867	860
Hardware systems products(1)	367	379	1,034	1,078
Hardware systems support(1)	218	207	628	630
Services(1)	724	715	2,179	2,194
Research and development	1,370	1,292	4,088	3,803
General and administrative	252	251	799	773
Amortization of intangible assets	527	560	1,642	1,732
Acquisition related and other	8	(5)	12	21
Restructuring	48	38	168	146
Total operating expenses	5,944	5,740	17,631	17,105
Operating income	3,383	3,567	9,889	9,850
Interest expense	(273)	(228)	(817)	(674)
Non-operating income (expense), net	40	(90)	65	(60)
Income before provision for income taxes	3,150	3,249	9,137	9,116
Provision for income taxes	655	684	1,956	1,807
Net income	$ 2,495	$ 2,565	$ 7,181	$ 7,309
Earnings per share:				
Basic	$ 0.57	$ 0.57	$ 1.63	$ 1.61

Diluted	$	0.56	$	0.56	$	1.59	$	1.58
Weighted average common shares outstanding:								
Basic		4,389		4,496		4,419		4,546
Diluted		4,494		4,575		4,516		4,616
Dividends declared per common share	$	0.12	$	0.12	$	0.36	$	0.36

(1) Exclusive of amortization of intangible assets, which is shown separately.

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended February 28, 2015 and 2014

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Net income	$ 2,495	$ 2,565	$ 7,181	$ 7,309
Other comprehensive loss, net of tax:				
Net foreign currency translation losses	(262)	(32)	(629)	(139)
Net unrealized gains on defined benefit plans	2	3	8	9
Net unrealized (losses) gains on marketable securities	(6)	8	15	(10)
Net unrealized (losses) gains on cash flow hedges	(30)	12	6	4
Total other comprehensive loss, net	(296)	(9)	(600)	(136)
Comprehensive income	$ 2,199	$ 2,556	$ 6,581	$ 7,173

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended February 28, 2015 and 2014

(Unaudited)

	Nine Months Ended February 28,	
(in millions)	**2015**	**2014**
Cash flows from operating activities:		
Net income	$ 7,181	$ 7,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	502	452
Amortization of intangible assets	1,642	1,732
Deferred income taxes	(486)	(307)
Stock-based compensation	689	583
Tax benefits on the exercise of stock options and vesting of restricted stock-based awards	284	288
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	(167)	(162)
Other, net	126	72
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	1,867	2,006
(Increase) decrease in inventories	(78)	20
Decrease in prepaid expenses and other assets	362	181
Decrease in accounts payable and other liabilities	(1,204)	(730)
Decrease in income taxes payable	(369)	(457)
Decrease in deferred revenues	(296)	(522)
Net cash provided by operating activities	10,053	10,465
Cash flows from investing activities:		
Purchases of marketable securities and other investments	(23,339)	(25,550)
Proceeds from maturities and sales of marketable securities and other investments	15,042	23,110
Acquisitions, net of cash acquired	(6,232)	(3,066)
Capital expenditures	(794)	(426)
Net cash used for investing activities	(15,323)	(5,932)
Cash flows from financing activities:		
Payments for repurchases of common stock	(6,079)	(7,841)
Proceeds from issuances of common stock	1,445	1,519
Payments of dividends to stockholders	(1,600)	(1,640)
Proceeds from borrowings, net of issuance costs	9,945	5,566
Repayments of borrowings	(1,500)	
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	167	162
Distributions to noncontrolling interests	(196)	(28)
Net cash provided by (used for) financing activities	2,182	(2,262)
Effect of exchange rate changes on cash and cash equivalents	(980)	(52)
Net (decrease) increase in cash and cash equivalents	(4,068)	2,219
Cash and cash equivalents at beginning of period	17,769	14,613
Cash and cash equivalents at end of period	$ 13,701	$ 16,832

Non-cash investing and financing transactions:		
Fair value of stock options and restricted stock-based awards assumed in connection with acquisitions	$ 12	$ 133
Increase (decrease) in unsettled repurchases of common stock	$ 8	$ (12)
Increase in unsettled investment purchases	$ 817	$ 479

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2015

(Unaudited)

1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

We have prepared the condensed consolidated financial statements included herein pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures herein are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014.

We believe that all necessary adjustments, which consisted only of normal recurring items, have been included in the accompanying financial statements to present fairly the results of the interim periods. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for our fiscal year ending May 31, 2015.

We adopted Accounting Standards Update (ASU) No. 2015-02, *Amendments to the Consolidation Analysis,* ASU 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*, ASU 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*, ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,* and ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* during the first nine months of fiscal 2015, none of which had an impact on our reported financial position or results of operations and cash flows. There have been no other significant changes in our reported financial position or results of operations and cash flows as a result of our adoption of other new accounting pronouncements or changes to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014.

Certain prior year balances have been reclassified to conform to the current year s presentation. Such reclassifications did not affect our consolidated total revenues, consolidated operating income or consolidated net income.

Acquisition Related and Other Expenses

Acquisition related and other expenses consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments including adjustments after the measurement period has ended and certain other operating items, net. Stock-based compensation included in acquisition related and other expenses resulted from unvested options and restricted stock-based awards assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those options and restricted stock-based awards.

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Transitional and other employee related costs	$ 14	$ 7	$ 46	$ 17
Stock-based compensation	1		5	4
Professional fees and other, net	(7)	2	(39)	15
Business combination adjustments, net		(14)		(15)
Total acquisition related and other expenses	$ 8	$ (5)	$ 12	$ 21

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2015

(Unaudited)

Included in acquisition related and other expenses during the nine months ended February 28, 2015 is a $53 million benefit related to certain litigation (refer to Note 14 of Notes to Condensed Consolidated Financial Statements included in our Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2014 for additional information).

Non-Operating Income (Expense), net

Non-operating income (expense), net consists primarily of interest income, net foreign currency exchange gains (losses), the noncontrolling interests in the net profits of our majority-owned subsidiaries (primarily Oracle Financial Services Software Limited and Oracle Japan) and net other income (losses), including net realized gains and losses related to all of our investments and net unrealized gains and losses related to the small portion of our investment portfolio that we classify as trading.

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Interest income	$ 82	$ 67	$ 250	$ 189
Foreign currency losses, net	(32)	(148)	(105)	(226)
Noncontrolling interests in income	(17)	(23)	(100)	(75)
Other income, net	7	14	20	52
Total non-operating income (expense), net	$ 40	$ (90)	$ 65	$ (60)

Included in foreign currency losses, net for the fiscal 2015 periods presented was a foreign currency remeasurement loss of $23 million related to our Venezuelan subsidiary due to the continued highly inflationary designation of the Venezuelan economy in accordance with ASC 830, *Foreign Currency Matters*; the introduction of currency exchange legislation in Venezuela in February 2015 to create a new foreign exchange mechanism known as SIMADI; and the remeasurement of certain assets and liabilities of our Venezuelan subsidiary pursuant to the SIMADI rate, which we determined, based upon our specific facts and circumstances, was the most appropriate for the reporting of our Venezuelan subsidiary s Bolivar based transactions and net monetary assets in U.S. Dollars. We incurred a $111 million loss during the fiscal 2014 periods presented for generally similar reasons (refer to our Annual Report on Form 10-K for the year ended May 31, 2014 for additional discussion).

Sales of Financing Receivables

We offer certain of our customers the option to acquire our software products, hardware systems products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed for our customers on a non-recourse basis to financial institutions within 90 days of the contracts dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financing receivables because we are considered to have surrendered control of these financing receivables. Financing receivables sold to financial institutions were $415 million and $1.3 billion for the three and nine months ended February 28, 2015, respectively, and $529 million and $1.6 billion for the three and nine months ended February 28, 2014, respectively.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2015

(Unaudited)

Recent Accounting Pronouncements

Revenue Recognition: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us in our first quarter of fiscal 2018 using either of two methods: (i) retrospective application of ASU 2014-09 to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective application of ASU 2014-09 with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

2. ACQUISITIONS
Acquisition of MICROS Systems, Inc.

On June 22, 2014, we entered into an Agreement and Plan of Merger (Merger Agreement) with MICROS Systems, Inc. (MICROS), a provider of integrated software, hardware and services solutions to the hospitality and retail industries. On July 3, 2014, pursuant to the Merger Agreement, we commenced a tender offer to purchase all of the issued and outstanding shares of common stock of MICROS at a purchase price of $68.00 per share, net to the holder in cash, without interest thereon, based upon the terms and subject to the conditions set forth in the Merger Agreement. Between September 3, 2014 and September 8, 2014, pursuant to the terms of the tender offer, we accepted and paid for the substantial majority of outstanding shares of MICROS common stock. On September 8, 2014, we effectuated the merger of MICROS with and into a wholly-owned subsidiary of Oracle pursuant to the terms of the Merger Agreement and applicable Maryland law and MICROS became an indirect, wholly-owned subsidiary of Oracle. Pursuant to the merger, shares of MICROS common stock that remained outstanding and were not acquired by us were converted into, and cancelled in exchange for, the right to receive $68.00 per share in cash. The unvested equity awards to acquire MICROS common stock that were outstanding immediately prior to the conclusion of the merger were converted into equity awards denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. We acquired MICROS to, among other things, expand our software and cloud, hardware and related services offerings for hotels, food and beverage industries, facilities, and retailers. We have included the financial results of MICROS in our consolidated financial statements from the date of acquisition.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2015

(Unaudited)

Pursuant to our business combinations accounting policy, we estimated the preliminary fair values of net tangible and intangible assets acquired and the excess of the consideration transferred over the aggregate of such fair values was recorded as goodwill. The preliminary fair values of net tangible assets and intangible assets acquired were based upon preliminary valuations and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas that remain preliminary relate to the fair values of intangible assets acquired, certain tangible assets and liabilities acquired, certain legal matters, income and non-income based taxes and residual goodwill. We expect to continue to obtain information to assist us in determining the fair values of the net assets acquired during the measurement period. The following table summarizes the estimated preliminary fair values of net assets acquired from MICROS:

(in millions)		
Cash and cash equivalents	$	675
Trade receivables, net		181
Inventories		32
Goodwill		3,327
Intangible assets		1,966
Other assets		148
Accounts payable and other liabilities		(343)
Deferred tax liabilities, net		(614)
Deferred revenues		(125)
Total	$	5,247

We do not expect the goodwill recognized as a part of the MICROS acquisition to be deductible for income tax purposes.

Other Fiscal 2015 Acquisitions

During the first nine months of fiscal 2015, we acquired certain other companies primarily to expand our products and services offerings. These acquisitions were not individually significant. We have included the financial results of these companies in our consolidated financial statements from their respective acquisition dates and the results from each of these companies were not individually material to our consolidated financial statements. In the aggregate, the total preliminary purchase price for these acquisitions was approximately $1.7 billion, which consisted of approximately $1.7 billion in cash and $7 million for the fair value of stock options and restricted stock-based awards assumed. We have preliminarily recorded $17 million of net tangible assets and $381 million of identifiable intangible assets, based on their estimated fair values, and $1.3 billion of residual goodwill.

The initial purchase price calculation and related accounting for our acquisitions completed during the first nine months of fiscal 2015 is preliminary. The preliminary fair value estimates for the assets acquired and liabilities assumed for our acquisitions completed during the first nine months of fiscal 2015 were based upon preliminary calculations and valuations and our estimates and assumptions for these acquisitions are subject to change as we obtain additional information during the respective measurement periods (up to one year from the respective acquisition dates). The primary areas of those preliminary estimates that are not yet finalized relate to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters and income and non-income based taxes.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2015

(Unaudited)

Fiscal 2014 Acquisitions

Acquisition of Responsys, Inc.

On February 6, 2014, we completed our acquisition of Responsys, Inc. (Responsys), a provider of enterprise-scale cloud-based business-to-consumer marketing software. We have included the financial results of Responsys in our consolidated financial statements from the date of acquisition. The total purchase price for Responsys was approximately $1.6 billion, which consisted of approximately $1.4 billion in cash and $147 million for the fair value of stock options and restricted stock-based awards assumed. We have recorded $32 million of net tangible liabilities, related primarily to deferred tax liabilities, $580 million of identifiable intangible assets, and $14 million of in-process research and development, based on their estimated fair values, and $1.0 billion of residual goodwill.

Other Fiscal 2014 Acquisitions

During fiscal 2014, we acquired certain other companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not individually significant. We have included the financial results of these companies in our consolidated financial statements from their respective acquisition dates and the results from each of these companies were not individually material to our consolidated financial statements. In the aggregate, the total purchase price for these acquisitions was approximately $2.3 billion, which consisted primarily of cash consideration, and we recorded $238 million of net tangible liabilities, related primarily to deferred tax liabilities, $1.1 billion of identifiable intangible assets, and $99 million of in-process research and development, based on their estimated fair values, and $1.3 billion of residual goodwill.

The initial purchase price calculation and related accounting for certain of our fiscal 2014 acquisitions is preliminary. The preliminary fair value estimates for the assets acquired and liabilities assumed for certain of our acquisitions completed during fiscal 2014 were based upon preliminary calculations and valuations and our estimates and assumptions for certain of these acquisitions are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the respective acquisition dates). The primary areas of those preliminary estimates that are not yet finalized relate to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters and income and non-income based taxes.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, MICROS, Responsys, and certain other companies that we acquired since the beginning of fiscal 2014 (which were considered relevant for the purposes of unaudited pro forma financial information disclosure) as though the companies were combined as of the beginning of fiscal 2014. The pro forma financial information for all periods presented also included the business combination accounting effects resulting from these acquisitions, including our amortization charges from acquired intangible assets (certain of which are preliminary), stock-based compensation charges for unvested stock options and restricted stock-based awards assumed, if any, and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2014. The pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2014.

The unaudited pro forma financial information for the three and nine months ended February 28, 2015 combined the historical results of Oracle for the three and nine months ended February 28, 2015, the historical results of MICROS for the six months ended June 30, 2014 (adjusted due to differences in reporting periods and considering the date we acquired MICROS), the historical results of certain other companies that we acquired

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2015

(Unaudited)

since the beginning of fiscal 2015 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above.

The unaudited pro forma financial information for the three and nine months ended February 28, 2014 combined the historical results of Oracle for the three and nine months ended February 28, 2014, the historical results of MICROS for the three and nine months ended March 31, 2014 (due to differences in reporting periods), the historical results of Responsys for the three and nine months ended September 30, 2013 (adjusted due to differences in reporting periods and considering the date we acquired Responsys), the historical results of certain other companies that we acquired since the beginning of fiscal 2014 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above.

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions, except per share data)	**2015**	**2014**	**2015**	**2014**
Total revenues	$ 9,347	$ 9,736	$ 27,994	$ 28,256
Net income	$ 2,459	$ 2,520	$ 7,128	$ 7,141
Basic earnings per share	$ 0.56	$ 0.56	$ 1.61	$ 1.57
Diluted earnings per share	$ 0.55	$ 0.55	$ 1.58	$ 1.55

3. FAIR VALUE MEASUREMENTS

We perform fair value measurements in accordance with ASC 820, *Fair Value Measurement*. ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at their fair values, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the assets or liabilities, such as inherent risk, transfer restrictions and risk of nonperformance.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset s or a liability s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following (Level 1 and 2 inputs are defined above):

	February 28, 2015 Fair Value Measurements Using Input Types			May 31, 2014 Fair Value Measurements Using Input Types		
(in millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
U.S. Treasury securities	$ 515	$	$ 515	$	$	$
Commercial paper debt securities		5,401	5,401		7,969	7,969
Corporate debt securities and other	180	25,586	25,766	119	16,538	16,657
Derivative financial instruments		60	60		97	97
Total assets	$ 695	$ 31,047	$ 31,742	$ 119	$ 24,604	$ 24,723
Liabilities:						
Derivative financial instruments	$	$ 203	$ 203	$	$	$

Our marketable securities investments consisted of Tier 1 commercial paper debt securities, corporate debt securities and certain other securities. As of February 28, 2015 and May 31, 2014, approximately 34% and 45%, respectively, of our marketable securities investments mature within one year and 66% and 55%, respectively, mature within one to six years. Our valuation techniques used to measure the fair values of our marketable securities that were classified as Level 1 in the table above were derived from quoted market prices and active markets for these instruments exist. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others.

Based on the trading prices of our $32.3 billion and $24.2 billion of borrowings, which consisted of senior notes that were outstanding as of February 28, 2015 and May 31, 2014, respectively, the estimated fair values of our borrowings using Level 2 inputs at February 28, 2015 and May 31, 2014 were $35.3 billion and $26.4 billion, respectively.

4. INVENTORIES

Inventories consisted of the following:

(in millions)	February 28, 2015	May 31, 2014

Raw materials	$ 95	$ 74
Work-in-process	65	28
Finished goods	125	87
Total	$ 285	$ 189

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5. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2015 and the net book value of intangible assets at February 28, 2015 and May 31, 2014 were as follows:

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted
(Dollars in millions)	May 31, 2014	Additions[1]	February 28, 2015	May 31, 2014	Expense	February 28, 2015	May 31, 2014	February 28, 2015	Average Useful Life[2]
Software support agreements and related relationships	$ 5,218	$ 948	$ 6,166	$ (4,403)	$ (412)	$ (4,815)	$ 815	$ 1,351	14 years
Hardware systems support agreements and related relationships	969	66	1,035	(530)	(109)	(639)	439	396	8 years
Developed technology	4,387	873	5,260	(2,176)	(526)	(2,702)	2,211	2,558	9 years
Core technology	1,617		1,617	(1,294)	(147)	(1,441)	323	176	N.A.
Customer relationships and contract backlog	2,054	160	2,214	(1,459)	(237)	(1,696)	595	518	5 years
SaaS, PaaS and IaaS agreements and related relationships and other	1,789	227	2,016	(305)	(150)	(455)	1,484	1,561	11 years
Trademarks	516	103	619	(276)	(61)	(337)	240	282	18 years
Total intangible assets subject to amortization	16,550	2,377	18,927	(10,443)	(1,642)	(12,085)	6,107	6,842	11 years
In-process research and development	30	(30)					30		N.A.
Total intangible assets, net	$ 16,580	$ 2,347	$ 18,927	$ (10,443)	$ (1,642)	$ (12,085)	$ 6,137	$ 6,842	

[1] The substantial majority of intangible assets acquired during fiscal 2015 related to our acquisition of MICROS.

[2] Represents weighted average useful lives of intangible assets acquired during fiscal 2015.

Total amortization expense related to our intangible assets was $527 million and $1.6 billion for the three and nine months ended February 28, 2015, respectively, and $560 million and $1.7 billion for the three and nine months ended February 28, 2014, respectively. As of February 28, 2015, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of Fiscal 2015	$ 491
Fiscal 2016	1,601
Fiscal 2017	976
Fiscal 2018	831
Fiscal 2019	725
Fiscal 2020	574
Thereafter	1,644
Total intangible assets, net	$ 6,842

The changes in the carrying amounts of goodwill, which is generally not deductible for tax purposes, for our operating segments for the nine months ended February 28, 2015 were as follows:

(in millions)	New Software Licenses and Cloud Software Subscriptions	Software License Updates and Product Support	Hardware Systems Support	Other[2]	Total
Balances as of May 31, 2014	$ 13,139	$ 12,472	$ 2,082	$ 1,959	$ 29,652
Goodwill from acquisitions	1,310	15		3,335	4,660
Goodwill adjustments[1]		(2)	19	(1)	16
Balances as of February 28, 2015	$ 14,449	$ 12,485	$ 2,101	$ 5,293	$ 34,328

(1) Pursuant to our business combinations accounting policy, we recorded goodwill adjustments for the effect on goodwill of changes to net assets acquired during the measurement period (up to one year from the date of an acquisition). Goodwill adjustments were not significant to our previously reported operating results or financial position.

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(2) Represents goodwill allocated to our other operating segments and, as of February 28, 2015, approximately $3.3 billion of goodwill for certain of our acquisitions that will be allocated based upon the finalization of valuations, including for MICROS.

6. NOTES PAYABLE AND OTHER BORROWINGS

Senior Notes

In July 2014, we issued $10.0 billion of senior notes comprised of $1.0 billion of floating rate notes due July 2017 (2017 Notes), $750 million of floating rate notes due October 2019 (2019 Floating Rate Notes), $2.0 billion of 2.25% notes due October 2019 (2019 Notes), $1.5 billion of 2.80% notes due July 2021 (2021 Notes), $2.0 billion of 3.40% notes due July 2024 (2024 Notes), $1.75 billion of 4.30% notes due July 2034 (2034 Notes) and $1.0 billion of 4.50% notes due July 2044 (2044 Notes and, together with the 2017 Notes, 2019 Floating Rate Notes, 2019 Notes, 2021 Notes, 2024 Notes and 2034 Notes, the Senior Notes). The floating rate notes bear interest at a floating rate equal to three-month LIBOR plus 0.20% for the 2017 Notes and 0.51% for the 2019 Floating Rate Notes (0.45% and 0.76% as of February 28, 2015, respectively) with interest payable quarterly. We issued the Senior Notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock, our acquisition of MICROS and future acquisitions, and repayment of indebtedness.

The effective interest yields of the 2019 Notes, 2021 Notes, 2024 Notes, 2034 Notes and 2044 Notes (collectively, the Fixed Rate Senior Notes) at February 28, 2015 were 2.27%, 2.82%, 3.43%, 4.30% and 4.50%, respectively, and interest is payable semi-annually. In July 2014, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with the 2019 Notes and 2021 Notes so that the interest payable on these notes effectively became variable based on LIBOR (0.74% and 0.88%, respectively, at February 28, 2015; see Note 9 for additional information). We may redeem some or all of the Fixed Rate Senior Notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances. The 2017 Notes and 2019 Floating Rate Notes may not be redeemed prior to their maturity.

The Senior Notes rank pari passu with any other notes we may issue in the future pursuant to our commercial paper program and all existing and future unsecured senior indebtedness of Oracle Corporation (see Note 8 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014 for further information on our commercial paper program and other borrowings). All existing and future liabilities of the subsidiaries of Oracle Corporation are or will be effectively senior to the Senior Notes and any future issuances of commercial paper notes. We were in compliance with all debt-related covenants at February 28, 2015.

In July 2014, our 3.75% senior notes due July 2014 (2014 Notes) for $1.5 billion matured and were repaid, and we settled the fixed to variable interest rate swap agreements associated with such fixed rate senior notes.

There have been no other significant changes in our notes payable or other borrowing arrangements that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014.

7. RESTRUCTURING ACTIVITIES

Fiscal 2015 Oracle Restructuring Plan

During the second quarter of fiscal 2015, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations due to our acquisition of MICROS and certain other operational activities (2015 Restructuring Plan). The total estimated restructuring costs associated with the 2015 Restructuring Plan are up to $626 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are incurred. We recorded $61 million of restructuring expenses in

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connection with the 2015 Restructuring Plan in the first nine months of fiscal 2015 and we expect to incur the majority of the estimated remaining $565 million through the end of fiscal 2016. Any changes to the estimates of executing the 2015 Restructuring Plan will be reflected in our future results of operations.

Fiscal 2013 Oracle Restructuring Plan

During the first quarter of fiscal 2013, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations (2013 Restructuring Plan). Restructuring costs associated with the 2013 Restructuring Plan were recorded to the restructuring expense line item within our consolidated statements of operations as they were incurred. We recorded $118 million of restructuring expenses in connection with the 2013 Restructuring Plan in the first nine months of fiscal 2015. Actions pursuant to the 2013 Restructuring Plan were substantially complete as of February 28, 2015.

Summary of All Plans

(in millions)	Accrued May 31, 2014[2]	Nine Months Ended February 28, 2015 Initial Costs[3]	Adj. to Cost[4]	Cash Payments	Others[5]	Accrued February 28, 2015[2]	Total Costs Accrued to Date	Total Expected Program Costs
Fiscal 2015 Oracle Restructuring Plan[1]								
New software licenses and cloud software subscriptions	$	$ 13	$ 1	$ (6)	$	$ 8	$ 14	$ 110
Software license updates and product support		4		(1)		3	4	209
Hardware systems business		10		(2)	(1)	7	10	65
Services		10	1	(4)		7	11	101
General and administrative and other		22		(16)		6	22	141
Total Fiscal 2015 Oracle Restructuring Plan	$	$ 59	$ 2	$ (29)	$ (1)	$ 31	$ 61	$ 626
Total Fiscal 2013 Oracle Restructuring Plan[6]	$ 61	$ 128	$ (10)	$ (130)	$ (10)	$ 39		
Total other restructuring plans[6]	$ 108	$ 7	$ (18)	$ (33)	$	$ 64		
Total restructuring plans	$ 169	$ 194	$ (26)	$ (192)	$ (11)	$ 134		

(1) Restructuring costs recorded for individual line items primarily related to employee severance costs.

(2) The balances at February 28, 2015 and May 31, 2014 included $93 million and $100 million, respectively, recorded in other current liabilities, and $41 million and $69 million, respectively, recorded in other non-current liabilities.

(3) Costs recorded for the respective restructuring plans during the current period presented.

(4) All plan adjustments were changes in estimates whereby increases and decreases in costs were generally recorded to operating expenses in the period of adjustments.

(5) Represents foreign currency translation and certain other adjustments.

(6) Other restructuring plans presented in the table above included condensed information for other Oracle-based plans and other plans associated with certain of our acquisitions whereby we continued to make cash outlays to settle obligations under these plans during the period presented but for which the current impact to our consolidated statements of operations was not significant.

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8. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	February 28, 2015	May 31, 2014
Software license updates and product support	$ 5,188	$ 5,909
Hardware systems support and other	514	664
Services	316	364
Cloud SaaS, PaaS and IaaS	321	248
New software licenses	104	84
Deferred revenues, current	6,443	7,269
Deferred revenues, non-current (in other non-current liabilities)	435	404
Total deferred revenues	$ 6,878	$ 7,673

Deferred software license updates and product support revenues and deferred hardware systems support revenues represent customer payments made in advance for support contracts that are typically billed on a per annum basis in advance with corresponding revenues being recognized ratably over the support periods. Deferred services revenues include prepayments for our services business and revenues for these services are generally recognized as the services are performed. Deferred cloud software-as-a-service (SaaS), platform-as-a-service (PaaS) and infrastructure-as-a-service (IaaS) revenues generally result from our cloud-based offerings that are typically billed in advance and recognized over the corresponding contractual term. Deferred new software licenses revenues typically result from undelivered products or specified enhancements, customer specific acceptance provisions, customer payments made in advance for time-based license arrangements and software license transactions that cannot be separated from undelivered consulting or other services.

In connection with our acquisitions, we have estimated the fair values of the cloud SaaS and PaaS, software license updates and product support, and hardware systems support obligations, among others, assumed from our acquired companies. We generally have estimated the fair values of these obligations assumed using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume these acquired obligations. These aforementioned fair value adjustments recorded for obligations assumed from our acquisitions reduced the cloud SaaS and PaaS, software license updates and product support and hardware systems support deferred revenues balances that we recorded as liabilities from these acquisitions and also reduced the resulting revenues that we recognized or will recognize over the terms of the acquired obligations during the post-combination periods.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value Hedges Interest Rate Swap Agreements

In July 2014, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with our 2019 Notes and 2021 Notes so that the interest payable on these senior notes effectively became variable based on LIBOR. In July 2013, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with our $1.5 billion of 2.375% senior notes due January 2019 (January 2019 Notes) so that the interest payable on these senior notes effectively became variable based on LIBOR. The critical terms of the interest rate swap agreements match the critical terms of the 2019 Notes, 2021 Notes and the January 2019 Notes that the interest rate swap agreements pertain to, including the notional amounts and maturity dates.

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We have designated the aforementioned interest rate swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges pursuant to ASC 815, *Derivatives and Hedging* (ASC 815). These transactions are characterized as fair value hedges for financial accounting purposes because they protect us against changes in the fair values of certain of our fixed rate borrowings due to benchmark interest rate movements. The changes in fair values of these interest rate swap agreements are recognized as interest expense in our consolidated statements of operations with the corresponding amounts included in other assets or other non-current liabilities in our consolidated balance sheets. The amount of net gain (loss) attributable to the risk being hedged is recognized as interest expense in our consolidated statements of operations with the corresponding amount included in notes payable, non-current. The periodic interest settlements for the interest rate swap agreements for the 2019 Notes, 2021 Notes and the January 2019 Notes are recorded as interest expense and are included as a part of cash flows from operating activities.

In July 2014, we settled the fixed to variable interest rate swap agreements associated with the 2014 Notes. We do not use any interest rate swap agreements for trading purposes.

Cash Flow Hedges Cross Currency Swap Agreements

In connection with the issuance of our 1.25 billion of 2.25% senior notes due January 2021 (January 2021 Notes), we entered into certain cross-currency swap agreements to manage the related foreign currency exchange risk by effectively converting the fixed-rate, Euro denominated January 2021 Notes, including the annual interest payments and the payment of principal at maturity, to fixed-rate, U.S. Dollar denominated debt. The economic effect of the swap agreements was to eliminate the uncertainty of the cash flows in U.S. Dollars associated with the January 2021 Notes by fixing the principal amount of the January 2021 Notes at $1.6 billion with a fixed annual interest rate of 3.53%. We have designated these cross-currency swap agreements as qualifying hedging instruments and are accounting for these as cash flow hedges pursuant to ASC 815. The critical terms of the cross-currency swap agreements correspond to the January 2021 Notes, including the annual interest payments being hedged, and the cross-currency swap agreements mature at the same time as the January 2021 Notes.

We used the hypothetical derivative method to measure the effectiveness of our cross-currency swap agreements. The fair values of these cross-currency swap agreements are recognized as other assets or other non-current liabilities in our consolidated balance sheets. The effective portions of the changes in fair values of these cross-currency swap agreements are reported in accumulated other comprehensive loss in our consolidated balance sheets and an amount is reclassified out of accumulated other comprehensive loss into non-operating income (expense), net in the same period that the carrying value of the Euro denominated January 2021 Notes is remeasured and the interest expense is recognized. The ineffective portion of the unrealized gains and losses on these cross-currency swaps, if any, is recorded immediately to non-operating income (expense), net. We evaluate the effectiveness of our cross-currency swap agreements on a quarterly basis. We did not record any ineffectiveness for the nine months ended February 28, 2015. The cash flows related to the cross-currency swap agreements that pertain to the periodic interest settlements are classified as operating activities and the cash flows that pertain to the principal balance are classified as financing activities.

We do not use any cross-currency swap agreements for trading purposes.

Net Investment Hedge Foreign Currency Borrowings

In July 2013, we designated our 750 million of 3.125% senior notes due July 2025 (2025 Notes) as a net investment hedge of our investments in certain of our international subsidiaries that use the Euro as their functional currency in order to reduce the volatility in stockholders equity caused by the changes in foreign currency exchange rates of the Euro with respect to the U.S. Dollar.

We used the spot method to measure the effectiveness of our net investment hedge. Under this method, for each reporting period, the change in the carrying value of the Euro denominated 2025 Notes due to remeasurement of

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the effective portion is reported in accumulated other comprehensive loss on our consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, is recognized in non-operating income (expense), net in our consolidated statements of operations. We evaluate the effectiveness of our net investment hedge at the beginning of every quarter. We did not record any ineffectiveness for the nine months ended February 28, 2015.

Foreign Currency Forward Contracts Not Designated as Hedges

We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effects of certain foreign currency exposures. We neither use these foreign currency forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to ASC 815 (refer to Note 11 of Notes to Consolidated Financial Statements as included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014 for additional information regarding these contracts). As of February 28, 2015 and May 31, 2014, respectively, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were $3.2 billion and $3.6 billion, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were $1.3 billion and $2.0 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at February 28, 2015 and May 31, 2014. Included in our non-operating income (expense), net were $14 million and $49 million of net gains related to these forward contracts for the three and nine months ended February 28, 2015, respectively, and $5 million and $(4) million of net gains (losses) for the three and nine months ended February 28, 2014, respectively. The cash flows related to these foreign currency contracts are classified as operating activities.

The effects of derivative and non-derivative instruments designated as hedges on certain of our consolidated financial statements were as follows as of or for each of the respective periods presented below (amounts presented exclude any income tax effects):

Fair Values of Derivative and Non-Derivative Instruments Designated as Hedges in Condensed Consolidated Balance Sheets

	February 28, 2015		May 31, 2014	
(in millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swap agreements designated as fair value hedges	Other assets	$ 60	Other assets	$ 15
Interest rate swap agreements designated as fair value hedges	Not applicable	$	Prepaid expenses and other current assets	$ 8
Cross-currency swap agreements designated as cash flow hedges	Other non-current liabilities	$ (203)	Other assets	$ 74
Foreign currency borrowings designated as net investment hedge	Notes payable, non-current	$ (1,024)	Notes payable, non-current	$ (1,116)

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Effects of Derivative and Non-Derivative Instruments Designated as Hedges on Income and Other Comprehensive Income (OCI) or Loss (OCL)

	Amount of (Loss) Gain Recognized in Accumulated OCI or OCL (Effective Portion)				Location and Amount of (Loss) Gain Reclassified from Accumulated OCI or OCL into Income (Effective Portion)				
	Three Months Ended February 28,		Nine Months Ended February 28,			Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	2015	2014	2015	2014		2015	2014	2015	2014
Cross-currency swap agreements designated as cash flow hedges	$ (164)	$ 36	$ (277)	$ 84	Non-operating income (expense), net	$ (134)	$ 24	$ (283)	$ 80
Foreign currency borrowings designated as net investment hedge	$ 80	$ (14)	$ 169	$ (41)	Not applicable	$	$	$	$

	Location and Amount of Gain (Loss) Recognized in Income on Derivative					Location and Amount of (Loss) Gain on Hedged Item Recognized in Income Attributable to Risk Being Hedged				
		Three Months Ended February 28,		Nine Months Ended February 28,			Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)		2015	2014	2015	2014		2015	2014	2015	2014
Interest rate swap agreements designated as fair value hedges	Interest expense	$ 15	$ (13)	$ 37	$ (14)	Interest expense	$ (15)	$ 13	$ (37)	$ 14

10. STOCKHOLDERS EQUITY

Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 18, 2014, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional $13.0 billion. Approximately $11.2 billion remained available for stock repurchases as of February 28, 2015, pursuant to our stock repurchase program. We repurchased 147.7 million shares for $6.1 billion during the nine months ended February 28, 2015 (including 2.3 million shares for $102 million that were repurchased but not settled) and 231.4 million shares for $7.8 billion during the nine months ended February 28, 2014 under the stock repurchase program.

Our stock repurchase authorization does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our cash requirements for acquisitions and dividend payments, our debt repayment obligations or repurchase of our debt, our stock price, and economic and market conditions. Our stock repurchases may be effected from time to time through open market purchases or pursuant to a Rule 10b5-1 plan. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

Dividends on Common Stock

During the nine months ended February 28, 2015, our Board of Directors declared cash dividends of $0.36 per share of our outstanding common stock, which we paid during the same period.

In March 2015, our Board of Directors declared a quarterly cash dividend of $0.15 per share of our outstanding common stock, an increase of $0.03 per share over the prior period dividend. The dividend is payable on April 28, 2015 to stockholders of record as of the close of business on April 7, 2015. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Stock-Based Compensation Expense and Valuations of Stock Awards

During the first nine months of fiscal 2015, we issued 36 million stock options and 26 million restricted stock-based awards, which primarily included awards issued as a part of our annual stock-based award process and awards from companies that we have acquired, that were subject to service-based vesting restrictions. Included in the aforementioned restricted stock-based award total were 3 million of performance-based restricted stock units (PSUs) that vest upon the

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attainment of certain performance metrics and service-based vesting. Based upon actual attainment relative to the target performance metric, certain participants have the ability to be issued up to 150% of the target number of PSUs originally granted, or to be issued no PSUs at all. For each share granted as a restricted stock-based award under our 2000 Long-Term Equity Incentive Plan, an equivalent of 2.5 shares is deducted from our pool of available stock awards. Our stock option and restricted stock-based award issuances were partially offset by forfeitures and cancellations of 15 million shares during the first nine months of fiscal 2015.

We estimated the fair values of our stock options using the Black-Scholes-Merton option-pricing model, which was developed for use in estimating the fair values of stock options. Option valuation models, including the Black-Scholes-Merton option-pricing model, require the input of assumptions, including stock price volatility. Changes in the input assumptions can materially affect the fair value estimates and ultimately how much we recognize as stock-based compensation expense. We recognize stock-based compensation expense on a straight-line basis over the service period of the stock option, which is generally four years. The fair values of our stock options were estimated at the grant dates or at the acquisition dates for options assumed in a business combination. The weighted average input assumptions used and resulting fair values of our stock options were as follows for the three and nine months ended February 28, 2015 and 2014:

	Three Months Ended February 28,		**Nine Months Ended February 28,**	
	2015	**2014**	**2015**	**2014**
Expected life (in years)	4.7	4.7	5.1	5.1
Risk-free interest rate	1.3%	1.5%	1.7%	1.4%
Volatility	24%	24%	23%	27%
Dividend yield	1.1%	1.3%	1.2%	1.6%
Weighted-average fair value per share	$ 27.77	$ 7.18	$ 9.78	$ 6.65

The expected life input is based on historical exercise patterns and post-vesting termination behavior, the risk-free interest rate input is based on U.S. Treasury instruments, the annualized dividend yield input is based on the per share dividend declared by our Board of Directors and the volatility input is calculated based on the implied volatility of our publicly traded options.

We estimated the fair values of our restricted-stock based awards that are solely subject to service-based vesting requirements based upon their intrinsic values as of the grant dates. We recognize expense for these service-based awards on a straight-line basis over the service period of these awards, which is generally four years.

The fair values of our PSUs were also measured at their intrinsic values as of their respective grant dates. The vesting conditions and related terms of our PSUs were communicated to each participating employee as of their respective grant dates and include attainment metrics that are defined, fixed, and based upon consistent U.S. GAAP metrics or internal metrics that are defined, fixed and consistently determined, and that require the employee to render service. Therefore, these awards meet the performance-based award classification criteria as defined within ASC 718. The performance conditions of the PSUs affect the number of PSUs that will ultimately vest and be issued to the grantee based upon a target that is subject to certain attainment maximums, with the possibility that none will vest if applicable performance conditions are not met. As the performance conditions to evaluate attainment of each tranche for each participant are independent of the performance conditions for the other tranches, we recognize stock-based compensation expense for our PSUs on a straight-line basis over the service period for each separately vesting tranche, which is generally twelve months.

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Stock-based compensation is included in the following operating expense line items in our condensed consolidated statements of operations:

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Sales and marketing	$ 45	$ 40	$ 131	$ 118
Cloud software-as-a-service and platform-as-a-service	3	2	8	5
Cloud infrastructure-as-a-service	1	1	3	2
Software license updates and product support	6	6	15	16
Hardware systems products	1	1	4	4
Hardware systems support	2	1	4	4
Services	8	6	23	18
Research and development	138	99	380	285
General and administrative	29	42	116	127
Acquisition related and other	1		5	4
Total stock-based compensation	$ 234	$ 198	$ 689	$ 583

11. INCOME TAXES

The effective tax rate for the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Our provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to certain earnings considered as indefinitely reinvested in foreign operations, state taxes, the U.S. research and development tax credit, acquisition related settlements with tax authorities and the U.S. domestic production activity deduction. Our effective tax rate was 20.8% and 21.4% for the three and nine months ended February 28, 2015, respectively, and 21.0% and 19.8% for the three and nine months ended February 28, 2014, respectively.

Our net deferred tax assets were $954 million and $1.4 billion as of February 28, 2015 and May 31, 2014, respectively. We believe it is more likely than not that the net deferred tax assets will be realized in the foreseeable future. Realization of our net deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences, net operating loss carryforwards and tax credit carryforwards. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

Domestically, U.S. federal and state taxing authorities are currently examining income tax returns of Oracle and various acquired entities for years through fiscal 2013. Our U.S. federal and, with some exceptions, our state income tax returns have been examined for all years prior to fiscal 2003 and we are no longer subject to audit for those periods.

Internationally, tax authorities for numerous non-U.S. jurisdictions are also examining returns affecting our unrecognized tax benefits. With some exceptions, we are generally no longer subject to tax examinations in non-U.S. jurisdictions for years prior to fiscal 1997.

We believe that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits and that any settlement will not have a material adverse effect on our consolidated financial position or results of operations. However, there can be no assurances as to the possible outcomes.

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12. SEGMENT INFORMATION

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision makers are our Chief Executive Officers. We are organized geographically and by line of business. While our Chief Executive Officers evaluate results in a number of different ways, the line of business management structure is the primary basis for which the allocation of resources and financial results are assessed.

We have three businesses software and cloud, hardware systems and services which are further divided into certain operating segments. Our software and cloud business is comprised of three operating segments: (1) new software licenses and cloud software subscriptions, which includes our cloud SaaS and PaaS offerings, (2) cloud infrastructure-as-a-service and (3) software license updates and product support. Our hardware systems business is comprised of two operating segments: (1) hardware systems products and (2) hardware systems support. All other operating segments are combined under our services business.

The new software licenses and cloud software subscriptions line of business is engaged in the licensing of our database and middleware software, as well as our application software, and providing access to a broad range of our software through Oracle Cloud SaaS and PaaS offerings on a subscription basis via a cloud-based IT environment that we manage, host and support.

The cloud infrastructure-as-a-service line of business provides deployment and management offerings for our software and hardware and related IT infrastructure including virtual machine instances that are subscription-based and designed for computing and reliable and secure object storage; Oracle Engineered Systems hardware and related support that are deployed in our customers data centers for a monthly fee; and comprehensive software and hardware management and maintenance services for customer IT infrastructure for a fee for a stated term that is hosted at our data center facilities, select partner data centers or physically on-premise at customer facilities.

The software license updates and product support line of business provides customers with rights to software product upgrades and maintenance releases, patches released, internet access to technical content, as well as internet and telephone access to technical support personnel during the support period.

The hardware systems products line of business consists primarily of servers, storage, networking, point-of-sale hardware, virtualization software, operating systems including the Oracle Solaris Operating System and management software to support diverse IT environments, including cloud computing environments. As a part of this line of business, we offer our Oracle Engineered Systems, including our Oracle Exadata Database Machine, among others.

Our hardware systems support line of business provides customers with software updates for the software components that are essential to the functionality of our server and storage products, such as Oracle Solaris and certain other software products, and can include product repairs, maintenance services and technical support services.

Our services business is comprised of the remainder of our operating segments and offers consulting, advanced customer support services and education services. Our consulting line of business primarily provides services to customers in business and IT strategy alignment, enterprise architecture planning and design, initial product implementation and integration and ongoing product enhancements and upgrades. Advanced customer support provides support services, both on-premise and remote, to our customers to enable increased performance and higher availability of their products and services. Education services provide training to customers, partners and employees as a part of our mission of accelerating the adoption and use of our software and hardware products and to create opportunities to grow our product revenues.

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We do not track our assets by operating segments. Consequently, it is not practical to show assets by operating segment.

The following table presents summary results for each of our three businesses and for the operating segments of our software and cloud and hardware systems businesses:

(in millions)	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014	Nine Months Ended February 28, 2015	Nine Months Ended February 28, 2014
New software licenses and cloud software subscriptions:				
Revenues[1]	$ 2,356	$ 2,418	$ 6,469	$ 6,450
Cloud software-as-a-service and platform-as-a-service expenses	195	108	494	302
Sales and distribution expenses	1,390	1,378	4,106	3,947
Margin[2]	$ 771	$ 932	$ 1,869	$ 2,201
Cloud infrastructure-as-a-service:				
Revenues	$ 155	$ 121	$ 448	$ 327
Cloud infrastructure-as-a-service expenses	84	72	242	212
Sales and distribution expenses	25	13	65	43
Margin[2]	$ 46	$ 36	$ 141	$ 72
Software license updates and product support:				
Revenues[1]	$ 4,664	$ 4,565	$ 14,170	$ 13,513
Software license updates and product support expenses	281	274	820	822
Margin[2]	$ 4,383	$ 4,291	$ 13,350	$ 12,691
Total software and cloud business:				
Revenues[1]	$ 7,175	$ 7,104	$ 21,087	$ 20,290
Expenses	1,975	1,845	5,727	5,326
Margin[2]	$ 5,200	$ 5,259	$ 15,360	$ 14,964
Hardware systems products:				
Revenues	$ 712	$ 725	$ 2,007	$ 2,108
Hardware systems products expenses	366	378	1,030	1,075
Sales and distribution expenses	211	223	632	684
Margin[2]	$ 135	$ 124	$ 345	$ 349
Hardware systems support:				
Revenues[1]	$ 588	$ 600	$ 1,794	$ 1,811
Hardware systems support expenses	209	199	602	604
Margin[2]	$ 379	$ 401	$ 1,192	$ 1,207
Total hardware systems business:				
Revenues[1]	$ 1,300	$ 1,325	$ 3,801	$ 3,919

Expenses	786	800	2,264	2,363
Margin[2]	$ 514	$ 525	$ 1,537	$ 1,556
Total services business:				
Revenues[1]	$ 859	$ 886	$ 2,653	$ 2,771
Services expenses	694	686	2,097	2,108
Margin[2]	$ 165	$ 200	$ 556	$ 663
Totals:				
Revenues[1]	$ 9,334	$ 9,315	$ 27,541	$ 26,980
Expenses	3,455	3,331	10,088	9,797
Margin[2]	$ 5,879	$ 5,984	$ 17,453	$ 17,183

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(1) New software licenses and cloud software subscriptions revenues for management reporting included revenues related to cloud SaaS and PaaS contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amounts of $3 million and $5 million for the three months ended February 28, 2015 and 2014, respectively, and $9 million and $12 million for the nine months ended February 28, 2015 and 2014, respectively. Software license updates and product support revenues for management reporting included revenues related to software support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amounts of $3 million and $1 million for the three months ended February 28, 2015 and 2014, respectively, and $9 million and $2 million for the nine months ended February 28, 2015 and 2014, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of $1 million and $2 million for the three months ended February 28, 2015 and 2014, respectively, and $3 million and $11 million for the nine months ended February 28, 2015 and 2014, respectively. See Note 8 for an explanation of these adjustments and the table below for a reconciliation of our total operating segment revenues to our total revenues. Our new software license and services revenues for management reporting also differ from amounts reported per our consolidated statements of operations for the periods presented due to certain insignificant reclassifications between these lines for management reporting purposes.

(2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, marketing and partner programs, and corporate, general and administrative and information technology expenses. Additionally, the margins reported do not reflect amortization of intangible assets, acquisition related and other expenses, restructuring expenses, stock-based compensation, interest expense or certain other income (expense), net.

The following table reconciles total operating segment revenues to total revenues as well as total operating segment margin to income before provision for income taxes:

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Total revenues for operating segments	$ 9,334	$ 9,315	$ 27,541	$ 26,980
Cloud software-as-a-service and platform-as-a-service revenues[1]	(3)	(5)	(9)	(12)
Software license updates and product support revenues[1]	(3)	(1)	(9)	(2)
Hardware systems support revenues[1]	(1)	(2)	(3)	(11)
Total revenues	$ 9,327	$ 9,307	$ 27,520	$ 26,955
Total margin for operating segments	$ 5,879	$ 5,984	$ 17,453	$ 17,183
Cloud software-as-a-service and platform-as-a-service revenues[1]	(3)	(5)	(9)	(12)
Software license updates and product support revenues[1]	(3)	(1)	(9)	(2)
Hardware systems support revenues[1]	(1)	(2)	(3)	(11)
Product development	(1,180)	(1,150)		