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 ¨	Smaller reporting company ¨
(Do not check if a 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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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)

(in millions, except per share data)	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014	Nine Months Ended February 28, 2015	Nine Months Ended February 28, 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)

(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
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)

(in millions)	Nine Months Ended February 28, 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.

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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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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.

(in millions, except per share data)	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014	Nine Months Ended February 28, 2015	Nine Months Ended February 28, 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		
(Dollars in millions)	May 31, 2014	Additions[1]	February 28, 2015	May 31, 2014	Expense	February 28, 2015	May 31, 2014	February 28, 2015	Weighted 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

		Nine Months Ended February 28, 2015						
(in millions)	Accrued May 31, 2014[2]	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)	(3,562)	(3,386)
Marketing and partner program expenses	(116)	(132)	(370)	(409)
Corporate, general and administrative and information technology expenses	(377)	(336)	(1,105)	(1,035)
Amortization of intangible assets	(527)	(560)	(1,642)	(1,732)
Acquisition related and other	(8)	5	(12)	(21)
Restructuring	(48)	(38)	(168)	(146)
Stock-based compensation	(233)	(198)	(684)	(579)

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

(1) New software licenses and cloud software subscriptions revenues, software license updates and product support revenues and hardware systems support revenues for management reporting included revenues that would have otherwise been recorded by our acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations for the periods presented due to business combination accounting requirements. Refer to footnote one to our business and operating segments summary results table above in this Note 12 for additional information.

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13. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock options, restricted stock-based awards and shares issuable under the employee stock purchase plan using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions, except per share data)	**2015**	**2014**	**2015**	**2014**
Net income	$ 2,495	$ 2,565	$ 7,181	$ 7,309
Weighted average common shares outstanding	4,389	4,496	4,419	4,546
Dilutive effect of employee stock plans	105	79	97	70
Dilutive weighted average common shares outstanding	4,494	4,575	4,516	4,616
Basic earnings per share	$ 0.57	$ 0.57	$ 1.63	$ 1.61
Diluted earnings per share	$ 0.56	$ 0.56	$ 1.59	$ 1.58
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation[1]	39	35	36	168

(1) These weighted shares relate to anti-dilutive stock options and restricted stock-based awards as calculated using the treasury stock method and could be dilutive in the future.

14. LEGAL PROCEEDINGS

Hewlett-Packard Company Litigation

On June 15, 2011, Hewlett-Packard Company (HP) filed a complaint in the California Superior Court, County of Santa Clara against Oracle Corporation alleging numerous causes of action including breach of contract, breach of the covenant of good faith and fair dealing, defamation, intentional interference with prospective economic advantage, and violation of the California Unfair Business Practices Act. The complaint alleged that when Oracle announced on March 22 and 23, 2011 that it would no longer develop future versions of its software to run on HP s Itanium-based servers, it breached a settlement agreement signed on September 20, 2010 between HP and Mark Hurd (the Hurd Settlement Agreement), who was both HP s former chief executive officer and chairman of HP s board of directors. HP sought a judicial declaration of the parties rights and obligations under the Hurd Settlement Agreement, and other equitable and monetary relief.

Oracle answered the complaint and filed a cross-complaint, which was amended on December 2, 2011. The amended cross-complaint alleged claims including violation of the Lanham Act. Oracle alleged that HP had secretly agreed to pay Intel to continue to develop and manufacture the Itanium microprocessor, and had misrepresented to customers that the Itanium microprocessor had a long roadmap, among other claims. Oracle sought equitable rescission of the Hurd Settlement Agreement, and other equitable and monetary relief.

The court bifurcated the trial and tried HP s causes of action for declaratory relief and promissory estoppel without a jury in June 2012. The court issued a final statement of decision on August 28, 2012, finding that the Hurd Settlement Agreement required Oracle to continue to develop certain of its software products for use on HP s Itanium-based servers and to port such products at no cost to HP for as long as HP sells those servers. Oracle has announced that it is appealing this decision. The issues of breach, HP s performance, causation and damages, HP s tort claims, and Oracle s cross-claims will all be tried before a jury. As of April 8, 2013, the trial

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is stayed pending Oracle s appeal of the court s denial of its anti-SLAPP motion, which is fully briefed, although oral argument has not yet been scheduled. We cannot currently estimate a reasonably possible range of loss for this action. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

Other Litigation

We are party to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including proceedings and claims that relate to acquisitions we have completed or to companies we have acquired or are attempting to acquire. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any of these matters, individually or in the aggregate, will result in losses that are materially in excess of amounts already recognized, if any.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

We begin Management s Discussion and Analysis of Financial Condition and Results of Operations with an overview of our key operating business segments and significant trends. This overview is followed by a summary of our critical accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then provide a more detailed analysis of our results of operations and financial condition.

Business Overview

We are the world s largest provider of enterprise software and a leading provider of computer hardware products and services that are engineered to work together in the cloud and in the data center. Our offerings include Oracle database and middleware software, application software, cloud infrastructure, hardware systems including computer server, storage, networking and point-of-sale products and related services. We develop and maintain our products and services to be enterprise-grade, reliable, secure and interoperable while offering customers a choice in deployment models that best meet their information technology (IT) needs. Our customers can subscribe to use many Oracle software and hardware products through our Oracle Cloud offerings, or purchase our software and hardware products and related services to build their own internal clouds or on-premise IT environments.

Cloud computing IT environments, including those offered through our Oracle Cloud Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS) and Infrastructure-as-a-Service (IaaS) offerings, are designed to be attractive and cost-effective options for our customers as we integrate the software and hardware on the customers behalf in IT environments that we deploy, support and manage on the customers behalf. We are a leader in the core technologies of cloud computing, including database and middleware software as well as web-based applications, virtualization, clustering, large-scale systems management and related infrastructure. Our products and services are the building blocks of our own cloud services, our partners cloud services and our customers cloud IT environments. An important element of our corporate strategy is to deliver reliable, secure and scalable products and services that are built upon industry standards and are engineered to work both together or independently, regardless of the deployment model selected.

We believe that our investments in, and continued innovation with respect to, our software and cloud, hardware, and services businesses are the foundation of our long-term strategic plans. We have expanded our enterprise-grade cloud computing offerings through our continued investments in research and development and through targeted acquisitions in order to broaden our Oracle Cloud offerings. For example, our Oracle Cloud Software-as-a-Service offerings, including our sales, marketing, customer service, financials, project management, human capital and talent management cloud solutions, among others, enable us to provide IT functionality that customers can use to manage critical business functions in a rapidly deployable delivery model with lower upfront customer investment. Certain of our enterprise-grade cloud computing offerings include infrastructure based upon our Oracle Engineered Systems, including our Oracle Exadata Database Machine, Oracle Exalogic Elastic Cloud and Oracle SuperCluster products, among others. We designed our Oracle Engineered Systems to combine certain of our hardware and software offerings to increase computing performance relative to our competitors products, creating cost efficiencies, time savings and operational cost advantages for our customers. Our Oracle Engineered Systems provide the core infrastructure for our own on-premise IT data centers and those of our customers, and for cloud IT environments, including our own Oracle Cloud services, our partners cloud services and our customers cloud environments. We also continue to demonstrate our commitment to customer choice through ongoing enhancements to our Oracle E-Business Suite, Siebel, PeopleSoft and JD Edwards application software products and services, among others.

We believe that an active acquisition program is another important element of our corporate strategy as it enhances the products and services that we can offer to customers, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings and increases stockholder value. In recent years, we have invested billions of dollars to acquire a number of companies, products, services and technologies that add to, are complementary to, or have otherwise enhanced our existing offerings. We expect to continue to acquire companies, products, services and technologies to further our corporate strategy.

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We are organized into three businesses software and cloud, hardware systems and services which are further divided into certain operating segments. Each of our businesses and operating segments has unique characteristics and faces different opportunities and challenges. Our cloud infrastructure-as-a-service segment was established during our fiscal quarter ended May 31, 2014. Our results for the third quarter and first nine months of fiscal 2015 and historical results for the same periods of fiscal 2014 have been reclassified to reflect this new segment structure and will continue prospectively in our future filings. See Note 12 of Notes to Condensed Consolidated Financial Statements, included elsewhere in this Quarterly Report, for additional information related to our operating segments. An overview of our three businesses and related operating segments follows.

Software and Cloud Business

Our software and cloud business, which represented 77% of our total revenues on a trailing 4-quarter basis, is comprised of three operating segments: (1) new software licenses and cloud software subscriptions, (2) cloud infrastructure-as-a-service and (3) software license updates and product support. On a constant currency basis, we expect that our software and cloud business total revenues generally will continue to increase due to continued demand for our software products and cloud software subscriptions offerings, our software license updates and product support offerings, including the high percentage of customers that renew their software license updates and product support contracts, and our acquisitions, which should allow us to grow and continue to make investments in research and development.

New Software Licenses and Cloud Software Subscriptions: We license our database and middleware, as well as our application software, and provide access to a broad range of our software through Oracle Cloud SaaS and Oracle Cloud PaaS offerings (SaaS and PaaS collectively are referred to as cloud software subscriptions). Our software offerings are substantially built on a standards-based, integrated architecture that is designed to help customers reduce the cost and complexity of their IT infrastructure. Our software offerings are substantially designed to operate on both single server and clustered server configurations for cloud or on-premise IT environments, and to support a choice of operating systems including Oracle Solaris, Oracle Linux, Microsoft Windows and third party UNIX products, among others. Our customers include businesses of many sizes, government agencies, educational institutions and resellers. We market and sell our software products and services to these customers with a sales force positioned to offer the combinations that best fit their needs. We enable customers to evolve and transform to substantially any IT environment at whatever pace is most appropriate for them.

The growth in our new software licenses and our SaaS and PaaS revenues that we report is affected by the strength of general economic and business conditions, governmental budgetary constraints, the competitive position of our software offerings, our acquisitions and foreign currency fluctuations. The substantial majority of our new software license transactions are characterized by long sales cycles and the timing of a few large software license transactions can substantially affect our quarterly new software licenses revenues. New software licenses and cloud software subscriptions revenues represented 27% of our total revenues on a trailing 4-quarter basis. Our cloud software subscriptions contracts, which consist of SaaS and PaaS arrangements, are generally one to three years in duration and we strive to renew these contracts when they are eligible for renewal. Our new software licenses and cloud software subscriptions segment s margin has historically trended upward over the course of the four quarters within a particular fiscal year due to the historical upward trend of our new software licenses revenues over those quarterly periods and because the majority of our costs for this segment are predominantly fixed in the short-term. However, our new software licenses and cloud software subscriptions segment s margin has been and will continue to be affected by the fair value adjustments relating to the cloud SaaS and PaaS obligations that we assumed in our business combinations (described further below) and by the amortization of intangible assets associated with companies and technologies that we have acquired.

For certain of our acquired businesses, we recorded adjustments to reduce the cloud SaaS and PaaS obligations to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize cloud SaaS and PaaS revenues related to acquired contracts that would have been otherwise recorded by the acquired businesses as independent entities 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

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the nine months ended February 28, 2015 and 2014, respectively. To the extent underlying cloud SaaS and PaaS contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of these contracts over their respective contractual periods.

Cloud Infrastructure-as-a-Service: Our cloud infrastructure-as-a-service offerings, which represented 1% of our total revenues on a trailing 4-quarter basis, provide 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 arrangements for customer IT infrastructure for a stated term that is hosted at our data center facilities, select partner data centers or physically on-premise at customer facilities.

Software License Updates and Product Support: Customers that purchase software license updates and product support are granted rights to unspecified product upgrades and maintenance releases and patches released during the term of the support period, as well as technical support assistance. Our software license updates and product support contracts are generally one year in duration. Substantially all of our software license customers renew their software license updates and product support contracts annually. The growth of software license updates and product support revenues is primarily influenced by three factors: (1) the percentage of our software support contract customer base that renews its software support contracts, (2) the amount of new software support contracts sold in connection with the sale of new software licenses and (3) the amount of software support contracts assumed from companies we have acquired.

Software license updates and product support revenues, which represented 49% of our total revenues on a trailing 4-quarter basis, is our highest margin business unit. Our software support margins over the trailing 4-quarters were 90% and accounted for 79% of our total margins over the same period. Our software license updates and product support margins have been affected by fair value adjustments relating to software support obligations assumed in business combinations (described further below) and by amortization of intangible assets. However, over the longer term, we believe that software license updates and product support revenues and margins will grow for the following reasons:

- substantially all of our customers, including customers from acquired companies, renew their software support contracts when eligible for renewal;

- substantially all of our customers purchase software license updates and product support contracts when they buy new software licenses, resulting in a further increase in our software support contract base. Even if new software licenses revenues growth was flat, software license updates and product support revenues would continue to grow in comparison to the corresponding prior year periods assuming contract renewal and cancellation rates and foreign currency rates remained relatively constant since substantially all new software licenses transactions result in the sale of software license updates and product support contracts, which add to our software support contract base; and

- our acquisitions have increased our software support contract base, as well as the portfolio of products available to be licensed and supported.

We recorded adjustments to reduce software support obligations assumed in business combinations to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize software license updates and product support revenues related to software support contracts that would have been otherwise recorded by the acquired businesses as independent entities 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. To the extent underlying software support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the software support contracts over the respective support periods, the majority of which are one year.

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Hardware Systems Business

Our hardware systems business is comprised of two operating segments: (1) hardware systems products and (2) hardware systems support. Our hardware business represented 13% of our total revenues on a trailing 4-quarter basis. We expect our hardware business to have lower operating margins as a percentage of revenues than our software and cloud business due to the incremental costs we incur to produce and distribute these products and to provide support services, including direct materials and labor costs. We expect to make investments in research and development to improve existing hardware products and services and to develop new hardware products and services.

Hardware Systems Products: We provide a broad selection of hardware systems and related services including servers, storage, networking, workstations and related devices, point-of-sale hardware, virtualization software, operating systems, and management software to support diverse IT environments, including cloud computing environments. We engineer our hardware systems with virtualization and management capabilities to enable the rapid deployment and efficient management of cloud and on-premise IT infrastructures.

Our hardware products and services are designed to work in customer environments that may include other Oracle or non-Oracle hardware or software components. This flexible and open approach provides Oracle s customers with a broad range of choices in deploying hardware systems, which we believe is a priority for our customers. Our hardware products and services also help customers manage growing amounts of data and business requirements, meet increasing compliance and regulatory demands and reduce energy, space and operational costs. We have also engineered certain of our hardware systems products to create performance and operational cost advantages for customers when our hardware and software products are combined as Oracle Engineered Systems.

We offer a wide range of server systems using our SPARC microprocessor. Our SPARC servers run the Oracle Solaris operating system and are designed to be differentiated by their reliability, security, and scalability. Our mid-size and large servers are designed to offer better performance and lower total cost of ownership than mainframe systems for business critical applications, for customers having more computationally intensive needs, and as platforms for building cloud computing IT environments. Our SPARC servers are also a core component of the Oracle SuperCluster, one of our Oracle Engineered Systems.

We also offer enterprise x86 servers. These x86 servers are based on microprocessor platforms from Intel Corporation and are compatible with Oracle Solaris, Oracle Linux, Microsoft Windows and other operating systems. Our x86 servers are also a core component of many of our Oracle Engineered Systems including Oracle Exadata Database Machine, Oracle Exalogic Elastic Cloud, Oracle Exalytics In-Memory Machine and the Oracle Big Data Appliance.

Our storage products are designed to securely manage, protect, archive and restore customers mission critical data assets and consist of tape, disk, flash and hardware-related software including file systems software, back-up and archive software and storage management software and networking for mainframe and open systems environments.

Our networking and data center fabric products, including Oracle Virtual Networking, and Oracle InfiniBand and Ethernet technologies, are used with our server and storage products and are integrated into our management tools to help enterprise customers improve infrastructure performance, reduce cost and complexity and simplify storage and server connectivity. We also offer hardware and software products and services for communications networks including network signaling, policy control and subscriber data management solutions, and session border control technology, among others.

Our point-of-sale hardware offerings include point-of-sale terminals and related hardware that are designed for managing businesses within the food and beverage, hotel and retail industries, among others.

The majority of our hardware systems products are sold through indirect channels, including independent distributors and value added resellers.

To produce our hardware products, we rely on both our internal manufacturing operations as well as third party manufacturing partners. Our internal manufacturing operations consist primarily of materials procurement, assembly, testing and quality control of our Oracle Engineered Systems and certain of our enterprise and data

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center servers and storage systems. For all other manufacturing, we generally rely on third party manufacturing partners to produce our hardware related components and hardware products and we may involve our internal manufacturing operations in the final assembly, testing and quality control processes for these components and products. We distribute most of our hardware products either from our facilities or partner facilities. We strive to reduce costs by simplifying our manufacturing processes through increased standardization of components across product types and a build-to-order manufacturing process in which products generally are built only after customers have placed firm orders.

Our hardware systems products revenues, cost of hardware systems products and hardware systems operating margins that we report are affected by our strategy for and the competitive position of our hardware systems products, the strength of general economic and business conditions, governmental budgetary constraints, certain of our acquisitions and foreign currency rate fluctuations. In addition, our operating margins for our hardware systems products segment have been and will be affected by the amortization of intangible assets.

Our quarterly hardware systems products revenues are difficult to predict. The timing of customer orders and delays in our ability to timely manufacture or deliver a few large hardware transactions, among other factors, could substantially affect the amount of hardware systems products revenues, expenses and operating margins that we report.

Hardware Systems Support: Our hardware systems support offerings provide customers with software updates for software components that are essential to the functionality of our server, storage, networking and point-of-sale products, such as Oracle Solaris and certain other software products, and can include product repairs, maintenance services and technical support services. Typically, our hardware systems support contract arrangements are invoiced to the customer at the beginning of the support period and are one year in duration. We continue to evolve hardware systems support processes that are intended to proactively identify and solve quality issues and to increase the amount of new and renewed hardware systems support contracts sold in connection with the sales of our hardware systems products. Our hardware systems support revenues that we report are influenced by a number of factors, including the volume of purchases of hardware products, the mix of hardware products purchased, whether customers decide to purchase hardware systems support contracts at or in close proximity to the time of hardware product sale, the percentage of our hardware systems support contract customer base that renews its support contracts and our acquisitions. Substantially all of these factors are heavily influenced by our customers decisions to either maintain or upgrade their existing hardware systems infrastructure to newly developed technologies that are available.

Our hardware systems support margins have been and will be affected by certain of our acquisitions and related accounting, including fair value adjustments relating to hardware systems support obligations assumed, and by the amortization of intangible assets. As required by business combination accounting rules, we recorded adjustments to reduce our hardware systems support revenues for contracts assumed from our acquisitions to their estimated fair values. These amounts would have been recorded as hardware systems support revenues 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. To the extent underlying hardware systems support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the hardware systems support contracts over the respective support periods.

Services Business

Our services business, which represented 10% of our total revenues on a trailing 4-quarter basis, is comprised of the remainder of our operating segments. Our services business typically has lower margins than our software and cloud and hardware businesses. Our services revenues are impacted by our strategy for and the competitive position of our services, certain of our acquisitions, general economic conditions, governmental budgetary constraints, personnel reductions in our customers IT departments, tighter controls over discretionary spending and the growth in our software and hardware systems products revenues. Our services business offerings include:

- consulting services that are designed to help our customers and global system integrator partners more successfully architect and deploy our products, including IT strategy alignment, enterprise architecture planning and design, initial product implementation and integration, and ongoing product enhancements

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and upgrades. We utilize a global, blended delivery model to optimize value for our customers and partners, consisting of on-premise consultants from local geographies, industry specialists and consultants from our global delivery and solution centers;

advanced customer support services, which are provided on-premise and remotely to our customers to enable increased performance and higher availability of their Oracle products and services; and

education services for Oracle products and services, including training and certification programs that are offered to customers, partners and employees through a variety of formats, including instructor-led classes at our education centers, live virtual training, self-paced online training, private events and custom training.

Acquisitions

An active acquisition program is another important element of our corporate strategy. In recent years, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies including MICROS Systems, Inc. (MICROS) in the second quarter of fiscal 2015 and Responsys, Inc. (Responsys) in the third quarter of fiscal 2014, among others. We believe our acquisition program strengthens our competitive position, enhances the products and services that we can offer to customers, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings and increases stockholder value. We expect to continue to acquire companies, products, services and technologies in furtherance of our corporate strategy. Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report provides additional information related to our recent acquisitions.

We believe we can fund our future acquisitions with our internally available cash, cash equivalents and marketable securities, cash generated from operations, additional borrowings or from the issuance of additional securities. We estimate the financial impact of any potential acquisition with regard to earnings, operating margin, cash flow and return on invested capital targets before deciding to move forward with an acquisition.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as set forth in the Financial Accounting Standards Board s Accounting Standards Codification (ASC) and we consider the various staff accounting bulletins and other applicable guidance issued by the United States Securities and Exchange Commission. GAAP, as set forth within the ASC, requires us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Business Combinations

Goodwill and Intangible Assets Impairment Assessments

Accounting for Income Taxes

Legal and Other Contingencies

Stock-Based Compensation

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting among available alternatives would not produce a materially different result. Our senior management has reviewed our critical accounting policies and related disclosures with the Finance and Audit Committee of the Board of Directors.

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During the first nine months of fiscal 2015, there were no significant changes to our critical accounting policies and estimates. Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended May 31, 2014 provides a more complete discussion of our critical accounting policies and estimates.

Results of Operations

Impact of Acquisitions

The comparability of our operating results in the third quarter and first nine months of fiscal 2015 compared to the same periods of fiscal 2014 was impacted by our recent acquisitions, primarily our acquisitions of MICROS in the second quarter of fiscal 2015 and Responsys in the third quarter of fiscal 2014.

In our discussion of changes in our results of operations from the third quarter and first nine months of fiscal 2015 compared to the same periods of fiscal 2014, we may qualitatively disclose the impact of our acquired products and services (for the one year period subsequent to the acquisition date) to the growth in certain of our operating segments revenues where such qualitative discussions would be meaningful for an understanding of the factors that influenced the changes in our results of operations. When material, we may also provide quantitative disclosures related to such acquired products and services. The contributions of our acquisitions to certain of our operating segments revenues, margins and expenses for each of the respective period comparisons generally are not provided in our discussions as they either were not separately identifiable due to the integration of these businesses and operating segments into our existing operations and/or were insignificant to our results of operations during the periods presented.

We caution readers that, while pre- and post-acquisition comparisons, as well as any quantified amounts themselves, may provide indications of general trends, any acquisition information that we provide has inherent limitations for the following reasons:

- any qualitative and quantitative disclosures cannot specifically address or quantify the substantial effects attributable to changes in business strategies, including our sales force integration efforts. We believe that if our acquired companies had operated independently and sales forces had not been integrated, the relative mix of products sold would have been different; and

- although substantially all of our software license customers, including customers from acquired companies, renew their software license updates and product support contracts when the contracts are eligible for renewal and we strive to renew cloud SaaS and PaaS contracts and hardware systems support contracts, the amounts shown as cloud SaaS and PaaS deferred revenues, software license updates and product support deferred revenues, and hardware systems support deferred revenues in our supplemental disclosure related to certain charges (presented below) are not necessarily indicative of revenue improvements we will achieve upon contract renewals to the extent customers do not renew.

Seasonality

Our quarterly revenues have historically been affected by a variety of seasonal factors, including the structure of our sales force incentive compensation plans, which are common in the technology industry. Our total revenues and operating margins are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. The operating margins of our businesses are generally affected by seasonal factors in a similar manner as our revenues (in particular, our new software licenses and cloud software subscriptions segment) as certain expenses within our cost structure are relatively fixed in the short term.

Constant Currency Presentation

Our international operations have provided and will continue to provide a significant portion of our total revenues and expenses. As a result, total revenues and expenses will continue to be affected by changes in the U.S. Dollar against major international currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the percent change in the results from one period to another period in this Quarterly Report using constant currency

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disclosure. To present this information, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e., the rates in effect on May 31, 2014, which was the last day of our prior fiscal year) rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on February 28, 2015 and 2014, our financial statements would reflect reported revenues of $1.13 million in the first nine months of fiscal 2015 (using 1.13 as the month-end average exchange rate for the period) and $1.37 million in the first nine months of fiscal 2014 (using 1.37 as the month-end average exchange rate for the period). The constant currency presentation, however, would translate the results for the three and nine months ended February 28, 2015 and 2014 using the May 31, 2014 exchange rate and indicate, in this example, no change in revenues during the period. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

Total Revenues and Operating Expenses

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	**2015**	**Actual**	**Constant**	**2014**	**2015**	**Actual**	**Constant**	**2014**
Total Revenues by Geography:								
Americas	$ 5,134	4%	6%	$ 4,953	$ 14,974	4%	5%	$ 14,466
EMEA[1]	2,813	-4%	9%	2,923	8,313	2%	7%	8,178
Asia Pacific[2]	1,380	-4%	3%	1,431	4,233	-2%	2%	4,311
Total revenues	9,327	0%	6%	9,307	27,520	2%	5%	26,955
Total Operating Expenses	5,944	4%	8%	5,740	17,631	3%	5%	17,105
Total Operating Margin	$ 3,383	-5%	4%	$ 3,567	$ 9,889	0%	5%	$ 9,850
Total Operating Margin %	36%			38%	36%			37%
% Revenues by Geography:								
Americas	55%			54%	55%			54%
EMEA	30%			31%	30%			30%
Asia Pacific	15%			15%	15%			16%
Total Revenues by Business:								
Software and Cloud	$ 7,170	1%	7%	$ 7,100	$ 21,075	4%	7%	$ 20,285
Hardware Systems	1,299	-2%	5%	1,323	3,798	-3%	0%	3,908
Services	858	-3%	3%	884	2,647	-4%	-1%	2,762
Total revenues	$ 9,327	0%	6%	$ 9,307	$ 27,520	2%	5%	$ 26,955
% Revenues by Business:								
Software and Cloud	77%			76%	76%			75%
Hardware Systems	14%			14%	14%			15%
Services	9%			10%	10%			10%

(1) Comprised of Europe, the Middle East and Africa

(2) Asia Pacific includes Japan

Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: Our results of operations for the fiscal third quarter of 2015 compared to the fiscal third quarter of fiscal 2014 were significantly impacted by movements in international currencies relative to the United States dollar, which decreased our total revenues by 6 percentage points, total operating expenses by 4 percentage points and total operating income by 9 percentage points.

Excluding the effects of unfavorable currency variations of 6 percentage points, our total revenues increased in the third quarter of fiscal 2015 due to revenue increases across all of our businesses. The constant currency growth in our software and cloud revenues was attributable to

growth in our software license updates and product support revenues, growth in our SaaS, PaaS and IaaS revenues, and revenue contributions from our recent acquisitions. The constant currency growth in our hardware systems business was attributable to growth in our

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hardware products and hardware support revenues, which were primarily attributable to revenue contributions from our recent acquisitions and growth in our Oracle Engineered Systems revenues. The constant currency growth in our services business was primarily attributable to our recent acquisitions. Excluding the effects of currency rate fluctuations, the Americas contributed 48%, EMEA contributed 44% and Asia Pacific contributed 8% to the increase in our total revenues during the third quarter of fiscal 2015.

Excluding the effects of favorable currency variations of 4 percentage points, our total operating expenses increased by 8 percentage points during the third quarter of fiscal 2015 primarily due to expense increases across all of our lines of business, the largest of which were due to increased sales and marketing and research and development expenses resulting primarily from increased headcount, and increased cloud SaaS and PaaS expenses to support the increase in our cloud SaaS and PaaS revenues.

Excluding the effects of unfavorable foreign currency rate fluctuations of 9 percentage points, our operating margin increased during the third quarter of fiscal 2015 due to the increase in our total revenues, while our operating margin as a percentage of revenues decreased due to our total operating expenses growth exceeding our total revenues growth.

First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: Excluding the effects of unfavorable currency variations of 3 percentage points, our total revenues increased in the first nine months of fiscal 2015 by 5 percentage points due to an increase in our software and cloud business revenues due to the same reasons noted above, partially offset by revenue decreases in our services businesses. Excluding the effects of currency rate fluctuations, the Americas contributed 51%, EMEA contributed 44% and Asia Pacific contributed 5% to the growth in our total revenues during the first nine months of fiscal 2015.

Total constant currency operating expenses increased during the first nine months of fiscal 2015 due to similar reasons as noted above and were partially offset by a $53 million benefit recorded in the first nine months of fiscal 2015 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).

Excluding the effects of unfavorable foreign currency rate fluctuations of 5 percentage points, our operating margin and operating margin as a percentage of revenues increased during the first nine months of fiscal 2015 as our total revenues growth exceeded our total operating expenses growth during this period.

Supplemental Disclosure Related to Certain Charges

To supplement our consolidated financial information, we believe the following information is helpful to an overall understanding of our past financial performance and prospects for the future. You should review the introduction under Impact of Acquisitions (above) for a discussion of the inherent limitations in comparing pre- and post-acquisition information.

Our operating results included the following business combination accounting adjustments and expenses related to acquisitions, as well as certain other significant expense and income items:

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Cloud software-as-a-service and platform-as-a-service deferred revenues[1]	$ 3	$ 5	$ 9	$ 12
Software license updates and product support deferred revenues[1]	3	1	9	2
Hardware systems support deferred revenues[1]	1	2	3	11
Amortization of intangible assets[2]	527	560	1,642	1,732
Acquisition related and other[3][5]	8	(5)	12	21
Restructuring[4]	48	38	168	146
Stock-based compensation[5]	233	198	684	579
Income tax effects[6]	(247)	(251)	(715)	(783)
	$ 576	$ 548	$ 1,812	$ 1,720

(1) In connection with our acquisitions, we have estimated the fair values of the cloud SaaS and PaaS subscriptions, software support and hardware systems support obligations assumed. Due to our application of business combination accounting rules, we did not recognize

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cloud SaaS and PaaS revenues related to subscription contracts that would have otherwise been recorded by the acquired businesses as independent entities 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. We also did not recognize software license updates and product support revenues related to software support contracts that would have otherwise been recorded by the acquired businesses as independent entities 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.

Approximately $3 million and $4 million of estimated cloud SaaS and PaaS revenues related to contracts assumed will not be recognized during the remainder of fiscal 2015 and fiscal 2016, respectively, that would have otherwise been recognized as revenues by the acquired businesses as independent entities due to the application of the aforementioned business combination accounting rules. Approximately $2 million of estimated software license updates and product support revenues related to software support contracts assumed will not be recognized during each of the remainder of fiscal 2015 and fiscal 2016 that would have otherwise been recognized as revenues by the acquired businesses as independent entities due to the application of the aforementioned business combination accounting rules. Approximately $1 million of estimated hardware systems support revenues related to hardware systems support contracts assumed will not be recognized during each of the remainder of fiscal 2015 and fiscal 2016 that would have otherwise been recognized by certain acquired companies as independent entities due to the application of the aforementioned business combination accounting rules. To the extent customers renew these contracts with us, we expect to recognize revenues for the full contracts values over the respective contracts renewal periods.

(2) Represents the amortization of intangible assets substantially all of which were acquired in connection with our acquisitions. 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

(3) Acquisition related and other expenses primarily consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments including certain adjustments after the measurement period has ended and certain other operating items, net.

(4) The significant majority of restructuring expenses during the first nine months of fiscal 2015 primarily related to employee severance in connection with our Fiscal 2015 Oracle Restructuring Plan (2015 Restructuring Plan) and our Fiscal 2013 Oracle Restructuring Plan (2013 Restructuring Plan). Restructuring expenses during the first nine months of fiscal 2014 primarily related to costs incurred pursuant to our 2013 Restructuring Plan. Additional information regarding certain of our restructuring plans is provided in Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

(5) Stock-based compensation was included in the following operating expense line items of our condensed consolidated statements of operations (in millions):

	Three Months Ended February 28,		Nine Months Ended February 28,	
	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
Subtotal	233	198	684	579
Acquisition related and other	1		5	4
Total stock-based compensation	$ 234	$ 198	$ 689	$ 583

Stock-based compensation included in acquisition related and other expenses resulted from unvested stock options and restricted stock-based awards assumed from acquisitions whose vesting was accelerated upon termination of the employees pursuant to the terms of those stock options and restricted stock-based awards.

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(6) The income tax effects presented were calculated as if the above described charges were not included in our results of operations for each of the respective periods presented. Income tax effects for the third quarter and first nine months of fiscal 2015 were calculated based on the applicable jurisdictional tax rates applied to the items within the table above and resulted in effective tax rates of 22.7% and 22.9%, respectively, instead of 20.8% and 21.4%, respectively, which represented our effective tax rates as derived per our condensed consolidated statements of operations, primarily due to the net tax effects of acquisition related items, including the tax effects of amortization of intangible assets. Income tax effects for the third quarter and first nine months of fiscal 2014 were calculated reflecting effective tax rates of 23.1% and 22.3%, respectively, instead of 21.0% and 19.8%, respectively, which represented our effective tax rates as derived per our condensed consolidated statements of operations, primarily due to the same reasons as noted above for the fiscal 2015 periods presented.

Software and Cloud Business

Our software and cloud business consists of our new software licenses and cloud software subscriptions segment, our cloud infrastructure-as-a-service segment and our software license updates and product support segment.

New Software Licenses and Cloud Software Subscriptions: New software licenses revenues represent fees earned from granting customers licenses to use our database and middleware and our application software products. Cloud software subscriptions include revenues from our cloud SaaS and PaaS offerings, which grant customers access to a broad range of our software offerings on a subscription basis in a secure, standards-based, cloud computing environment that includes access, hosting, infrastructure management, the use of software updates, and support. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market our products through indirect channels. Costs associated with our new software licenses and cloud software subscriptions segment are included in sales and marketing expenses, cloud SaaS and PaaS expenses and amortization of intangible assets. These costs are largely personnel related and include commissions earned by our sales force for the sale of our software offerings, marketing program costs, the cost of providing our cloud SaaS and PaaS offerings and amortization of intangible assets.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
New Software Licenses and Cloud Software Subscriptions Revenues:								
Americas	$ 1,293	0%	3%	$ 1,287	$ 3,582	2%	4%	$ 3,507
EMEA	701	-3%	9%	727	1,797	0%	7%	1,789
Asia Pacific	360	-10%	-5%	401	1,087	-5%	-2%	1,151
Total revenues	2,354	-3%	4%	2,415	6,466	0%	4%	6,447
Expenses:								
Cloud software-as-a-service and platform-as-a-service[1]	200	81%	88%	110	509	63%	66%	313
Sales and marketing[1]	1,546	1%	7%	1,538	4,582	3%	6%	4,444
Stock-based compensation	44	8%	8%	41	130	10%	10%	118
Amortization of intangible assets[2]	255	6%	6%	240	760	5%	5%	722
Total expenses	2,045	6%	11%	1,929	5,981	7%	9%	5,597
Total Margin	$ 309	-37%	-27%	$ 486	$ 485	-43%	-34%	$ 850
Total Margin %	13%			20%	8%			13%
% Revenues by Geography:								
Americas	55%			53%	55%			54%
EMEA	30%			30%	28%			28%
Asia Pacific	15%			17%	17%			18%
Revenues by Software Offerings:								
New software licenses	$ 1,982	-7%	0%	$ 2,128	$ 5,397	-4%	-1%	$ 5,647
Cloud software-as-a-service and platform-as-a-service	372	30%	34%	287	1,069	34%	36%	800
Total new software licenses and cloud software subscriptions revenues	$ 2,354	-3%	4%	$ 2,415	$ 6,466	0%	4%	$ 6,447
% Revenues by Software Offerings:								
New software licenses	84%			88%	83%			88%
Cloud software-as-a-service and platform-as-a-service	16%			12%	17%			12%

(1) Excluding stock-based compensation

(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

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Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: Excluding the effects of unfavorable currency rate fluctuations of 7 percentage points, total new software licenses and cloud software subscriptions revenues increased by 4 percentage points in the third quarter of fiscal 2015 due to growth in our cloud SaaS and PaaS revenues and contributions from our recent acquisitions. On a constant currency basis, the Americas and EMEA regions contributed to the increase in our new software licenses and cloud software subscription revenues during the third quarter of fiscal 2015, and were partially offset by revenue declines in the Asia Pacific region.

As a result of our acquisitions, we recorded adjustments to reduce assumed cloud SaaS and PaaS obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, cloud SaaS and PaaS revenues in the amounts of $3 million and $5 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the third quarters of fiscal 2015 and 2014, respectively. To the extent underlying cloud SaaS and PaaS contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the cloud SaaS and PaaS contracts over the respective contractual periods.

In reported currency, new software licenses revenues earned from transactions of $3 million or greater decreased by 5% in the third quarter of fiscal 2015 and represented 28% of our new software licenses revenues in each of the third quarters of fiscal 2015 and fiscal 2014.

Excluding the effects of favorable currency rate fluctuations of 5 percentage points, total new software licenses and cloud software subscriptions expenses increased in the third quarter of fiscal 2015 primarily due to higher employee related expenses from increased headcount, higher variable compensation expenses and higher cloud SaaS and PaaS expenses incurred to support the related revenues increase.

Excluding the effects of unfavorable currency rate fluctuations, total new software licenses and cloud software subscriptions margin and margin as a percentage of revenues decreased in the third quarter of fiscal 2015 as our total revenues increased at a slower rate than our total expenses for this operating segment.

First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: Excluding the effects of unfavorable currency rate fluctuations of 4 percentage points, total new software licenses and cloud software subscriptions revenues increased in the first nine months of fiscal 2015 due primarily to similar reasons as noted above. Excluding the effects of currency rate fluctuations, the Americas and EMEA regions contributed to the increase in our new software licenses and cloud software subscription revenues during the first nine months of fiscal 2015, and were partially offset by revenue declines in the Asia Pacific region.

Due to our application of business combination accounting rules, cloud SaaS and PaaS revenues in the amounts of $9 million and $12 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the first nine months of fiscal 2015 and 2014, respectively. In reported currency, new software licenses revenues earned from transactions of $3 million or greater decreased by 8% in the first nine months of fiscal 2015 and represented 28% of our new software licenses revenues in the first nine months of fiscal 2015 in comparison to 29% in the first nine months of fiscal 2014.

Excluding the effects of favorable currency rate fluctuations, total new software licenses and cloud software subscriptions expenses increased, and margin and margin as a percentage of revenues decreased, in the first nine months of fiscal 2015 primarily due to the same reasons as noted above.

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Cloud Infrastructure-as-a-Service: Our cloud infrastructure-as-a-service segment 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. Cloud infrastructure-as-a-service expenses consist primarily of personnel related expenditures, technology infrastructure expenditures and facilities costs. For all periods presented, our cloud-infrastructure-as-a-service segment s revenues and expenses were substantially attributable to our comprehensive software and hardware management, maintenance and hosting services.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Cloud Infastructure-as-a-Service Revenues:								
Americas	$ 115	29%	31%	$ 90	$ 326	33%	34%	$ 245
EMEA	31	22%	30%	25	97	52%	52%	63
Asia Pacific	9	40%	55%	6	25	35%	44%	19
Total revenues	155	28%	32%	121	448	37%	38%	327
Expenses:								
Cloud infastructure-as-a-service[1]	87	16%	19%	75	251	13%	15%	222
Sales and marketing[1]	25	86%	92%	13	65	50%	52%	43
Stock-based compensation	1	24%	24%	1	3	22%	22%	2
Amortization of intangible assets[2]	1	*	*		1	*	*	
Total expenses	114	27%	30%	89	320	20%	21%	267
Total Margin	$ 41	29%	36%	$ 32	$ 128	112%	116%	$ 60
Total Margin %	26%			26%	29%			18%
% Revenues by Geography:								
Americas	74%			74%	73%			75%
EMEA	20%			21%	21%			19%
Asia Pacific	6%			5%	6%			6%

(1) Excluding stock-based compensation

(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

* Not meaningful

On a constant currency basis, total cloud IaaS revenues increased in the fiscal 2015 periods presented primarily due to growth in our comprehensive software and hardware management, maintenance and hosting services and due to revenue contributions from our recent acquisitions. During the third quarter of fiscal 2015 and first nine months of fiscal 2015, on a constant currency basis, the Americas region contributed 71% and 67% of our IaaS revenues growth, respectively, the EMEA region contributed 20% and 27% of our IaaS revenues growth, respectively, and the Asia Pacific region contributed 9% and 6% of our IaaS revenues growth, respectively.

On a constant currency basis, total cloud IaaS expenses increased in the fiscal 2015 periods presented primarily due to increased employee related expenses associated with increased headcount and increased infrastructure expenses to support our increase in IaaS revenues.

Excluding the effects of unfavorable currency exchange variances, total margin and margin as a percentage of revenues increased during the fiscal 2015 periods presented as total revenues increased at a faster rate than our total expenses for this operating segment.

Software License Updates and Product Support: Software license updates grant customers rights to unspecified software product upgrades and maintenance releases and patches released during the support period. Product support includes internet access to technical content as well as internet and telephone access to technical support personnel in our global support centers. Expenses associated with our software license updates and

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product support line of business include the cost of providing the support services, largely personnel related expenses, and the amortization of our intangible assets associated with software support contracts and customer relationships obtained from acquisitions.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	**2015**	**Actual**	**Constant**	**2014**	**2015**	**Actual**	**Constant**	**2014**
Software License Updates and Product Support Revenues:								
Americas	$ 2,613	6%	8%	$ 2,470	$ 7,770	6%	7%	$ 7,336
EMEA	1,437	-4%	9%	1,493	4,503	3%	9%	4,364
Asia Pacific	611	2%	9%	601	1,888	4%	8%	1,811
Total revenues	4,661	2%	8%	4,564	14,161	5%	8%	13,511
Expenses:								
Software license updates and product support[1]	294	5%	11%	280	852	1%	4%	844
Stock-based compensation	6	2%	2%	6	15	-10%	-10%	16
Amortization of intangible assets[2]	168	-15%	-15%	198	566	-7%	-7%	606
Total expenses	468	-3%	0%	484	1,433	-2%	0%	1,466
Total Margin	$ 4,193	3%	9%	$ 4,080	$ 12,728	6%	9%	$ 12,045
Total Margin %	90%			89%	90%			89%
% Revenues by Geography:								
Americas	56%			54%	55%			55%
EMEA	31%			33%	32%			32%
Asia Pacific	13%			13%	13%			13%

(1) Excluding stock-based compensation

(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: Excluding the effects of unfavorable currency rate fluctuations of 6 percentage points, software license updates and product support revenues increased by 8% in the third quarter of fiscal 2015 as a result of new software licenses sold with substantially all of these customers electing to purchase software support contracts during the trailing 4-quarter period, the renewal of substantially all of the software support customer base eligible for renewal during the trailing 4-quarter period and incremental revenues from our recent acquisitions. Excluding the effect of currency rate fluctuations, the Americas contributed 49%, EMEA contributed 36% and Asia Pacific contributed 15% to the increase in software license updates and product support revenues during the third quarter of fiscal 2015.

As a result of our acquisitions, we recorded adjustments to reduce assumed software support obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, software license updates and product support revenues related to software support contracts in the amounts of $3 million and $1 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the third quarters of 2015 and 2014, respectively. Historically, substantially all of our software license customers, including customers from acquired companies, renew their software support contracts when such contracts are eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full values of these contracts over the support periods, the substantial majority of which are one year in duration.

Excluding the effects of favorable foreign currency rate fluctuations of 3 percentage points, total software license updates and product support expenses were flat during the third quarter of fiscal 2015 as increased headcount related expenses from our recent acquisitions were offset by lower amortization of intangible assets, in each case during the third quarter of fiscal 2015 in comparison to the third quarter of fiscal 2014.

Excluding the effects of unfavorable currency rate fluctuations of 6 percentage points, total margin and margin as a percentage of revenues for this segment increased during the third quarter of fiscal 2015 as our total revenues for this segment increased while our total expenses were flat.

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First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: Excluding the effects of unfavorable currency variations of 3 percentage points, software license updates and product support revenues increased by 8% in the first nine months of fiscal 2015 primarily due to the same reasons as noted above. Excluding the effects of currency rate fluctuations, the Americas contributed 50%, EMEA contributed 36% and Asia Pacific contributed 14% to the increase in software license updates and product support revenues during the first nine months of fiscal 2015.

Due to our application of business combination accounting rules, software license updates and product support revenues related to software support contracts in the amounts of $9 million and $2 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the first nine months of fiscal 2015 and 2014, respectively.

Excluding the effects of favorable foreign currency rate fluctuations, total software license updates and product support expenses were flat during the first nine months of fiscal 2015 as expense increases associated with increased headcount from our recent acquisitions were substantially offset by lower statutory obligation expenses in the jurisdictions in which we operate and lower amortization of intangible assets, in each case in comparison to the first nine months of fiscal 2014.

In constant currency, total margin and margin as a percentage of revenues for this segment increased during the first nine months of fiscal 2015 as our total revenues for this segment increased while our total expenses were flat.

Hardware Systems Business

Our hardware systems business consists of our hardware systems products segment and hardware systems support segment.

Hardware Systems Products: Hardware systems products revenues are primarily generated from the sales of our computer server, storage, networking and point-of-sale hardware products, and include sales of our Oracle Engineered Systems. We market and sell our hardware systems products through our direct sales force and indirect channels such as independent distributors and value added resellers. Operating expenses associated with our hardware systems products include the cost of hardware systems products, which consists of expenses for materials and labor used to produce these products by our internal manufacturing operations or by third party manufacturers, warranty expenses and the impact of periodic changes in inventory valuation, including the impact of inventory determined to be excess and obsolete. Operating expenses associated with our hardware systems products also include sales and marketing expenses, which are largely personnel related and include variable compensation earned by our sales force for the sales of our hardware products, and amortization of intangible assets.

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(Dollars in millions)	Three Months Ended February 28, 2015	Percent Change Actual	Percent Change Constant	2014	Nine Months Ended February 28, 2015	Percent Change Actual	Percent Change Constant	2014
Hardware Systems Products Revenues:								
Americas	$ 375	8%	11%	$ 348	$ 1,051	-1%	0%	$ 1,064
EMEA	203	-7%	9%	218	552	-5%	3%	579
Asia Pacific	134	-16%	-10%	159	404	-13%	-10%	465
Total revenues	712	-2%	6%	725	2,007	-5%	-1%	2,108
Expenses:								
Hardware systems products[1]	366	-3%	5%	378	1,030	-4%	0%	1,074
Sales and marketing[1]	223	-6%	1%	238	665	-8%	-4%	721
Stock-based compensation	5	109%	109%	2	13	52%	52%	9
Amortization of intangible assets[2]	59	-1%	-1%	60	175	-19%	-19%	217
Total expenses	653	-4%	4%	678	1,883	-7%	-3%	2,021
Total Margin	$ 59	28%	35%	$ 47	$ 124	46%	51%	$ 87
Total Margin %	8%			7%	6%			4%
% Revenues by Geography:								
Americas	53%			48%	52%			51%
EMEA	28%			30%	28%			27%
Asia Pacific	19%			22%	20%			22%

(1) Excluding stock-based compensation

(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: Excluding the effects of unfavorable currency rate fluctuations of 8 percentage points, total hardware systems products revenues increased in the third quarter of fiscal 2015 due to incremental revenues from our recently acquired companies, including MICROS, and increases in hardware revenues attributable to our sales of Oracle Engineered Systems. On a constant currency basis, revenues growth in the Americas and EMEA regions was partially offset by a decline in the Asia Pacific region.

Excluding the effects of favorable currency rate variations of 8 percentage points, total hardware systems products operating expenses increased in the third quarter of fiscal 2015 primarily due to an increase in hardware systems products costs associated with increased hardware systems products revenues and an increase in employee related expenses resulting from increased headcount from our recent acquisitions.

Excluding the effects of unfavorable currency rate variations of 7 percentage points, total margin and margin as a percentage of revenues increased in the third quarter of fiscal 2015 as our total revenues increased at a faster rate than our total expenses for this operating segment.

First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: Excluding the effects of currency rate fluctuations, total hardware systems products revenues decreased in the first nine months of fiscal 2015 due to reductions in the sales volumes of certain of our product lines, including lower margin products. This decrease was partially offset by incremental revenues from our recently acquired companies and increases in hardware revenues attributable to our sales of Oracle Engineered Systems.

In constant currency, total hardware systems products operating expenses decreased in the first nine months of fiscal 2015 primarily due to lower bad debt expenses and a reduction in amortization of intangible assets, partially offset by an increase in employee related expenses resulting from increased headcount from our recent acquisitions.

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In constant currency, total margin and margin as a percentage of revenues increased in the first nine months of fiscal 2015 due to the decrease in the total expenses for this segment.

Hardware Systems Support: Our hardware systems support offerings provide customers with software updates for software components that are essential to the functionality of our server, storage, networking and point-of-sale products, such as Oracle Solaris and certain other software products, and can include product repairs, maintenance services and technical support services. Expenses associated with our hardware systems support operating segment include the cost of materials used to repair customer products, the cost of providing support services, largely personnel related expenses, and the amortization of our intangible assets associated with hardware systems support contracts and customer relationships obtained from our acquisitions.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	**2015**	**Actual**	**Constant**	**2014**	**2015**	**Actual**	**Constant**	**2014**
Hardware Systems Support Revenues:								
Americas	$ 311	1%	3%	$ 307	$ 934	1%	2%	$ 926
EMEA	176	-5%	8%	185	544	-2%	3%	554
Asia Pacific	100	-6%	1%	106	313	-2%	1%	320
Total revenues	587	-2%	4%	598	1,791	0%	2%	1,800
Expenses:								
Hardware systems support[1]	216	5%	11%	206	624	0%	2%	626
Stock-based compensation	2	5%	5%	1	4	3%	3%	4
Amortization of intangible assets[2]	38	-35%	-35%	58	123	-29%	-29%	174
Total expenses	256	-4%	1%	265	751	-7%	-4%	804
Total Margin	$ 331	-1%	6%	$ 333	$ 1,040	4%	8%	$ 996
Total Margin %	56%			56%	58%			55%
% Revenues by Geography:								
Americas	53%			51%	52%			51%
EMEA	30%			31%	30%			31%
Asia Pacific	17%			18%	18%			18%

(1) Excluding stock-based compensation

(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: Excluding the effects of unfavorable currency rate fluctuations of 6 percentage points, hardware systems support revenues increased by 4 percentage points in the third quarter of fiscal 2015, primarily due to incremental revenues from our recently acquired companies, including MICROS. The Americas region contributed 35%, EMEA contributed 61% and Asia Pacific contributed 4%, to our constant currency growth in hardware systems support revenues during the third quarter of fiscal 2015.

As a result of our acquisitions, we recorded adjustments to reduce assumed hardware systems support obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, hardware systems support revenues related to hardware systems support contracts in the amounts of $1 million and $2 million that would have been otherwise reported by our acquired businesses as independent entities were not recognized in the third quarters of fiscal 2015 and 2014, respectively. To the extent these underlying hardware systems support contracts are renewed, we will recognize the revenues for the full values of these contracts over the future support periods.

Excluding the effects of favorable currency rate fluctuations of 5 percentage points, total hardware systems support expenses increased in the third quarter of fiscal 2015 primarily due to higher employee related expenses

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resulting from higher headcount from our recent acquisitions, including MICROS, and due to higher bad debt expenses. These constant currency expense increases during the third quarter of fiscal 2015 were partially offset by a decrease in amortization of intangible assets.

Excluding the effects of unfavorable currency rate fluctuations of 7 percentage points, total hardware systems support margin and margin as a percentage of total revenues increased in the third quarter of fiscal 2015 as our total revenues growth exceeded our total operating expenses growth for this segment.

First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: In constant currency, hardware systems support revenues increased in the first nine months of fiscal 2015 due to similar reasons as noted above. The Americas region contributed 47%, EMEA contributed 46% and Asia Pacific contributed 7%, to our constant currency growth in hardware systems support revenues during the first nine months of fiscal 2015.

Due to our application of business combination accounting rules, hardware systems support revenues related to hardware systems support contracts in the amounts of $3 million and $11 million were not recognized in the first nine months of fiscal 2015 and 2014, respectively.

In constant currency, total hardware systems support expenses decreased in the first nine months of fiscal 2015 primarily due to reduced service delivery costs due to operational initiatives and a decrease in amortization of intangible assets, partially offset by higher employee related expenses resulting from higher headcount from our recent acquisitions and higher bad debt expenses.

In constant currency, total hardware systems support margin and margin as a percentage of total revenues increased in the first nine months of fiscal 2015 due to the increase in revenues and the decrease in total expenses for this operating segment.

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Services Business

Our services business consists of consulting, advanced customer support services and education services. Consulting revenues are earned by providing 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 services are provided on-premise and remotely to our customers to enable increased performance and higher availability of their Oracle products and services. Education revenues are earned by providing instructor-led, media-based, internet-based and custom training in the use of our software and hardware offerings. The cost of providing our services consists primarily of personnel related expenses, technology infrastructure expenditures, facilities expenses and external contractor expenses.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Services Revenues:								
Americas	$ 427	-5%	-3%	$ 451	$ 1,311	-6%	-4%	$ 1,388
EMEA	265	-4%	9%	275	820	-1%	4%	829
Asia Pacific	166	5%	12%	158	516	-5%	-2%	545
Total revenues	858	-3%	3%	884	2,647	-4%	-1%	2,762
Expenses:								
Services[1]	716	1%	7%	709	2,156	-1%	2%	2,176
Stock-based compensation	8	44%	44%	6	23	26%	26%	18
Amortization of intangible assets[2]	6	56%	56%	4	17	35%	35%	13
Total expenses	730	2%	8%	719	2,196	-1%	3%	2,207
Total Margin	$ 128	-23%	-17%	$ 165	$ 451	-19%	-16%	$ 555
Total Margin %	15%			19%	17%			20%
% Revenues by Geography:								
Americas	50%			51%	50%			50%
EMEA	31%			31%	31%			30%
Asia Pacific	19%			18%	19%			20%

(1) Excluding stock-based compensation

(2) Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations

Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: Excluding the effects of unfavorable currency rate fluctuations of 6 percentage points, total services revenues increased in the third quarter of fiscal 2015 primarily due to incremental revenues from our recently acquired companies, including MICROS.

Excluding the effects of favorable currency rate fluctuations of 6 percentage points, total services operating expenses increased in the third quarter of fiscal 2015 primarily due to higher employee related expenses resulting from increased headcount from our recent acquisitions.

In constant currency, total services margin and total margin as a percentage of total services revenues decreased during the third quarter of fiscal 2015 as our total expenses increased at a faster rate than our total revenues for this business.

First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: Excluding the effects of currency rate fluctuations, our total services revenues decreased during the first nine months of fiscal 2015 due primarily to revenue decreases in our consulting services and education segments, which were partially offset by incremental revenues from our recently acquired companies, including MICROS.

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Excluding the effects of currency rate fluctuations, our total services expenses increased during the first nine months of fiscal 2015 due to increased employee related expenses resulting from additional headcount from our recent acquisitions and were partially offset by lower variable compensation and lower external contractor costs, each in comparison to the first nine months of fiscal 2014.

In constant currency, total services margin and total margin as a percentage of total services revenues decreased during the first nine months of fiscal 2015 due to a decrease in total revenues and an increase in total expenses for this business.

Research and Development Expenses: Research and development expenses consist primarily of personnel related expenditures. We intend to continue to invest significantly in our research and development efforts because, in our judgment, they are essential to maintaining our competitive position.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Research and development[1]	$ 1,232	3%	5%	$ 1,193	$ 3,708	5%	6%	$ 3,518
Stock-based compensation	138	39%	39%	99	380	34%	34%	285
Total expenses	$ 1,370	6%	8%	$ 1,292	$ 4,088	8%	8%	$ 3,803
% of Total Revenues	15%			14%	15%			14%

(1) Excluding stock-based compensation

On a constant currency basis, total research and development expenses increased during the fiscal 2015 periods presented primarily due to higher employee related expenses resulting from increased headcount, including additional headcount from our recent acquisitions.

General and Administrative Expenses: General and administrative expenses primarily consist of personnel related expenditures for information technology, finance, legal and human resources support functions.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
General and administrative[1]	$ 223	7%	11%	$ 209	$ 683	6%	8%	$ 646
Stock-based compensation	29	-30%	-30%	42	116	-8%	-8%	127
Total expenses	$ 252	0%	4%	$ 251	$ 799	3%	5%	$ 773
% of Total Revenues	3%			3%	3%			3%

(1) Excluding stock-based compensation

On a constant currency basis, total general and administrative expenses increased during the fiscal 2015 periods presented primarily due to higher employee related expenses resulting from increased headcount and higher professional fees.

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Amortization of Intangible Assets: Substantially all of our intangible assets are acquired through our business combinations. We amortize our intangible assets over, and monitor the appropriateness of, the estimated useful lives of these assets. We also periodically review these intangible assets for potential impairment based upon relevant facts and circumstances. For additional information regarding our intangible assets and related amortization, see Note 5 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Software support agreements and related relationships	$ 117	-17%	-17%	$ 141	$ 412	-4%	-4%	$ 430
Hardware systems support agreements and related relationships	37	3%	3%	36	109	2%	2%	107
Developed technology	179	8%	8%	166	526	-2%	-2%	536
Core technology	43	-46%	-46%	79	147	-39%	-39%	242
Customer relationships and contract backlog	80	-2%	-2%	82	237	-9%	-9%	261
SaaS, PaaS and IaaS agreements and related relationships and other	52	37%	37%	38	150	46%	46%	103
Trademarks	19	6%	6%	18	61	15%	15%	53
Total amortization of intangible assets	$ 527	-6%	-6%	$ 560	$ 1,642	-5%	-5%	$ 1,732

Amortization of intangible assets decreased during the fiscal 2015 periods presented due to a reduction in expenses associated with certain of our intangible assets that became fully amortized, partially offset by additional amortization from intangible assets that we acquired in connection with our recent acquisitions, including our acquisitions of MICROS in fiscal 2015 and Responsys in fiscal 2014, among others.

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 certain adjustments after the measurement period has ended and certain other operating items, net. Stock-based compensation expenses included in acquisition related and other expenses resulted from unvested stock 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 stock options and restricted stock-based awards.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Transitional and other employee related costs	$ 14	105%	115%	$ 7	$ 46	159%	165%	$ 17
Stock-based compensation	1	364%	364%		5	51%	51%	4
Professional fees and other, net	(7)	-488%	-582%	2	(39)	-357%	-367%	15
Business combination adjustments, net		98%	100%	(14)		97%	98%	(15)
Total acquisition related and other expenses	$ 8	241%	227%	$ (5)	$ 12	-45%	-47%	$ 21

Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: On a constant currency basis, the increase in acquisition related and other expenses during the third quarter of fiscal 2015 was due to an increase in certain transitional employee related costs, primarily related to our acquisition of MICROS. In addition, we recorded a net benefit related to certain business combination adjustments during the third quarter of fiscal 2014 that reduced our acquisition related and other expenses during that period.

First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: On a constant currency basis, the decrease in acquisition related and other expenses during the first nine months of fiscal 2015 was primarily due to a $53 million benefit recorded in the second quarter of fiscal 2015 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). This decrease was partially offset by an increase in certain transitional employee related costs during the first nine months of fiscal 2015 that primarily related to our acquisition of MICROS.

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Restructuring Expenses: Restructuring expenses result from the execution of management approved restructuring plans that were generally developed to improve our cost structure and/or operations, often in conjunction with our acquisition integration strategies. Restructuring expenses consist of employee severance costs and may also include charges for duplicate facilities and other contract termination costs to improve our cost structure prospectively. For additional information regarding our restructuring plans, see Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Restructuring expenses	$ 48	28%	43%	$ 38	$ 168	16%	20%	$ 146

Restructuring expenses in the fiscal 2015 periods presented primarily related to our 2015 Restructuring Plan and our 2013 Restructuring Plan. Restructuring expenses in the fiscal 2014 periods presented primarily related to our 2013 Restructuring Plan. Our management approved, committed to and initiated these plans in order to restructure and further improve efficiencies in our operations. 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. The total estimated remaining restructuring costs associated with the 2015 Restructuring Plan were approximately $565 million as of February 28, 2015 and the majority of the remaining costs are expected to be incurred through the end of fiscal 2016. Actions pursuant to the 2013 Restructuring Plan were substantially complete as of February 28, 2015 (Note 9 of Notes to Consolidated Financial Statements as included in our Annual Report on Form 10-K for our fiscal year ended May 31, 2014 contains additional information pertaining to our 2013 Restructuring Plan). Our estimated costs are subject to change in future periods.

Interest Expense:

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Interest expense	$ 273	20%	20%	$ 228	$ 817	21%	21%	$ 674

Interest expense increased in the fiscal 2015 periods presented primarily due to higher average borrowings resulting from our issuance of $10.0 billion of senior notes in July 2014. The increases in interest expense during the fiscal 2015 periods presented were partially offset by reductions in interest expense during these periods resulting from the maturity and repayment of $1.5 billion of senior notes and the related fixed to variable interest rate swap agreements in July 2014. See Recent Financing Activities below and Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information regarding our fiscal 2015 borrowings.

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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,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Interest income	$ 82	23%	24%	$ 67	$ 250	33%	32%	$ 189
Foreign currency losses, net	(32)	-79%	-84%	(148)	(105)	-54%	-57%	(226)
Noncontrolling interests in income	(17)	-24%	-23%	(23)	(100)	34%	34%	(75)
Other income, net	7	-46%	-44%	14	20	-61%	-60%	52
Total non-operating income (expense), net	$ 40	145%	158%	$ (90)	$ 65	208%	242%	$ (60)

Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: On a constant currency basis, our non-operating income, net for the third quarter of fiscal 2015 increased due to higher interest income resulting from higher cash, cash equivalent and short-term investment balances, and lower net foreign currency losses. Included in foreign currency losses, net for the third quarter of fiscal 2015 was a remeasurement loss of $23 million related to our Venezuelan subsidiary (refer to Note 1 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional discussion). We recorded non-operating expense, net for the third quarter of fiscal 2014 primarily due to a foreign currency remeasurement loss of $111 million that also related to our Venezuelan subsidiary (refer to our Annual Report on Form 10-K for the year ended May 31, 2014 for additional discussion).

First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: On a constant currency basis, our non-operating income, net increased during the first nine months of fiscal 2015 primarily due to higher interest income resulting from higher cash, cash equivalent and short-term investment balances, and lower foreign currency losses, net. Foreign currency losses, net during the first nine months of 2015 and 2014 included the foreign currency remeasurement losses related to our Venezuelan subsidiary that are described above.

Provision for Income Taxes: Our effective tax rate in all periods is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to earnings considered as indefinitely reinvested in foreign operations, state taxes, the U.S. research and development tax credit and the U.S. domestic production activity deduction. Future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where we have lower statutory tax rates, by unfavorable changes in tax laws and regulations or by adverse rulings in tax related litigation.

	Three Months Ended February 28,				Nine Months Ended February 28,			
		Percent Change				Percent Change		
(Dollars in millions)	2015	Actual	Constant	2014	2015	Actual	Constant	2014
Provision for income taxes	$ 655	-4%	6%	$ 684	$ 1,956	8%	14%	$ 1,807
Effective tax rate	20.8%			21.0%	21.4%			19.8%

Fiscal Third Quarter 2015 Compared to Fiscal Third Quarter 2014: In reported currency, provision for income taxes in the third quarter of fiscal 2015 decreased, relative to the provision for income taxes during the third quarter of fiscal 2014, primarily due to the retroactive extension of the U.S. research and development tax credit in the third quarter of fiscal 2015.

First Nine Months Fiscal 2015 Compared to First Nine Months Fiscal 2014: Provision for income taxes in the first nine months of fiscal 2015 increased, relative to the provision for income taxes during the first nine months of fiscal 2014, due in substantial part to the effects of acquisition related settlements and tax refund claims with tax authorities in fiscal 2014 that were not present in fiscal 2015.

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Liquidity and Capital Resources

(Dollars in millions)	February 28, 2015	Change	May 31, 2014
Working capital	$ 37,502	11%	$ 33,749
Cash, cash equivalents and marketable securities	$ 43,777	13%	$ 38,819

Working capital: The increase in working capital as of February 28, 2015 in comparison to May 31, 2014 was primarily due to our issuance of $10.0 billion of long-term senior notes in July 2014, the favorable impact to our net current assets resulting from our net income during the first nine months of fiscal 2015, and, to a lesser extent, cash proceeds from stock option exercises. These working capital increases were partially offset by $6.2 billion of net cash used for our acquisitions of MICROS and others, $6.1 billion of cash used for repurchases of our common stock, the reclassification of $2.0 billion of senior notes due January 2016 from long-term to current, and cash used to pay dividends to our stockholders, all of which occurred during the first nine months of fiscal 2015. Our working capital may be impacted by some or all of the aforementioned factors in future periods, the amounts and timing of which are variable.

Cash, cash equivalents and marketable securities: Cash and cash equivalents primarily consist of deposits held at major banks, Tier-1 commercial paper and other securities with original maturities of 90 days or less. Marketable securities primarily consist of time deposits held at major banks, Tier-1 commercial paper, corporate notes, and certain other securities. The increase in cash, cash equivalents and marketable securities at February 28, 2015 in comparison to May 31, 2014 was due to an increase in cash generated from our operating activities, our issuance of $10.0 billion of senior notes in July 2014, and to a lesser extent, cash proceeds from stock option exercises. These increases were partially offset by $6.2 billion of net cash paid for our acquisitions of MICROS and others, $6.1 billion of repurchases of our common stock, the repayment of $1.5 billion of senior notes and the payment of cash dividends to our stockholders, all of which occurred during the first nine months of fiscal 2015. Cash, cash equivalents and marketable securities included $41.5 billion held by our foreign subsidiaries as of February 28, 2015, a significant portion of which was generated from the earnings of these foreign subsidiaries that we consider as indefinitely reinvested in our foreign operations outside the United States. These undistributed earnings that are considered as indefinitely reinvested overseas would be subject to U.S. income tax if repatriated to the United States. The amount of cash, cash equivalents and marketable securities that we report in U.S. Dollars for a significant portion of the cash held by our foreign subsidiaries is subject to translation adjustments caused by changes in foreign currency exchange rates as of the end of each respective reporting period (the offset to which is substantially recorded to accumulated other comprehensive loss in our consolidated balance sheets and is also presented as a line item in our condensed consolidated statements of comprehensive income included elsewhere in this Quarterly Report). As the U.S. Dollar generally strengthened against certain major international currencies during the first nine months of fiscal 2015, the amount of cash, cash equivalents and marketable securities that we reported in U.S. Dollars for these subsidiaries decreased on a net basis as of February 28, 2015 relative to what we would have reported using constant currency rates from our May 31, 2014 balance sheet date.

Days sales outstanding, which we calculate by dividing period end accounts receivable by average daily sales for the quarter, was 40 days at February 28, 2015 compared with 48 days at May 31, 2014. The days sales outstanding calculation excludes the impact of revenue adjustments resulting from business combinations that reduced our acquired cloud SaaS and PaaS obligations, software license updates and product support obligations and hardware systems support obligations to fair value. The decline in days sales outstanding was primarily due to strong collections in our first nine months of fiscal 2015 and seasonality resulting in a large volume of software license and software support balances outstanding as of May 31, 2014.

(Dollars in millions)	Nine Months Ended February 28, 2015	Change	2014
Net cash provided by operating activities	$ 10,053	-4%	$ 10,465
Net cash used for investing activities	$ (15,323)	158%	$ (5,932)
Net cash provided by (used for) financing activities	$ 2,182	196%	$ (2,262)

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Cash flows from operating activities: Our largest source of operating cash flows is cash collections from our customers following the purchase and renewal of their software license updates and product support agreements. Payments from customers for these support agreements are generally received near the beginning of the contracts terms, which are generally one year in length. Over the course of a fiscal year, we also have historically generated cash from the sales of new software licenses, cloud SaaS and PaaS offerings, hardware systems products, hardware systems support arrangements, and services. Our primary uses of cash from operating activities are for employee related expenditures, material and manufacturing costs related to the production of our hardware systems products, taxes and leased facilities.

Net cash provided by operating activities decreased modestly in the first nine months of fiscal 2015 in comparison to the first nine months of fiscal 2014 primarily due to the cash unfavorable effects of foreign currency exchange rate variances on our fiscal 2015 net income of 5 percentage points, and certain cash unfavorable changes in working capital balances, primarily cash unfavorable changes associated with inventories, accrued liabilities and income taxes, all of which occurred during the first nine months of fiscal 2015 in comparison to the corresponding fiscal 2014 period.

Cash flows from investing activities: The changes in cash flows from investing activities primarily relate to acquisitions and the timing of purchases, maturities and sales of our investments in marketable debt securities. We also use cash to invest in capital and other assets, including certain intangible assets, to support our growth.

Net cash used for investing activities increased in the first nine months of fiscal 2015 primarily due to an increase in cash used for acquisitions, net of cash acquired, and an increase in net cash used to purchase marketable securities (net of proceeds received from sales and maturities), in each case compared to the first nine months of fiscal 2014.

Cash flows from financing activities: The changes in cash flows from financing activities primarily relate to borrowings and repayments related to our debt instruments as well as stock repurchases, dividend payments and proceeds from stock option exercises.

Net cash provided by financing activities in the first nine months of fiscal 2015 increased in comparison to net cash used by financing activities during the first nine months of fiscal 2014 primarily due to a net increase in borrowings in the first nine months of fiscal 2015 (we issued $10.0 billion of senior notes during the first nine months of fiscal 2015 in comparison to 2.0 billion and $3.0 billion of senior notes during the first nine months of fiscal 2014) as well as lower stock repurchase activity during the first nine months of fiscal 2015. These favorable impacts to our financing cash flows during the first nine months of fiscal 2015 were partially offset by the repayment of $1.5 billion of borrowings pursuant to senior notes maturities during the first nine months of fiscal 2015 (no repayments during the first nine months of fiscal 2014).

Free cash flow: To supplement our statements of cash flows presented on a GAAP basis, we use non-GAAP measures of cash flows on a trailing 4-quarter basis to analyze cash flows generated from our operations. We believe free cash flow is also useful as one of the bases for comparing our performance with our competitors. The presentation of non-GAAP free cash flow is not meant to be considered in isolation or as an alternative to net income as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity. We calculate free cash flows as follows:

	Trailing 4-Quarters Ended February 28,		
(Dollars in millions)	**2015**	**Change**	**2014**
Net cash provided by operating activities	$ 14,509	-3%	$ 15,029
Capital expenditures[(1)]	(948)	56%	(609)
Free cash flow	$ 13,561	-6%	$ 14,420
Net income	$ 10,827		$ 11,115
Free cash flow as percent of net income	125%		130%

(1) Derived from capital expenditures as reported in cash flows from investing activities as per our condensed consolidated statements of cash flows presented in accordance with U.S. GAAP.

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Long-Term Customer Financing: 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 financial assets because we are considered to have surrendered control of these financial assets. We financed $864 million and $941 million, respectively, or approximately 16% and 17%, respectively, of our new software licenses revenues in the first nine months of fiscal 2015 and 2014, and $103 million and $106 million, respectively, or approximately 5%, of each our hardware systems products revenues in the first nine months of fiscal 2015 and 2014.

Recent Financing Activities:

Cash Dividends: In March 2015, our Board of Directors declared a quarterly cash dividend of $0.15 per share of 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.

Common 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. 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, 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.

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).

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. Additional details regarding the Senior Notes are included in Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

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.

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 notes effectively became variable based on LIBOR. As of February 28, 2015, our 2019 Notes and 2021 Notes had effective interest rates of 0.74% and 0.88%, respectively, after considering the effects of the aforementioned interest rate swap arrangements. We are accounting for these interest rate swap agreements as fair value hedges pursuant to ASC 815, *Derivatives and Hedging*. Additional details regarding our senior notes and related interest rate swap agreements are included in Notes 6 and 9 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Contractual Obligations: During the first nine months of fiscal 2015, there were no significant changes to our estimates of future payments under our fixed contractual obligations and commitments as presented in Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for our fiscal year ended May 31, 2014 other than those items noted under Recent Financing Activities Senior Notes and Interest Rate Swap Agreements above.

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We believe that our current cash, cash equivalents and marketable securities and cash generated from operations will be sufficient to meet our working capital, capital expenditures and contractual obligation requirements. In addition, we believe we could fund any future acquisitions, dividend payments and repurchases of common stock or debt with our internally available cash, cash equivalents and marketable securities, cash generated from operations, additional borrowings or from the issuance of additional securities.

Off-Balance Sheet Arrangements: We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Stock Options and Restricted Stock-Based Awards

Our stock-based compensation program is a key component of the compensation package we provide to attract and retain certain of our talented employees and align their interests with the interests of existing stockholders.

We recognize that stock options and restricted stock-based awards dilute existing stockholders and have sought to control the number of stock options and restricted stock-based awards granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution since June 1, 2011 has been a weighted average annualized rate of 1.9% per year. The potential dilution percentage is calculated as the average annualized new stock options or restricted stock-based awards granted and assumed, net of stock options and restricted stock-based awards forfeited by employees leaving the company, divided by the weighted average outstanding shares during the calculation period. This maximum potential dilution will only result if all stock options are exercised and restricted stock-based awards vest. Of the outstanding stock options at February 28, 2015, which generally have a 10-year exercise period, less than 1.0% had exercise prices higher than the market price of our common stock on such date. In recent years, our stock repurchase program has more than offset the dilutive effect of our stock-based compensation program; however, we may reduce the level of our stock repurchases in the future as we may use our available cash for acquisitions, to pay dividends, to repay or repurchase indebtedness or for other purposes. At February 28, 2015, the maximum potential dilution from all outstanding and unexercised stock options and restricted stock-based awards, regardless of when granted and regardless of whether vested or unvested and including stock options where the strike price is higher than the market price as of such date, was 10.4%.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements, if any, and the impact of these pronouncements on our consolidated financial statements, if any, see Note 1 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Expense Risk

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) and $8.25 billion of fixed rate notes, all of which are further described in the Recent Financing Activities section of Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 2) in this Quarterly Report. Our total borrowings were $32.3 billion as of February 28, 2015, consisting of $30.0 billion of fixed rate borrowings and $2.3 billion of floating rate borrowings (Floating Rate Notes).

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 $2.0 billion of 2.25% senior notes due October 2019 (2019 Notes) and our $1.5 billion of 2.80% senior notes due July 2021 (2021 Notes) so that the interest payable on the 2019 Notes and the 2021 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 the January 2019 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

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agreements pertain to, including the notional amounts and maturity dates. We are accounting for these interest rate swap agreements as fair value hedges pursuant to ASC 815, *Derivatives and Hedging*. Additional details regarding our senior notes and related interest rate swap agreements are included in Notes 6 and 9 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

By issuing the Floating Rate Notes and entering into the aforementioned interest rate swap arrangements, we have assumed risks associated with variable interest rates based upon LIBOR. As of February 28, 2015, the weighted average interest rate associated with our Floating Rate Notes and January 2019 Notes, 2019 Notes and 2021 Notes, after considering the effects of the aforementioned interest rate swap arrangements, was 0.77%. Changes in the overall level of interest rates affect the interest expense that we recognize in our statements of operations. An interest rate risk sensitivity analysis is used to measure interest rate risk by computing estimated changes in cash flows as a result of assumed changes in market interest rates. As of February 28, 2015, if LIBOR-based interest rates increased by 100 basis points, the change would increase our interest expense annually by approximately $73 million as it relates to our fixed to variable interest rate swap agreements and floating rate borrowings.

In July 2014, our 3.75% senior notes due July 2014 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 were no other significant changes to our quantitative and qualitative disclosures about market risk during the first nine months of fiscal 2015. Please refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our Annual Report on Form 10-K for our fiscal year ended May 31, 2014 for a more complete discussion of the market risks we encounter.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: Based on our management s evaluation (with the participation of our Principal Executive Officers and our Principal Financial Officer), as of the end of the period covered by this Quarterly Report, our Principal Executive Officers and our Principal Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) were effective to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms and is accumulated and communicated to our management (including our Principal Executive Officers and our Principal Financial Officer) as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting: There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls: Our management, including our Principal Executive Officers and our Principal Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The material set forth in Note 14 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended May 31, 2014. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition or operating results in the future.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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.

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 repurchases 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.

The following table summarizes the stock repurchase activity for the three months ended February 28, 2015 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

(in millions, except per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
December 1, 2014 December 31, 2014	16.2	$ 43.15	16.2	$ 12,541.8
January 1, 2015 January 31, 2015	15.1	$ 43.44	15.1	$ 11,885.1
February 1, 2015 February 28, 2015	14.8	$ 43.52	14.8	$ 11,240.6
Total	46.1	$ 43.36	46.1	

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Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference					Filed Herewith
		Form	File No.	Exhibit	Filing Date	Filed By	
31.01	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer						X
31.02	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive and Financial Officer						X
32.01	Section 1350 Certification of Principal Executive Officers and Principal Financial Officer						X
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of February 28, 2015 and May 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended February 28, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended February 28, 2015 and 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended February 28, 2015 and 2014 and (v) Notes to Condensed Consolidated Financial Statements						X

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Oracle Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORACLE CORPORATION

Date: March 19, 2015

By: /s/ Safra A. Catz
Safra A. Catz
Chief Executive Officer and Director

(Principal Executive and Financial Officer)

Date: March 19, 2015

By: /s/ William Corey West
William Corey West
Senior Vice President, Corporate Controller and

Chief Accounting Officer