

ORACLE CORP
Form 10-Q
March 17, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended February 28, 2017

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

54-2185193
(I.R.S. Employer
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 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 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

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

The number of shares of registrant's common stock outstanding as of March 13, 2017 was: 4,114,684,000.

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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 that we will continue to acquire companies, products, services and technologies to further our corporate strategy;

our belief that our acquisitions should allow us to grow and continue to make investments in research and development;

our expectation that the total revenues of our cloud and on-premise software business on a constant currency basis generally will continue to increase due to demand for our on-premise software products and software license updates and product support offerings, expected growth from our cloud software as a service (SaaS), platform as a service (PaaS) and infrastructure as a service (IaaS) offerings, and contributions from acquisitions;

our belief that our Oracle Cloud IaaS offerings complement our cloud SaaS and PaaS offerings and allow us to offer customers additional opportunities to access Oracle technologies through the Oracle Cloud;

our expectation that we will continue to place significant strategic emphasis on growing our SaaS, PaaS and IaaS offerings, which will affect the growth of our cloud SaaS, PaaS and IaaS revenues and our new software license revenues and the related expenses;

our intention that we will renew our cloud SaaS, PaaS and IaaS contracts when they are eligible for renewal;

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 cloud and on-premise software business;

our expectation that we will 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;

our international operations providing a significant portion of our total revenues and expenses;

the sufficiency of our sources of funding for working capital, capital expenditures, contractual obligations, acquisitions, dividends, stock repurchases, debt repayments and other matters;

our belief that we have adequately provided under U.S. generally accepted accounting principles for outcomes related to our tax audits and that the final outcome of our tax related examinations, agreements or judicial proceedings will not have a material effect on our

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results of operations, and our belief that our net deferred tax assets will be realized in the foreseeable future;

our estimates and projections regarding potential future goodwill impairment losses;

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;

the possibility that certain legal proceedings to which we are a party could have a material impact to our future cash flows and results of operations;

our expectations regarding the timing and amount of expenses relating to the Fiscal 2017 Oracle Restructuring Plan and the improved efficiencies in our operations that such plan will create;

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the timing and amount of our stock repurchases;

our expectations regarding the impact of recent accounting pronouncements on our consolidated financial statements;

our expectation that to the extent customers renew support contracts or cloud SaaS, PaaS and IaaS contracts from companies that we have acquired, we will recognize revenues for the full contracts' values over the respective renewal periods;

our ability to predict quarterly hardware 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 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, strives, should, is 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, 2016 and our other Quarterly Reports on Form 10-Q filed by us in our fiscal year 2017, which runs from June 1, 2016 to May 31, 2017.

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.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****ORACLE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

As of February 28, 2017 and May 31, 2016

(Unaudited)

(in millions, except per share data)	February 28, 2017	May 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,748	\$ 20,152
Marketable securities	39,604	35,973
Trade receivables, net of allowances for doubtful accounts of \$300 and \$327 as of February 28, 2017 and May 31, 2016, respectively	3,721	5,385
Inventories	391	212
Prepaid expenses and other current assets	2,547	2,591
Total current assets	66,011	64,313
Non-current assets:		
Property, plant and equipment, net	5,070	4,000
Intangible assets, net	7,788	4,943
Goodwill, net	42,504	34,590
Deferred tax assets	918	1,291
Other assets	3,091	3,043
Total non-current assets	59,371	47,867
Total assets	\$ 125,382	\$ 112,180
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and other borrowings, current	\$ 3,498	\$ 3,750
Accounts payable	481	504
Accrued compensation and related benefits	1,516	1,966
Deferred revenues	7,388	7,655
Other current liabilities	2,907	3,333
Total current liabilities	15,790	17,208
Non-current liabilities:		
Notes payable and other borrowings, non-current	50,469	40,105
Income taxes payable	5,162	4,908
Other non-current liabilities	2,938	2,169

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Total non-current liabilities	58,569	47,182
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: 4,115 shares and 4,131 shares as of February 28, 2017 and May 31, 2016, respectively		
	25,970	24,217
Retained earnings	25,576	23,888
Accumulated other comprehensive loss	(931)	(816)
Total Oracle Corporation stockholders' equity	50,615	47,289
Noncontrolling interests	408	501
Total equity	51,023	47,790
Total liabilities and equity	\$ 125,382	\$ 112,180

See notes to condensed consolidated financial statements.

Table of Contents**ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three and Nine Months Ended February 28, 2017 and February 29, 2016****(Unaudited)**

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Revenues:				
Cloud software as a service and platform as a service	\$ 1,011	\$ 583	\$ 2,686	\$ 1,517
Cloud infrastructure as a service	178	152	525	477
Total cloud revenues	1,189	735	3,211	1,994
New software licenses	1,414	1,680	3,792	4,509
Software license updates and product support	4,762	4,669	14,331	14,048
Total on-premise software revenues	6,176	6,349	18,123	18,557
Total cloud and on-premise software revenues	7,365	7,084	21,334	20,551
Hardware products	520	604	1,478	1,746
Hardware support	508	531	1,559	1,639
Total hardware revenues	1,028	1,135	3,037	3,385
Total services revenues	812	793	2,464	2,517
Total revenues	9,205	9,012	26,835	26,453
Operating expenses:				
Sales and marketing ⁽¹⁾	2,004	1,903	5,883	5,578
Cloud software as a service and platform as a service ⁽¹⁾	380	292	1,060	847
Cloud infrastructure as a service ⁽¹⁾	125	88	333	268
Software license updates and product support ⁽¹⁾	270	293	786	877
Hardware products ⁽¹⁾	290	338	775	967
Hardware support ⁽¹⁾	147	171	439	526
Services ⁽¹⁾	680	657	2,073	2,058
Research and development	1,521	1,419	4,551	4,253
General and administrative	241	290	859	832
Amortization of intangible assets	397	408	1,010	1,283
Acquisition related and other	30	11	84	35
Restructuring	161	115	346	293
Total operating expenses	6,246	5,985	18,199	17,817
Operating income	2,959	3,027	8,636	8,636
Interest expense	(450)	(360)	(1,317)	(1,105)
Non-operating income, net	189	65	437	179
Income before provision for income taxes	2,698	2,732	7,756	7,710

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Provision for income taxes	459	590	1,653	1,623
Net income	\$ 2,239	\$ 2,142	\$ 6,103	\$ 6,087
Earnings per share:				
Basic	\$ 0.55	\$ 0.51	\$ 1.49	\$ 1.43
Diluted	\$ 0.53	\$ 0.50	\$ 1.45	\$ 1.41
Weighted average common shares outstanding:				
Basic	4,107	4,182	4,110	4,246
Diluted	4,204	4,256	4,207	4,328
Dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.45

⁽¹⁾ Exclusive of amortization of intangible assets, which is shown separately.
See notes to condensed consolidated financial statements.

Table of Contents**ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Three and Nine Months Ended February 28, 2017 and February 29, 2016****(Unaudited)**

(in millions)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net income	\$ 2,239	\$ 2,142	\$ 6,103	\$ 6,087
Other comprehensive income (loss), net of tax:				
Net foreign currency translation gains (losses)	32	142	(39)	9
Net unrealized gains on defined benefit plans	9	5	16	25
Net unrealized gains (losses) on marketable securities	96	69	(117)	(47)
Net unrealized gains (losses) on cash flow hedges	4	(23)	25	(37)
Total other comprehensive income (loss), net	141	193	(115)	(50)
Comprehensive income	\$ 2,380	\$ 2,335	\$ 5,988	\$ 6,037

See notes to condensed consolidated financial statements.

Table of Contents**ORACLE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Months Ended February 28, 2017 and February 29, 2016****(Unaudited)**

(in millions)	Nine Months Ended	
	February 28, 2017	February 29, 2016
Cash flows from operating activities:		
Net income	\$ 6,103	\$ 6,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	722	643
Amortization of intangible assets	1,010	1,283
Deferred income taxes	111	(143)
Stock-based compensation	1,017	768
Tax benefits on the vesting of restricted stock-based awards and exercise of stock options	378	188
Other, net	96	116
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	1,673	1,746
(Increase) decrease in inventories	(178)	87
Decrease in prepaid expenses and other assets	308	95
Decrease in accounts payable and other liabilities	(862)	(890)
Decrease in income taxes payable	(388)	(112)
(Decrease) increase in deferred revenues	(330)	24
Net cash provided by operating activities	9,660	9,892
Cash flows from investing activities:		
Purchases of marketable securities and other investments	(15,571)	(21,549)
Proceeds from maturities and sales of marketable securities and other investments	11,825	18,845
Acquisitions, net of cash acquired	(10,406)	(313)
Capital expenditures	(1,496)	(1,009)
Net cash used for investing activities	(15,648)	(4,026)
Cash flows from financing activities:		
Payments for repurchases of common stock	(3,067)	(8,467)
Proceeds from issuances of common stock	1,309	802
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(237)	(82)
Payments of dividends to stockholders	(1,844)	(1,918)
Proceeds from borrowings, net of issuance costs	13,932	-
Repayments of borrowings	(4,094)	(2,000)
Distributions to noncontrolling interests	(200)	(85)
Net cash provided by (used for) financing activities	5,799	(11,750)
Effect of exchange rate changes on cash and cash equivalents	(215)	(249)
Net decrease in cash and cash equivalents	(404)	(6,133)
Cash and cash equivalents at beginning of period	20,152	21,716
Cash and cash equivalents at end of period	\$ 19,748	\$ 15,583
Non-cash investing and financing transactions:		

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Fair values of restricted stock-based awards and stock options assumed in connection with acquisitions	\$	90	\$	
(Decrease) increase in unsettled repurchases of common stock	\$	(69)	\$	3
Increase (decrease) in unsettled investment purchases	\$	5	\$	(148)
See notes to condensed consolidated financial statements.				

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2017

(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 (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (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, 2016.

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, 2017. Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect total revenues, operating income or net income.

During the first nine months of fiscal 2017, we adopted Accounting Standards Update (ASU) 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). As required by ASU 2016-09, excess tax benefits recognized on stock-based compensation expense are reflected in the condensed consolidated statements of operations as a component of the provision for income taxes on a prospective basis. As required by ASU 2016-09, excess tax benefits recognized on stock-based compensation expense are classified as an operating activity in our condensed consolidated statements of cash flows and we have applied this provision on a retrospective basis. For the nine months ended February 29, 2016, net cash provided by operating activities increased by \$61 million with a corresponding offset to net cash used for financing activities. Finally, ASU 2016-09 allows for the option to account for forfeitures as they occur, rather than estimating expected forfeitures over the course of a vesting period. We have elected to account for forfeitures as they occur and the net cumulative effect of this change was recognized as a \$9 million increase to additional paid in capital, a \$3 million increase to deferred tax assets and a \$6 million reduction to retained earnings as of June 1, 2016.

In addition, in fiscal 2017, we also adopted the following Accounting Standards Updates, none of which had a material impact to our reported financial position or results of operations and cash flows:

ASU 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control*;

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*; and

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*.

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 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, 2016.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2017****(Unaudited)****Cash, Cash Equivalents and Restricted Cash**

Restricted cash that was included within cash and cash equivalents as presented within our condensed consolidated balance sheets as of February 28, 2017 and May 31, 2016 and our condensed consolidated statements of cash flows for the nine months ended February 28, 2017 and February 29, 2016 was nominal.

Acquisition Related and Other Expenses

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

(in millions)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Transitional and other employee related costs	\$ 15	\$ 8	\$ 31	\$ 40
Stock-based compensation	22		33	3
Professional fees and other, net	(2)	1	26	10
Business combination adjustments, net	(5)	2	(6)	(18)
Total acquisition related and other expenses	\$ 30	\$ 11	\$ 84	\$ 35

Included in acquisition related and other expenses during the nine months ended February 29, 2016 is an acquisition related benefit of \$19 million.

Non-Operating Income, net

Non-operating income, 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.

(in millions)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Interest income	\$ 197	\$ 141	\$ 578	\$ 382
Foreign currency losses, net	(20)	(15)	(102)	(68)
Noncontrolling interests in income	(20)	(36)	(95)	(95)
Other income (loss), net	32	(25)	56	(40)

Total non-operating income, net	\$ 189	\$ 65	\$ 437	\$ 179
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Sales of Financing Receivables

We offer certain of our customers the option to acquire our software products, hardware 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

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receivables sold to financial institutions were \$296 million and \$1.3 billion for the three and nine months ended February 28, 2017, respectively, and \$304 million and \$1.5 billion for the three and nine months ended February 29, 2016, respectively.

Recent Accounting Pronouncements

Goodwill Impairment: In January 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under the amendments in ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for us in our first quarter of fiscal 2021 on a prospective basis, and earlier adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of our pending adoption of ASU 2017-04 on our consolidated financial statements.

Business Combinations: In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which provides guidance for evaluating whether certain transactions are to be accounted for as an acquisition (or disposal) of either a business or an asset. ASU 2017-01 is effective for us in our first quarter of fiscal 2019 on a prospective basis, and earlier adoption is permitted for transactions occurring subsequent to the issuance of ASU 2017-01 and not reported in the financial statements. We are currently evaluating the impact of our pending adoption of ASU 2017-01 on our consolidated financial statements.

Income Taxes: In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16), which changes the timing of when certain intercompany transactions are recognized within the provision for income taxes. ASU 2016-16 is effective for us in our first quarter of fiscal 2019 on a modified retrospective basis, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-16 on our consolidated financial statements.

Financial Instruments: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which requires measurement and recognition of expected credit losses for financial assets held. ASU 2016-13 is effective for us in our first quarter of fiscal 2021, and earlier adoption is permitted beginning in the first quarter of fiscal 2020. We are currently evaluating the impact of our pending adoption of ASU 2016-13 on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for us in our first quarter of fiscal 2019, and earlier adoption is not permitted except for certain provisions. We currently do not expect that our pending adoption of ASU 2016-01 will have a material effect on our consolidated financial statements.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. ASU 2016-02 is effective for us in our first quarter of fiscal 2020 on a modified retrospective basis, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements, and we currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2017

(Unaudited)

and right-of-use assets upon our adoption of ASU 2016-02, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption.

Revenue Recognition: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606* and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively (ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively, and collectively Topic 606). Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 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. Topic 606 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 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, among others. Topic 606 also provides guidance on the recognition of costs related to obtaining customer contracts. Topic 606 is effective for us as of either our first quarter of fiscal 2018 or our first quarter of fiscal 2019 using either of two methods: (1) retrospective application of Topic 606 to each prior reporting period presented with the option to elect certain practical expedients as defined within Topic 606 or (2) retrospective application of Topic 606 with the cumulative effect of initially applying Topic 606 recognized at the date of initial application and providing certain additional disclosures as defined per Topic 606. Preliminarily, we plan to adopt Topic 606 in the first quarter of fiscal 2019 pursuant to the aforementioned adoption method (1) and we do not believe there will be a material impact to our revenues upon adoption. We are continuing to evaluate the impact to our revenues related to our pending adoption of Topic 606 and our preliminary assessments are subject to change. We are also continuing to evaluate the provisions of Topic 606 related to costs for obtaining customer contracts.

2. ACQUISITIONS

Acquisition of NetSuite Inc., a Related Party

On July 28, 2016, we entered into an Agreement and Plan of Merger (Merger Agreement) with NetSuite Inc. (NetSuite), a provider of cloud-based enterprise resource planning (ERP) software and related applications and, as described further below, a related party to Oracle.

Pursuant to the Merger Agreement, we commenced a tender offer on August 18, 2016 to purchase all of the issued and outstanding shares of NetSuite common stock (NetSuite Shares) at a purchase price of \$109.00 per share, net to the seller in cash, without interest thereon, based upon the terms and subject to the conditions set forth in the Offer to Purchase dated August 18, 2016, and in the related Letter of Transmittal. On November 7, 2016, pursuant to the terms of the tender offer and applicable Delaware law, we accepted and paid for the substantial majority of outstanding NetSuite Shares and effectuated the merger of NetSuite with and into a wholly-owned subsidiary of Oracle and NetSuite became an indirect, wholly-owned subsidiary of Oracle. Pursuant to the Merger Agreement, NetSuite Shares that remained outstanding and were not acquired by us were converted into, and cancelled in exchange for, the right to receive \$109.00 per share in cash. The unvested equity awards to acquire NetSuite Shares 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 NetSuite to, among other things, expand our cloud software as a service offerings with a complementary set of cloud ERP and related cloud software applications for customers. We have included the financial results of NetSuite in our consolidated financial statements from the date of acquisition.

Lawrence J. Ellison, Oracle's Chairman of the Board and Chief Technology Officer and Oracle's largest stockholder, is an affiliate of NetSuite's largest stockholder, NetSuite Restricted Holdings LLC (a single member

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2017****(Unaudited)**

LLC investment entity whose interests are beneficially owned by a trust controlled by Mr. Ellison), which owned approximately 40% of the issued and outstanding NetSuite Shares immediately prior to the conclusion of the merger. Oracle's Board of Directors appointed a Special Committee (comprised solely of directors who are independent of the management of Oracle, Mr. Ellison, his family members and any affiliated entities, and NetSuite) to which it delegated the full and exclusive power, authority and discretion of the Board to evaluate, assess, and approve the NetSuite transaction on its behalf. The Special Committee engaged its own independent legal counsel and its own independent financial advisor to advise it on the transaction. The financial advisor provided the Special Committee with a fairness opinion in connection with the transaction. After extensive deliberations, the Special Committee concluded that the transaction terms were fair to Oracle and the transaction was in the best interests of Oracle and its stockholders. The Special Committee unanimously approved the transaction on behalf of Oracle and the Board.

The total preliminary purchase price for NetSuite was approximately \$9.1 billion, which consisted of approximately \$9.0 billion in cash and \$78 million for the fair values of restricted stock-based awards and stock options assumed. 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 on 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 tangible liabilities and intangible assets acquired from NetSuite:

(in millions)	
Cash and cash equivalents	\$ 481
Trade receivables, net	32
Other assets	111
Intangible assets	3,157
Goodwill	6,713
Accounts payable and other liabilities	(132)
Deferred revenues	(163)
Debt	(342)
Deferred tax liabilities, net	(777)
 Total	 \$ 9,080

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

Other Fiscal 2017 and Fiscal 2016 Acquisitions

During the first nine months of fiscal 2017, we acquired certain companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not individually or in the aggregate significant. We have included the financial results of the acquired 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 \$2.1 billion, which consisted of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2017

(Unaudited)

approximately \$2.1 billion in cash and \$12 million for the fair values of restricted stock-based awards and stock options assumed. We preliminarily recorded \$196 million of net tangible assets and \$698 million of identifiable intangible assets, based on their estimated fair values, and \$1.2 billion of residual goodwill.

The preliminary fair value estimates for the assets acquired and liabilities assumed for our acquisitions completed during the first nine months of fiscal 2017 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, income and non-income based taxes and residual goodwill.

We also have entered into certain non-material agreements to acquire certain companies and expect these proposed acquisitions to close during the fourth quarter of fiscal 2017.

During fiscal 2016, we acquired certain companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, NetSuite and certain other companies that we acquired since the beginning of fiscal 2016 that were considered relevant for the purposes of unaudited pro forma financial information disclosure as if the companies were combined as of the beginning of fiscal 2016. The unaudited pro forma financial information for all periods presented included the business combination accounting effects resulting from these acquisitions, including amortization charges from acquired intangible assets (certain of which are preliminary), stock-based compensation charges for unvested restricted stock-based awards and stock options assumed, if any, and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2016. The unaudited 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 2016.

The unaudited pro forma financial information for the three and nine months ended February 28, 2017 combined the historical results of Oracle for the three and nine months ended February 28, 2017, the historical results of NetSuite for the six month period ended September 30, 2016 (adjusted due to differences in reporting periods and considering the date we acquired NetSuite) and the historical results of certain other companies that we acquired since the beginning of fiscal 2017 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.

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The unaudited pro forma financial information for the three and nine months ended February 29, 2016 combined the historical results of Oracle for the three and nine month periods ended February 29, 2016, the historical results of NetSuite for the three and nine months ended December 31, 2015 (adjusted due to differences in reporting periods) and the historical results of certain other companies that we acquired since the beginning of fiscal 2016 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 was as follows:

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Total revenues	\$ 9,221	\$ 9,306	\$ 27,313	\$ 27,295
Net income	\$ 2,228	\$ 1,932	\$ 5,797	\$ 5,454
Basic earnings per share	\$ 0.54	\$ 0.46	\$ 1.41	\$ 1.28
Diluted earnings per share	\$ 0.53	\$ 0.45	\$ 1.38	\$ 1.26

3. FAIR VALUE MEASUREMENTS

We perform fair value measurements in accordance with FASB Accounting Standards Codification (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.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2017****(Unaudited)****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 Level 2 inputs are defined above):

(in millions)	February 28, 2017			May 31, 2016		
	Fair Value Measurements Using Input Types			Fair Value Measurements Using Input Types		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Corporate debt securities and other	\$ 235	\$ 38,205	\$ 38,440	\$ 393	\$ 35,095	\$ 35,488
Commercial paper debt securities		4,327	4,327		2,155	2,155
Money market funds	2,002		2,002	3,750		3,750
Derivative financial instruments		23	23		122	122
Total assets	\$ 2,237	\$ 42,555	\$ 44,792	\$ 4,143	\$ 37,372	\$ 41,515
Liabilities:						
Derivative financial instruments	\$	\$ 262	\$ 262	\$	\$ 218	\$ 218

Our marketable securities investments consist of Tier 1 commercial paper debt securities, corporate debt securities and certain other securities. As of February 28, 2017 and May 31, 2016, approximately 43% and 28%, respectively, of our marketable securities investments mature within one year and 57% and 72%, 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 that 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 were 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 \$54.0 billion and \$40.1 billion of borrowings, which consisted primarily of senior notes and the related fair value hedges that were outstanding as of February 28, 2017 and May 31, 2016, respectively, the estimated fair values of senior notes and the related fair value hedges issued by Oracle using Level 2 inputs at February 28, 2017 and May 31, 2016 were \$55.8 billion and \$43.2 billion, respectively.

4. INVENTORIES

Inventories consisted of the following:

(in millions)

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	February 28, 2017	May 31, 2016
Raw materials	\$ 244	\$ 95
Work-in-process	46	31
Finished goods	101	86
Total	\$ 391	\$ 212

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2017****(Unaudited)****5. INTANGIBLE ASSETS AND GOODWILL**

The changes in intangible assets for fiscal 2017 and the net book value of intangible assets as of February 28, 2017 and May 31, 2016 were as follows:

(in millions)	Intangible Assets, Gross		Accumulated Amortization		Intangible Assets, Net		Weighted Average		Useful Life ⁽¹⁾
	May 31, 2016	Additions	February 28, 2017	May 31, 2016	Expense	February 28, 2017	May 31, 2016	February 28, 2017	
	Developed technology	\$ 3,661	\$ 1,645	\$ 5,306	\$ (1,876)	\$ (462)	\$ (2,338)	\$ 1,785	
SaaS, PaaS and IaaS agreements and related relationships	2,034	2,084	4,118	(704)	(251)	(955)	1,330	3,163	10 years
Software support agreements and related relationships	2,419		2,419	(1,287)	(94)	(1,381)	1,132	1,038	
Other	3,452	126	3,578	(2,756)	(203)	(2,959)	696	619	9 years
Total intangible assets, net	\$ 11,566	\$ 3,855	\$ 15,421	\$ (6,623)	\$ (1,010)	\$ (7,633)	\$ 4,943	\$ 7,788	9 years

⁽¹⁾ Represents weighted-average useful lives of intangible assets acquired during fiscal 2017.

Total amortization expense related to our intangible assets was \$397 million and \$1.0 billion, respectively, for the three and nine months ended February 28, 2017, respectively, and \$408 million and \$1.3 billion for the three and nine months ended February 29, 2016, respectively. As of February 28, 2017, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of fiscal 2017	\$ 402
Fiscal 2018	1,362
Fiscal 2019	1,248
Fiscal 2020	1,058
Fiscal 2021	883
Fiscal 2022	779
Thereafter	2,056
Total intangible assets, net	\$ 7,788

The changes in the carrying amounts of goodwill, net, which is generally not deductible for tax purposes, for our operating segments for the nine months ended February 28, 2017 were as follows:

(in millions)

Consulting

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	Cloud Software and On-Premise Software	Software License Updates and Product Support	Hardware Support		Other, net ⁽²⁾	Total Goodwill, net
Balances as of May 31, 2016	\$ 15,747	\$ 14,439	\$ 2,367	\$ 1,759	\$ 278	\$ 34,590
Goodwill from acquisitions	863				7,072	7,935
Goodwill adjustments, net ⁽¹⁾	(287)	(1)		(1)	268	(21)
Balances as of February 28, 2017	\$ 16,323	\$ 14,438	\$ 2,367	\$ 1,758	\$ 7,618	\$ 42,504

(1) Pursuant to our business combinations accounting policy, we recorded goodwill adjustments for the effects on goodwill of changes to net assets acquired during the period that such a change is identified, provided that any such change is within the measurement period (up to one year from the date of the acquisition).

(2) Represents goodwill allocated to our other operating segments and, as of February 28, 2017, approximately \$6.7 billion of NetSuite goodwill that will be allocated based upon the finalization of purchase accounting valuations.

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In July 2016, we issued \$14.0 billion, par value, of fixed-rate senior notes comprised of the following as of February 28, 2017:

(Dollars in millions)	Date of Issuance	Amount	February 28, 2017 Effective Interest Rate
\$4,250, 1.90%, due September 2021	July 2016	\$ 4,250	1.94%
\$2,500, 2.40%, due September 2023	July 2016	2,500	2.40%
\$3,000, 2.65%, due July 2026	July 2016	3,000	2.69%
\$1,250, 3.85%, due July 2036	July 2016	1,250	3.85%
\$3,000, 4.00%, due July 2046	July 2016	3,000	4.00%
Total fixed rate senior notes		\$ 14,000	
Unamortized discount/issuance costs		(63)	
Total fixed rate senior notes, net		\$ 13,937	

We issued the senior notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock and repayment of indebtedness and future acquisitions. The interest is payable semi-annually. We may redeem some or all of the 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 senior notes rank pari passu with any other existing and future unsecured and unsubordinated indebtedness of Oracle Corporation. All existing and future indebtedness and liabilities of the subsidiaries of Oracle Corporation are or will be effectively senior to the senior notes. We were in compliance with all debt-related covenants at February 28, 2017.

Other Fiscal 2017 Borrowings Activities

In connection with our acquisition of NetSuite in the second quarter of fiscal 2017 (see Note 2 above), we assumed \$310 million par value of legacy NetSuite convertible notes (NetSuite Debt), which had a fair value of \$342 million as of the acquisition date. Our acquisition of NetSuite triggered (a) the right of holders of the NetSuite Debt to convert their debt holdings into an amount payable in cash, at any time through December 22, 2016, based upon conversion formulas that are contained within the NetSuite Debt indenture and (b) the obligation of NetSuite to offer to repurchase the NetSuite Debt from each holder at a purchase price equal to par, plus accrued and unpaid interest, which offer expired on December 21, 2016. In December 2016, we repurchased and settled for cash substantially all of the NetSuite Debt.

In the second quarter of fiscal 2017, we assumed \$113 million of debt that bears interest at 3.53% and matures in August 2025 in connection with our acquisition of certain land and buildings.

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In May 2016, we borrowed \$3.8 billion pursuant to three revolving credit agreements with JPMorgan Chase Bank, N.A., as initial lender and administrative agent (the 2016 Credit Agreements). In June 2016, we repaid the \$3.8 billion and the 2016 Credit Agreements expired pursuant to their terms.

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, 2016.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2017****(Unaudited)****7. RESTRUCTURING ACTIVITIES****Fiscal 2017 Oracle Restructuring Plan**

During the first quarter of fiscal 2017, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations due to our recent acquisitions and certain other operational activities (2017 Restructuring Plan). Our management subsequently supplemented the 2017 Restructuring Plan in the third quarter of fiscal 2017 to reflect additional actions that we expect to take. The total estimated restructuring costs associated with the 2017 Restructuring Plan are up to \$615 million and will be recorded to the restructuring expense line item within our condensed consolidated statements of operations as they are incurred. We recorded \$363 million of restructuring expenses in connection with the 2017 Restructuring Plan in the first nine months of fiscal 2017 and we expect to incur the majority of the estimated remaining \$252 million through the end of fiscal 2018. Any changes to the estimates of executing the 2017 Restructuring Plan will be reflected in our future results of operations.

Summary of All Plans

(in millions)	Nine Months Ended February 28, 2017					Accrued February 28, 2017 ⁽²⁾	Total Costs Accrued to Date	Total Expected Program Costs
	Accrued May 31, 2016 ⁽²⁾	Initial Costs ⁽³⁾	Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾			
Fiscal 2017 Oracle Restructuring Plan⁽¹⁾								
Cloud software and on-premise software	\$	\$ 106	\$ (4)	\$ (57)	\$ 1	\$ 46	\$ 102	\$ 151
Software license updates and product support		23		(12)	4	15	23	31
Hardware business		67	(3)	(37)	(1)	26	64	161
Services business		44		(23)		21	44	76
Other		130		(69)		61	130	196
Total Fiscal 2017 Oracle Restructuring Plan	\$	\$ 370	\$ (7)	\$ (198)	\$ 4	\$ 169	\$ 363	\$ 615
Total other restructuring plans ⁽⁶⁾	\$	283	\$ 8	\$ (25)	\$ (153)	\$ (16)	\$ 97	
Total restructuring plans	\$	\$ 283	\$ 378	\$ (32)	\$ (351)	\$ (12)	\$ 266	

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

(2) The balances at February 28, 2017 and May 31, 2016 included \$247 million and \$255 million, respectively, recorded in other current liabilities, and \$19 million and \$28 million, respectively, recorded in other non-current liabilities.

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

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- (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 (primarily the Fiscal 2015 Oracle Restructuring Plan) 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 periodic impact to our condensed consolidated statements of operations was not significant.

Table of Contents**ORACLE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****February 28, 2017****(Unaudited)****8. DEFERRED REVENUES**

Deferred revenues consisted of the following:

(in millions)	February 28, 2017	May 31, 2016
Software license updates and product support	\$ 5,163	\$ 5,864
Cloud SaaS, PaaS and IaaS	1,169	705
Hardware support and other	595	675
Services	366	339
New software licenses	95	72
Deferred revenues, current	7,388	7,655
Deferred revenues, non-current (in other non-current liabilities)	560	536
Total deferred revenues	\$ 7,948	\$ 8,191

Deferred software license updates and product support revenues and deferred hardware 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 cloud software as a service (SaaS), platform as a service (PaaS) and infrastructure as a service (IaaS) revenues generally resulted from customer payments made in advance for our cloud-based offerings that are recognized over the corresponding contractual term. Deferred services revenues include prepayments for our services business and revenues for these services are generally recognized as the services are performed. Deferred new software licenses revenues typically resulted from customer payments that related to undelivered products or specified enhancements, customer specific acceptance provisions, 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 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 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

We held certain derivative and non-derivative instruments that were accounted for pursuant to ASC 815, *Derivatives and Hedging* (ASC 815) and that were utilized in a consistent manner as of February 28, 2017, May 31, 2016 and February 29, 2016 and during the three and nine months ended February 28, 2017 and February 29, 2016. These instruments include:

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interest rate swap agreements, which are used to protect us against changes in the fair values of certain of our fixed-rate borrowings due to benchmark interest rate movements and are accounted for as fair value hedges;

cross-currency swap agreements, which are used to manage foreign currency exchange risk by converting certain of our fixed-rate Euro-denominated borrowings to fixed-rate U.S. Dollar denominated debt and are accounted for as cash flow hedges; and

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foreign currency borrowings, which are used to reduce the volatility in stockholders' equity caused by the changes in the foreign currency exchange rates of the Euro with respect to the U.S. Dollar and are accounted for as net investment hedges.

We also held certain foreign currency contracts that were not designated as hedges pursuant to ASC 815. The notional amounts of such forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$2.3 billion and \$2.7 billion, respectively, and the notional amount of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$2.0 billion and \$2.0 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal as of February 28, 2017 and May 31, 2016. Included in our non-operating income, net were \$74 million and \$53 million of net losses related to these forward contracts for the three and nine months ended February 28, 2017, respectively and \$93 million and \$163 million of net gains for the three and nine months ended February 29, 2016, respectively.

See Note 11 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2016 for additional information regarding the purpose, accounting and classification of our derivative and non-derivative instruments. None of our derivative instruments are used for trading purposes. 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

(in millions)	Balance Sheet Location	Fair Value	
		February 28, 2017	May 31, 2016
Interest rate swap agreements designated as fair value hedges	Other assets	\$ 23	\$ 122
Cross-currency swap agreements designated as cash flow hedges	Other non-current liabilities	\$ (262)	\$ (218)
Foreign currency borrowings designated as net investment hedge	Notes payable, non-current	\$ (951)	\$ (991)

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

(in millions)	Amount of Gain (Loss) Recognized in Accumulated OCI or OCL (Effective Portion)					Location and Amount of Gain (Loss) Reclassified from Accumulated OCI or OCL into Income (Effective Portion)			
	Three Months Ended		Nine Months Ended			Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016		February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Cross-currency swap agreements designated as cash flow hedges	\$ 6	\$ 29	\$ (44)	\$ (16)	Non-operating income, net	\$ 2	\$ 52	\$ (69)	\$ 21
	\$ (1)	\$ (31)	\$ 42	\$ (13)	Not applicable	\$	\$	\$	\$

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Foreign currency borrowings
designated as net investment
hedge

(in millions)	Location and Amount of Gain (Loss) Recognized in Income on Derivative				Location and Amount of Gain (Loss) on Hedged Item Recognized in Income Attributable to Risk Being Hedged					
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended			
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016		
Interest rate swap agreements designated as fair value hedges	Interest expense	\$ (31)	\$ 76	\$ (99)	\$ 90	Interest expense	\$ 31	\$ (76)	\$ 99	\$ (90)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2017

(Unaudited)

10. STOCKHOLDERS EQUITY

Common Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. As of February 28, 2017, approximately \$5.8 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 74.6 million shares for \$3.0 billion during the nine months ended February 28, 2017 (including 0.6 million shares for \$25 million that were repurchased but not settled) and 222.7 million shares for \$8.4 billion during the nine months ended February 29, 2016 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 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.

Dividends on Common Stock

During the nine months ended February 28, 2017, our Board of Directors declared cash dividends of \$0.45 per share of our outstanding common stock, which we paid during the same period.

In March 2017, our Board of Directors declared a quarterly cash dividend of \$0.19 per share of our outstanding common stock, an increase of \$0.04 per share over the prior period dividend. The dividend is payable on April 26, 2017 to stockholders of record as of the close of business on April 12, 2017. 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 2017, we issued 52 million restricted stock-based awards (consisting of 50 million service-based restricted stock units (RSUs) and 2 million performance-based restricted stock units (PSUs)) and 21 million stock options. Substantially all of the awards were issued as a part of our annual stock-based award process or in connection with our acquisitions and are subject to service-based vesting restrictions, with the PSUs also having performance-based vesting restrictions, that are of a similar nature to those described in Note 14 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2016. Approximately 7 million of the 21 million stock options granted during the first nine months of fiscal 2017 were to our Chief Executive Officers and Chief Technology Officer and had contractual lives of five years versus the ten year contractual lives for most of the other stock options granted. Our fiscal 2017 stock-based award issuances were partially offset by forfeitures and cancellations of 10 million shares during the first nine months of fiscal 2017.

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

(in millions)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales and marketing	\$ 96	\$ 57	\$ 228	\$ 163
Cloud software as a service and platform as a service	6	4	17	13
Cloud infrastructure as a service	1	1	3	3
Software license updates and product support	6	6	18	18
Hardware products	2	1	6	4
Hardware support	1	1	3	4
Services	14	7	31	22
Research and development	191	154	574	452
General and administrative	32	29	104	86
Acquisition related and other	22		33	3
Total stock-based compensation	\$ 371	\$ 260	\$ 1,017	\$ 768

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, changes in unrecognized tax benefits due to settlements with tax authorities and other events, and the U.S. domestic production activity deduction. In addition, beginning in fiscal 2017, the provision for income taxes also differs from the tax computed at the U.S. federal statutory tax rate due to the tax effects of stock-based compensation. Our effective tax rate was 17.0% and 21.3% for the three and nine months ended February 28, 2017, respectively, and 21.6% and 21.0% for the three and nine months ended February 29, 2016, respectively.

Our net deferred tax assets were \$134 million and \$1.1 billion as of February 28, 2017 and May 31, 2016, respectively. We believe that 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 2015. Our U.S. federal income tax returns have been examined for all years prior to fiscal 2007, and we are no longer subject to audit for those periods. Our U.S. state income tax returns, with some exceptions, have been examined for all years prior to fiscal 2004, 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.

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We believe that we have adequately provided under GAAP for outcomes related to our tax audits. However, there can be no assurances as to the possible outcomes or any related financial statement effect thereof. On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of

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(Unaudited)

stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision has yet to be issued by the Tax Court due to other outstanding issues related to the case. At this time, the U.S. Department of the Treasury has not withdrawn the requirement to include stock-based compensation from its regulations. We have reviewed this case and its impact on Oracle and concluded that no adjustment to the consolidated financial statements is appropriate at this time. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements.

We are under audit by the IRS and various other domestic and foreign tax authorities with regards to income tax and indirect tax matters and are involved in various challenges and litigation in a number of countries, including, in particular, India, Brazil, and Korea, where the amounts under controversy are significant. In some, although not all, cases, we have reserved for potential adjustments to our provision for income taxes and accrual of indirect taxes that may result from examinations by, or any negotiated agreements with, these tax authorities or final outcomes in judicial proceedings, and we believe that the final outcome of these examinations, agreements or judicial proceedings will not have a material effect on our results of operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of benefits in the period we determine the liabilities are no longer necessary. If our estimates of the federal, state, and foreign income tax liabilities and indirect tax liabilities are less than the ultimate assessment, it could result in a further charge to expense.

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

Our cloud software and on-premise software line of business markets, sells and delivers a broad spectrum of application and platform technologies through our SaaS and PaaS offerings, which are certain of our applications and platforms software delivered via a cloud-based information technology (IT) environment that we host, manage and support, and through the licensing of our software products including Oracle Applications, Oracle Database, Oracle Fusion Middleware and Java, among others.

The cloud IaaS line of business includes Oracle Cloud IaaS offerings, which provide infrastructure cloud services that are enterprise-grade, hosted and supported within the Oracle Cloud to perform elastic compute, storage and networking services on a subscription basis; and Oracle Managed Cloud Services, which are comprehensive software and hardware management and maintenance services for customer IT infrastructure for a fee for a stated term that are hosted at our Oracle data center facilities, select partner data centers or physically on-premise at customer facilities.

The software license updates and product support line of business generates revenues through the sale of software support contracts related to new software licenses purchased by our customers. The software license updates and product support line of business provides our on-premise software 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.

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ORACLE CORPORATION

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The hardware products line of business provides Oracle Engineered Systems, servers, storage, networking, industry-specific hardware, virtualization software, operating systems including the Oracle Solaris Operating System and management software to support diverse IT environments, including cloud computing environments.

Our hardware support line of business provides customers with software updates for the software components that are essential to the functionality of our hardware products, such as Oracle Solaris and certain other software, 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 services provides on-premise and remote support services to our customers to enable increased performance and higher availability of their Oracle products and services and also include certain other services. Education services provide training to customers, partners and employees as a part of our mission of accelerating the adoption and use of our cloud, on-premise software and hardware offerings.

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

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

(in millions)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Cloud software and on-premise software:				
Revenues ⁽¹⁾	\$ 2,494	\$ 2,265	\$ 6,598	\$ 6,030
Cloud software as a service and platform as a service expenses	369	284	1,026	822
Sales, marketing and distribution expenses	1,666	1,574	4,873	4,569
Margin ⁽²⁾	\$ 459	\$ 407	\$ 699	\$ 639
Cloud infrastructure as a service:				
Revenues	\$ 178	\$ 152	\$ 525	\$ 477
Cloud infrastructure as a service expenses	122	84	323	256
Sales, marketing and distribution expenses	14	17	46	54
Margin ⁽²⁾	\$ 42	\$ 51	\$ 156	\$ 167
Software license updates and product support:				
Revenues ⁽¹⁾	\$ 4,762	\$ 4,669	\$ 14,332	\$ 14,049
Software license updates and product support expenses	253	276	733	823
Margin ⁽²⁾	\$ 4,509	\$ 4,393	\$ 13,599	\$ 13,226
Total cloud and on-premise software business:				
Revenues ⁽¹⁾	\$ 7,434	\$ 7,086	\$ 21,455	\$ 20,556
Expenses	2,424	2,235	7,001	6,524
Margin ⁽²⁾	\$ 5,010	\$ 4,851	\$ 14,454	\$ 14,032
Hardware products:				
Revenues	\$ 520	\$ 604	\$ 1,478	\$ 1,746
Hardware products expenses	288	337	769	963
Sales, marketing and distribution expenses	195	202	597	625
Margin ⁽²⁾	\$ 37	\$ 65	\$ 112	\$ 158
Hardware support:				
Revenues ⁽¹⁾	\$ 508	\$ 531	\$ 1,560	\$ 1,640
Hardware support expenses	140	165	420	504
Margin ⁽²⁾	\$ 368	\$ 366	\$ 1,140	\$ 1,136
Total hardware business:				
Revenues ⁽¹⁾	\$ 1,028	\$ 1,135	\$ 3,038	\$ 3,386
Expenses	623	704	1,786	2,092
Margin ⁽²⁾	\$ 405	\$ 431	\$ 1,252	\$ 1,294
Total services business:				
Revenues	\$ 812	\$ 793	\$ 2,464	\$ 2,519

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Services expenses	645	630	1,978	1,976
Margin ⁽²⁾	\$ 167	\$ 163	\$ 486	\$ 543
Totals:				
Revenues ⁽¹⁾	\$ 9,274	\$ 9,014	\$ 26,957	\$ 26,461
Expenses	3,692	3,569	10,765	10,592
Margin ⁽²⁾	\$ 5,582	\$ 5,445	\$ 16,192	\$ 15,869

(1) Cloud software and on-premise software, software license updates and product support and hardware support revenues for management reporting included revenues related to cloud SaaS and PaaS, software support and hardware support contracts, respectively, that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our condensed consolidated statements of operations for the periods presented. 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 as reported in our condensed consolidated statements of operations.

(2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, corporate, general and administrative and IT 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 non-operating income, net. Certain fiscal 2016 balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect consolidated revenues or operating income.

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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:

(in millions)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Total revenues for operating segments	\$ 9,274	\$ 9,014	\$ 26,957	\$ 26,461
Cloud software as a service and platform as a service revenues ⁽¹⁾	(69)	(2)	(120)	(6)
Software license updates and product support revenues ⁽¹⁾			(1)	(1)
Hardware support revenues ⁽¹⁾			(1)	(1)
Total revenues	\$ 9,205	\$ 9,012	\$ 26,835	\$ 26,453
Total margin for operating segments	\$ 5,582	\$ 5,445	\$ 16,192	\$ 15,869
Cloud software as a service and platform as a service revenues ⁽¹⁾	(69)	(2)	(120)	(6)
Software license updates and product support revenues ⁽¹⁾			(1)	(1)
Hardware support revenues ⁽¹⁾			(1)	(1)
Research and development	(1,285)	(1,219)	(3,835)	(3,652)
Corporate, general and administrative and information technology expenses	(332)	(403)	(1,175)	(1,197)
Amortization of intangible assets	(397)	(408)	(1,010)	(1,283)
Acquisition related and other	(30)	(11)	(84)	(35)
Restructuring	(161)	(115)	(346)	(293)
Stock-based compensation	(349)	(260)	(984)	(765)
Interest expense	(450)	(360)	(1,317)	(1,105)
Non-operating income, net	189	65	437	179
Income before provision for income taxes	\$ 2,698	\$ 2,732	\$ 7,756	\$ 7,710

⁽¹⁾ Cloud SaaS and PaaS revenues, software license updates and product support revenues and hardware 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 our condensed consolidated statements of operations for the periods presented due to business combination accounting requirements.

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 restricted stock-based awards, stock options, 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:

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(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net income	\$ 2,239	\$ 2,142	\$ 6,103	\$ 6,087
Weighted average common shares outstanding	4,107	4,182	4,110	4,246
Dilutive effect of employee stock plans	97	74	97	82
Dilutive weighted average common shares outstanding	4,204	4,256	4,207	4,328
Basic earnings per share	\$ 0.55	\$ 0.51	\$ 1.49	\$ 1.43
Diluted earnings per share	\$ 0.53	\$ 0.50	\$ 1.45	\$ 1.41
Shares subject to anti-dilutive restricted stock-based awards and stock options excluded from calculation ⁽¹⁾	76	67	75	62

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

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14. LEGAL PROCEEDINGS

Hewlett-Packard Company Litigation

On June 15, 2011, Hewlett-Packard Company, now Hewlett Packard Enterprise 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 is our Chief Executive Officer and 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 (the Phase One Ruling). A jury trial began on May 23, 2016. On June 30, 2016, the jury returned a verdict in favor of HP on its claims for breach of contract and breach of the implied covenant of good faith and fair dealing and against Oracle on its claim for violation of the Lanham Act (the Phase Two Jury Verdict). The jury awarded HP damages in the amount of \$3.0 billion, and HP is entitled to post-judgment interest on this award. On August 30, 2016, the court denied HP's motion for pre-judgment interest. Judgment was entered on October 20, 2016. Oracle posted certain court-mandated surety bonds with the court in order to proceed with its motion for a new trial and entered into related indemnification agreements with each of the surety bond issuing companies. Oracle filed a motion for a new trial on November 14, 2016, which was denied.

Oracle filed its notice of appeal on January 17, 2017, specifying that it was appealing the trial court's Phase One Ruling and Phase Two Jury Verdict. On February 2, 2017, HP filed a notice of appeal of the trial court's denial of pre-judgment interest. No amounts have been paid or recorded to our results of operations either prior to or subsequent to the Phase One Ruling or Phase Two Jury Verdict. We continue to believe that we have meritorious defenses against HP's claims, and we intend to present these defenses to the appellate court. Among the arguments we expect to make on appeal are the following: the trial court misapplied fundamental principles of contract law and misinterpreted the Hurd Settlement Agreement, including by disregarding the context of the Hurd Settlement Agreement and the evidence of the parties' mutual intentions; that HP's breach of contract claim should fail as a matter of law because HP does not claim and did not prove that Oracle failed to deliver any software under the trial court's interpretation of the contract; that awarding HP both damages for breach of the Hurd Settlement Agreement and specific performance of that agreement constitutes an improper double recovery; and that the damages award is excessive, unsupported by the evidence, and contrary to law. We cannot currently estimate a reasonably possible range of loss for this action due to the complexities and uncertainty surrounding the appeal process and the nature of the claims. Litigation is inherently unpredictable, and the outcome of the appeal process related to this action is uncertain. It is possible that the resolution of this action could have a material impact to our future cash flows and results of operations.

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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 businesses, key operating 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

Oracle Corporation provides products and services that address all aspects of corporate information technology (IT) environments' application, platform and infrastructure. Our Oracle Cloud offerings provide a comprehensive and fully integrated stack of application, platform, compute, storage, and networking services in all three primary layers of the cloud: Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS). Our on-premise offerings include Oracle database and middleware software, application software, hardware (Oracle Engineered Systems, servers, storage, networking and industry-specific products), and related support and services. We provide our cloud and on-premise offerings to customers worldwide via deployment models that best suit their needs.

Our comprehensive and fully integrated stack of SaaS, PaaS and IaaS offerings integrate the software, hardware and services on the customers' behalf in IT environments that we deploy, support and manage for the customer. Our integrated Oracle Cloud offerings are designed to be rapidly deployable to enable customers' shorter time to innovation; easily maintainable to reduce integration and testing work; connectable among differing deployment models to enable interchangeability and extendibility between cloud and on-premise IT environments; compatible to easily move workloads between on-premise IT environments and the Oracle Cloud; cost-effective by requiring lower upfront customer investment; and secure, standards-based and reliable. We are a leader in the core technologies of cloud IT environments, including database and middleware software as well as enterprise applications, virtualization, clustering, large-scale systems management and related infrastructure. Our products and services are the building blocks of our Oracle Cloud services, our partners' cloud services and our customers' cloud IT environments.

In addition to providing a broad spectrum of cloud offerings, we develop and sell our products and services to our customers worldwide for use in their global data centers and on-premise IT environments. An important element of our corporate strategy is to continue our investments in, and innovation with respect to, our products and services that we offer through our cloud and on-premise software, hardware and services businesses. We have a deep understanding as to how all components within IT environments' application, platform and infrastructure interact and function with one another. We focus our development efforts on improving the performance, security, operation and integration of these differing technologies to make them more cost-effective and easier to deploy, manage and maintain for our customers and to improve their computing performance relative to our competitors. After the initial purchase of Oracle products and services, our customers can continue to take advantage of our research and development investments and deep IT expertise by purchasing and renewing Oracle support offerings, which may include product enhancements that we periodically deliver to our software products, among others, and by renewing their SaaS, PaaS and IaaS contracts with us.

As customers deploy with the Oracle Cloud, many are adopting a hybrid IT model whereby certain of their IT resources are deployed and managed through the Oracle Cloud, while other of their IT resources are deployed and managed on-premise, and both sets of resources can be managed as one. We focus the engineering of our products and services to best connect these different deployment models to enable flexibility, ease, agility, compatibility, extensibility and seamlessness.

Our selective and active acquisition program is another important element of our corporate strategy. We believe that our acquisitions enhance the products and services that we can offer to customers, expand our customer base, provide greater scale to accelerate innovation, grow our revenues and earnings, and increase 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. During the second quarter of fiscal 2017, we acquired NetSuite Inc. (NetSuite), which contributed to the growth in our cloud

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SaaS and PaaS revenues, among others, from the date of acquisition. Note 2 of Notes to Condensed Consolidated Financial Statements, included elsewhere in this Quarterly Report, provides additional information related to our acquisition of NetSuite. We expect to continue to acquire companies, products, services and technologies to further our corporate strategy.

We have three businesses that deliver our application, platform and infrastructure technologies: cloud and on-premise software, hardware and services. These businesses can be further divided into certain operating segments (Note 12 of Notes to Condensed Consolidated Financial Statements, included elsewhere in this Quarterly Report, provides additional information related to our operating segments). Each of our businesses and operating segments has unique characteristics and faces different opportunities and challenges. An overview of our three businesses and related operating segments follows.

Cloud and On-Premise Software Business

Our cloud and on-premise software business, which represented 80% of our total revenues on a trailing 4-quarter basis, is comprised of three operating segments: (1) cloud software and on-premise software, (2) cloud IaaS and (3) software license updates and product support. On a constant currency basis, we expect that our cloud and on-premise software business total revenues generally will continue to increase due to demand for our on-premise software products and software license updates and product support offerings, including the high percentage of customers that renew their software license updates and product support contracts, expected growth from our cloud SaaS, PaaS and IaaS offerings, and contributions from our acquisitions, which should allow us to grow and continue to make investments in research and development.

Cloud Software and On-Premise Software: Our cloud software and on-premise software line of business markets, sells and delivers a broad spectrum of application and platform technologies through our SaaS and PaaS offerings, which are certain of our software applications and platforms that are delivered via a cloud-based IT environment that we host, manage and support. Our cloud software and on-premise software line of business also licenses our software products including Oracle Applications, Oracle Database, Oracle Fusion Middleware and Java, among others, for on-premise and other IT environments.

We believe that the comprehensiveness and breadth of our SaaS, PaaS and on-premise software offerings provide greater benefit to our customers and differentiates us from many of our competitors that offer more limited or specialized software offerings. Our SaaS and PaaS offerings are designed to be interoperable with one another, thereby limiting the integration and tuning of multiple cloud applications from multiple vendors. Our SaaS and PaaS offerings are designed to deliver secure data isolation and flexible upgrades, self-service access controls for users, a Service-Oriented Architecture (SOA) for integration with on-premise systems, and a high performance, high availability infrastructure based on our infrastructure technologies including our Oracle Engineered Systems. Our on-premise 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 commitment to industry standards results in software offerings that work in customer environments with Oracle or non-Oracle hardware or software components and that can be adapted to meet specific industry or business needs. We focus the engineering of our products and services to best connect cloud and on-premise deployment models to enable flexibility, ease, agility, compatibility, extensibility and seamlessness. All of these approaches are designed to support customer choice and reduce customer risk. Our customers include businesses of many sizes, government agencies, educational institutions and resellers. We market and sell our cloud software and on-premise software offerings to these customers with a sales force positioned to offer the combinations that best fit customer needs. We enable customers to evolve and transform to substantially any IT environment at whatever pace is most appropriate for them.

Our SaaS and PaaS revenues and new software licenses revenues are affected by the strength of general economic and business conditions, governmental budgetary constraints, the strategy for and competitive position of our software offerings, our acquisitions, our ability to deliver and renew our SaaS and PaaS contracts with our existing customers and foreign currency rate fluctuations. In recent periods, we have placed significant strategic emphasis on growing our cloud SaaS and PaaS revenues, which has affected the growth of our cloud SaaS and

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PaaS revenues and our new software licenses revenues and the related expenses. We expect these trends will continue. Our 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. 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.

Cloud software and on-premise software revenues represented 27% of our total revenues on a trailing 4-quarter basis. Our cloud software and on-premise software 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. As discussed further below under Supplemental Disclosure Related to Certain Charges, our cloud software and on-premise software 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 and by the amortization of intangible assets associated with companies and technologies that we have acquired.

Cloud Infrastructure as a Service: Our cloud IaaS segment, which represented 2% of our total revenues on a trailing 4-quarter basis, provides Oracle Cloud IaaS offerings, which are infrastructure cloud services that are enterprise-grade, hosted and supported within the Oracle Cloud to perform elastic compute, storage and networking services on a subscription basis. Our cloud IaaS segment also offers Oracle Managed Cloud Services, which are comprehensive software and hardware management and maintenance services for customer IT infrastructure for a fee for a stated term that are hosted at our Oracle data center facilities, select partner data centers or physically on-premise at customer facilities. We believe that our Oracle Cloud IaaS offerings complement our SaaS and PaaS offerings and allow us to offer customers additional opportunities to access Oracle technologies through the Oracle Cloud to meet their IT needs.

Software License Updates and Product Support: Software license updates and product support revenues are generated through the sale of software support contracts relating to on-premise new software licenses purchased by our customers. 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 on-premise 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 four 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; (3) the amount of new software license revenues sold; and (4) the amount of software support contracts assumed from companies we have acquired.

Our software license updates and product support segment, which represented 51% 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 93% and accounted for 87% of our total margins over the same period. Over the longer term, we believe that software license updates and product support revenues and margins will grow for the following reasons:

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;

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

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

Hardware Business

Our hardware business is comprised of two operating segments: (1) hardware products and (2) hardware support. Our hardware business represented 12% of our total revenues on a trailing 4-quarter basis. We expect our

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hardware business to have lower operating margins as a percentage of revenues than our cloud and on-premise software 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 Products: We provide a broad selection of hardware and related services, including Oracle Engineered Systems, servers, storage, networking, workstations and related devices, industry-specific hardware, virtualization software, operating systems, and management software to support diverse IT environments, including cloud computing environments. We engineer our hardware products with virtualization and management capabilities to enable the rapid deployment and efficient management of cloud and on-premise IT infrastructures. Our hardware products support many of the world's largest cloud infrastructures, including the Oracle Cloud.

Our hardware products are designed to be easier to deploy, manage and maintain for our customers and to improve computing performance relative to our competitors' offerings. We design our hardware products to seamlessly connect cloud and on-premise IT environments to further enable interoperability, interchangeability and extendibility and to work in customer environments that may include other Oracle or non-Oracle hardware or software components. Our flexible and open approach provides Oracle customers with a broad range of choices in how they deploy our hardware products, which we believe is a priority for our customers.

Oracle Engineered Systems are core to our hardware offerings and are important elements of our data center and cloud computing offerings including the Oracle Cloud. These pre-integrated products are designed to integrate multiple Oracle technology components to work together to deliver improved performance, availability, security and operational efficiency relative to our competitors' products; to be upgraded effectively and efficiently; and to simplify maintenance cycles by providing a single solution for software patching. Oracle Engineered Systems are tested before they are shipped to customers and delivered ready-to-run, enabling customers to shorten deployment time to production. We offer certain of our Oracle Engineered Systems technologies through flexible deployment options including as a cloud service and for on-premise IT environments.

We offer a wide range of server products 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 competitive UNIX 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 microprocessors 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 the Oracle Exadata Database Machine, Oracle Exalogic Elastic Cloud, Oracle Exalytics In-Memory Machine and the Oracle Big Data Appliance.

Our storage products are engineered for the cloud and designed to securely store, manage, protect, archive, backup and recover customers mission critical data assets. Our storage products consist of disk, flash, tape, virtual tape and hardware-related software including file systems software, back-up and archive software, hierarchical storage management software and networking for mainframe and heterogeneous systems environments. We also offer certain of our storage offerings as a cloud service.

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 offer hardware products and services designed for certain specific industries. 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. Our hardware products and services for

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communications networks include network signaling, policy control and subscriber data management solutions, and session border control technology, among others.

The majority of our hardware 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 center servers and storage products. 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 products revenues, cost of hardware products and hardware operating margins that we report are affected by our strategy for and the competitive position of our hardware products, the strength of general economic and business conditions, governmental budgetary constraints, certain of our acquisitions and foreign currency rate fluctuations.

Our quarterly hardware 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 products revenues, expenses and operating margins that we report.

Hardware Support: Our hardware support offerings provide customers with software updates for software components that are essential to the functionality of our hardware products, such as Oracle Solaris and certain other software products, and can include product repairs, maintenance services and technical support services. Typically, our hardware support contract arrangements are priced as a percentage of the net hardware products fees, are invoiced to the customer at the beginning of the support period and are one year in duration. We continue to evolve hardware support processes that are intended to proactively identify and solve quality issues and to increase the amount of new and renewed hardware support contracts sold in connection with the sales of our hardware products. Our hardware support revenues that we report are influenced by a number of factors, including the volume of purchases of hardware products, the pricing and mix of hardware products purchased, whether customers decide to purchase hardware support contracts at or in close proximity to the time of hardware product sale, the percentage of our hardware 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 infrastructure to newly developed technologies that are available.

Services Business

Our services business, which represented 8% of our total revenues on a trailing 4-quarter basis, is comprised of the remainder of our operating segments. Our services business has lower margins than our cloud and on-premise software 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, our strategic emphasis on growing our cloud revenues and the growth in our software and hardware offerings. 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 offerings, including IT strategy alignment, enterprise architecture planning and design, initial cloud and software implementation and integration, and ongoing software enhancements 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;

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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 also include certain other 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

Our selective and 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.

We have acquired certain companies and technologies during the fiscal 2017 and 2016 periods presented in this Quarterly Report, including NetSuite. 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 that 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.

We believe that we can fund our pending and 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 (FASB) Accounting Standards Codification (ASC), and we consider the various staff accounting bulletins and other applicable guidance issued by the U.S. 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 that 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:

Revenue Recognition;

Business Combinations;

Goodwill and Intangible Assets Impairment Assessments;

Accounting for Income Taxes; and

Legal and Other Contingencies.

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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 2017, 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, 2016 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 2017 compared to the same periods of fiscal 2016 was impacted by our recent acquisitions. In our discussion of changes in our results of operations from the third quarter and first nine months of fiscal 2017 compared to the same periods of fiscal 2016, 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. Expense contributions from our recent acquisitions for each of the respective period comparisons may not be 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 and services sold would have been different; and

although substantially all of our on-premise 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 support contracts, the amounts shown as cloud SaaS and PaaS deferred revenues, software license updates and product support deferred revenues, and hardware 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.

For purposes of presentation of amortization of intangible assets within our condensed consolidated statements of operations included elsewhere in this Quarterly Report, we present a single line item within operating expenses and provide appropriate supplemental footnote disclosure. With respect to the presentation and discussion of our segments' results for the periods presented, we have assigned the amortization of our intangible assets to the lines of business to which such amortization pertains and also have provided a discussion and presentation of comparative movements for such intangible amortization amounts in totality.

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. In each fiscal year, 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, in particular, our cloud software and on-premise software segment, are generally affected by seasonal factors in a similar manner as our revenues as certain expenses within our cost structure are relatively fixed in the short term.

Constant Currency Presentation

Our international operations have provided and are expected to continue to provide a significant portion of each of our segments' revenues and expenses. As a result, each segment's revenues and expenses and our total

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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 effects of foreign currency rate fluctuations, we compare the percent change in the results from one period to another period in this Quarterly Report using constant currency 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, 2016, 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, 2017 and February 29, 2016, our financial statements would reflect reported revenues of \$1.06 million in the first nine months of fiscal 2017 (using 1.06 as the month-end average exchange rate for the period) and \$1.10 million in the first nine months of fiscal 2016 (using 1.10 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, 2017 and February 29, 2016 using the May 31, 2016 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

(Dollars in millions)	Three Months Ended			Nine Months Ended				
	February 28, 2017	Percent Change Actual	Constant	February 29, 2016	February 28, 2017	Percent Change Actual	Constant	February 29, 2016
Total Revenues by Geography:								
Americas	\$ 5,219	6%	5%	\$ 4,942	\$ 14,971	2%	2%	\$ 14,620
EMEA ⁽¹⁾	2,558	-4%	1%	2,661	7,529	-3%	2%	7,761
Asia Pacific ⁽²⁾	1,428	1%	0%	1,409	4,335	6%	3%	4,072
Total revenues	9,205	2%	3%	9,012	26,835	1%	2%	26,453
Total Operating Expenses	6,246	4%	5%	5,985	18,199	2%	3%	17,817
Total Operating Margin	\$ 2,959	-2%	-1%	\$ 3,027	\$ 8,636	0%	1%	\$ 8,636
Total Operating Margin %	32%			34%	32%			33%
% Revenues by Geography:								
Americas	57%			55%	56%			55%
EMEA	27%			29%	28%			29%
Asia Pacific	16%			16%	16%			16%
Total Revenues by Business:								
Cloud and on-premise software	\$ 7,365	4%	5%	\$ 7,084	\$ 21,334	4%	5%	\$ 20,551
Hardware	1,028	-9%	-9%	1,135	3,037	-10%	-9%	3,385
Services	812	2%	3%	793	2,464	-2%	-1%	2,517
Total revenues	\$ 9,205	2%	3%	\$ 9,012	\$ 26,835	1%	2%	\$ 26,453
% Revenues by Business:								
Cloud and on-premise software	80%			78%	80%			78%
Hardware	11%			13%	11%			13%
Services	9%			9%	9%			9%

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

(2) The Asia Pacific region includes Japan

Fiscal Third Quarter 2017 Compared to Fiscal Third Quarter 2016: Excluding the effects of foreign currency rate variations, our total revenues increased in the third quarter of fiscal 2017 due to growth in our cloud and on-premise software revenues and services revenues, partially offset by a decrease in our hardware business revenues. The constant currency increase in our cloud and on-premise software revenues during the third quarter of fiscal 2017 was attributable to growth in our SaaS, PaaS and IaaS revenues, growth in our software license updates

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and product support revenues, and revenue contributions from our recent acquisitions and was partially offset by decreases in our new software licenses revenues. The constant currency increase in our services

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business revenues during the third quarter of fiscal 2017 was primarily due to revenue contributions from our recent acquisitions. The constant currency decrease in our hardware business revenues during the third quarter of fiscal 2017 was due to a reduction in our hardware products revenues and hardware support revenues. In constant currency, the Americas region contributed 91%, the EMEA region contributed 8% and the Asia Pacific region contributed 1% to the growth in our total revenues during the third quarter of fiscal 2017.

Excluding the effects of foreign currency rate variations, our total operating expenses increased during the third quarter of fiscal 2017 relative to the prior year period. In constant currency, we incurred higher sales and marketing and research and development expenses during the third quarter of fiscal 2017 due primarily to increased headcount, and higher cloud SaaS, PaaS and IaaS expenses resulting primarily from increased headcount and infrastructure expenses to support the increase in our cloud SaaS, PaaS and IaaS revenues. These constant currency expense increases in the third quarter of fiscal 2017 were partially offset by lower hardware products expenses due to a decline in hardware products revenues, lower software support and hardware support costs due primarily to lower headcount, and lower general and administrative expenses due primarily to lower professional fees, each in the third quarter of fiscal 2017 compared to the prior year period.

In constant currency, our total operating margin and total operating margin as a percentage of revenues declined slightly during the third quarter of fiscal 2017 due to our total expenses growing at a faster rate than our total revenues.

First Nine Months Fiscal 2017 Compared to First Nine Months Fiscal 2016: Excluding the effects of currency rate variations, our total revenues increased in the first nine months of fiscal 2017 due to growth in our cloud and on-premise software revenues, which was attributable to similar reasons as those noted above, and was partially offset by decreases in our hardware business and services business revenues. In constant currency, the Americas region contributed 56%, the EMEA region contributed 22% and the Asia Pacific region contributed 22% to the growth in our total revenues during the first nine months of fiscal 2017.

Excluding the effects of currency rate variations, our total operating expenses increased during the first nine months of fiscal 2017 primarily due to constant currency expense increases in sales and marketing, research and development, and cloud SaaS, PaaS and IaaS expenses, all generally for similar reasons as noted above. These constant currency expense increases during the first nine months of fiscal 2017 were partially offset by lower hardware products expenses, lower software support expenses, and lower hardware support expenses, all generally for similar reasons as noted above, and lower intangible asset amortization due to certain of our intangible assets that became fully amortized primarily in our software license updates and product support segment.

In constant currency, our total operating margin and total operating margin as a percentage of revenues increased slightly during the first nine months of fiscal 2017 due to the constant currency increase in our total revenues.

Supplemental Disclosure Related to Certain Charges

To supplement our consolidated financial information, we believe that 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.

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Our operating results reported pursuant to GAAP included the following business combination accounting adjustments and expenses related to acquisitions, as well as certain other expense and income items that (increased) reduced our GAAP net income:

(in millions)	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Cloud software as a service and platform as a service deferred revenues ⁽¹⁾	\$ 69	\$ 2	\$ 120	\$ 6
Software license updates and product support deferred revenues ⁽¹⁾			1	1
Hardware support deferred revenues ⁽¹⁾			1	1
Acquired deferred sales commissions amortization ⁽²⁾	(21)		(29)	
Amortization of intangible assets ⁽³⁾	397	408	1,010	1,283
Acquisition related and other ⁽⁴⁾⁽⁶⁾	30	11	84	35
Restructuring ⁽⁵⁾	161	115	346	293
Stock-based compensation ⁽⁶⁾	349	260	984	765
Income tax effects ⁽⁷⁾	(336)	(207)	(823)	(658)
	\$ 649	\$ 589	\$ 1,694	\$ 1,726

(1) In connection with our acquisitions, we have estimated the fair values of the cloud SaaS and PaaS subscriptions, software support and hardware support obligations assumed. Due to our application of business combination accounting rules, we did not recognize the cloud SaaS and PaaS, software license updates and product support and hardware support revenue amounts as presented in the above table that would have otherwise been recorded by the acquired businesses as independent entities upon delivery of the contractual obligations. To the extent customers to which these contractual obligations pertain renew these contracts with us, we expect to recognize revenues for the full contracts values over the respective contracts renewal periods.

(2) Certain acquired companies capitalized sales commissions associated with subscription agreements and amortized these amounts over the related contractual terms. Business combination accounting rules generally require us to eliminate these capitalized sales commissions balances as of the acquisition date and our post-combination GAAP sales and marketing expenses generally do not reflect the amortization of these deferred sales commissions balances. This adjustment is intended to include, and thus reflect, the full amount of amortization related to such balances as though the acquired companies operated independently in the periods presented.

(3) Represents the amortization of intangible assets, substantially all of which were acquired in connection with our acquisitions. As of February 28, 2017, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of fiscal 2017	\$ 402
Fiscal 2018	1,362
Fiscal 2019	1,248
Fiscal 2020	1,058
Fiscal 2021	883
Fiscal 2022	779
Thereafter	2,056
Total intangible assets, net	\$ 7,788

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

(5)

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Restructuring expenses during the first nine months of fiscal 2017 primarily related to employee severance in connection with our Fiscal 2017 Oracle Restructuring Plan (2017 Restructuring Plan). Restructuring expenses during the first nine months of fiscal 2016 primarily related to costs incurred pursuant to our 2015 Oracle Restructuring Plan (2015 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 and in Note 9 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2016.

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

	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales and marketing	\$ 96	\$ 57	\$ 228	\$ 163
Cloud software as a service and platform as a service	6	4	17	13
Cloud infrastructure as a service	1	1	3	3
Software license updates and product support	6	6	18	18
Hardware products	2	1	6	4
Hardware support	1	1	3	4
Services	14	7	31	22
Research and development	191	154	574	452
General and administrative	32	29	104	86
Subtotal	\$ 349	\$ 260	\$ 984	\$ 765
Acquisition related and other	22		33	3
Total stock-based compensation	\$ 371	\$ 260	\$ 1,017	\$ 768

(7) 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 2017 were calculated based on the applicable jurisdictional tax rates applied to the items within the table above and resulted in effective tax rates of 21.6% and 24.1%, respectively, instead of 17.0% and 21.3%, 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 and the net tax effects of stock-based compensation. Income tax effects for the third quarter and first nine months of fiscal 2016 were calculated reflecting effective tax rates of 22.6% for both fiscal 2016 periods presented, instead of 21.6% and 21.0%, 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.

Cloud and On-Premise Software Business

Our cloud and on-premise software business consists of our cloud software and on-premise software segment, our cloud IaaS segment and our software license updates and product support segment.

Cloud Software and On-Premise Software: Our cloud software and on-premise software segment engages in the sale, marketing and delivery of our cloud software offerings, including our cloud SaaS and PaaS offerings, and the licensing of our software for on-premise IT environments. Our cloud SaaS and PaaS offerings grant customers access to a broad range of our application and platform software technologies on a subscription basis in a secure, standards-based, cloud computing environment that generally includes access, hosting, infrastructure management, the use of software updates, and support. New software licenses revenues represent fees earned from granting customers licenses to use our database and middleware and our application software products within on-premise IT environments. 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 cloud software and on-premise software 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 the amortization of intangible assets including developed technology, customer contracts and customer relationship intangibles.

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(Dollars in millions)	Three Months Ended			Nine Months Ended				
	February 28, 2017	Percent Change Actual	Percent Change Constant	February 29, 2016	February 28, 2017	Percent Change Actual	Percent Change Constant	February 29, 2016
Cloud Software and On-Premise Software Revenues:								
Americas	\$ 1,418	19%	19%	\$ 1,189	\$ 3,641	12%	12%	\$ 3,262
EMEA	616	-5%	0%	645	1,646	0%	5%	1,651
Asia Pacific	391	-9%	-10%	429	1,191	7%	4%	1,113
Total revenues	2,425	7%	8%	2,263	6,478	7%	8%	6,026
Expenses:								
Cloud software as a service and platform as a service ⁽¹⁾	374	30%	31%	288	1,043	25%	27%	834
Sales and marketing ⁽¹⁾	1,693	4%	5%	1,620	4,989	6%	7%	4,712
Stock-based compensation	98	73%	73%	57	229	39%	39%	165
Amortization of intangible assets ⁽²⁾	290	43%	43%	204	713	13%	13%	634
Total expenses	2,455	13%	14%	2,169	6,974	10%	11%	6,345
Total Margin	\$ (30)	-131%	-118%	\$ 94	\$ (496)	56%	62%	\$ (319)
Total Margin %	-1%			4%	-8%			-5%
% Revenues by Geography:								
Americas	58%			53%	57%			54%
EMEA	25%			28%	25%			27%
Asia Pacific	17%			19%	18%			19%
Revenues by Software Offerings:								
Cloud software as a service and platform as a service	\$ 1,011	73%	74%	\$ 583	\$ 2,686	77%	79%	\$ 1,517
New software licenses	1,414	-16%	-15%	1,680	3,792	-16%	-15%	4,509
Total cloud software and on-premise software revenues	\$ 2,425	7%	8%	\$ 2,263	\$ 6,478	7%	8%	\$ 6,026
% Revenues by Software Offerings:								
Cloud software as a service and platform as a service	42%			26%	41%			25%
New software licenses	58%			74%	59%			75%

⁽¹⁾ Excluding stock-based compensation

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

Excluding the effects of currency rate fluctuations, total revenues from our cloud software and on-premise software segment increased by 8 percentage points in each of the third quarter and first nine months of fiscal 2017, respectively, relative to the corresponding prior year periods due to growth in our cloud SaaS and PaaS revenues and revenue contributions from our recent acquisitions, including our acquisition of NetSuite, and were partially offset by decreases in our new software licenses revenues. The increases in our cloud SaaS and PaaS revenues and decreases in our new software licenses revenues during the fiscal 2017 periods presented were primarily due to the continued strategic emphasis placed on selling, marketing and growing our cloud software offerings and we expect these revenue trends will continue. During the third quarter of fiscal 2017, constant currency revenues growth in the Americas region was partially offset by a revenues decline in the Asia Pacific region. During the first nine months of fiscal 2017, the Americas, EMEA and Asia Pacific regions contributed constant currency regional growth of 76%, 15% and 9%, respectively.

As a result of our acquisitions, we recorded adjustments to reduce assumed cloud SaaS and PaaS obligations to their estimated fair values as of the acquisition dates. Due to our application of business combination accounting rules, cloud SaaS and PaaS revenues in the amounts of \$69 million and \$2 million for the third quarter of fiscal 2017 and 2016, respectively, and \$120 million and \$6 million for the first nine months of fiscal 2017 and 2016, respectively, were not recognized during the aforementioned periods and would have been otherwise reported as revenues by our acquired businesses as independent entities.

In reported currency, new software licenses revenues earned from transactions of \$3 million or greater decreased by 1% and 7% in the third quarter and first nine months of fiscal 2017, respectively, and represented 30% and 26% of our new software licenses revenues in the third quarter and first nine months of fiscal 2017, respectively, in comparison to 25% and 24% in the third quarter and first nine months of fiscal 2016, respectively.

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In constant currency, total cloud software and on-premise software expenses increased in the fiscal 2017 periods presented primarily due to higher employee related expenses from increased headcount, higher cloud SaaS and PaaS expenses from increased headcount and infrastructure expenses that were incurred to support the related cloud SaaS and PaaS revenues increases, higher stock-based compensation, and higher amortization of intangible assets due to our recent acquisitions, primarily our acquisition of NetSuite.

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Excluding the effects of currency rate fluctuations, our cloud software and on-premise software segment's total margin and total margin as a percentage of revenues decreased in the fiscal 2017 periods presented as our total expenses grew at a faster rate than our total revenues for this segment.

Cloud Infrastructure as a Service: Our cloud IaaS segment includes Oracle Cloud IaaS and Oracle Managed Cloud Services offerings. Oracle Cloud IaaS provides infrastructure cloud services that are enterprise-grade, hosted and supported within the Oracle Cloud to perform elastic compute, storage and networking services on a subscription basis. Oracle Managed Cloud Services are comprehensive software and hardware management and maintenance services for customer IT infrastructure for a fee for a stated term that are hosted at our Oracle data center facilities, select partner data centers or physically on-premise at customer facilities. Our cloud IaaS segment's expenses consist primarily of personnel related expenditures, technology infrastructure expenditures and facilities costs. Operating expenses associated with our IaaS offerings also include sales and marketing expenses, which are largely personnel related, and amortization of intangible assets. For the fiscal 2016 periods presented, our cloud IaaS segment's revenues and expenses were substantially attributable to our Oracle Managed Cloud Services offerings.

(Dollars in millions)	Three Months Ended			Nine Months Ended				
	February	Percent Change		February	February	Percent Change		February
	28, 2017	Actual	Constant	29, 2016	28, 2017	Actual	Constant	29, 2016
Cloud Infrastructure as a Service Revenues:								
Americas	\$ 131	16%	16%	\$ 113	\$ 382	9%	10%	\$ 349
EMEA	36	19%	30%	30	106	5%	17%	100
Asia Pacific	11	24%	21%	9	37	36%	30%	28
Total revenues	178	17%	19%	152	525	10%	13%	477
Expenses:								
Cloud infrastructure as a service ⁽¹⁾	124	43%	45%	87	330	25%	26%	265
Sales and marketing ⁽¹⁾	15	-15%	-14%	17	48	-13%	-11%	55
Stock-based compensation	1	-5%	-5%	1	4	8%	8%	3
Amortization of intangible assets ⁽²⁾	1	-22%	-22%	1	7	67%	67%	4
Total expenses	141	32%	34%	106	389	19%	20%	327
Total Margin	\$ 37	-18%	-15%	\$ 46	\$ 136	-9%	-5%	\$ 150
Total Margin %	21%			30%		26%		31%
% Revenues by Geography:								
Americas	73%			74%		73%		73%
EMEA	20%			20%		20%		21%
Asia Pacific	7%			6%		7%		6%

⁽¹⁾ Excluding stock-based compensation

⁽²⁾ Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations. Excluding the effects of unfavorable currency rate fluctuations, our total cloud IaaS segment revenues increased in the fiscal 2017 periods presented due primarily to growth in our Oracle Cloud IaaS offerings. Excluding the effects of currency rate fluctuations, the Americas region contributed 62% and 59%, respectively, the EMEA region contributed 31% and 27%, respectively, and the Asia Pacific region contributed 7% and 14%, respectively, to the increases in our total cloud IaaS segment revenues during the third quarter and first nine months of fiscal 2017, respectively.

On a constant currency basis, our cloud IaaS segment's total expenses increased during the fiscal 2017 periods presented primarily due to higher technology infrastructure expenses to support the increase in our cloud IaaS revenues.

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Excluding the effects of currency rate fluctuations, total margin and total margin as a percentage of total revenues decreased during the fiscal 2017 periods presented as total expenses increased at a faster rate than our total revenues for this segment.

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Software License Updates and Product Support: Software license updates and product support revenues are typically generated through the sale of software support contracts related to on-premise new software licenses purchased by our customers. Our software license updates and product support offerings include software license updates, which grant on-premise software customers rights to unspecified product upgrades and maintenance releases and patches released during the support period, and product support including 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 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			Nine Months Ended				
	February 28, 2017	Percent Change Actual	February 28, 2016	February 28, 2017	Percent Change Actual	February 29, 2016		
(Dollars in millions)								
Software License Updates and Product Support Revenues:								
Americas	\$ 2,731	3%	2%	\$ 2,662	\$ 8,133	2%	2%	\$ 7,965
EMEA	1,367	-2%	3%	1,394	4,179	-2%	3%	4,257
Asia Pacific	664	8%	7%	613	2,019	11%	7%	1,826
Total revenues	4,762	2%	3%	4,669	14,331	2%	3%	14,048
Expenses:								
Software license updates and product support ⁽¹⁾	264	-8%	-8%	287	768	-11%	-10%	859
Stock-based compensation	6	5%	5%	6	18	5%	5%	18
Amortization of intangible assets ⁽²⁾	36	-73%	-73%	131	120	-71%	-71%	413
Total expenses	306	-28%	-28%	424	906	-30%	-29%	1,290
Total Margin	\$ 4,456	5%	6%	\$ 4,245	\$ 13,425	5%	6%	\$ 12,758
Total Margin %	94%			91%	94%			91%
% Revenues by Geography:								
Americas	57%			57%	57%			57%
EMEA	29%			30%	29%			30%
Asia Pacific	14%			13%	14%			13%

(1) Excluding stock-based compensation

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

Excluding the effects of currency rate fluctuations, software license updates and product support revenues increased in the fiscal 2017 periods presented as a result of substantially all customers electing to purchase software support contracts in conjunction with their new software licenses purchased during the trailing 4-quarter period, and due to the renewal of substantially all of the software support customer base eligible for renewal during the trailing 4-quarter period. Excluding the effects of currency rate fluctuations, the Americas region contributed 37% and 40%, respectively, the EMEA region contributed 29% and 28%, respectively, and the Asia Pacific region contributed 34% and 32%, respectively, to the increase in software license updates and product support revenues during the third quarter and first nine months of fiscal 2017, respectively.

In constant currency, total software license updates and product support expenses decreased during the fiscal 2017 periods presented due primarily to lower employee related expenses resulting from lower headcount and a reduction in expenses associated with certain of our intangible assets that became fully amortized.

In constant currency, total margin and margin as a percentage of revenues increased during the fiscal 2017 periods presented due to the growth in total revenues and the decrease in total expenses for this segment.

Hardware Business

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

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Hardware Products: Hardware products revenues are primarily generated from the sales of our Oracle Engineered Systems, computer server, storage, networking, workstations and related devices and industry-specific hardware products. We market and sell our hardware products through our direct sales force and indirect channels such as independent distributors and value-added resellers. Operating expenses associated with our hardware products include the cost of hardware products, which consists of expenses for materials and labor used

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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 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.

(Dollars in millions)	Three Months Ended			Nine Months Ended				
	February 28, 2017	Percent Change Actual	Constant	February 29 2016	February 28, 2017	Percent Change Actual	Constant	February 29, 2016
Hardware Products Revenues:								
Americas	\$ 237	-18%	-19%	\$ 289	\$ 712	-20%	-20%	\$ 892
EMEA	158	-17%	-14%	192	429	-14%	-10%	500
Asia Pacific	125	1%	1%	123	337	-5%	-6%	354
Total revenues	520	-14%	-13%	604	1,478	-15%	-14%	1,746
Expenses:								
Hardware products ⁽¹⁾	288	-14%	-14%	337	769	-20%	-19%	963
Sales and marketing ⁽¹⁾	200	-4%	-4%	209	618	-5%	-4%	648
Stock-based compensation	6	18%	18%	5	21	35%	35%	15
Amortization of intangible assets ⁽²⁾	52	56%	56%	34	113	-2%	-2%	116
Total expenses	546	-6%	-6%	585	1,521	-13%	-12%	1,742
Total Margin	\$ (26)	-244%	-234%	\$ 19	\$ (43)	-926%	-807%	\$ 4
Total Margin %	-5%			3%	-3%			0%
% Revenues by Geography:								
Americas	46%			48%	48%			51%
EMEA	30%			32%	29%			29%
Asia Pacific	24%			20%	23%			20%

⁽¹⁾ Excluding stock-based compensation

⁽²⁾ Included as a component of Amortization of Intangible Assets in our condensed consolidated statements of operations. Excluding the effects of currency rate fluctuations, total hardware products revenues decreased in the fiscal 2017 periods presented in comparison to the corresponding prior year periods primarily due to reductions in sales volumes of certain of our product lines, including lower margin products, partially offset by revenues growth in certain of our Oracle Engineered Systems. On a constant currency basis, hardware products revenues declined across all regions during the fiscal 2017 periods presented relative to the corresponding prior years with the exception of Asia Pacific during the third quarter of fiscal 2017, which grew modestly.

Excluding the effects of currency rate fluctuations, total hardware products expenses decreased in the fiscal 2017 periods presented relative to the corresponding prior year periods primarily due to lower hardware products costs associated with lower hardware products revenues.

For the fiscal 2017 periods presented, total margin and total margin as a percentage of revenues for our hardware products segment decreased on a constant currency basis in comparison to the corresponding prior year periods primarily due to the decrease in our total revenues for this segment.

Hardware Support: Our hardware support offerings provide customers with software updates for software components that are essential to the functionality of our hardware products, such as Oracle Solaris and certain other software, and can include product repairs, maintenance services and technical support services. Expenses associated with our hardware 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 primarily associated with hardware support contracts and customer relationships obtained from our acquisitions.

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(Dollars in millions)	Three Months Ended			February 29, February 28,		Nine Months Ended		February 29, 2016
	February 28, 2017	Percent Change Actual	Constant	2016	2017	Percent Change Actual	Constant	
Hardware Support Revenues:								
Americas	\$ 274	-3%	-3%	\$ 281	\$ 835	-3%	-3%	\$ 863
EMEA	142	-10%	-6%	158	440	-11%	-7%	495
Asia Pacific	92	1%	-1%	92	284	1%	-2%	281
Total revenues	508	-4%	-3%	531	1,559	-5%	-4%	1,639
Expenses:								
Hardware support ⁽¹⁾	146	-15%	-14%	170	436	-17%	-16%	522
Stock-based compensation	1	-7%	-7%	1	3	-17%	-17%	4
Amortization of intangible assets ⁽²⁾	18	-52%	-52%	36	56	-49%	-49%	110
Total expenses	165	-21%	-20%	207	495	-22%	-22%	636
Total Margin	\$ 343	7%	8%	\$ 324	\$ 1,064	6%	7%	\$ 1,003
Total Margin %	68%			61%	68%			61%
% Revenues by Geography:								
Americas	54%			53%	54%			53%
EMEA	28%			30%	28%			30%
Asia Pacific	18%			17%	18%			17%

(1) Excluding stock-based compensation

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