

ORACLE CORP

FORM 10-Q (Quarterly Report)

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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 August 31, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-35992

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware
(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 September 16, 2014 was: 4,431,304,000.

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Cautionary Note on Forward-Looking Statements

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

- our expectation to continue to acquire companies, products, services and technologies;
- our expectation that our software and cloud business’s total revenues generally will continue to increase;
- our belief that software license updates and product support revenues and margins will grow;
- our expectation that our hardware business will have lower operating margins as a percentage of revenues than our software and cloud business;
- our international operations providing a significant portion of our total revenues and expenses;
- our expectation to continue to make significant investments in research and development and related product opportunities, including those related to hardware products and services;
- the sufficiency of our sources of funding for acquisitions or other matters;
- our belief that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits and that any tax settlement will not have a material adverse effect on our consolidated financial position or results of operations;
- our belief that the outcome of certain legal proceedings and claims to which we are a party will not, individually or in the aggregate, result in losses that are materially in excess of amounts already recognized, if any;
- our expectation to incur the majority of the remaining expenses pursuant to the Fiscal 2013 Oracle Restructuring Plan through the end of fiscal 2015 and our expectation to improve efficiencies in our operations that will impact our Fiscal 2013 Oracle Restructuring Plan;
- our expectation that to the extent customers renew support contracts or cloud software-as-a-service and platform-as-a-service contracts, we will recognize revenues for the full contracts’ values over the respective renewal periods;
- our ability to predict quarterly hardware systems revenues;
- the timing of customer orders and delays in our ability to manufacture or deliver a few large transactions substantially affecting the amount of hardware systems products revenues, expenses and operating margins that we will report;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may be preceded by, followed by or include the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “will,” “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, 2014 and our other Quarterly Reports on Form 10-Q to be filed by us in our fiscal year 2015, which runs from June 1, 2014 to May 31, 2015.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

ORACLE CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS As of August 31, 2014 and May 31, 2014 (Unaudited)

(in millions, except per share data)	August 31, 2014	May 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,179	\$ 17,769
Marketable securities	27,437	21,050
Trade receivables, net of allowances for doubtful accounts of \$296 and \$306 as of August 31, 2014 and May 31, 2014, respectively	3,551	6,087
Inventories	179	189
Deferred tax assets	833	914
Prepaid expenses and other current assets	2,015	2,129
Total current assets	<u>58,194</u>	<u>48,138</u>
Non-current assets:		
Property, plant and equipment, net	3,086	3,061
Intangible assets, net	5,605	6,137
Goodwill	29,707	29,652
Deferred tax assets	916	837
Other assets	2,218	2,519
Total non-current assets	<u>41,532</u>	<u>42,206</u>
Total assets	<u>\$ 99,726</u>	<u>\$ 90,344</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable, current and other current borrowings	\$ —	\$ 1,508
Accounts payable	423	471
Accrued compensation and related benefits	1,491	1,940
Income taxes payable	425	416
Deferred revenues	8,939	7,269
Other current liabilities	2,099	2,785
Total current liabilities	<u>13,377</u>	<u>14,389</u>
Non-current liabilities:		
Notes payable and other non-current borrowings	32,567	22,667
Income taxes payable	4,148	4,184
Other non-current liabilities	1,703	1,657
Total non-current liabilities	<u>38,418</u>	<u>28,508</u>
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: 4,438 shares and 4,464 shares as of August 31, 2014 and May 31, 2014, respectively	21,709	21,077
Retained earnings	25,838	25,965
Accumulated other comprehensive loss	(193)	(164)
Total Oracle Corporation stockholders' equity	47,354	46,878
Noncontrolling interests	577	569
Total equity	<u>47,931</u>	<u>47,447</u>
Total liabilities and equity	<u>\$ 99,726</u>	<u>\$ 90,344</u>

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS For the Three Months Ended August 31, 2014 and 2013 (Unaudited)

(in millions, except per share data)	Three Months Ended August 31,	
	2014	2013
Revenues:		
New software licenses	\$ 1,370	\$ 1,399
Cloud software-as-a-service and platform-as-a-service	337	254
Cloud infrastructure-as-a-service	138	109
Software license updates and product support	4,731	4,431
Software and cloud revenues	6,576	6,193
Hardware systems products	578	669
Hardware systems support	587	592
Hardware systems revenues	1,165	1,261
Services revenues	855	918
Total revenues	8,596	8,372
Operating expenses:		
Sales and marketing ⁽¹⁾	1,706	1,620
Cloud software-as-a-service and platform-as-a-service ⁽¹⁾	149	102
Cloud infrastructure-as-a-service	79	72
Software license updates and product support ⁽¹⁾	272	288
Hardware systems products ⁽¹⁾	298	330
Hardware systems support ⁽¹⁾	192	209
Services ⁽¹⁾	691	720
Research and development	1,329	1,237
General and administrative	276	260
Amortization of intangible assets	547	595
Acquisition related and other	25	10
Restructuring	69	56
Total operating expenses	5,633	5,499
Operating income	2,963	2,873
Interest expense	(261)	(217)
Non-operating income, net	16	7
Income before provision for income taxes	2,718	2,663
Provision for income taxes	534	472
Net income	\$ 2,184	\$ 2,191
Earnings per share:		
Basic	\$ 0.49	\$ 0.48
Diluted	\$ 0.48	\$ 0.47
Weighted average common shares outstanding:		
Basic	4,451	4,608
Diluted	4,548	4,674
Dividends declared per common share	\$ 0.12	\$ 0.12

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

See notes to condensed consolidated financial statements.

ORACLE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended August 31, 2014 and 2013
(Unaudited)

(in millions)	Three Months Ended August 31,	
	2014	2013
Net income	\$ 2,184	\$ 2,191
Other comprehensive loss, net of tax:		
Net foreign currency translation losses	(83)	(187)
Net unrealized gains on defined benefit plans	3	3
Net unrealized gains (losses) on marketable securities	16	(29)
Net unrealized gains (losses) on cash flow hedges	35	(32)
Total other comprehensive loss, net	(29)	(245)
Comprehensive income	<u>\$ 2,155</u>	<u>\$ 1,946</u>

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS For the Three Months Ended August 31, 2014 and 2013 (Unaudited)

(in millions)	Three Months Ended August 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 2,184	\$ 2,191
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	160	150
Amortization of intangible assets	547	595
Deferred income taxes	(68)	(101)
Stock-based compensation	215	200
Tax benefits on the exercise of stock options and vesting of restricted stock-based awards	96	67
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	(51)	(40)
Other, net	46	17
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	2,506	2,707
Decrease in inventories	10	5
Decrease in prepaid expenses and other assets	275	366
Decrease in accounts payable and other liabilities	(1,088)	(994)
Increase (decrease) in income taxes payable	80	(313)
Increase in deferred revenues	1,816	1,442
Net cash provided by operating activities	6,728	6,292
Cash flows from investing activities:		
Purchases of marketable securities and other investments	(10,340)	(8,549)
Proceeds from maturities and sales of marketable securities and other investments	3,878	6,515
Acquisitions, net of cash acquired	(37)	(1,314)
Capital expenditures	(201)	(153)
Net cash used for investing activities	(6,700)	(3,501)
Cash flows from financing activities:		
Payments for repurchases of common stock	(2,000)	(2,968)
Proceeds from issuances of common stock	588	285
Payments of dividends to stockholders	(537)	(554)
Proceeds from borrowings, net of issuance costs	9,945	5,566
Repayments of borrowings	(1,500)	—
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	51	40
Distributions to noncontrolling interests	(27)	(28)
Net cash provided by financing activities	6,520	2,341
Effect of exchange rate changes on cash and cash equivalents	(138)	(81)
Net increase in cash and cash equivalents	6,410	5,051
Cash and cash equivalents at beginning of period	17,769	14,613
Cash and cash equivalents at end of period	\$ 24,179	\$ 19,664
Non-cash investing and financing transactions:		
Increase in unsettled repurchases of common stock	\$ —	\$ 30
Decrease in unsettled investment purchases	\$ (78)	\$ —

See notes to condensed consolidated financial statements.

ORACLE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2014
(Unaudited)

1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

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

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

There have been no significant changes in our reported financial position or results of operations and cash flows as a result of the adoption of new accounting pronouncements or to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014 that have had a significant impact on our consolidated financial statements or notes thereto.

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

Acquisition Related and Other Expenses

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

(in millions)	Three Months Ended August 31,	
	2014	2013
Transitional and other employee related costs	\$ 9	\$ 6
Stock-based compensation	3	2
Professional fees and other, net	13	3
Business combination adjustments, net	—	(1)
Total acquisition related and other expenses	<u>\$ 25</u>	<u>\$ 10</u>

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
August 31, 2014
(Unaudited)

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 August 31,	
	2014	2013
Interest income	\$ 89	\$ 57
Foreign currency losses, net	(41)	(35)
Noncontrolling interests in income	(46)	(17)
Other income, net	14	2
Total non-operating income, net	<u>\$ 16</u>	<u>\$ 7</u>

Sales of Financing Receivables

We offer certain of our customers the option to acquire our software products, hardware systems products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed for our customers on a non-recourse basis to financial institutions within 90 days of the contracts' dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financing receivables because we are considered to have surrendered control of these financing receivables. During the three months ended August 31, 2014 and 2013, \$724 million and \$828 million of financing receivables were sold to financial institutions, respectively.

Recent Accounting Pronouncements

Disclosure of Going Concern Uncertainties: In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15), to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for us in our fourth quarter of fiscal 2017 with early adoption permitted. We do not believe the impact of our pending adoption of ASU 2014-15 on our consolidated financial statements will be material.

Share-Based Payments with Performance Targets: In June 2014, the FASB issued Accounting Standards Update No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (ASU 2014-12). ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification (ASC) 718, *Compensation — Stock Compensation* (ASC 718), as it relates to such awards. ASU 2014-12 is effective for us in our first quarter of fiscal 2017 with early adoption permitted using either of two methods: (i) prospective to all awards granted or modified after the effective date; or (ii) retrospective to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter, with the cumulative effect of applying ASU 2014-12 as an adjustment to the opening retained earnings balance as of the beginning of the earliest annual period presented in the financial statements. We are currently evaluating the impact of our pending adoption on ASU 2014-12 on our consolidated financial statements.

Revenue Recognition: In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers: Topic 606* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods

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

Reporting Discontinued Operations: In April 2014, the FASB issued Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08), to change the criteria for determining which disposals can be presented as discontinued operations and to enhance the related disclosure requirements. ASU 2014-08 is effective for us on a prospective basis in our first quarter of fiscal 2016 with early adoption permitted for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. We are currently evaluating the impact of our pending adoption of ASU 2014-08 on our consolidated financial statements.

2. ACQUISITIONS

Acquisition of MICROS Systems, Inc.

On June 22, 2014, we entered into an Agreement and Plan of Merger (Merger Agreement) with MICROS Systems, Inc. (MICROS), a provider of integrated software, hardware and services solutions to the hospitality and retail industries. On July 3, 2014, pursuant to the Merger Agreement, we commenced a tender offer to purchase all of the issued and outstanding shares of common stock of MICROS at a purchase price of \$68.00 per share, net to the seller in cash, without interest thereon, based upon the terms and subject to the conditions set forth in the Merger Agreement. On September 3, 2014, pursuant to the terms of the tender offer, we accepted and paid for approximately 80% of the outstanding shares of MICROS common stock tendered in the offer for approximately \$4.1 billion in cash. We provided for a subsequent offering period through September 5, 2014 at the same purchase price of \$68.00 per share and we accepted an additional 7% of MICROS common stock tendered through this date for approximately \$330 million. On September 8, 2014, we effectuated the merger of MICROS with and into a wholly-owned subsidiary of Oracle pursuant to the terms of the Merger Agreement and applicable Maryland law and MICROS became an indirect, wholly-owned subsidiary of Oracle. Pursuant to the merger, shares of MICROS common stock that were outstanding and not acquired by us were converted into, and cancelled in exchange for, the right to receive \$68.00 per share in cash. The unvested equity awards to acquire MICROS common stock that were outstanding immediately prior to the conclusion of the merger were converted into equity awards denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The initial allocation of the purchase price for the acquisition of MICROS is pending the completion of various analyses and finalization of estimates. Accordingly, such disclosures related to this business combination could not be made at the time these financial statements were issued.

Other Fiscal 2015 Acquisitions

During the first quarter of fiscal 2015, we acquired certain other companies primarily to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate. We also have entered

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into certain other non-material agreements to acquire other companies and expect these proposed acquisitions to close during the second quarter of fiscal 2015.

Fiscal 2014 Acquisitions

Acquisition of Responsys, Inc.

On February 6, 2014, we completed our acquisition of Responsys, Inc. (Responsys), a provider of enterprise-scale cloud-based business-to-consumer marketing software. We have included the financial results of Responsys in our consolidated financial statements from the date of acquisition. The total preliminary purchase price for Responsys was approximately \$1.6 billion, which consisted of approximately \$1.4 billion in cash and \$147 million for the fair value of stock options and restricted stock-based awards assumed. We have preliminarily recorded \$39 million of net tangible liabilities, related primarily to deferred tax liabilities, \$580 million of identifiable intangible assets, and \$14 million of in-process research and development, based on their estimated fair values, and \$1.0 billion of residual goodwill.

Other Fiscal 2014 Acquisitions

During fiscal 2014, we acquired certain other companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not individually significant. We have included the financial results of these companies in our consolidated financial statements from their respective acquisition dates and the results from each of these companies were not individually material to our consolidated financial statements. In the aggregate, the total purchase price for these acquisitions was approximately \$2.3 billion, which consisted primarily of cash consideration, and we recorded \$243 million of net tangible liabilities, related primarily to deferred tax liabilities, \$1.1 billion of identifiable intangible assets, and \$99 million of in-process research and development, based on their estimated fair values, and \$1.3 billion of residual goodwill.

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

Contingent Consideration Related to the Acquisition of Pillar Data Systems, Inc.

In fiscal 2012, we acquired Pillar Data Systems, Inc. (Pillar Data), a provider of enterprise storage systems solutions. Pursuant to the agreement and plan of merger dated as of June 29, 2011 (Pillar Data Merger Agreement), we acquired all of the issued and outstanding equity interests of Pillar Data from the stockholders in exchange for rights to receive contingent cash consideration (Earn-Out), if any, pursuant to an Earn-Out calculation. The Earn-Out period ended at the end of our first quarter of fiscal 2015 and no amounts are expected to be paid or payable to Pillar Data's former stockholders, including Lawrence J. Ellison, Oracle's Chief Technology Officer, Chairman of the Board and largest stockholder.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle and certain other companies that we acquired since the beginning of fiscal 2014 (which were

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
August 31, 2014
(Unaudited)

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

The unaudited pro forma financial information for the three months ended August 31, 2014 included only the historical results of Oracle for the three months ended August 31, 2014. The historical results of certain other companies that we acquired since the beginning of fiscal 2015 were not material to the unaudited pro forma financial information presented based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above.

The unaudited pro forma financial information for the three months ended August 31, 2013 combined the historical results of Oracle for the three months ended August 31, 2013, the historical results of certain other companies that we acquired since the beginning of fiscal 2014 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above.

(in millions, except per share data)	Three Months Ended August 31,	
	2014	2013
Total revenues	\$ 8,596	\$ 8,459
Net income	\$ 2,184	\$ 2,131
Basic earnings per share	\$ 0.49	\$ 0.46
Diluted earnings per share	\$ 0.48	\$ 0.46

3. FAIR VALUE MEASUREMENTS

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

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

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	August 31, 2014			May 31, 2014		
	Fair Value Measurements Using Input Types			Fair Value Measurements Using Input Types		
(in millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
U.S. Treasury securities	\$ 476	\$ —	\$ 476	\$ —	\$ —	\$ —
Commercial paper debt securities	—	12,164	12,164	—	7,969	7,969
Corporate debt securities and other	158	20,032	20,190	119	16,538	16,657
Derivative financial instruments	—	67	67	—	97	97
Total assets	<u>\$ 634</u>	<u>\$ 32,263</u>	<u>\$32,897</u>	<u>\$ 119</u>	<u>\$ 24,604</u>	<u>\$ 24,723</u>
Liabilities:						
Derivative financial instruments	\$ —	\$ 3	\$ 3	\$ —	\$ —	\$ —

Our marketable securities investments consisted of Tier 1 commercial paper debt securities, corporate debt securities and certain other securities. As of August 31, 2014 and May 31, 2014, approximately 50% and 45%, respectively, of our marketable securities investments mature within one year and 50% and 55%, respectively, mature within one to four years. Our valuation techniques used to measure the fair values of our marketable securities that were classified as Level 1 in the table above were derived from quoted market prices and active markets for these instruments exist. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others.

Based on the trading prices of our \$32.6 billion and \$24.2 billion of borrowings, which consisted of senior notes that were outstanding as of August 31, 2014 and May 31, 2014, respectively, the estimated fair values of our borrowings using Level 2 inputs at August 31, 2014 and May 31, 2014 were \$35.1 billion and \$26.4 billion, respectively.

4. INVENTORIES

Inventories consisted of the following:

(in millions)	August 31,	May 31,
	2014	2014
Raw materials	\$ 72	\$ 74
Work-in-process	23	28
Finished goods	84	87
Total	<u>\$ 179</u>	<u>\$ 189</u>

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5. INTANGIBLE ASSETS AND GOODWILL

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

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		
	August 31,			August 31,			August 31,		
(Dollars in millions)	May 31, 2014	Additions	2014	May 31, 2014	Expense	2014	May 31, 2014	2014	Weighted Average Useful Life ⁽¹⁾
Software support agreements and related relationships	\$ 5,218	\$ —	\$ 5,218	\$ (4,403)	\$ (139)	\$ (4,542)	\$ 815	\$ 676	N.A.
Hardware systems support agreements and related relationships	969	—	969	(530)	(35)	(565)	439	404	N.A.
Developed technology	4,387	25	4,412	(2,176)	(167)	(2,343)	2,211	2,069	3 years
Core technology	1,617	—	1,617	(1,294)	(61)	(1,355)	323	262	N.A.
Customer relationships and contract backlog	2,054	1	2,055	(1,459)	(72)	(1,531)	595	524	1 year
SaaS and PaaS agreements and related relationships and other	1,789	4	1,793	(305)	(48)	(353)	1,484	1,440	3 years
Trademarks	516	—	516	(276)	(25)	(301)	240	215	N.A.
Total intangible assets subject to amortization	16,550	30	16,580	(10,443)	(547)	(10,990)	6,107	5,590	3 years
In-process research and development, net	30	(15)	15	—	—	—	30	15	N.A.
Total intangible assets, net	\$ 16,580	\$ 15	\$ 16,595	\$ (10,443)	\$ (547)	\$ (10,990)	\$ 6,137	\$ 5,605	

⁽¹⁾ Represents weighted average useful lives of intangible assets acquired during fiscal 2015.

Total amortization expense related to our intangible assets was \$547 million and \$595 million for the three months ended August 31, 2014 and 2013, respectively. As of August 31, 2014, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of Fiscal 2015	\$ 1,395
Fiscal 2016	1,345
Fiscal 2017	749
Fiscal 2018	611
Fiscal 2019	511
Fiscal 2020	387
Thereafter	592
Total intangible assets subject to amortization	5,590
In-process research and development	15
Total intangible assets, net	<u>\$ 5,605</u>

The changes in the carrying amounts of goodwill, which is generally not deductible for tax purposes, for our operating segments for the three months ended August 31, 2014 were as follows:

(in millions)	New Software Licenses and Cloud Software Subscriptions	Software License Updates and Product Support	Hardware Systems Support	Other ⁽²⁾	Total
Balances as of May 31, 2014	\$ 13,139	\$ 12,472	\$ 2,082	\$ 1,959	\$ 29,652
Goodwill from acquisitions	15	—	—	7	22
Goodwill adjustments ⁽¹⁾	13	—	19	1	33
Balances as of August 31, 2014	<u>\$ 13,167</u>	<u>\$ 12,472</u>	<u>\$ 2,101</u>	<u>\$ 1,967</u>	<u>\$ 29,707</u>

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

⁽²⁾ Represents goodwill allocated to our other operating segments and goodwill to be allocated to our operating segments upon completion of our intangible asset valuations, if any.

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6. NOTES PAYABLE AND OTHER BORROWINGS

Senior Notes

In July 2014, we issued \$10.0 billion of senior notes comprised of \$1.0 billion of floating rate notes due July 2017 (2017 Notes), \$750 million of floating rate notes due October 2019 (2019 Floating Rate Notes), \$2.0 billion of 2.25% notes due October 2019 (2019 Notes), \$1.5 billion of 2.80% notes due July 2021 (2021 Notes), \$2.0 billion of 3.40% notes due July 2024 (2024 Notes), \$1.75 billion of 4.30% notes due July 2034 (2034 Notes) and \$1.0 billion of 4.50% notes due July 2044 (2044 Notes and, together with the 2017 Notes, 2019 Floating Rate Notes, 2019 Notes, 2021 Notes, 2024 Notes and 2034 Notes, the Senior Notes). The floating rate notes bear interest at a floating rate equal to three-month LIBOR plus 0.20% for the 2017 Notes and 0.51% for the 2019 Floating Rate Notes (0.43% and 0.74% as of August 31, 2014, respectively) with interest payable quarterly. We issued the Senior Notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock, our acquisition of MICROS in September 2014 and future acquisitions, and repayment of indebtedness.

The effective interest yields of the 2019 Notes, 2021 Notes, 2024 Notes, 2034 Notes and 2044 Notes (collectively, the Fixed Rate Senior Notes) at August 31, 2014 were 2.27%, 2.82%, 3.43%, 4.30% and 4.50%, respectively, and interest is payable semi-annually. In July 2014, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with the 2019 Notes and 2021 Notes so that the interest payable on these notes effectively became variable based on LIBOR (0.72% and 0.87%, respectively, at August 31, 2014; see Note 9 for additional information). We may redeem some or all of the Fixed Rate Senior Notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances. The 2017 Notes and 2019 Floating Rate Notes may not be redeemed prior to their maturity.

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

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

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

7. RESTRUCTURING ACTIVITIES

Fiscal 2013 Oracle Restructuring Plan

During the first quarter of fiscal 2013, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations (the 2013 Restructuring Plan). Our management subsequently amended the 2013 Restructuring Plan in the third quarter of fiscal 2013 and in the first quarter of fiscal 2014 to reflect additional actions that we expect to take. The total estimated restructuring costs associated with the 2013 Restructuring Plan are \$705 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are incurred. We recorded \$80 million of restructuring expenses in connection with the 2013 Restructuring Plan in the first quarter of fiscal 2015 and we expect to incur the majority of the estimated remaining \$126 million through the end of fiscal 2015. Any changes to the estimates of executing the 2013 Restructuring Plan will be reflected in our future results of operations.

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Summary of All Plans

(in millions)	Accrued May 31,	Three Months Ended August 31, 2014				Accrued August 31,	Total Costs Accrued	Total Expected Program
	2014 ⁽²⁾	Initial Costs ⁽³⁾	Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾	2014 ⁽²⁾	to Date	Costs
Fiscal 2013 Oracle Restructuring Plan ⁽¹⁾								
New software licenses and cloud software subscriptions	\$ 12	\$ 22	\$ (1)	\$ (18)	\$ —	\$ 15	\$ 147	\$ 158
Software license updates and product support	5	4	—	(2)	—	7	22	34
Hardware systems business	18	28	(1)	(16)	(1)	28	166	208
Services	11	20	—	(17)	—	14	119	166
General and administrative and other	15	9	(1)	(9)	(2)	12	125	139
Total Fiscal 2013 Oracle Restructuring Plan	\$ 61	\$ 83	\$ (3)	\$ (62)	\$ (3)	\$ 76	\$ 579	\$ 705
Total other restructuring plans ⁽⁶⁾	\$ 108	\$ 1	\$ (12)	\$ (11)	\$ 1	\$ 87		
Total restructuring plans	\$ 169	\$ 84	\$ (15)	\$ (73)	\$ (2)	\$ 163		

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

(2) The balances at August 31, 2014 and May 31, 2014 included \$112 million and \$100 million, respectively, recorded in other current liabilities, and \$51 million and \$69 million, respectively, recorded in other non-current liabilities.

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

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

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

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

8. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	August 31,	May 31,
	2014	2014
Software license updates and product support	\$ 7,498	\$ 5,909
Hardware systems support and other	738	664
Services	376	364
Cloud SaaS, PaaS and IaaS	249	248
New software licenses	78	84
Deferred revenues, current	8,939	7,269
Deferred revenues, non-current (in other non-current liabilities)	464	404
Total deferred revenues	\$ 9,403	\$ 7,673

Deferred software license updates and product support revenues and deferred hardware systems support revenues represent customer payments made in advance for support contracts that are typically billed on a per annum basis in advance with corresponding revenues being recognized ratably over the support periods. Deferred services revenues include prepayments for our services business and revenues for these services are generally recognized

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as the services are performed. Deferred cloud software-as-a-service (SaaS), platform-as-a-service (PaaS) and infrastructure-as-a-service (IaaS) revenues generally result from our cloud-based offerings that are typically billed in advance and recognized over the corresponding contractual term. Deferred new software licenses revenues typically result from undelivered products or specified enhancements, customer specific acceptance provisions, customer payments made in advance for time-based license arrangements and software license transactions that cannot be separated from undelivered consulting or other services.

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value Hedges — Interest Rate Swap Agreements

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

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

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

Cash Flow Hedges — Cross Currency Swap Agreements

In connection with the issuance of our €1.25 billion of 2.25% senior notes due January 2021 (January 2021 Notes), we entered into certain cross-currency swap agreements to manage the related foreign currency exchange risk by effectively converting the fixed-rate, Euro denominated January 2021 Notes, including the annual interest

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payments and the payment of principal at maturity, to fixed-rate, U.S. Dollar denominated debt. The economic effect of the swap agreements was to eliminate the uncertainty of the cash flows in U.S. Dollars associated with the January 2021 Notes by fixing the principal amount of the January 2021 Notes at \$1.6 billion with a fixed annual interest rate of 3.53%. We have designated these cross-currency swap agreements as qualifying hedging instruments and are accounting for these as cash flow hedges pursuant to ASC 815. The critical terms of the cross-currency swap agreements correspond to the January 2021 Notes, including the annual interest payments being hedged, and the cross-currency swap agreements mature at the same time as the January 2021 Notes.

We used the hypothetical derivative method to measure the effectiveness of our cross-currency swap agreements. The fair values of these cross-currency swap agreements are recognized as other assets or other non-current liabilities in our consolidated balance sheets. The effective portions of the changes in fair values of these cross-currency swap agreements are reported in accumulated other comprehensive loss in our consolidated balance sheets and an amount is reclassified out of accumulated other comprehensive loss into non-operating income, net in the same period that the carrying value of the Euro denominated January 2021 Notes is remeasured and the interest expense is recognized. The ineffective portion of the unrealized gains and losses on these cross-currency swaps, if any, is recorded immediately to non-operating income, net. We evaluate the effectiveness of our cross-currency swap agreements on a quarterly basis. We did not record any ineffectiveness for the three months ended August 31, 2014. The cash flows related to the cross-currency swap agreements that pertain to the periodic interest settlements are classified as operating activities and the cash flows that pertain to the principal balance are classified as financing activities.

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

Net Investment Hedge — Foreign Currency Borrowings

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

We used the spot method to measure the effectiveness of our net investment hedge. Under this method, for each reporting period, the change in the carrying value of the Euro denominated 2025 Notes due to remeasurement of the effective portion is reported in accumulated other comprehensive loss on our consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, is recognized in non-operating income, net in our consolidated statements of operations. We evaluate the effectiveness of our net investment hedge at the beginning of every quarter. We did not record any ineffectiveness for the three months ended August 31, 2014.

Foreign Currency Forward Contracts Not Designated as Hedges

We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effects of certain foreign currency exposures. We neither use these foreign currency forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to ASC 815 (refer to Note 11 of Notes to Consolidated Financial Statements as included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014 for additional information regarding these contracts). As of August 31, 2014 and May 31, 2014, respectively, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$2.9 billion and \$3.6 billion, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$1.4 billion and \$2.0 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at August 31,

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2014 and May 31, 2014. Included in our non-operating income, net were \$(31) million and \$68 million of net (losses) gains related to these forward contracts for the three months ended August 31, 2014 and 2013, respectively. The cash flows related to these foreign currency contracts are classified as operating activities.

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

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

(in millions)	August 31, 2014		May 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swap agreements designated as fair value hedges	Other assets	\$ 10	Other assets	\$ 15
Interest rate swap agreements designated as fair value hedges	Not applicable	\$ —	Prepaid expenses and other current assets	\$ 8
Interest rate swap agreements designated as fair value hedges	Other non-current liabilities	\$ (3)	Not applicable	\$ —
Cross-currency swap agreements designated as cash flow hedges	Other assets	\$ 57	Other assets	\$ 74
Foreign currency borrowings designated as net investment hedge	Notes payable and other non-current borrowings	\$ (1,127)	Notes payable and other non-current borrowings	\$ (1,116)

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

(in millions)	Amount of (Loss) Gain Recognized in Accumulated OCL (Effective Portion)		Location and Amount of (Loss) Gain Reclassified from Accumulated OCL into Income (Effective Portion)		
	Three Months Ended August 31,		Three Months Ended August 31,		
	2014	2013	2014	2013	
Cross-currency swap agreements designated as cash flow hedges	\$ (17)	\$ 2	Non-operating (expense) income, net	\$ (52)	\$ 34
Foreign currency borrowings designated as net investment hedge	\$ 32	\$ (13)	Not applicable	\$ —	\$ —

(in millions)	Location and Amount of (Loss) Recognized in Income on Derivative			Location and Amount of Gain on Hedged Item Recognized in Income Attributable to Risk Being Hedged		
	Three Months Ended August 31,			Three Months Ended August 31,		
	2014		2013	2014		2013
Interest rate swap agreements designated as fair value hedges	Interest expense	\$ (16)	\$ (23)	Interest expen	\$ 16	\$ 23

10. STOCKHOLDERS' EQUITY

Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 18, 2014, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional \$13.0 billion. Approximately \$2.3 billion remained available for stock repurchases as of August 31, 2014, pursuant to our stock repurchase program prior to the additional amount authorized in

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September 2014. We repurchased 48.8 million shares for \$2.0 billion during the three months ended August 31, 2014 (including 2.3 million shares for \$94 million that were repurchased but not settled) and 92.8 million shares for \$3.0 billion during the three months ended August 31, 2013 under the stock repurchase program.

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

Dividends on Common Stock

In the first quarter of fiscal 2015, our Board of Directors declared a cash dividend of \$0.12 per share of our outstanding common stock, which we paid during the same period.

In September 2014, our Board of Directors declared a quarterly cash dividend of \$0.12 per share of our outstanding common stock payable on October 29, 2014 to stockholders of record as of the close of business on October 8, 2014. 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 quarter of fiscal 2015, we issued 30 million stock options and 22 million restricted stock-based awards, which primarily included awards issued as a part of our annual stock-based award process and awards from companies that we have acquired, that were subject to service-based vesting restrictions. Included in the aforementioned restricted stock-based award total were 3 million of performance-based restricted stock units (PSUs) that vest upon the attainment of certain performance metrics and service-based vesting. Based upon actual attainment relative to the “target” performance metric, certain participants have the ability to be issued up to 150% of the target number of PSUs originally granted, or to be issued no PSUs at all. For each share granted as a restricted stock-based award under our 2000 Long-Term Equity Incentive Plan, an equivalent of 2.5 shares is deducted from our pool of available stock awards. Our stock option and restricted stock-based award issuances were partially offset by forfeitures and cancellations of 6 million shares during the first quarter of fiscal 2015.

We estimated the fair values of our stock options using the Black-Scholes-Merton option-pricing model, which was developed for use in estimating the fair values of stock options. Option valuation models, including the Black-Scholes-Merton option-pricing model, require the input of assumptions, including stock price volatility. Changes in the input assumptions can materially affect the fair value estimates and ultimately how much we recognize as stock-based compensation expense. We recognize stock-based compensation expense on a straight-line basis over the service period of the stock option, which is generally four years. The fair values of our stock options were estimated at the grant dates or at the acquisition dates for options assumed in a business combination. The weighted average input assumptions used and resulting fair values of our stock options were as follows for the three months ended August 31, 2014 and 2013:

	Three Months Ended	
	August 31,	
	2014	2013
Expected life (in years)	5.2	5.1
Risk-free interest rate	1.7%	1.4%
Volatility	23%	27%
Dividend yield	1.2%	1.6%
Weighted-average fair value per share	\$ 8.69	\$ 6.63

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

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

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

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

(in millions)	Three Months Ended August 31,	
	2014	2013
Sales and marketing	\$ 43	\$ 39
Cloud software-as-a-service and platform-as-a-service	2	2
Cloud infrastructure-as-a-service	1	1
Software license updates and product support	5	6
Hardware systems products	1	2
Hardware systems support	1	3
Services	6	6
Research and development	108	97
General and administrative	45	42
Acquisition related and other	3	2
Total stock-based compensation	<u>\$ 215</u>	<u>\$ 200</u>

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11. INCOME TAXES

The effective tax rate for the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Our provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to certain earnings considered as indefinitely reinvested in foreign operations, state taxes, the U.S. research and development tax credit, acquisition related settlements with tax authorities and the U.S. domestic production activity deduction. Our effective tax rate was 19.7% and 17.7% for the three months ended August 31, 2014 and 2013, respectively.

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

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

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

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

12. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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 software and cloud and hardware systems businesses:

(in millions)	Three Months Ended August 31,	
	2014	2013
New software licenses and cloud software subscriptions:		
Revenues ⁽¹⁾	\$ 1,707	\$ 1,653
Cloud software-as-a-service and platform-as-a-service expenses	143	95
Sales and distribution expenses	1,279	1,178
Margin ⁽²⁾	\$ 285	\$ 380
Cloud infrastructure-as-a-service:		
Revenues	\$ 138	\$ 109
Cloud infrastructure-as-a-service expenses	76	67
Sales and distribution expenses	18	20
Margin ⁽²⁾	\$ 44	\$ 22
Software license updates and product support:		
Revenues ⁽¹⁾	\$ 4,731	\$ 4,432
Software license updates and product support expenses	257	276
Margin ⁽²⁾	\$ 4,474	\$ 4,156
Total software and cloud business:		
Revenues ⁽¹⁾	\$ 6,576	\$ 6,194
Expenses	1,773	1,636
Margin ⁽²⁾	\$ 4,803	\$ 4,558
Hardware systems products:		
Revenues	\$ 578	\$ 669
Hardware systems products expenses	297	329
Sales and distribution expenses	201	217
Margin ⁽²⁾	\$ 80	\$ 123
Hardware systems support:		
Revenues ⁽¹⁾	\$ 588	\$ 597
Hardware systems support expenses	184	201
Margin ⁽²⁾	\$ 404	\$ 396
Total hardware systems business:		
Revenues ⁽¹⁾	\$ 1,166	\$ 1,266
Expenses	682	747
Margin ⁽²⁾	\$ 484	\$ 519
Total services business:		
Revenues ⁽¹⁾	\$ 857	\$ 921
Services expenses	665	687
Margin ⁽²⁾	\$ 192	\$ 234
Totals:		
Revenues ⁽¹⁾	\$ 8,599	\$ 8,381
Expenses	3,120	3,070
Margin ⁽²⁾	<u>\$ 5,479</u>	<u>\$ 5,311</u>

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- (1) New software licenses and cloud software subscriptions revenues for management reporting included revenues related to cloud SaaS and PaaS contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amounts of \$2 million and \$3 million for the three months ended August 31, 2014 and 2013, respectively. Software license updates and product support revenues for management reporting included revenues related to software support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amount of \$1 million for the three months ended August, 31 2013. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of \$1 million and \$5 million for the three months ended August 31, 2014 and 2013, respectively. See Note 8 for an explanation of these adjustments and the table below for a reconciliation of our total operating segment revenues to our total revenues. Our new software license and services revenues for management reporting also differ from amounts reported per our consolidated statements of operations for the periods presented due to certain insignificant reclassifications between these lines for management reporting purposes.
- (2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, marketing and partner programs, and corporate, general and administrative and information technology expenses. Additionally, the margins do not reflect amortization of intangible assets, acquisition related and other expenses, restructuring expenses, stock-based compensation, interest expense or certain other income (expense), net.

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

(in millions)	Three Months Ended August 31	
	2014	2013
Total revenues for operating segments	\$ 8,599	\$ 8,381
Cloud software-as-a-service and platform-as-a-service revenues ⁽¹⁾	(2)	(3)
Software license updates and product support revenues ⁽¹⁾	—	(1)
Hardware systems support revenues ⁽¹⁾	(1)	(5)
Total revenues	\$ 8,596	\$ 8,372
Total margin for operating segments	\$ 5,479	\$ 5,311
Cloud software-as-a-service and platform-as-a-service revenues ⁽¹⁾	(2)	(3)
Software license updates and product support revenues ⁽¹⁾	—	(1)
Hardware systems support revenues ⁽¹⁾	(1)	(5)
Product development	(1,174)	(1,094)
Marketing and partner program expenses	(119)	(131)
Corporate, general and administrative and information technology expenses	(367)	(345)
Amortization of intangible assets	(547)	(595)
Acquisition related and other	(25)	(10)
Restructuring	(69)	(56)
Stock-based compensation	(212)	(198)
Interest expense	(261)	(217)
Non-operating income, net	16	7
Income before provision for income taxes	\$ 2,718	\$ 2,663

- (1) New software licenses and cloud software subscriptions revenues for management reporting included revenues related to cloud SaaS and PaaS contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amounts of \$2 million and \$3 million for the three months ended August 31, 2014 and 2013, respectively. Software license updates and product support revenues for management reporting included revenues related to software support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amount of \$1 million for the three months ended August 31, 2013. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of \$1 million and \$5 million for the three months ended August 31, 2014 and 2013, respectively. See Note 8 for an explanation of these adjustments.

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13. EARNINGS PER SHARE

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

(in millions, except per share data)	Three Months Ended August 31,	
	2014	2013
Net income	\$ 2,184	\$ 2,191
Weighted average common shares outstanding	4,451	4,608
Dilutive effect of employee stock plans	97	66
Dilutive weighted average common shares outstanding	4,548	4,674
Basic earnings per share	\$ 0.49	\$ 0.48
Diluted earnings per share	\$ 0.48	\$ 0.47
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation ⁽¹⁾	26	289

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

14. LEGAL PROCEEDINGS

SAP Intellectual Property Litigation

On March 22, 2007, Oracle Corporation, Oracle USA, Inc. and Oracle International Corporation (collectively, Oracle) filed a complaint in the United States District Court for the Northern District of California against SAP AG, its wholly-owned subsidiary, SAP America, Inc., and its wholly-owned subsidiary, TomorrowNow, Inc., (the SAP Subsidiary, and collectively, the SAP Defendants) alleging that SAP unlawfully accessed Oracle's Customer Connection support website and improperly took and used Oracle's intellectual property.

Trial commenced on November 1, 2010 on the issue of damages, as SAP had stipulated to liability. The jury awarded Oracle \$1.3 billion. On September 1, 2011, the court granted the SAP Defendants' motion for judgment as a matter of law and for a new trial. The court vacated the \$1.3 billion award and held that Oracle could either accept a reduced amount or remittitur of \$272 million or proceed to a new trial. On February 6, 2012, Oracle rejected the remittitur and requested a new trial.

On August 2, 2012, Oracle and the SAP Defendants stipulated to a judgment of \$306 million against the SAP Defendants, in lieu of having a second jury trial, while preserving both parties' rights to appeal prior court orders. We recorded a \$306 million receivable in our consolidated balance sheet and we recognized a corresponding benefit to our results of operations for the first quarter of fiscal 2013. Previously during trial we received payment of \$120 million in attorneys' fees from SAP under a stipulation, and we recorded this payment upon receipt as a benefit to our results of operations during the second quarter of fiscal 2011. On August 3, 2012, the court entered the judgment and vacated the date set for the new trial. Oracle filed a Notice of Appeal on August 31, 2012, and the SAP Defendants filed a notice of appeal on September 14, 2012. The SAP Defendants subsequently dismissed their appeal. The appellate court heard oral argument on May 13, 2014, and on August 29, 2014, issued an order affirming the district court's grant of judgment as a matter of law but vacated the district court's ruling selecting \$272 million as the remittitur amount. The appellate court remanded for a new trial, with instructions to condition any new trial on Oracle's rejection of a \$356.7 million remittitur.

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Hewlett-Packard Company Litigation

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

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

The court bifurcated the trial and tried HP’s causes of action for declaratory relief and promissory estoppel without a jury in June 2012. The court issued a final statement of decision on August 28, 2012, finding that the Hurd Settlement Agreement required Oracle to continue to develop certain of its software products for use on HP’s Itanium-based servers and to port such products at no cost to HP for as long as HP sells those servers. Oracle has announced that it is appealing this decision. The issues of breach, HP’s performance, causation and damages, HP’s tort claims, and Oracle’s cross-claims will all be tried before a jury. As of April 8, 2013, the trial is stayed pending Oracle’s appeal of the court’s denial of its anti-SLAPP motion, which is fully briefed, although oral argument has not yet been scheduled. We cannot currently estimate a reasonably possible range of loss for this action. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

Derivative Litigations and Related Action

On September 30, 2011, a stockholder derivative lawsuit was filed in the Delaware Court of Chancery and a second stockholder was permitted to intervene as a plaintiff on November 15, 2011. At an August 22, 2012, hearing, the court dismissed certain claims but permitted certain claims for breach of fiduciary duty to proceed. On May 3, 2013, plaintiffs filed an amended complaint. The derivative suit is brought by two alleged stockholders of Oracle, purportedly on Oracle’s behalf, against one former director and all but two of our current directors, including against our then Chief Executive Officer as an alleged controlling stockholder. Plaintiffs allege that Oracle’s directors breached their fiduciary duties in agreeing to purchase Pillar Data Systems, Inc. at an excessive price. Oracle’s acquisition of Pillar is structured as an earn out, under which Oracle is scheduled to make a single payment, if any, by November 30, 2014, to Pillar’s former shareholders based on an agreed-upon Earn-Out formula. Plaintiffs seek declaratory relief, rescission of the Pillar Data transaction, damages, disgorgement of our then Chief Executive Officer’s alleged profits, disgorgement of all compensation earned by defendants as a result of their service on Oracle’s Board or any committee of the Board, and an award of attorneys’ fees and costs.

On June 13, 2014, plaintiffs and defendants filed a Stipulation and Agreement of Compromise, Settlement and Release, under which our then Chief Executive Officer agreed to pay to Oracle 95% of any and all amounts, if any, that are paid to him under the Pillar earn out. Oracle agreed to pay plaintiffs’ attorneys’ fees and costs, not to exceed \$15 million. At an August 12, 2014, hearing, the Delaware Chancery Court approved the settlement, and awarded \$15 million in plaintiffs’ attorneys’ fees and costs, which Oracle later paid. On the same day, the court entered a Final Order and Judgment approving the settlement. These derivative actions are now concluded.

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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.

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

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

Business Overview

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

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

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

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

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

Software and Cloud Business

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

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

The growth in our new software licenses and our SaaS and PaaS revenues that we report is affected by the strength of general economic and business conditions, governmental budgetary constraints, the competitive position of our software offerings, our acquisitions and foreign currency fluctuations. The substantial majority of our new software license transactions are characterized by long sales cycles and the timing of a few large software license transactions can substantially affect our quarterly new software licenses revenues. New software licenses and cloud software subscriptions revenues represented 28% of our total revenues on a trailing 4-quarter basis. Our cloud software subscriptions contracts, which consist of SaaS and PaaS arrangements, are generally one to three years in duration and we strive to renew these contracts when they are eligible for renewal. Our new software licenses and cloud software subscriptions segment's margin has historically trended upward over the course of the four quarters within a particular fiscal year due to the historical upward trend of our new software licenses revenues over those quarterly periods and because the majority of our costs for this segment are predominantly fixed in the short-term. However, our new software licenses and cloud software subscriptions segment's margin has been and will continue to be affected by the fair value adjustments relating to the cloud SaaS and PaaS obligations that we assumed in our business combinations (described further below) and by the amortization of intangible assets associated with companies and technologies that we have acquired.

For certain of our acquired businesses, we recorded adjustments to reduce the cloud SaaS and PaaS obligations to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize cloud SaaS and PaaS revenues related to acquired contracts that would have been otherwise recorded by the acquired businesses as independent entities in the amounts of \$2 million and \$3 million for the three months ended August 31, 2014 and 2013, respectively. To the extent underlying cloud

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SaaS and PaaS contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of these contracts over their respective contractual periods.

Cloud Infrastructure-as-a-Service: Our cloud infrastructure-as-a-service offerings, which represented 1% of our total revenues on a trailing 4-quarter basis, provide deployment and management offerings for our software and hardware and related IT infrastructure including virtual machine instances that are subscription-based and designed for computing and reliable and secure object storage; Oracle Engineered Systems hardware and related support that are deployed in our customers' data centers for a monthly fee; and comprehensive software and hardware management and maintenance services arrangements for customer IT infrastructure for a stated term that is hosted at our data center facilities, select partner data centers or physically on-premise at customer facilities.

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

Software license updates and product support revenues, which represented 48% of our total revenues on a trailing 4-quarter basis, is our highest margin business unit. Our software support margins over the trailing 4-quarters were 90% and accounted for 77% of our total margins over the same period. Our software license updates and product support margins have been affected by fair value adjustments relating to software support obligations assumed in business combinations (described further below) and by amortization of intangible assets. However, over the longer term, we believe that software license updates and product support revenues and margins will grow for the following reasons:

- substantially all of our customers, including customers from acquired companies, renew their software support contracts when eligible for renewal;
- substantially all of our customers purchase software license updates and product support contracts when they buy new software licenses, resulting in a further increase in our software support contract base. Even if new software licenses revenues growth was flat, software license updates and product support revenues would continue to grow in comparison to the corresponding prior year periods assuming contract renewal and cancellation rates and foreign currency rates remained relatively constant since substantially all new software licenses transactions result in the sale of software license updates and product support contracts, which add to our software support contract base; and
- our acquisitions have increased our software support contract base, as well as the portfolio of products available to be licensed and supported.

We recorded adjustments to reduce software support obligations assumed in business combinations to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize software license updates and product support revenues related to software support contracts that would have been otherwise recorded by the acquired businesses as independent entities in the amount of \$1 million for the three months ended August 31, 2013. To the extent underlying software support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the software support contracts over the respective support periods, the majority of which are one year.

Hardware Systems Business

Our hardware systems business is comprised of two operating segments: (1) hardware systems products and (2) hardware systems support. Our hardware business represented 13% of our total revenues on a trailing 4-quarter basis. We expect our hardware business to have lower operating margins as a percentage of revenues

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than our software and cloud business due to the incremental costs we incur to produce and distribute these products and to provide support services, including direct materials and labor costs. We expect to make investments in research and development to improve existing hardware products and services and to develop new hardware products and services.

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

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

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

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

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

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

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

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

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

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

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

Our hardware systems support margins have been and will be affected by certain of our acquisitions and related accounting, including fair value adjustments relating to hardware systems support obligations assumed, and by the amortization of intangible assets. As required by business combination accounting rules, we recorded adjustments to reduce our hardware systems support revenues for contracts assumed from our acquisitions to their estimated fair values. These amounts would have been recorded as hardware systems support revenues by the acquired businesses as independent entities in the amounts of \$1 million and \$5 million for the three months ended August 31, 2014 and 2013, respectively. To the extent underlying hardware systems support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the hardware systems support contracts over the respective support periods.

Services Business

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

- consulting services that are designed to help our customers and global system integrator partners more successfully architect and deploy our products, including IT strategy alignment, enterprise architecture planning and design, initial product implementation and integration, and ongoing product enhancements and upgrades. We utilize a global, blended delivery model to optimize value for our customers and partners, consisting of on-premise consultants from local geographies, industry specialists and consultants from our global delivery and solution centers;
- advanced customer support services, which are provided on-premise and remotely to our customers to enable increased performance and higher availability of their Oracle products and services; and
- education services for Oracle products and services, including training and certification programs that are offered to customers, partners and employees through a variety of formats, including instructor-led classes at our education centers, live virtual training, self-paced online training, private events and custom training.

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Acquisitions

An active acquisition program is another important element of our corporate strategy. In recent years, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies including Responsys, Inc. (Responsys) in the third quarter of fiscal 2014, among others.

On June 22, 2014, we entered into an Agreement and Plan of Merger (Merger Agreement) with MICROS Systems, Inc. (MICROS), a provider of integrated software, hardware and services solutions to the hospitality and retail industries. On July 3, 2014, pursuant to the Merger Agreement, we commenced a tender offer to purchase all of the issued and outstanding shares of common stock of MICROS at a purchase price of \$68.00 per share, net to the seller in cash, without interest thereon, based upon the terms and subject to the conditions set forth in the Merger Agreement. On September 3, 2014, pursuant to the terms of the tender offer, we accepted and paid for approximately 80% of the outstanding shares of MICROS common stock tendered in the offer for approximately \$4.1 billion in cash. We provided for a subsequent offering period through September 5, 2014 at the same purchase price of \$68.00 per share and we accepted an additional 7% of MICROS common stock tendered through this date for approximately \$330 million. On September 8, 2014, we effectuated the merger of MICROS with and into a wholly-owned subsidiary of Oracle pursuant to the terms of the Merger Agreement and applicable Maryland law and MICROS became an indirect, wholly-owned subsidiary of Oracle. Pursuant to the merger, shares of MICROS common stock that were outstanding and not acquired by us were converted into, and cancelled in exchange for, the right to receive \$68.00 per share in cash. The unvested equity awards to acquire MICROS common stock that were outstanding immediately prior to the conclusion of the merger were converted into equity awards denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement.

We believe our acquisition program strengthens our competitive position, enhances the products and services that we can offer to customers, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings and increases stockholder value. We expect to continue to acquire companies, products, services and technologies in furtherance of our corporate strategy. Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report provides additional information related to our pending and recent acquisitions.

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

- Revenue Recognition
- Business Combinations
- Goodwill and Intangible Assets—Impairment Assessments

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- Accounting for Income Taxes
- Legal and Other Contingencies
- Stock-Based Compensation

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

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

Results of Operations

Impact of Acquisitions

The comparability of our operating results in the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014 is impacted by our acquisitions, primarily our acquisition of Responsys in the third quarter of fiscal 2014.

In our discussion of changes in our results of operations from the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014, we may qualitatively disclose the impacts of our acquired products (for the one year period subsequent to the acquisition date) to the growth in our new software licenses and cloud SaaS and PaaS revenues, software license updates and product support revenues, hardware systems products revenues and hardware systems support 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. The contributions of our acquisitions to our other businesses and operating segments' revenues and to the expense contributions for substantially all of our businesses and operating segments in each of the respective period comparisons are not provided in our discussions as they either were not separately identifiable due to the integration of these businesses and operating segments into our existing operations and/or were insignificant to our results of operations during the periods presented.

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

- any qualitative and quantitative disclosures cannot specifically address or quantify the substantial effects attributable to changes in business strategies, including our sales force integration efforts. We believe that if our acquired companies had operated independently and sales forces had not been integrated, the relative mix of products sold would have been different; and
- although substantially all of our software license customers, including customers from acquired companies, renew their software license updates and product support contracts when the contracts are eligible for renewal and we strive to renew cloud SaaS and PaaS contracts and hardware systems support contracts, the amounts shown as cloud SaaS and PaaS deferred revenues, software license updates and product support deferred revenues, and hardware systems support deferred revenues in our supplemental disclosure related to certain charges (presented below) are not necessarily indicative of revenue improvements we will achieve upon contract renewals to the extent customers do not renew.

Seasonality

Our quarterly revenues have historically been affected by a variety of seasonal factors, including the structure of our sales force incentive compensation plans, which are common in the technology industry. Our total revenues

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and operating margins are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. The operating margins of our businesses are generally affected by seasonal factors in a similar manner as our revenues (in particular, our new software licenses and cloud software subscriptions segment) as certain expenses within our cost structure are relatively fixed in the short term.

Constant Currency Presentation

Our international operations have provided and will continue to provide a significant portion of our total revenues and expenses. As a result, total revenues and expenses will continue to be affected by changes in the U.S. Dollar against major international currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the percent change in the results from one period to another period in this Quarterly Report using constant currency disclosure. To present this information, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e., the rates in effect on May 31, 2014, which was the last day of our prior fiscal year) rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on August 31, 2014 and 2013, our financial statements would reflect reported revenues of \$1.32 million in the first quarter of fiscal 2015 (using 1.32 as the month-end average exchange rate for the period) and \$1.33 million in the first quarter of fiscal 2014 (using 1.33 as the month-end average exchange rate for the period). The constant currency presentation would translate the results for the first quarter of fiscal 2015 and 2014 using the May 31, 2014 exchange rate and indicate, in this example, no change in revenues during the period. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

Total Revenues and Operating Expenses

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Total Revenues by Geography:				
Americas	\$ 4,620	2%	3%	\$ 4,517
EMEA ⁽¹⁾	2,589	6%	4%	2,439
Asia Pacific ⁽²⁾	1,387	-2%	-3%	1,416
Total revenues	8,596	3%	2%	8,372
Total Operating Expenses	5,633	2%	2%	5,499
Total Operating Margin	<u>\$ 2,963</u>	3%	2%	<u>\$ 2,873</u>
Total Operating Margin %	34%			34%
% Revenues by Geography:				
Americas	54%			54%
EMEA	30%			29%
Asia Pacific	16%			17%
Total Revenues by Business:				
Software and Cloud	\$ 6,576	6%	6%	\$ 6,193
Hardware Systems	1,165	-8%	-8%	1,261
Services	855	-7%	-8%	918
Total revenues	<u>\$ 8,596</u>	3%	2%	<u>\$ 8,372</u>
% Revenues by Business:				
Software and Cloud	76%			74%
Hardware Systems	14%			15%
Services	10%			11%

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

⁽²⁾ Asia Pacific includes Japan

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On a constant currency basis, our total revenues increased in the first quarter of fiscal 2015 by 2 percentage points due to increases in our software and cloud revenues, which were substantially attributable to growth in our software license updates and product support revenues and, to a lesser extent, our SaaS and PaaS revenues. The constant currency increase in our software and cloud revenues was partially offset by a decrease in our hardware systems revenues and by a decrease in our services revenues. On a constant currency basis, total revenues growth in the Americas and EMEA regions was partially offset by a decrease in Asia Pacific regional revenues.

Total constant currency operating expenses increased during the first quarter of fiscal 2015 primarily due to an increase in sales and marketing and research and development expenses resulting from increased headcount, higher variable compensation expenses that were primarily sales-based, and an increase in cloud SaaS and PaaS expenses to support the increase in our cloud SaaS and PaaS revenues. These constant currency expense increases in the first quarter of fiscal 2015 were partially offset by certain constant currency expense decreases, primarily in our hardware systems and services businesses, during the first quarter of fiscal 2015. In addition, we incurred lower amortization of intangible assets during the first quarter of fiscal 2015.

Excluding the effect of foreign currency rate fluctuations, our operating margin increased during the first quarter of fiscal 2015 due to our revenues growth, while our operating margin as a percentage of revenues was flat.

Supplemental Disclosure Related to Certain Charges

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

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

(in millions)	Three Months Ended August 31,	
	2014	2013
Cloud software-as-a-service and platform-as-a-service deferred revenues ⁽¹⁾	\$ 2	\$ 3
Software license updates and product support deferred revenues ⁽¹⁾	—	1
Hardware systems support deferred revenues ⁽¹⁾	1	5
Amortization of intangible assets ⁽²⁾	547	595
Acquisition related and other ⁽³⁾⁽⁵⁾	25	10
Restructuring ⁽⁴⁾	69	56
Stock-based compensation ⁽⁵⁾	212	198
Income tax effects ⁽⁶⁾	(234)	(298)
	<u>\$ 622</u>	<u>\$ 570</u>

⁽¹⁾ In connection with our acquisitions, we have estimated the fair values of the cloud SaaS and PaaS subscriptions, software support and hardware systems support obligations assumed. Due to our application of business combination accounting rules, we did not recognize cloud SaaS and PaaS revenues related to subscription contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of \$2 million and \$3 million for the three months ended August 31, 2014 and 2013, respectively. We also did not recognize software license updates and product support revenues related to software support contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amount of \$1 million for the three months ended August 31, 2013. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of \$1 million and \$5 million for the three months ended August 31, 2014 and 2013, respectively.

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

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- (2) Represents the amortization of intangible assets substantially all of which were acquired in connection with our acquisitions. As of August 31, 2014, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of Fiscal 2015	\$ 1,395
Fiscal 2016	1,345
Fiscal 2017	749
Fiscal 2018	611
Fiscal 2019	511
Fiscal 2020	387
Thereafter	592
Total intangible assets subject to amortization	5,590
In-process research and development	15
Total intangible assets, net	<u>\$ 5,605</u>

- (3) Acquisition related and other expenses primarily consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments including certain adjustments after the measurement period has ended and certain other operating items, net.
- (4) The significant majority of restructuring expenses during the first quarter of fiscal 2015 and 2014 related to employee severance and facility exit costs in connection with our Fiscal 2013 Oracle Restructuring Plan (the 2013 Restructuring Plan). Additional information regarding certain of our restructuring plans is provided in Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.
- (5) Stock-based compensation was included in the following operating expense line items of our condensed consolidated statements of operations (in millions):

	Three Months Ended August 31,	
	2014	2013
Sales and marketing	\$ 43	\$ 39
Cloud software-as-a-service and platform-as-a-service	2	2
Cloud infrastructure-as-a-service	1	1
Software license updates and product support	5	6
Hardware systems products	1	2
Hardware systems support	1	3
Services	6	6
Research and development	108	97
General and administrative	45	42
Subtotal	212	198
Acquisition related and other	3	2
Total stock-based compensation	<u>\$ 215</u>	<u>\$ 200</u>

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

- (6) The income tax effects presented were calculated as if the above described charges were not included in our results of operations for each of the respective periods presented. Income tax effects for the first quarter of fiscal 2015 and 2014 were calculated based on the applicable jurisdictional tax rates applied to the items within the table above and resulted in effective tax rates of 21.5% and 21.8%, respectively, instead of 19.7% and 17.7%, 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.

Software and Cloud Business

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

New Software Licenses and Cloud Software Subscriptions: New software licenses revenues represent fees earned from granting customers licenses to use our database and middleware and our application software products. Cloud software subscriptions include revenues from our cloud SaaS and PaaS offerings, which grant customers access to a broad range of our software offerings on a subscription basis in a secure, standards-based,

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cloud computing environment that includes access, hosting, infrastructure management, the use of software updates, and support. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market our products through indirect channels. Costs associated with our new software licenses and cloud software subscriptions segment are included in sales and marketing expenses, cloud SaaS and PaaS expenses and amortization of intangible assets. These costs are largely personnel related and include commissions earned by our sales force for the sale of our software offerings, marketing program costs, the cost of providing our cloud SaaS and PaaS offerings and amortization of intangible assets.

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
New Software Licenses and Cloud Software Subscriptions Revenues:				
Americas	\$ 960	4%	4%	\$ 926
EMEA	424	9%	8%	388
Asia Pacific	323	-5%	-6%	339
Total revenues	1,707	3%	3%	1,653
Expenses:				
Cloud software-as-a-service and platform-as-a-service ⁽¹⁾	147	47%	46%	100
Sales and marketing ⁽¹⁾	1,435	7%	7%	1,339
Stock-based compensation	43	7%	7%	40
Amortization of intangible assets ⁽²⁾	250	2%	2%	244
Total expenses	1,875	9%	8%	1,723
Total Margin	\$ (168)	140%	138%	\$ (70)
Total Margin %	-10%			-4%
% Revenues by Geography:				
Americas	56%			56%
EMEA	25%			23%
Asia Pacific	19%			21%
Revenues by Software Offerings:				
New software licenses	\$ 1,370	-2%	-2%	\$ 1,399
Cloud software-as-a-service and platform-as-a-service	337	32%	32%	254
Total new software licenses and cloud software subscriptions revenues	<u>\$ 1,707</u>	<u>3%</u>	<u>3%</u>	<u>\$ 1,653</u>
% Revenues by Software Offerings:				
New software licenses	80%			85%
Cloud software-as-a-service and platform-as-a-service	20%			15%

⁽¹⁾ Excluding stock-based compensation

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

Excluding the effect of unfavorable currency rate fluctuations, total new software licenses and cloud software subscriptions revenues increased by 3 percentage points in the first quarter of fiscal 2015 due to growth in our cloud SaaS and PaaS revenues, which was attributable to growth in our legacy SaaS and PaaS offerings and contributions from our recent acquisitions. These revenue increases were partially offset by a slight decline in our new software licenses revenues. Excluding the effect of currency rate fluctuations, total new software licenses and cloud software subscriptions revenues growth in the Americas and EMEA regions were partially offset by a decline in revenues in the Asia Pacific region.

As a result of our acquisitions, we recorded adjustments to reduce assumed cloud SaaS and PaaS obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, cloud SaaS and PaaS revenues in the amounts of \$2 million and \$3 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the first quarters of fiscal 2015 and 2014, respectively. To the extent underlying cloud SaaS and PaaS contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the cloud SaaS and PaaS contracts over the respective contractual periods.

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In reported currency, new software licenses revenues earned from transactions of \$3 million or greater decreased by 20% in the first quarter of fiscal 2015 and represented 23% of our new software licenses revenues in the first quarter of fiscal 2015 in comparison to 28% in the first quarter of fiscal 2014.

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

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

Cloud Infrastructure-as-a-Service: Our cloud infrastructure-as-a-service segment provides deployment and management offerings for our software and hardware and related IT infrastructure including virtual machine instances that are subscription-based and designed for computing and reliable and secure object storage; Oracle Engineered Systems hardware and related support that are deployed in our customers' data centers for a monthly fee; and comprehensive software and hardware management and maintenance services for customer IT infrastructure for a fee for a stated term that is hosted at our data center facilities, select partner data centers or physically on-premise at customer facilities. Cloud infrastructure-as-a-service expenses consist primarily of personnel related expenditures, technology infrastructure expenditures and facilities costs. For all periods presented, our cloud-infrastructure-as-a-service segment's revenues and expenses were substantially attributable to our comprehensive software and hardware management, maintenance and hosting services.

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Cloud Infrastructure-as-a-Service Revenues:				
Americas	\$ 99	18%	18%	\$ 84
EMEA	31	59%	47%	19
Asia Pacific	8	44%	46%	6
Total revenues	138	26%	25%	109
Expenses:				
Cloud infrastructure-as-a-service ⁽¹⁾	78	10%	9%	71
Sales and marketing ⁽¹⁾	18	33%	32%	14
Stock-based compensation	1	8%	8%	1
Total expenses	97	13%	12%	86
Total Margin	<u>\$ 41</u>	75%	72%	<u>\$ 23</u>
Total Margin %	29%			21%
% Revenues by Geography:				
Americas	72%			77%
EMEA	22%			18%
Asia Pacific	6%			5%

⁽¹⁾ Excluding stock-based compensation

On a constant currency basis, total cloud IaaS revenues increased in the first quarter of fiscal 2015 primarily due to growth in our legacy management, maintenance and hosting services. In constant currency, the Americas contributed 56%, EMEA contributed 35%, and Asia Pacific contributed 9% to our total cloud IaaS revenues growth.

On a constant currency basis, total cloud IaaS expenses increased during the first quarter of fiscal 2015 primarily due to increased employee related expenses associated with increased headcount.

Total margin and margin as a percentage of revenues for this segment increased during the first quarter of fiscal 2015 as total revenues increased at a faster rate than our total expenses for this operating segment.

Software License Updates and Product Support: Software license updates grant customers rights to unspecified software product upgrades and maintenance releases and patches released during the support period.

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Product support includes internet access to technical content as well as internet and telephone access to technical support personnel in our global support centers. Expenses associated with our software license updates and 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.

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Software License Updates and Product Support Revenues:				
Americas	\$ 2,555	5%	6%	\$ 2,425
EMEA	1,537	9%	6%	1,409
Asia Pacific	639	7%	6%	597
Total revenues	4,731	7%	6%	4,431
Expenses:				
Software license updates and product support ⁽¹⁾	267	-5%	-6%	282
Stock-based compensation	5	-4%	-4%	6
Amortization of intangible assets ⁽²⁾	190	-8%	-8%	206
Total expenses	462	-6%	-7%	494
Total Margin	\$ 4,269	8%	8%	\$ 3,937
Total Margin %	90%			89%
% Revenues by Geography:				
Americas	54%			55%
EMEA	32%			32%
Asia Pacific	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 effect of unfavorable currency rate fluctuations, software license updates and product support revenues increased by 6% in the first quarter of fiscal 2015 as a result of new software licenses sold with substantially all of these customers electing to purchase software support contracts during the trailing 4-quarter period, and the renewal of substantially all of the software support customer base eligible for renewal during the trailing 4-quarter period. Excluding the effect of currency rate fluctuations, the Americas contributed 52%, EMEA contributed 35% and Asia Pacific contributed 13% to the increase in software license updates and product support revenues.

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

Excluding the effect of favorable foreign currency rate fluctuations, total software license updates and product support expenses decreased during the first quarter of fiscal 2015 primarily due to a reduction in expenses related to certain statutory obligations in jurisdictions in which we operate and due to a decrease in amortization of intangible assets. Total margin and margin as a percentage of revenues for this segment increased during the first quarter of fiscal 2015 as our total revenues for this segment increased while our total expenses decreased.

Hardware Systems Business

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

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

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Hardware Systems Products Revenues:				
Americas	\$ 282	-16%	-15%	\$ 335
EMEA	160	-10%	-11%	177
Asia Pacific	136	-13%	-14%	157
Total revenues	578	-14%	-14%	669
Expenses:				
Hardware systems products ⁽¹⁾	297	-10%	-10%	328
Sales and marketing ⁽¹⁾	210	-8%	-8%	228
Stock-based compensation	3	1%	1%	3
Amortization of intangible assets ⁽²⁾	56	-33%	-33%	83
Total expenses	566	-12%	-12%	642
Total Margin	<u>\$ 12</u>	-54%	-53%	<u>\$ 27</u>
Total Margin %	2%			4%
% Revenues by Geography:				
Americas	49%			50%
EMEA	28%			26%
Asia Pacific	23%			24%

⁽¹⁾ Excluding stock-based compensation

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

Excluding the effect of currency rate fluctuations, total hardware systems products revenues decreased in the first quarter of fiscal 2015, due to reductions in the sales volumes of certain of our legacy product lines, including lower margin products. This decrease was partially offset by incremental revenues from our recently acquired companies and increases in hardware revenues attributable to our sales of Oracle Engineered Systems.

In constant currency, total hardware systems products operating expenses decreased in the first quarter of fiscal 2015 primarily due to a reduction in hardware systems products costs associated with lower hardware revenues and a decrease in amortization of intangible assets.

Excluding the effect of currency rate fluctuations, total margin and margin as a percentage of revenues decreased in the first quarter of fiscal 2015 due to a decrease in our total revenues at a faster rate than decreases in our total expenses for this segment.

Hardware Systems Support: Our hardware systems support offerings provide customers with software updates for software components that are essential to the functionality of our server, storage and networking products, such as Oracle Solaris and certain other software products, and can include product repairs, maintenance services and technical support services. Expenses associated with our hardware systems support operating segment include the cost of materials used to repair customer products, the cost of providing support services, largely

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personnel related expenses, and the amortization of our intangible assets associated with hardware systems support contracts and customer relationships obtained from our acquisitions.

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Hardware Systems Support Revenues:				
Americas	\$ 301	-1%	-1%	\$ 304
EMEA	178	-2%	-4%	181
Asia Pacific	108	1%	0%	107
Total revenues	587	-1%	-2%	592
Expenses:				
Hardware systems support ⁽¹⁾	191	-8%	-9%	206
Stock-based compensation	1	-67%	-67%	3
Amortization of intangible assets ⁽²⁾	47	-17%	-17%	58
Total expenses	239	-10%	-10%	267
Total Margin	\$ 348	6%	6%	\$ 325
Total Margin %	59%			55%
% Revenues by Geography:				
Americas	51%			51%
EMEA	31%			31%
Asia Pacific	18%			18%

⁽¹⁾ Excluding stock-based compensation

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

Excluding the impact of unfavorable currency rate fluctuations, hardware systems support revenues decreased by 2 percentage points primarily due to modest hardware support revenues declines in the Americas and EMEA regions.

As a result of our acquisitions, we recorded adjustments to reduce assumed hardware systems support obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, hardware systems support revenues related to hardware systems support contracts in the amounts of \$1 million and \$5 million that would have been otherwise reported by our acquired businesses as independent entities were not recognized in the first quarters of fiscal 2015 and 2014, respectively. To the extent these underlying hardware systems support contracts are renewed, we will recognize the revenues for the full values of these contracts over the future support periods.

Total hardware systems support expenses decreased in the first quarter of fiscal 2015 primarily due to a reduction in employee related expenses attributable to decreased headcount, reduced service delivery costs due to operational initiatives and decreased amortization of intangible assets.

Excluding the effect of currency rate fluctuations, total hardware systems support margin and margin as a percentage of total revenues increased in the first quarter of fiscal 2015 due to the reductions in our total expenses for this segment.

Services Business

Our services business consists of consulting, advanced customer support services and education services. Consulting revenues are earned by providing services to customers in business and IT strategy alignment, enterprise architecture planning and design, initial product implementation and integration, and ongoing product enhancements and upgrades. Advanced customer support services are provided on-premise and remotely to our customers to enable increased performance and higher availability of their Oracle products and services. Education revenues are earned by providing instructor-led, media-based, internet-based and custom training in

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the use of our software and hardware offerings. The cost of providing our services consists primarily of personnel related expenses, technology infrastructure expenditures, facilities expenses and external contractor expenses.

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Services Revenues:				
Americas	\$ 423	-5%	-4%	\$ 443
EMEA	259	-2%	-4%	265
Asia Pacific	173	-18%	-19%	210
Total revenues	855	-7%	-8%	918
Expenses:				
Services ⁽¹⁾	685	-4%	-5%	714
Stock-based compensation	6	-11%	-11%	6
Amortization of intangible assets ⁽²⁾	4	-8%	-8%	4
Total expenses	695	-4%	-5%	724
Total Margin	\$ 160	-17%	-18%	\$ 194
Total Margin %	19%			21%
% Revenues by Geography:				
Americas	50%			48%
EMEA	30%			29%
Asia Pacific	20%			23%

⁽¹⁾ Excluding stock-based compensation

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

Excluding the effect of currency rate fluctuations, our total services revenues decreased in the first quarter of fiscal 2015 due primarily to revenue decreases in our consulting services segment.

Excluding the effect of currency rate fluctuations, our total services expenses decreased during the first quarter of fiscal 2015 primarily due to expense decreases in our consulting services segment that were primarily attributable to decreased headcount, lower variable compensation, lower external contractor costs, and lower intangible asset amortization.

In constant currency, total services margin and total margin as a percentage of total services revenues decreased during the first quarter of fiscal 2015 due to a reduction in total revenues for this business.

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

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Research and development ⁽¹⁾	\$ 1,221	7%	7%	\$ 1,140
Stock-based compensation	108	10%	10%	97
Total expenses	<u>\$ 1,329</u>	7%	7%	<u>\$ 1,237</u>
% of Total Revenues	16%			15%

⁽¹⁾ Excluding stock-based compensation

On a constant currency basis, total research and development expenses increased during the first quarter of fiscal 2015 primarily due to increases in employee related expenses from increased headcount.

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

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
General and administrative ⁽¹⁾	\$ 231	6%	6%	\$ 218
Stock-based compensation	45	5%	5%	42
Total expenses	<u>\$ 276</u>	<u>6%</u>	<u>5%</u>	<u>\$ 260</u>
% of Total Revenues	3%			3%

(1) Excluding stock-based compensation

On a constant currency basis, total general and administrative expenses increased during the first quarter of fiscal 2015 primarily due to higher variable compensation expenses.

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

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Software support agreements and related relationships	\$ 139	-4%	-4%	\$ 145
Hardware systems support agreements and related relationships	35	0%	0%	35
Developed technology	167	-12%	-12%	190
Core technology	61	-27%	-27%	83
Customer relationships and contract backlog	72	-22%	-22%	92
SaaS and PaaS agreements and related relationships and other	48	50%	50%	32
Trademarks	25	39%	39%	18
Total amortization of intangible assets	<u>\$ 547</u>	<u>-8%</u>	<u>-8%</u>	<u>\$ 595</u>

Amortization of intangible assets decreased during the first quarter of fiscal 2015 as certain of our intangible assets pertaining to our legacy acquisitions became fully amortized. These decreases were partially offset by additional amortization from intangible assets that we acquired in connection with our recent acquisitions, including our acquisition of ResponSys in fiscal 2014, among others.

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

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Transitional and other employee related costs	\$ 9	39%	37%	\$ 6
Stock-based compensation	3	29%	29%	2
Professional fees and other, net	13	354%	341%	3
Business combination adjustments, net	—	-86%	-86%	(1)
Total acquisition related and other expenses	<u>\$ 25</u>	<u>138%</u>	<u>134%</u>	<u>\$ 10</u>

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On a constant currency basis, the increase in acquisition related and other expenses during the first quarter of fiscal 2015 was primarily due to an increase in certain employee-based costs and was also attributable to a net benefit in the first quarter of fiscal 2014, which related to certain statutory obligations for jurisdictions in which certain of our legacy acquisitions operated and which reduced our expenses during the first quarter of fiscal 2014.

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

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
	Actual	Constant		
Restructuring expenses	\$ 69	23%	21%	\$ 56

Restructuring expenses in the first quarters of fiscal 2015 and 2014 primarily related to our 2013 Restructuring Plan, which our management approved, committed to and initiated in order to restructure and further improve efficiencies in our operations. We amended the 2013 Restructuring Plan in the third quarter of fiscal 2013 and in the first quarter of fiscal 2014 to reflect additional actions that we expect to take to improve efficiencies in our operations. The total estimated restructuring costs associated with the 2013 Restructuring Plan are \$705 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are incurred. The total estimated remaining restructuring costs associated with the 2013 Restructuring Plan were approximately \$126 million as of August 31, 2014. The majority of the remaining costs are expected to be incurred through the end of fiscal 2015. Our estimated costs may be subject to change in future periods.

Interest Expense:

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
	Actual	Constant		
Interest expense	\$ 261	21%	21%	\$ 217

Interest expense increased in the first quarter of fiscal 2015 primarily due to higher average borrowings resulting from our issuances of \$10.0 billion of senior notes in July 2014 and \$3.0 billion and €2.0 billion of senior notes in July 2013. This increase was partially offset by a reduction in interest expense resulting from the maturity and repayment of \$1.5 billion of senior notes and the related fixed to variable interest rate swap agreements in July 2014. See Recent Financing Activities below and Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information regarding our fiscal 2015 borrowings.

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.

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
	Actual	Constant		
Interest income	\$ 89	56%	53%	\$ 57
Foreign currency losses, net	(41)	18%	22%	(35)
Noncontrolling interests in income	(46)	163%	163%	(17)
Other income, net	14	800%	803%	2
Total non-operating income, net	\$ 16	144%	80%	\$ 7

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On a constant currency basis, our non-operating income, net increased during the first quarter of fiscal 2015 primarily due to an increase in interest income resulting from higher average cash and marketable securities balances.

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

(Dollars in millions)	Three Months Ended August 31,			
	2014	Percent Change		2013
		Actual	Constant	
Provision for income taxes	\$ 534	13%	12%	\$ 472
Effective tax rate	19.7%			17.7%

Provision for income taxes in the first quarter of fiscal 2015 increased, relative to the provision for income taxes during the first quarter of fiscal 2014, due to the effects of acquisition related settlements with tax authorities in the first quarter of fiscal 2014, partially offset by a tax favorable change in the jurisdictional mix of our earnings in the first quarter of fiscal 2015.

Liquidity and Capital Resources

(Dollars in millions)	August 31, 2014	Change	May 31, 2014
Working capital	\$ 44,817	33%	\$ 33,749
Cash, cash equivalents and marketable securities	\$ 51,616	33%	\$ 38,819

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

Cash, cash equivalents and marketable securities: Cash and cash equivalents primarily consist of deposits held at major banks, Tier-1 commercial paper and other securities with original maturities of 90 days or less. Marketable securities primarily consist of time deposits held at major banks, Tier-1 commercial paper, corporate notes, and certain other securities. The increase in cash, cash equivalents and marketable securities at August 31, 2014 in comparison to May 31, 2014 was due to an increase in cash generated from our operating activities, our issuance of \$10.0 billion of senior notes in July 2014, and to a lesser extent, cash proceeds from stock option exercises. These increases were partially offset by repurchases of our common stock, cash paid for acquisitions, the repayment of \$1.5 billion of senior notes and the payment of cash dividends to our stockholders during the first quarter of fiscal 2015. Cash, cash equivalents and marketable securities included \$39.2 billion held by our foreign subsidiaries as of August 31, 2014, a significant portion of which was generated from the earnings of these foreign subsidiaries that we consider as indefinitely reinvested in our foreign operations outside the United States. These undistributed earnings that are considered as indefinitely reinvested overseas would be subject to U.S. income tax if repatriated to the United States. The amount of cash, cash equivalents and marketable securities that we report in U.S. Dollars for a significant portion of the cash held by our foreign subsidiaries is subject to translation adjustments caused by changes in foreign currency exchange rates as of the end of each respective reporting period (the offset to which is substantially recorded to accumulated other comprehensive loss in our consolidated balance sheets and is also presented as a line item in our condensed

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consolidated statements of comprehensive income included elsewhere in this Quarterly Report). As the U.S. Dollar generally strengthened against certain major international currencies during the first quarter of fiscal 2015, the amount of cash, cash equivalents and marketable securities that we reported in U.S. Dollars for these subsidiaries decreased on a net basis as of August 31, 2014 relative to what we would have reported using constant currency rates from our May 31, 2014 balance sheet date.

Days sales outstanding, which was calculated by dividing period end accounts receivable by average daily sales for the quarter, was 37 days at August 31, 2014 compared with 48 days at May 31, 2014. The days sales outstanding calculation excluded the impact of revenue adjustments resulting from business combinations that reduced our acquired cloud SaaS and PaaS obligations, software license updates and product support obligations and hardware systems support obligations to fair value. Our decline in days sales outstanding was primarily due to strong collections in our first quarter of fiscal 2015 and seasonality resulting in a large volume of software license and software support balances outstanding as of May 31, 2014.

(Dollars in millions)	Three Months Ended August 31,		
	2014	Change	2013
Net cash provided by operating activities	\$ 6,728	7%	\$ 6,292
Net cash used for investing activities	\$ (6,700)	91%	\$ (3,501)
Net cash provided by financing activities	\$ 6,520	179%	\$ 2,341

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

Net cash provided by operating activities increased in the first quarter of fiscal 2015 primarily due to certain cash favorable changes in working capital balances, primarily cash favorable movements associated with income taxes payable and deferred revenues, relative to the corresponding changes for these balances in the prior year period.

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

Net cash used for investing activities increased in the first quarter of fiscal 2015 due to an increase in net cash used to purchase marketable securities (net of proceeds received from sales and maturities) and an increase in capital expenditures, partially offset by a decrease in cash used for acquisitions, net of cash acquired, in each case compared to the first quarter of fiscal 2014.

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

Net cash provided by financing activities in the first quarter of fiscal 2015 increased in comparison to the first quarter of fiscal 2014 primarily due to a net increase in borrowings in the first quarter of fiscal 2015 (we issued \$10.0 billion of senior notes during the first quarter of fiscal 2015 in comparison to €2.0 billion and \$3.0 billion of senior notes during the first quarter of fiscal 2014), lower stock repurchase activity during the first quarter of fiscal 2015 and an increase in proceeds from issuances of common stock during the first quarter of fiscal 2015. These favorable impacts to our financing cash flows during the first quarter of fiscal 2015 were partially offset by the repayment of \$1.5 billion of borrowings pursuant to senior notes maturities during the first quarter of fiscal 2015 (no repayments during the first quarter of fiscal 2014).

Free cash flow: To supplement our statements of cash flows presented on a GAAP basis, we use non-GAAP measures of cash flows on a trailing 4-quarter basis to analyze cash flows generated from our operations. We

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believe free cash flow is also useful as one of the bases for comparing our performance with our competitors. The presentation of non-GAAP free cash flow is not meant to be considered in isolation or as an alternative to net income as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity. We calculate free cash flows as follows:

(Dollars in millions)	Trailing 4-Quarters Ended August 31,		
	2014	Change	2013
Net cash provided by operating activities	\$ 15,357	3%	\$ 14,845
Capital expenditures ⁽¹⁾	(628)	-5%	(664)
Free cash flow	\$ 14,729	4%	\$ 14,181
Net income	\$ 10,948		\$ 11,082
Free cash flow as percent of net income	135%		128%

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

Long-Term Customer Financing: We offer certain of our customers the option to acquire our software products, hardware systems products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed for our customers on a non-recourse basis to financial institutions within 90 days of the contracts' dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financial assets because we are considered to have surrendered control of these financial assets. We financed \$156 million and \$236 million, respectively, or approximately 11% and 17%, respectively, of our new software licenses revenues in the first quarters of fiscal 2015 and 2014, and \$26 million and \$34 million, respectively, or approximately 4% and 5%, respectively, of our hardware systems products revenues in the first quarters of fiscal 2015 and 2014.

Recent Financing Activities:

Senior Notes: In July 2014, we issued \$10.0 billion of senior notes comprised of \$1.0 billion of floating rate notes due July 2017 (2017 Notes), \$750 million of floating rate notes due October 2019 (2019 Floating Rate Notes), \$2.0 billion of 2.25% notes due October 2019 (2019 Notes), \$1.5 billion of 2.80% notes due July 2021 (2021 Notes), \$2.0 billion of 3.40% notes due July 2024 (2024 Notes), \$1.75 billion of 4.30% notes due July 2034 (2034 Notes) and \$1.0 billion of 4.50% notes due July 2044 (2044 Notes, and together with the 2017 Notes, 2019 Floating Rate Notes, 2019 Notes, 2021 Notes, 2024 Notes and 2034 Notes, the Senior Notes).

We issued the Senior Notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock, our acquisition of MICROS Systems, Inc. in September 2014 and future acquisitions, and repayment of indebtedness. Additional details regarding the Senior Notes are included in Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

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

Interest Rate Swap Agreements: In July 2014, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with our 2019 Notes and 2021 Notes so that the interest payable on these notes effectively became variable based on LIBOR. As of August 31, 2014, our 2019 Notes and 2021 Notes had effective interest rates of 0.72% and 0.87%, respectively, after considering the effects of the aforementioned interest rate swap arrangements. We are accounting for these interest rate swap agreements as fair value hedges pursuant to ASC 815, *Derivatives and Hedging*. Additional details regarding our senior notes and related interest rate swap agreements are included in Notes 6 and 9 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Common Stock Repurchases: Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 18, 2014, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional \$13.0 billion. Approximately \$2.3 billion remained available for

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stock repurchases as of August 31, 2014 pursuant to our stock repurchase program prior to the additional amount authorized in September 2014. Our stock repurchase authorization does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our cash requirements for acquisitions and dividend payments, our debt repayment obligations, our stock price and economic and market conditions. Our stock repurchases may be effected from time to time through open market purchases or pursuant to a Rule 10b5-1 plan. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

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

On June 22, 2014, we entered into an Agreement and Plan of Merger (Merger Agreement) with MICROS, a provider of integrated software, hardware and services solutions to the hospitality and retail industries. On July 3, 2014, pursuant to the Merger Agreement, we commenced a tender offer to purchase all of the issued and outstanding shares of common stock of MICROS at a purchase price of \$68.00 per share, net to the seller in cash, without interest thereon, based upon the terms and subject to the conditions set forth in the Merger Agreement. On September 3, 2014, pursuant to the terms of the tender offer, we accepted and paid for approximately 80% of the outstanding shares of MICROS common stock tendered in the offer for approximately \$4.1 billion in cash. We provided for a subsequent offering period through September 5, 2014 at the same purchase price of \$68.00 per share and we accepted an additional 7% of MICROS common stock tendered through this date for approximately \$330 million. On September 8, 2014, we effectuated the merger of MICROS with and into a wholly-owned subsidiary of Oracle pursuant to the terms of the Merger Agreement and applicable Maryland law and MICROS became an indirect, wholly-owned subsidiary of Oracle. Pursuant to the merger, shares of MICROS common stock that were outstanding and not acquired by us were converted into, and cancelled in exchange for, the right to receive \$68.00 per share in cash. The unvested equity awards to acquire MICROS common stock that were outstanding immediately prior to the conclusion of the merger were converted into equity awards denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. We also have entered into certain other non-material agreements to acquire other companies and expect these proposed acquisitions to close during the second quarter of fiscal 2015.

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

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

Stock Options and Restricted Stock-Based Awards

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

We recognize that stock options and restricted stock-based awards dilute existing stockholders and have sought to control the number of stock options and restricted stock-based awards granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution since June 1, 2011 has been a weighted average annualized rate of 2.2% per year. The potential dilution percentage is calculated as the average annualized new stock options or restricted stock-based awards granted and assumed, net of stock

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options and restricted stock-based awards forfeited by employees leaving the company, divided by the weighted average outstanding shares during the calculation period. This maximum potential dilution will only result if all stock options are exercised and restricted stock-based awards vest. Of the outstanding stock options at May 31, 2014, which generally have a 10-year exercise period, approximately 1.0% have exercise prices higher than the current market price of our common stock. In recent years, our stock repurchase program has more than offset the dilutive effect of our stock-based compensation program; however, we may reduce the level of our stock repurchases in the future as we may use our available cash for acquisitions, to pay dividends, to repay or repurchase indebtedness or for other purposes. At August 31, 2014, the maximum potential dilution from all outstanding and unexercised stock options and restricted stock-based awards, regardless of when granted and regardless of whether vested or unvested and including stock options where the strike price is higher than the current market price, was 11.0%.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Expense Risk

In July 2014, we issued \$10.0 billion of senior notes comprised of \$1.0 billion of floating rate notes due July 2017 (2017 Notes), \$750 million of floating rate notes due October 2019 (2019 Floating Rate Notes) and \$8.25 billion of fixed rate notes, all of which are further described in the “Recent Financing Activities” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations (Item 2) in this Quarterly Report. Our total borrowings were \$32.6 billion as of August 31, 2014, consisting of \$30.3 billion of fixed rate borrowings and \$2.3 billion of floating rate borrowings (Floating Rate Notes).

In July 2014, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with our \$2.0 billion of 2.25% senior notes due October 2019 (2019 Notes) and our \$1.5 billion of 2.80% senior notes due July 2021 (2021 Notes) so that the interest payable on the 2019 Notes and the 2021 Notes effectively became variable based on LIBOR. In July 2013, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with our \$1.5 billion of 2.375% senior notes due January 2019 (January 2019 Notes) so that the interest payable on the January 2019 Notes effectively became variable based on LIBOR. The critical terms of the interest rate swap agreements and the 2019 Notes, 2021 Notes and the January 2019 Notes that the interest rate swap agreements pertain to match, including the notional amounts and maturity dates. We are accounting for these interest rate swap agreements as fair value hedges pursuant to ASC 815, *Derivatives and Hedging*. Additional details regarding our senior notes and related interest rate swap agreements are included in Notes 6 and 9 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

By issuing the Floating Rate Notes and entering into the aforementioned interest rate swap arrangements, we have assumed risks associated with variable interest rates based upon LIBOR. As of August 31, 2014, the weighted average interest rate associated with our Floating Rate Notes and January 2019 Notes, 2019 Notes and 2021 Notes, after considering the effects of the aforementioned interest rate swap arrangements, was 0.75%. Changes in the overall level of interest rates affect the interest expense that we recognize in our statements of operations. An interest rate risk sensitivity analysis is used to measure interest rate risk by computing estimated changes in cash flows as a result of assumed changes in market interest rates. As of August 31, 2014, if LIBOR-based interest rates increased by 100 basis points, the change would increase our interest expense annually by approximately \$73 million as it relates to our fixed to variable interest rate swap agreements and floating rate borrowings.

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

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

Item 4. Controls and Procedures

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

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

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 18, 2014, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional \$13.0 billion. Approximately \$2.3 billion remained available for stock repurchases as of August 31, 2014 pursuant to our stock repurchase program prior to the additional amount authorized in September 2014.

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

The following table summarizes the stock repurchase activity for the three months ended August 31, 2014 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

(in millions, except per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
June 1, 2014—June 30, 2014	15.7	\$ 41.74	15.7	\$ 3,671.9
July 1, 2014—July 31, 2014	17.0	\$ 40.55	17.0	\$ 2,984.4
August 1, 2014—August 31, 2014	16.1	\$ 40.72	16.1	\$ 2,328.2
Total	48.8	\$ 40.99	48.8	

Item 5. Other Information

On July 24, 2014, as part of its approval of annual equity awards to our named executive officers (“NEOs”), the Compensation Committee of the Board of Directors approved performance stock units (“PSUs”) as a portion of each NEO’s overall annual equity grant.

For Mr. Ellison, Ms. Catz and Mr. Hurd, the PSUs are performance-based with one-half (1/2) of the PSUs having a revenue growth metric, and one-half (1/2) of the PSUs having an operating cash flow metric. The potential PSU payouts are based on Oracle’s performance in these two areas as compared against a weighted average index of the performance of seven technology peer companies (the “PSU Peer Group”). For our other named executive officers, Mr. Kurian and Mr. Fowler, the PSUs are performance-based, in each case having a revenue growth metric based on certain lines of business for which such named executive officer has responsibility and oversight. The grants made in July 2014 will be eligible to become earned and vested over four fiscal years.

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Certain of the foregoing grants were modified and new grants were made in September 2014 in conjunction with certain management appointments as discussed in our proxy statement and report on Form 8-K filed on the date hereof.

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Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed By	Filed Herewith
		Form	File No.	Exhibit	Filing Date		
4.13	Forms of Floating Rate Note due 2017, Floating Rate Note due 2019, 2.25% Note due 2019, 2.80% Note due 2021, 3.40% Note due 2024, 4.30% Note due 2034 and 4.50% Note due 2044, together with Officers' Certificate setting forth the terms of the Notes	8-K	001-35992	4.13	7/08/14	Oracle Corporation	
10.15*	Oracle Corporation Stock Unit Award Deferred Compensation Plan						X
10.16*	Form of Performance Stock Unit Agreement under the Amended and Restated 2000 Long-Term Equity Incentive Plan for Section 16 Officers						X
31.01	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer						X
31.02	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive and Financial Officer						X
32.01	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer						X
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of August 31, 2014 and May 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three months ended August 31, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended August 31, 2014 and 2013, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended August 31, 2014 and 2013 and (v) Notes to Condensed Consolidated Financial Statements						X

* Indicates management contract or compensatory plan or arrangement

SIGNATURES

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

ORACLE CORPORATION

Date: September 23, 2014

By: / s/ S AFRA A. C ATZ
Safr A. Catz
Chief Executive Officer and Director
(Principal Executive and Financial Officer)

Date: September 23, 2014

By: / s/ W ILLIAM C OREY W EST
William Corey West
Senior Vice President, Corporate Controller and
Chief Accounting Officer

**ORACLE CORPORATION
STOCK UNIT AWARD
DEFERRED COMPENSATION PLAN**

(Effective July 1, 2014)

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**ORACLE CORPORATION
STOCK UNIT AWARD
DEFERRED COMPENSATION PLAN**

(Effective July 1, 2014)

Oracle Corporation, a Delaware Corporation, has established this unfunded plan to provide deferred compensation for a select group of management and highly compensated employees. The Plan is effective as of July 1, 2014.

RECITALS

WHEREAS, the Company desires to maintain an unfunded deferred compensation plan to permit eligible employees to defer receipt of their stock unit awards granted under the Equity Compensation Plan.

NOW THEREFORE, the Company hereby establishes this deferred compensation plan.

**SECTION 1
DEFINITIONS**

1.1 “Account” means a bookkeeping record established under this Plan for an Eligible Employee who makes a deferral election under SECTION 3, which represents the Eligible Employee’s Deferred Stock Unit Awards, including any Dividend Equivalents credited thereon.

1.2 “Base Salary” means an Employee’s regular compensation without reduction for compensation deferred pursuant to all qualified and non-qualified plans of any Employers, but excluding all of the following: bonuses, commissions, overtime, incentive payments, non-monetary awards, retention payments, and other special compensation.

1.3 “Beneficiary” means the beneficiary that a Participant designates to receive his or her Account upon the Participant’s death.

1.4 “Code” means the Internal Revenue Code of 1986, as it may be amended from time to time, and the rules and regulations promulgated thereunder.

1.5 “Committee” means the Compensation Committee or such other individual(s) or committee as designated by the Compensation Committee as the “Committee” for purposes of the Plan. The Senior Vice President of Human Resources and those persons he or she designates in writing are hereby delegated the authority to act on behalf of the Committee to administer the Plan in accordance with SECTION 9, unless determined otherwise by the Compensation Committee. The authority to amend and terminate the Plan in accordance with SECTION 8 is not delegated and, therefore, lies solely with the Compensation Committee.

1.6 “Common Stock” means the Common Stock, \$.01 par value per share, of the Company.

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- 1.7 “ Company ” means Oracle Corporation, a Delaware corporation, and any successor organization.
- 1.8 “ Compensation Committee ” means the Compensation Committee of the Board of Directors of the Company.
- 1.9 “ Deferred Stock Unit Award ” means a Stock Unit Award that a Participant has irrevocably elected to defer under the terms of this Plan.
- 1.10 “ Dividend Equivalent ” means an amount equal to the cash or stock dividends that would have been paid on one share of Common Stock.
- 1.11 “ Eligible Employee ” means an Employee who is eligible to participate in the Plan under SECTION 2, as designated by the Committee or its designee.
- 1.12 “ Employee ” means a person employed by an Employer.
- 1.13 “ Employer ” means the Company and any other corporation or trade or business within the Employer Group that adopts the Plan with the Company’s approval. A list of adopting Employers is attached to this Plan as Appendix 1 and shall be kept by the Committee.
- 1.14 “ Employer Group ” means the group of entities (whether or not organized in corporate form and whether or not organized in the United States) owned 80 percent or more by the Company or by an affiliate of the Company that is, itself, owned 80 percent or more by the Company.
- 1.15 “ Equity Compensation Plan ” means the Amended and Restated 2000 Long-Term Equity Incentive Plan, as in effect from time to time, or any subsequently adopted equity compensation plan of the Company, as applicable.
- 1.16 “ Hardship ” has the meaning set forth in SECTION 3.8.
- 1.17 “ Participant ” means an Eligible Employee who elects to defer one or more Stock Unit Awards pursuant to the Plan. Status as a Participant ceases when the Participant’s entire Account has been distributed or forfeited, as applicable.
- 1.18 “ Plan ” means this Oracle Corporation Stock Unit Award Deferred Compensation Plan, as amended.
- 1.19 “ Plan Year ” means the calendar year during which a Participant’s Stock Unit Award is granted.
- 1.20 “ Stock Unit Award ” means a qualifying stock unit award granted to an Eligible Employee under the Equity Compensation Plan that meets the vesting requirements described in SECTION 3.7.
- 1.21 “ Termination of Employment ” means “separation from service” as defined in Code section 409A.

SECTION 2
ELIGIBILITY

2.1 Eligibility. Each Eligible Employee who completes such forms and provides such data as are reasonably required by the Committee is eligible to participate in the Plan. Eligibility to participate in the Plan for a Plan Year is limited to Employees who are selected by the Committee (or its designee), in its sole discretion, and whose annualized Base Salary in United States dollars determined as of June 1 of the current calendar year equals or exceeds \$190,000 (or another amount established by the Committee). The Committee also may select for eligibility an Employee whose base salary reaches the required amount in a given year. For purposes of this SECTION 2.1, eligibility is generally effective annually as of the first day of a Plan Year, but the Committee may, in its sole discretion, allow eligibility effective as of the start of a calendar quarter, semi-annual period, or another date it establishes, consistent with Code section 409A.

2.2 Participant Consent. By making an election to defer a Stock Unit Award, the Participant shall for all purposes be deemed conclusively to have consented to the provisions of the Plan and to all subsequent amendments thereto.

SECTION 3
DEFERRED STOCK UNIT AWARDS

3.1 Election to Defer Stock Unit Award.

(a) An Eligible Employee's participation in the Plan will commence when he or she makes a deferral election in accordance with SECTION 3. Deferral of Stock Unit Awards under the Plan will occur in the amount and at the time provided in this SECTION 3.1 and in SECTION 3.7, and will not be effective until the Eligible Employee has complied with the election procedures in this SECTION 3.

(b) Each Eligible Employee may elect, in accordance with SECTION 3.7, to defer the receipt of either 0% or 100% of a Stock Unit Award. Partial deferrals of an Eligible Employee's Stock Unit Award that he or she is awarded are not permitted. Any Stock Unit Awards deferred under this Section will be credited to an Account as of the date such Stock Unit Award is granted to the Eligible Employee.

(c) A Participant's Deferred Stock Unit Award shall vest pursuant to the terms of the Equity Compensation Plan and the award agreement evidencing the Stock Unit Award grant. In the event a Participant forfeits any portion of the Participant's Deferred Stock Unit Award pursuant to the terms of the Equity Compensation Plan or award agreement, the Participant's Stock Unit Award Account shall be reduced by the amount attributable to the forfeited Deferred Stock Unit Award.

(d) After vesting and until paid in accordance with this SECTION 3, Deferred Stock Units credited to a Participant's account shall be credited with Dividend Equivalents. Unless otherwise provided in the Stock Unit Award to which a Deferred Stock Unit relates, Dividend Equivalents shall not be credited to Participant's account for the period prior to the vesting date provided in such Stock Unit Award. Dividend Equivalents shall be subject to the

same restrictions as the Deferred Stock Units to which they are attributable and shall be paid on the same date that the Deferred Stock Units to which they are attributable are settled in accordance with this SECTION 3. The Dividend Equivalents credited to the Grantee's Account will be deemed to be reinvested in additional Deferred Stock Units. Dividend Equivalents credited to a Grantee's Account shall be distributed in shares of Common Stock having a value equal to the amount of the Dividend Equivalents.

3.2 Separate Elections. A separate election to defer a Stock Unit Award must be filed by the Eligible Employee for each Stock Unit Award.

3.3 Form and Schedule of Payment. Deferred Stock Units shall be payable in Common Stock. The schedule under which the Participant elects to receive payment of his or her Deferred Stock Unit Award Account balance shall be irrevocably elected on the Participant's deferral election form as described in this SECTION 3. An Eligible Employee may elect to receive distributions in a lump sum or in quarterly installments over a period of five (5) years or ten (10) years. A Participant may select a different form of payment for each Stock Unit Award. Notwithstanding anything to the contrary, a Participant's Account shall be paid to the Participant's Beneficiary in a lump sum upon the Participant's death, in accordance with SECTION 3.5.

3.4 Deferred Stock Unit Award Accounts.

(a) The Committee shall cause an Account and such other subaccounts as the Committee deems appropriate to be established for each Participant who has deferred a Stock Unit Award, which shall reflect the value of each Deferred Stock Unit Award payable to such Participant under the Plan, as adjusted for any earnings, as set forth herein. Each Account shall be maintained for bookkeeping purposes only. Neither the Plan nor any of the Accounts established under the Plan shall hold any actual funds or assets.

(b) A Participant's Account relating to Deferred Stock Unit Awards shall be denominated in notional shares of Common Stock.

3.5 Timing of Payment of Account Balances.

(a) On the Plan deferral election form described in this SECTION 3, and in accordance with terms and procedures established by the Committee, an Eligible Employee may elect to receive or commence payment of the Eligible Employee's Deferred Stock Unit Award, in the form elected in SECTION 3.3 upon the earlier of (i) Termination of Employment or (ii) a calendar year designated by the Eligible Employee that is not earlier than the calendar year following the calendar year in which the scheduled vesting period for the Deferred Stock Unit Award ends.

(b) Notwithstanding any other provision of this Plan, upon a Participant's death, whether prior to or after commencement of payment of the Participant's Account, a lump sum distribution of all vested amounts credited to the deceased Participant's Account in accordance with subsection (c) (notwithstanding any election to receive distributions under clause (ii) of subsection (a) or in installments under SECTION 3.3) shall be payable to the deceased Participant's Beneficiary.

(c) A distribution upon a Participant's death will be made in lump sum, as soon as is administratively practicable following the date on which the Participant's death occurs.

A distribution upon Termination of Employment for any reason other than death will be made or commence on the 17th day of the first month (or the first business day after the 17th) of the third calendar quarter following the calendar quarter in which the Termination of Employment triggering a distribution occurs. For Participants whose Termination of Employment occurs within the first 10 days of a calendar quarter, a distribution will be made or commence on the 17th day of the first month (or the first business day after the 17th) of the second calendar quarter following the calendar quarter in which the Termination of Employment triggering a distribution occurs. Subsequent distributions, if any, will be made on each quarter-annual anniversary date of the date of the first distribution.

A distribution payable on a date designated by the Participant under clause (ii) of subsection (a) will be made or commence in January of such year.

3.6 Default Election. The Account of a Participant who does not make a distribution election under SECTION 3.3 or SECTION 3.5 will be distributed in a lump sum on the first distribution date after his or her Termination of Employment, in accordance with SECTION 3.5.

3.7 Timing of Deferral Election. An election to defer a Stock Unit Award under this SECTION 3 must be made in accordance with the procedures established by the Committee. To the extent permitted by the Committee in its discretion, an Eligible Employee may defer receipt of a Stock Unit Award within 30 days of the date the Eligible Employee acquires a legally binding right to such Stock Unit Award, provided that the right to the Stock Unit Award is conditioned on the continued services of the Eligible Employee for a period of at least 12 months from the date the Eligible Employee acquires the legally binding right to the Stock Unit Award and the election is made and becomes irrevocable at least 12 months before the earliest date at which the forfeiture condition could lapse (other than due to death, disability, or a change in control in accordance with Code section 409A).

3.8 Hardship.

(a) If an unforeseeable emergency occurs (as determined by the Committee in accordance with Code section 409A and other applicable law), a Participant may request that the Committee approve payment of the Participant's vested Account earlier than the date to which it was deferred or that there be a cessation of deferrals under the Plan. For purposes of this SECTION 3.8, an "unforeseeable emergency" is limited to a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's beneficiary, or the Participant's dependent (as defined in Code section 152, without regard to sections 152(b)(1), (b)(2), and (d)(1) (B)), loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance), or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's control. What constitutes an unforeseeable emergency depends upon each Participant's circumstances, but, in any case, payment may not be made and a cessation of deferrals may not occur to the extent that a hardship is or may be relieved: (i)

through reimbursement or compensation by available insurance or otherwise or (ii) by liquidation of the Participant's assets to the extent the asset liquidation would not itself cause severe financial hardship. Moreover, a deferred amount may not be distributed before the date to which the amount was deferred to the extent that the hardship is or may be relieved by cessation of deferrals under the Plan.

(b) The Committee will consider any requests for payment under this SECTION 3.8 on a uniform and nondiscriminatory basis and in accordance with Code section 409A. If an amount is distributed or deferrals cease under this SECTION 3.8, the Participant will be ineligible to defer additional amounts until the next regular date designated under SECTION 3.7 for making deferral elections that occurs one year or more after the date as of which the Committee approved the distribution or cessation of deferral. Payments made under this SECTION 3.8 will be made within seven days after the Committee determines that an unforeseeable emergency has resulted in severe financial hardship to the Participant or at a later date chosen by the Committee that does not result in taxation under Code section 409A.

3.9 Changes in Capitalization. Deferred Stock Units credited to a Participant's Account shall be appropriately adjusted in a manner consistent with the terms applicable to Common Stock reserved under the Equity Compensation Plan to reflect changes in capitalization of the Company affecting the Common Stock.

3.10 Employee's Rights Unsecured. The right of a Participant or his or her Beneficiary to receive a distribution under the Plan constitutes an unsecured claim against the general assets of the Company and the Participant's Employer or former Employer, and neither the Participant nor his or her Beneficiary has any rights in or against any amount credited to an Account or any other specific assets. The Plan constitutes a mere promise by the Company to make benefit payments in the future.

SECTION 4 DESIGNATION OF BENEFICIARY

4.1 Designation of Beneficiary.

(a) A Participant may designate a Beneficiary to receive any part of the Participant's Account. A Beneficiary may be designated at any time before the Participant dies and may be revoked or changed at any time in accordance with procedures established by the Committee. A designation or change of designation that names a Beneficiary other than the Participant's spouse will be effective only if spousal consent is provided. If the Participant fails to designate a Beneficiary, or if no Beneficiary survives the Participant, the Participant's Account will be paid to the Participant's estate. Beneficiary designations must be on the form required by the Committee.

(b) The Participant may change the designation of a Beneficiary at any time in accordance with procedures established by the Committee. Designation of a Beneficiary, or an amendment or revocation thereof, shall be effective on the date the Participant's completed and signed designation/revocation is actually received by the recordkeeper for the Plan. To be valid, a completed and signed designation/revocation must be actually received by the recordkeeper for

the Plan prior to the Participant's death. Actually received means actual receipt of the designation/revocation and not the date that the designation/revocation was placed in the U.S. Mail or other private delivery service. The most recent designation on file cancels all previous designations.

SECTION 5 CODE SECTION 409A

5.1 General Compliance. The Plan is designed to comply with Code section 409A and is to be construed and administered, where possible, to comply with Code section 409A. Neither the Company or Employer nor the Committee is obligated to take any action that the Company's counsel determines would result in taxation under Code section 409A. If the Company or its counsel determines that any Plan provision or feature does not comply with Code section 409A, that provision or feature will be null and void to the extent required to avoid taxation under Code section 409A.

5.2 No Express or Implied Warranties. Although the Company intends to administer the Plan to prevent taxation under Code section 409A, the Employers do not represent or warrant that the Plan will comply with Code section 409A or any other provision of federal, state, local, or non-United States law. The Company, its affiliates or subsidiaries, and their respective directors, officers, employees, and advisers will not be liable to any person for any tax, interest, or penalties that might be owed with respect to an Account.

5.3 Permissible Accelerations and Delays. The Company reserves the right, exercisable in its sole discretion, to accelerate payments under this Plan to the extent permitted by, and in accordance with, Treas. Reg. §1.409A-3(j)(4). In addition, the Company reserves the right, exercisable in its sole discretion, to delay payments under this Plan to the extent permitted by, and in accordance with, Treas. Reg. §1.409A-2(b)(7).

5.4 Specified Employees. Notwithstanding any other provision of this Plan, any distribution that is not exempt from Code section 409A and that is to be paid upon Termination of Employment (other than as a result of death) to a "specified employee" (as defined under Code section 409A) will not be paid sooner than six months and one day following the Termination of Employment, or death if earlier.

SECTION 6 UNFUNDED PLAN

6.1 Unfunded Plan. The obligation of the Employers to make payments pursuant to the Plan is contractual only, and neither the Participant nor any Beneficiary shall have a preferred claim or lien on or to any assets of any trust but shall have only the right to receive the benefits payable under the Plan. The obligations of the Company and Employer to pay benefits under the Plan constitute an unfunded, unsecured promise to pay and Employees shall have no greater rights than general creditors of the Company or Employer. It is the Company's intention that the arrangements be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Security Act (ERISA).

SECTION 7
CLAIMS PROCEDURE

7.1 Claims Procedure. If any Participant or his or her Beneficiary has a claim for benefits that have not been paid, that person (“claimant”) may file with the Committee a written claim providing the amount and nature of the claim, supporting facts, and the claimant’s address. Claims for benefits must be filed as soon as reasonably practicable after the occurrence of the facts on which the claim is based. The Committee shall notify each claimant of its decision in writing by registered or certified mail within 60 days after its receipt of a claim or, under special circumstances, within ninety 90 days after its receipt of a claim; and if the Committee determines that payment is to be made, payment will be made within 90 days after the date by which notification is required. If a claim is denied, the written notice of denial shall set forth the reasons for such denial, refer to pertinent Plan provisions on which the denial is based, describe any additional material or information necessary for the claimant to realize the claim, and explain the claims review procedure under the Plan.

7.2 Claims Review Procedure. A claimant whose claim has been denied, or such claimant’s duly authorized representative, may file, within 60 days after notice of such denial is received by the claimant, a written request for review of such claim by the Committee. If a request is so filed, the Committee shall review the claim and notify the claimant in writing of its decision within 60 days after receipt of such request. In special circumstances, the Committee may extend for up to 60 additional days the deadline for its decision. The notice of the final decision of the Committee shall include the reasons for its decision and specific references to the Plan provisions on which the decision is based. If the final decision is that payment is to be made, payment will be made within 90 days after the date by which notification of the final decision is required. The decision of the Committee shall be final and binding on all parties.

7.3 Exhaustion of Claims and Appeals Procedures. A claim or action (a) to recover benefits allegedly due under the Plan or by reason of any law, (b) to enforce rights under the Plan, (c) to clarify rights to future benefits under the Plan, or (d) that relates to the Plan and seeks a remedy, ruling, or judgment of any kind against the Plan or a Plan fiduciary or party in interest (collectively, a “Judicial Claim”), may not be commenced in any court or forum until after the claimant has exhausted the Plan’s claims and appeals procedures, including, for these purposes, any voluntary appeal right (an “Administrative Claim”). A claimant must raise every argument and/or produce all evidence the claimant believes supports the claim or action in the Administrative Claim and shall be deemed to have waived any argument and/or the right to produce any evidence not submitted to the Committee as part of the Administrative Claim. Any Judicial Claim must be commenced in the appropriate court or forum no later than 24 months from the earliest of (a) the date the first benefit payment was made or allegedly due, (b) the date the Committee or its delegate first denied the claimant’s request, or (c) the first date the claimant knew or should have known the principal facts on which such claim or action is based; provided, however, that, if the claimant commences an Administrative Claim before the expiration of such 24 month period, the period for commencing a Judicial Claim shall expire on the later of the end of the 24 month period and the date that is three months after the final denial of the claimant’s Administrative Claim, such that the claimant has exhausted the Plan’s claims and appeals procedures. Any claim or action that is commenced, filed, or raised, whether a Judicial Claim or an Administrative Claim, after expiration of such 24-month limitations period (or, if applicable,

expiration of the 3-month limitations period following exhaustion of the Plan's claims and appeals procedures) shall be time-barred. Filing or commencing a Judicial Claim before the claimant exhausts the Administrative Claim requirements shall not toll the 24-month limitations period (or, if applicable, the three month limitations period).

SECTION 8 AMENDMENT AND TERMINATION

8.1 Amendment. The Committee may amend this Plan at any time with either or both retroactive and prospective effect. It is intended that all Plan amendments comply with Code section 409A. Amendments will be effective upon the date stated in the amendment and will be binding on all Participants and Beneficiaries, except as otherwise provided in the amendment. No amendment may adversely affect a Participant's accrued benefits without the Participant's written approval. Any rights to benefits under this Plan created by an employment agreement in effect between the Company or Employer and an Employee are subject to amendments to this Plan.

8.2 Termination. The Committee may terminate the Plan and distribute Accounts to Employees in accordance with Code section 409A.

SECTION 9 ADMINISTRATION

9.1 Administration. The Committee has complete authority to administer the Plan, interpret the terms of the Plan, determine eligibility of Employees to participate in the Plan, and make all other determinations and take all other actions in accordance with the terms of the Plan. Any determination or decision by the Committee shall be conclusive and binding on all persons who at any time have or claim to have any interest whatever under this Plan.

9.2 Liability of Committee, Indemnification. To the extent permitted by law, the Committee and its designee shall not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to his or her own bad faith or willful misconduct.

9.3 Expenses. The costs of establishing and adopting the Plan, including but not limited to legal and accounting fees, will be borne by the Company or the Employer. If a trust is established, the Company or Employer will bear any tax liability associated with the trust's investment of assets and will not be reimbursed by the trust for those costs.

SECTION 10 GENERAL AND MISCELLANEOUS

10.1 Rights Against the Company. Except as expressly provided by the Plan, this Plan shall not be construed as giving to any Employee, Participant, Beneficiary, or any other person any legal, equitable, or other rights against the Company or an Employer, or against any officers, directors, agents, or shareholders, or as giving to any Participant or Beneficiary any equity or other interest in the assets, business, or shares of the Company or Employer stock or giving any Employee the right to be retained in the employment of the Company or an Employer. All

Employees are subject to discharge (with or without cause) to the same extent they would have been if this Plan had never been adopted. The rights of an Employee hereunder are solely those of an unsecured general creditor of the Company or an Employer. Nothing in the Plan should be construed to require any contributions to the Plan on behalf of an Employee, Participant, or Beneficiary by the Company or an Employer.

10.2 Assignment or Transfer. No right, title, or interest of any kind in the Plan is transferable or assignable by any Participant or Beneficiary or subject to alienation, anticipation, sale, pledge, encumbrance, garnishment, attachment, execution, or levy of any kind, whether voluntary or involuntary, nor subject to the debts, contracts, liabilities, engagements, or torts of the Participant or Beneficiary. Any attempt to alienate, anticipate, sell, pledge, encumber, garnish, attach, execute, levy, transfer, assign, or otherwise subject to legal or equitable process or encumber or dispose of any interest in the Plan shall be void.

10.3 Severability. The provisions of this Plan are fully severable. Accordingly, any declaration that a provision of this Plan is illegal or invalid for any reason will not affect the remaining provisions of this Plan, and this Plan will be construed and enforced as if any illegal or invalid provision had never existed.

10.4 Construction. The article and section headings and numbers are included only for convenience of reference and are not to be taken as limiting or extending the meaning of any of the terms and provisions of this Plan. Whenever appropriate, words used in the singular shall include the plural or the plural may be read as the singular. When used herein, the masculine gender includes the feminine gender.

10.5 Governing Law. The validity and effect of this Plan and the rights and obligations of all persons affected hereby shall be construed and determined in accordance with the laws of the State of California unless superseded by federal law, which shall govern correspondingly.

10.6 Payment Due to Incompetence. If the Committee receives evidence that an Employee or Beneficiary entitled to receive any payment under the Plan is physically or mentally incompetent to receive such payment, the Committee may, in its sole and absolute discretion, direct the payment to any other person or trust which has been legally appointed by the courts.

10.7 Taxes. All amounts payable hereunder shall be reduced by any and all federal, state, local, and employment taxes imposed upon the Participant or his or her Beneficiary which are required to be paid or withheld by the Company or Employer. Amounts deferred will be taken into account for purposes of any tax or withholding obligation under the Federal Insurance Contribution Act and Federal Unemployment Tax Act, not in the year distributed, but at the later of the year the services are performed or the year in which the rights to the amounts are no longer subject to a substantial risk of forfeiture, as required by Code sections 3121(v)(2) and 3306(r)(2). Amounts required to be withheld in accordance with Code section 3121(v)(2) will be withheld out of other current wages paid by the Participant's Employer. The determination of the Company or Employer regarding applicable income and employment tax withholding requirements shall be final and binding on each Employee.

ORACLE CORPORATION

By: _____
Name: _____
Title: _____

APPENDIX 1

ADOPTING EMPLOYERS

Pursuant to SECTION 1.13 of the Oracle Corporation Stock Unit Award Deferred Compensation Plan (the “Plan”), the following corporations have adopted the Plan with the approval of Oracle Corporation.

Oracle America, Inc.

Oracle International Corporation

ORACLE CORPORATION
AMENDED AND RESTATED
2000 LONG-TERM EQUITY INCENTIVE PLAN

PERFORMANCE-BASED STOCK UNIT AWARD AGREEMENT

1. Grant. Oracle Corporation (the “Company”) has granted to [Recipient] (“Participant”) the target number of performance-based stock units (“PSUs”) set forth above (“Target PSUs”) under the Company’s Amended and Restated 2000 Long-Term Equity Incentive Plan (the “Plan”). The maximum number of PSUs that may vest pursuant to this Award is 150% of the Target PSUs. This Award is subject to the terms set forth below in this PSU award agreement (the “Agreement”) and in the Plan.

The PSUs granted under this Agreement to Covered Employees within the meaning of Section 162(m) of the United States Internal Revenue Code of 1986, as amended (the “Code”), and the regulations promulgated thereunder, are intended to qualify as “qualified performance-based compensation” as described in Code Section 162(m)(4)(C) (“Qualified Performance-Based Compensation”).

In the event of a conflict between the terms of the Plan and the terms of this Agreement, the terms of the Plan shall govern. All capitalized terms not defined herein shall have the meanings ascribed to them in the Plan.

2. Vesting Schedule.
 - (a) Subject to the terms of the Plan and this Agreement, the PSUs granted under this Agreement shall vest and become payable in shares of Common Stock (“Shares”) on the Vesting Date (specified in Exhibit A) (i) to the extent the Performance Goals (as set forth in Exhibit A) applicable to the applicable Performance Period (as specified in Exhibit A) are attained, as determined accordance with Section 2(b) below and (ii) as long as the Participant remains continuously employed by the Company or any Parent, Subsidiary or Affiliate from the date of grant of the PSUs through the Vesting Date.
 - (b) As soon as reasonably practicable after the completion of each Performance Period, the Committee shall determine the actual level of attainment of the Performance Goals for such Performance Period; provided, however, that in the case of PSUs intended to constitute Qualified Performance-Based Compensation, the determination of the level of attainment of Performance Goals shall be certified in writing in accordance with the requirements of Code Section 162(m) by the committee of the Board of Directors of the Company administering the Plan (the “Committee”), which shall be comprised of “outside directors” within the meaning of Code Section 162(m). On the basis of the determination or certified level of attainment of the Performance Goals, the number of PSUs that are eligible to vest shall be calculated.
3. Company’s Obligation to Pay. Each PSU represents the right to receive a Share on the Vesting Date, subject to vesting conditions set forth herein. Unless and until the PSUs have

vested in accordance with Section 2, Participant will have no right to settlement of any such PSUs. Prior to the actual settlement of any vested PSUs, such PSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

4. Settlement of the PSUs. The PSUs will be settled on the applicable Vesting Date or as soon thereafter as administratively practicable, but in any event within a period of sixty (60) days following the Vesting Date. At the time of settlement, Participant will receive one whole Share for each vested PSU. The Company may, at its sole discretion, substitute an equivalent amount of cash if the distribution of Shares is not reasonably practicable due to the requirements under Applicable Law, in which case, the amount of cash will be determined on the basis of the Fair Market Value of the Common Stock on the Vesting Date.
5. No Rights as Stockholder. The PSUs underlying this Award do not carry voting rights or rights to cash dividends that are or may become applicable to the Common Stock or otherwise. Participant shall have no rights as a Stockholder of the Company unless and until the PSUs are settled by issuing Shares to the Participant.
6. Termination of PSUs.
 - (a) Notwithstanding any contrary provision of this Agreement, in the event of the termination of Participant's employment relationship with Participant's employer for any or no reason (excluding a transfer to the Company or any Parent, Subsidiary or Affiliate) prior to the Vesting Date for any Performance Period, the Participant's right to acquire any Shares hereunder with respect to such Performance Period, as well as any subsequent Performance Period, will immediately terminate. Participant's employment relationship shall be considered to have terminated (without regard to any notice period, *e.g.*, a period of "garden leave" or similar period pursuant to local law or as may be required by the terms of an employment agreement) and Participant to have ceased to be employed by the Company or its Parent, Subsidiary or Affiliate, on the earliest of:
 - (1) the date on which Participant's employer (the "Employer") delivers to Participant notice terminating the employment relationship (regardless of whether the notice or termination is lawful or unlawful or is in breach of any contract of employment) unless Participant is transferring employment to the Company, or any Parent, Subsidiary or Affiliate;
 - (2) the date on which Participant delivers notice to his or her Employer that Participant is terminating the employment relationship (regardless of whether the notice or termination is lawful or unlawful or is in breach of any contract of employment) unless Participant is transferring employment to the Company, or any Parent, Subsidiary or Affiliate;
 - (3) the date on which Participant ceases to provide services to the Company, or any Parent, Subsidiary or Affiliate, as appropriate, except where Participant is on an authorized leave of absence; or
 - (4) the date on which Participant ceases to be considered an "employee" under

Applicable Laws.

The Committee shall have discretion to determine whether Participant has ceased to be employed by the Company or any Parent, Subsidiary or Affiliate, as appropriate, and the effective date on which such employment terminated.

7. Compliance with Laws and Regulations. The issuance and transfer of Shares shall be subject to compliance by the Company and Participant with all applicable requirements of federal, state, local or foreign securities and other laws and with all applicable requirements of any stock exchange or national market system on which the Common Stock may be listed at the time of such issuance or transfer.
8. Transferability of Award. This Award may not be transferred in any manner other than (i) by will, (ii) by the laws of descent and distribution, or (iii) by proof to the Company's satisfaction, in the event of Participant's death, that the beneficiary is entitled to receive the Award.
9. Tax Consequences. The general U.S. federal income tax consequences of the grant, vesting, settlement and transfer of the Award, as well as upon disposition of any Shares issued at settlement of this Award, are set forth in the Plan prospectus made available at the Company's web site at:

<http://my.oracle.com/site/hr/RegionalSites/U.S./usbenefits/equity/index.html>

If Participant is subject to tax in any other country besides the U.S., the tax treatment in the other country may differ from that reflected in the Plan prospectus.

10. Tax Withholding Responsibility. Participant acknowledges that, regardless of any action taken by the Company or the Employer, the ultimate liability for all income tax (including federal, state, local and foreign tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Participant's participation in the Plan and legally applicable to Participant or deemed by the Company or the Employer in its discretion to be an appropriate charge to Participant even if legally applicable to the Company or the Employer ("Tax-Related Items"), is and remains Participant's responsibility and may exceed the amount actually withheld by the Company and/or the Employer. Participant further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Award, including, but not limited to, the grant, vesting or settlement of this Award, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of this Award to reduce or eliminate Participant's liability for Tax-Related Items or to achieve any particular tax result. Further, if Participant is subject to Tax-Related Items in more than one jurisdiction between the date of grant and the date of any relevant taxable or tax withholding event, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, Participant agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all

Tax-Related Items. In this regard, if Participant is not subject to Section 16 of the Exchange Act, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (1) withholding from Participant's wages or other cash compensation paid to Participant by the Company and/or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of this Award, either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization without further consent); or (3) withholding in Shares issuable upon settlement of this Award. If Participant is subject to Section 16 of the Exchange Act, Participant may satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (1) electing to have the Company or Employer withhold from Participant's wages or other cash compensation paid to Participant by the Company and/or the Employer; (2) electing to have the Company withhold from proceeds of the sale of Shares acquired upon vesting of the PSUs, either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization); or (3) electing to have the Company withhold Shares otherwise issuable upon settlement of the PSUs.

If the obligation for the Tax-Related Items is satisfied by withholding in Shares, the Company will withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates. If Shares are sold to cover the Tax-Related Items obligations, the Company may use other applicable withholding rates, including maximum applicable rates, in which case Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the Common Stock equivalent. Further, if the obligation for the Tax-Related Items is satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares subject to the vested PSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of Participant's participation in the Plan.

Finally, Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to deliver the Shares or the proceeds from the sale of Shares if Participant fails to comply with his or her obligations in connection with the Tax-Related Items as described in this section.

11. Nature of the Grant. By entering into this Agreement and accepting the grant of the PSUs evidenced hereby, Participant acknowledges that: (i) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time unless otherwise provided in the Plan and this Agreement; (ii) the grant of the PSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of stock units, or benefits in lieu of stock units, even if stock units have been granted in the past; (iii) all decisions with respect to future grants, if any, will be at the sole discretion of the Company; (iv) Participant's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Employer to terminate Participant's employment relationship at any time; (v) Participant's participation in the Plan is voluntary; (vi) the PSUs and the Shares subject to the PSUs are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company or

the Employer, and which are outside the scope of Participant's employment contract, if any; (vii) the PSUs are not part of normal or expected compensation or salary for any purpose including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or welfare or retirement benefits (including the 401 (k) Savings and Investment Plan and the Deferred Compensation Plan) or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate; (viii) the PSUs and the Shares subject to the PSUs are not intended to replace any pension rights or compensation; (ix) the vesting of this Award ceases upon termination of the employment relationship as described in Section 6 of this Agreement, except as may otherwise be explicitly provided in the Plan document; (x) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty; (xi) the grant of the PSUs and Participant's participation in the Plan shall not be interpreted to form an employment contract or relationship with the Company or any Parent, Subsidiary or Affiliate; and furthermore, the PSU grant shall not be interpreted to form an employment contract with the Employer; (xii) no claim or entitlement to compensation or damages shall arise from forfeiture of the PSUs resulting from the termination of Participant's employment (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any); and (xiii) unless otherwise provided in the Plan or by the Company in its discretion, the PSUs and the benefits evidenced by this Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares.

12. **No Advice Regarding Grant.** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

13. **Data Privacy Consent.** *As a condition of the grant of the PSUs, Participant hereby explicitly and unambiguously consents to the collection, use, processing and transfer, in electronic or other form, of personal data as described in this paragraph by and among, as applicable, the Employer and the Company and any Parent, Subsidiary or Affiliate for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

Participant understands that the Employer, the Company and any Parent, Subsidiary or Affiliate hold certain personal information about Participant, including Participant's name, home address and telephone number, date of birth, social security number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all PSUs or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in Participant's favor ("Data"), for the purpose of managing and administering the Plan.

Participant acknowledges that Data will be transferred to Fidelity or such other stock plan service providers or brokers as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of

the Plan, provided that the Company ensures that the recipient maintains a level of privacy broadly equivalent to the standard set forth in the Company's Internal Privacy Policy. Participant accepts that these recipients may be located in the United States or the European Economic Area and that the recipient's country may have different data privacy laws and protections than Participant's country. Participant authorizes the Company, its broker and any possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Participant's participation in the Plan, including any requisite transfer of Data to a designated broker or other third party with whom Participant may elect to deposit any Shares acquired upon settlement of this Award, as such Data may be required for the administration of the Plan and/or the subsequent holding of Shares on Participant's behalf. Further, Participant understands that Participant is providing the consents herein on a purely voluntary basis. If Participant does not consent, or later seeks to revoke consent, Participant's employment status or service and career with the Employer will not be adversely affected; the only consequence of refusing or withdrawing consent is that the Company would not be able to grant Participant PSUs or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing consent may affect Participant's ability to participate in the Plan.

Additional details regarding data privacy are included in the Notice of Performance-Based Stock Unit Award Grant and in Oracle's Internal Privacy Policy at: <http://my.oracle.com/content/groups/public/@empl/@legal/documents/webcontent/cnt337893.pdf>.

14. Entire Agreement; Interpretation. The Plan made available at the Company's web site at

<http://my.oracle.com/site/hr/RegionalSites/U.S./usbenefits/equity/index.html>

is incorporated herein by reference. This Agreement and the Plan constitute the entire agreement of the parties and supersede all prior undertakings and agreements with respect to the subject matter hereof. The Committee may amend this Agreement and the Plan from time to time. Participant understands and agrees that the terms of the PSUs can only be amended in writing. Participant agrees that the terms of the Plan govern the PSUs and that all interpretations and determinations made by the Company or the Committee with respect to the Plan and this Agreement shall be final and binding on all persons. This Agreement is governed by Delaware law except for that body of law pertaining to conflict of laws. Unless Participant is subject to a mutual agreement to arbitrate with the Company, Participant agrees to institute any legal action or legal proceeding relating to this Agreement or the Plan in state court in San Mateo County, California, or in federal court in San Francisco, California, United States of America. Participant agrees to submit to the jurisdiction of and agrees that venue is proper in the aforesaid courts in any such action or proceeding.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means or to request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained

by the Company or any third party designated by the Company.

16. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.
17. 409A Disclaimer. This Agreement shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the U.S. Internal Revenue Code (the "Code"). The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, including amendments or actions that would result in a reduction in benefits payable under the Award, as the Company determines are necessary or appropriate to ensure that this Award qualifies for exemption from, or complies with the requirements of, Code Section 409A or mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A of the Code; provided, however, that the Company makes no representation that this Award will be exempt from, or will comply with, Section 409A of the Code, and makes no undertakings to preclude Section 409A of the Code from applying to the PSUs or to ensure that it complies with Section 409A of the Code. For the avoidance of doubt, Participant hereby acknowledges and agrees that the Company will have no liability to Participant or any other party if the grant, vesting or settlement of the PSUs and the issuance of Shares or cash or any other transaction under this Agreement is not exempt from, or compliant with, Code Section 409A, or for any action taken by the Company with respect thereto.
18. Additional Terms. The Company reserves the right to impose other requirements on Participant's participation in the Plan to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
19. Waiver. Participant acknowledges that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other participant.

By clicking on the "Accept" button, Participant accepts the PSUs and agrees to be bound by its terms as set forth in the Plan and this Agreement.

These terms apply to grants made on or after July 24, 2014.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark V. Hurd, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oracle Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Finance and Audit Committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 23, 2014

By: / s/ M ARK V. H URD
 Mark V. Hurd
 Chief Executive Officer and Director
 (Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Safra A. Catz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oracle Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Finance and Audit Committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 23, 2014

By: / s / S AFRA A. C ATZ

Safra A. Catz

Chief Executive Officer and Director
(Principal Executive and Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the quarterly report on Form 10-Q of Oracle Corporation for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Safra A. Catz, the Chief Executive Officer of Oracle Corporation, and Mark V. Hurd, the Chief Financial Officer of Oracle Corporation, each certifies that, to the best of his or her knowledge:

1. the quarterly report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of Oracle Corporation.

Date: September 23, 2014

By: / s / S AFRA A. C ATZ

Safra A. Catz
Chief Executive Officer and Director
(Principal Executive and Financial Officer)

Date: September 23, 2014

By: / s / M ARK V. H URD

Mark V. Hurd
Chief Executive Officer and Director
(Principal Executive Officer)