

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended February 29, 2020

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)

500 Oracle Parkway
Redwood City, California
(Address of principal executive offices)

54-2185193
(I.R.S. Employer
Identification No.)

94065
(Zip Code)

(650) 506-7000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	ORCL	New York Stock Exchange
2.25% senior notes due January 2021	—	New York Stock Exchange
3.125% senior notes due July 2025	—	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of registrant's common stock outstanding as of March 9, 2020 was: 3,153,584,000.

ORACLE CORPORATION
FORM 10-Q QUARTERLY REPORT

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Cautionary Note on Forward-Looking Statements

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

- our expectations regarding the potential impacts on our business of the outbreak of the novel coronavirus COVID-19;
- our expectation that we may acquire companies, products, services and technologies to further our corporate strategy as compelling opportunities become available;
- our expectation that, on a constant currency basis, our total cloud and license revenues generally will continue to increase due to expected growth in our cloud services and our license support offerings, and continued demand for our cloud license and on-premise license offerings;
- our belief that our Oracle Cloud Software-as-a-Service and Infrastructure-as-a-Service (SaaS and IaaS, respectively, and collectively, Oracle Cloud Services) offerings are opportunities for us to expand our cloud and license business, and that demand for our Oracle Cloud Services will continue to increase;
- our expectation that substantially all of our customers will renew their license support contracts annually;
- our expectation that our hardware business will have lower operating margins as a percentage of revenues than our cloud and license business;
- our expectation that we will continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force;
- our expectation that we will continue to make significant investments in research and development, and our belief that research and development efforts are essential to maintaining our competitive position;
- our expectation that our international operations will continue to provide a significant portion of our total revenues and expenses;
- the sufficiency of our sources of funding for working capital, capital expenditures, contractual obligations, acquisitions, dividends, stock repurchases, debt repayments and other matters;
- our belief that we have adequately provided under U.S. generally accepted accounting principles for outcomes related to our tax audits and that the final outcome of our tax related examinations, agreements or judicial proceedings will not have a material effect on our results of operations, and our belief that our net deferred tax assets will be realized in the foreseeable future;
- our belief that the outcome of certain legal proceedings and claims to which we are a party will not, individually or in the aggregate, result in losses that are materially in excess of amounts already recognized, if any;
- the possibility that certain legal proceedings to which we are a party could have a material impact on our future cash flows and results of operations;
- our expectations regarding the timing and amount of expenses relating to the Fiscal 2019 Oracle Restructuring Plan and the improved efficiencies in our operations that such a plan will create;
- the timing and amount of future cash dividend payments and stock repurchases, including our expectation that the levels of our future stock repurchase activity may be modified in comparison to past periods in order to use available cash for other purposes;

- our expectations regarding the impact of recent accounting pronouncements on our consolidated financial statements;
- our expectation that, to the extent customers renew support contracts or cloud SaaS and IaaS contracts from companies that we have acquired, we will recognize revenues for the full contracts' values over the respective renewal periods;
- our ability to predict quarterly hardware revenues;
- the percentage of remaining performance obligations that we expect to recognize as revenues over the next twelve months;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may be preceded by, followed by or include the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "strives," "estimates," "will," "should," "is designed to" and similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors" included in documents we file from time to time with the U.S. Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for our fiscal year ended May 31, 2019 and our other Quarterly Reports on Form 10-Q filed by us in our fiscal 2020, which runs from June 1, 2019 to May 31, 2020.

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.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

ORACLE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
As of February 29, 2020 and May 31, 2019
(Unaudited)

(in millions, except per share data)	February 29, 2020	May 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,829	\$ 20,514
Marketable securities	2,029	17,313
Trade receivables, net of allowances for doubtful accounts of \$387 and \$371 as of February 29, 2020 and May 31, 2019, respectively	4,162	5,134
Prepaid expenses and other current assets	3,422	3,425
Total current assets	<u>33,442</u>	<u>46,386</u>
Non-current assets:		
Property, plant and equipment, net	6,248	6,252
Intangible assets, net	4,088	5,279
Goodwill, net	43,781	43,779
Deferred tax assets	2,883	2,696
Other non-current assets	6,262	4,317
Total non-current assets	<u>63,262</u>	<u>62,323</u>
Total assets	<u>\$ 96,704</u>	<u>\$ 108,709</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable, current	\$ 2,355	\$ 4,494
Accounts payable	533	580
Accrued compensation and related benefits	1,317	1,628
Deferred revenues	7,814	8,374
Other current liabilities	3,721	3,554
Total current liabilities	<u>15,740</u>	<u>18,630</u>
Non-current liabilities:		
Notes payable and other borrowings, non-current	49,320	51,673
Income taxes payable	13,168	13,295
Other non-current liabilities	3,595	2,748
Total non-current liabilities	<u>66,083</u>	<u>67,716</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: 3,161 shares and 3,359 shares as of February 29, 2020 and May 31, 2019, respectively	26,685	26,909
Accumulated deficit	(10,771)	(3,496)
Accumulated other comprehensive loss	(1,679)	(1,628)
Total Oracle Corporation stockholders' equity	<u>14,235</u>	<u>21,785</u>
Noncontrolling interests	646	578
Total equity	<u>14,881</u>	<u>22,363</u>
Total liabilities and equity	<u>\$ 96,704</u>	<u>\$ 108,709</u>

See notes to condensed consolidated financial statements.

ORACLE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended February 29, 2020 and February 28, 2019
(Unaudited)

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Revenues:				
Cloud services and license support	\$ 6,930	\$ 6,662	\$ 20,546	\$ 19,908
Cloud license and on-premise license	1,231	1,251	3,169	3,334
Hardware	857	915	2,542	2,711
Services	778	786	2,372	2,416
Total revenues	9,796	9,614	28,629	28,369
Operating expenses:				
Cloud services and license support(1)	991	937	2,994	2,807
Hardware(1)	271	339	828	998
Services(1)	702	700	2,147	2,127
Sales and marketing(1)	2,049	2,051	6,135	6,191
Research and development	1,500	1,426	4,588	4,464
General and administrative	288	316	903	935
Amortization of intangible assets	400	407	1,221	1,265
Acquisition related and other	7	(4)	44	29
Restructuring	60	43	181	275
Total operating expenses	6,268	6,215	19,041	19,091
Operating income	3,528	3,399	9,588	9,278
Interest expense	(456)	(509)	(1,416)	(1,557)
Non-operating income, net	4	198	195	681
Income before provision for income taxes	3,076	3,088	8,367	8,402
Provision for income taxes	505	343	1,348	1,059
Net income	\$ 2,571	\$ 2,745	\$ 7,019	\$ 7,343
Earnings per share:				
Basic	\$ 0.81	\$ 0.78	\$ 2.16	\$ 1.98
Diluted	\$ 0.79	\$ 0.76	\$ 2.10	\$ 1.93
Weighted average common shares outstanding:				
Basic	3,190	3,526	3,251	3,716
Diluted	3,271	3,617	3,337	3,811

(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 and Nine Months Ended February 29, 2020 and February 28, 2019
(Unaudited)

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Net income	\$ 2,571	\$ 2,745	\$ 7,019	\$ 7,343
Other comprehensive (loss) income, net of tax:				
Net foreign currency translation (losses) gains	(86)	10	(178)	(148)
Net unrealized gains on defined benefit plans	34	6	45	19
Net unrealized gains on marketable securities	3	233	91	120
Net unrealized gains (losses) on cash flow hedges	7	(18)	(9)	(36)
Total other comprehensive (loss) income, net	(42)	231	(51)	(45)
Comprehensive income	<u>\$ 2,529</u>	<u>\$ 2,976</u>	<u>\$ 6,968</u>	<u>\$ 7,298</u>

See notes to condensed consolidated financial statements.

ORACLE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
For the Three and Nine Months Ended February 29, 2020 and February 28, 2019
(Unaudited)

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Common stock and additional paid in capital				
Balance, beginning of period	\$ 26,374	\$ 27,430	\$ 26,909	\$ 28,950
Common stock issued	615	450	1,232	1,476
Stock-based compensation	361	427	1,204	1,259
Repurchase of common stock	(599)	(1,533)	(2,033)	(4,496)
Other, net	(66)	(42)	(627)	(457)
Balance, end of period	\$ 26,685	\$ 26,732	\$ 26,685	\$ 26,732
Accumulated deficit				
Balance, beginning of period	\$ (9,174)	\$ 5,107	\$ (3,496)	\$ 19,111
Cumulative-effect of accounting change	—	—	—	(110)
Repurchase of common stock	(3,401)	(8,466)	(11,967)	(25,505)
Cash dividends declared	(768)	(670)	(2,330)	(2,126)
Net income	2,571	2,745	7,019	7,343
Other, net	1	—	3	3
Balance, end of period	\$ (10,771)	\$ (1,284)	\$ (10,771)	\$ (1,284)
Other equity, net				
Balance, beginning of period	\$ (1,015)	\$ (1,482)	\$ (1,050)	\$ (1,188)
Other comprehensive (loss) income, net	(42)	231	(51)	(45)
Other, net	24	41	68	23
Balance, end of period	\$ (1,033)	\$ (1,210)	\$ (1,033)	\$ (1,210)
Total stockholders' equity	\$ 14,881	\$ 24,238	\$ 14,881	\$ 24,238
Cash dividends declared per common share	\$ 0.24	\$ 0.19	\$ 0.72	\$ 0.57

See notes to condensed consolidated financial statements.

ORACLE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended February 29, 2020 and February 28, 2019
(Unaudited)

(in millions)	Nine Months Ended	
	February 29, 2020	February 28, 2019
Cash flows from operating activities:		
Net income	\$ 7,019	\$ 7,343
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,025	900
Amortization of intangible assets	1,221	1,265
Deferred income taxes	(398)	(741)
Stock-based compensation	1,204	1,259
Other, net	167	144
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	946	1,106
Decrease in prepaid expenses and other assets	718	168
Decrease in accounts payable and other liabilities	(1,035)	(647)
Decrease in income taxes payable	(789)	(410)
Decrease in deferred revenues	(553)	(258)
Net cash provided by operating activities	9,525	10,129
Cash flows from investing activities:		
Purchases of marketable securities and other investments	(399)	(1,310)
Proceeds from maturities of marketable securities and other investments	3,165	10,210
Proceeds from sales of marketable securities	12,575	11,328
Acquisitions, net of cash acquired	(111)	(330)
Capital expenditures	(1,131)	(1,247)
Net cash provided by investing activities	14,099	18,651
Cash flows from financing activities:		
Payments for repurchases of common stock	(13,935)	(29,887)
Proceeds from issuances of common stock	1,232	1,468
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(624)	(455)
Payments of dividends to stockholders	(2,330)	(2,126)
Repayments of borrowings	(4,500)	(4,500)
Other, net	(108)	(95)
Net cash used for financing activities	(20,265)	(35,595)
Effect of exchange rate changes on cash and cash equivalents	(44)	(85)
Net increase (decrease) in cash and cash equivalents	3,315	(6,900)
Cash and cash equivalents at beginning of period	20,514	21,620
Cash and cash equivalents at end of period	\$ 23,829	\$ 14,720
Non-cash investing and financing transactions:		
Fair values of stock awards assumed in connection with acquisitions	\$ —	\$ 8
Change in unsettled repurchases of common stock	\$ 65	\$ 114
Change in unsettled investment sales	\$ —	\$ (168)

See notes to condensed consolidated financial statements.

ORACLE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
February 29, 2020
(Unaudited)

1. BASIS OF PRESENTATION, RECENT ACCOUNTING PRONOUNCEMENTS AND OTHER

Basis of Presentation

We have prepared the condensed consolidated financial statements included herein pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures herein are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

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, 2020.

During the first nine months of fiscal 2020, we adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* and subsequent amendments to the initial guidance: ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, Topic 842). Topic 842 requires companies to generally recognize on the balance sheet, operating and financing lease liabilities and corresponding right-of-use (ROU) assets. We adopted this new standard using the effective date of June 1, 2019 as our initial application date. Consequently, financial information for the comparative periods was not updated. We elected the package of practical expedients permitted under the transition guidance of the new standard, which allows us to carry forward our historical lease classification. The adoption of Topic 842 did not result in a cumulative catch-up adjustment to the opening of the accumulated deficit balance as of June 1, 2019. There was no material impact to our condensed consolidated statements of operations and condensed consolidated statements of cash flows for the nine months ended February 29, 2020 due to the adoption of Topic 842. Except for the updates to our leases accounting policy noted below, there have been no other changes to our significant accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019 that had a significant impact on our condensed consolidated financial statements or notes thereto as of and for the nine months ended February 29, 2020.

Leases

We determine if an arrangement is a lease at its inception. Operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. We generally use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future payments, because the implicit rate of the lease is generally not known. ROU assets related to our operating lease liabilities are measured at lease inception based on the initial measurement of the lease liability, plus any prepaid lease payments and less any lease incentives. Our lease terms that are used in determining our operating lease liabilities at lease inception may include options to extend or terminate the leases when it is reasonably certain that we will exercise such options. We amortize our ROU assets as operating lease expense generally on a straight-line basis over the lease term and classify both the lease amortization and imputed interest as operating expenses. We have lease agreements with lease and non-lease components, and in such cases, we generally account for the components as a single lease component.

We have operating leases that primarily relate to certain of our facilities, data centers and vehicles. As of February 29, 2020, our operating leases substantially have remaining terms of one year to twelve years, some of which include options to extend and/or terminate the leases. We do not recognize lease assets and lease liabilities for any lease with an original lease term of less than one year.

ORACLE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
February 29, 2020
(Unaudited)

At February 29, 2020, ROU assets of \$1.8 billion related to our operating leases are included in other non-current assets; and operating lease liabilities of \$570 million are included in other current liabilities, and \$1.3 billion are included in other non-current liabilities in our condensed consolidated balance sheet. Cash flow movements related to our lease activities are included in prepaid expenses and other assets and accounts payable and other liabilities as presented in net cash provided by operating activities in our condensed consolidated statement of cash flows for the nine months ended February 29, 2020.

For the three and nine months ended February 29, 2020, operating lease expenses totaled \$153 million and \$451 million, respectively, net of sublease income of \$4 million and \$12 million, respectively. Cash paid for amounts included in the measurement of operating lease liabilities was \$467 million for the nine months ended February 29, 2020. We recorded ROU assets of \$2.3 billion in exchange for operating lease obligations during the nine months ended February 29, 2020, which included \$1.9 billion for operating leases existing on June 1, 2019 that were recognized upon our initial adoption of Topic 842 and \$383 million for operating leases that were contracted during the first nine months of fiscal 2020. As of February 29, 2020, the weighted average remaining lease term for operating leases was approximately five years and the weighted average discount rate used for calculating operating lease obligations was 3.2%.

Maturities of operating lease liabilities were as follows as of February 29, 2020 (in millions):

Remainder of fiscal 2020	\$	178
Fiscal 2021		573
Fiscal 2022		455
Fiscal 2023		298
Fiscal 2024		193
Fiscal 2025		140
Thereafter		246
Total operating lease payments		2,083
Less: imputed interest		(179)
Total operating lease liability	\$	<u>1,904</u>

Remaining Performance Obligations from Contracts with Customers

Trade receivables, net of allowance for doubtful accounts, and deferred revenues are reported net of related uncollected deferred revenues in our condensed consolidated balance sheets as of February 29, 2020 and May 31, 2019. The revenues recognized during the nine months ended February 29, 2020 and February 28, 2019, respectively, that were included in the opening deferred revenues balance as of May 31, 2019 and 2018, respectively, were approximately \$7.7 billion during each period. Revenues recognized from performance obligations satisfied in prior periods and impairment losses recognized on our receivables were immaterial in each of the three and nine months ended February 29, 2020 and February 28, 2019.

Remaining performance obligations, as defined in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019, were \$33.8 billion as of February 29, 2020, approximately 60% of which we expect to recognize as revenues over the next twelve months and the remainder thereafter.

ORACLE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
February 29, 2020
(Unaudited)

Sales of Financing Receivables

We offer certain of our customers the option to acquire our software products, hardware products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed for our customers on a non-recourse basis to financial institutions within 90 days of the contracts' dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financing receivables because we are considered to have surrendered control of these financing receivables. Financing receivables sold to financial institutions were \$284 million and \$1.2 billion for the three and nine months ended February 29, 2020, respectively, and \$274 million and \$1.3 billion for the three and nine months ended February 28, 2019, respectively.

Cash, Cash Equivalents and Restricted Cash

Restricted cash that was included within cash and cash equivalents as presented within our condensed consolidated balance sheets as of February 29, 2020 and May 31, 2019 and our condensed consolidated statements of cash flows for the nine months ended February 29, 2020 and February 28, 2019 was nominal.

Acquisition Related and Other Expenses

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

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Transitional and other employee related costs	\$ 2	\$ 13	\$ 9	\$ 39
Business combination adjustments, net	2	(20)	4	(20)
Other, net	3	3	31	10
Total acquisition related and other expenses	<u>\$ 7</u>	<u>\$ (4)</u>	<u>\$ 44</u>	<u>\$ 29</u>

Non-Operating Income, net

Non-operating income, net consists primarily of interest income, net foreign currency exchange losses, the noncontrolling interests in the net profits of our majority-owned subsidiaries (primarily Oracle Financial Services Software Limited and Oracle Corporation Japan), and net other income, including net realized gains and losses related to all of our investments, net unrealized gains and losses related to the small portion of our investment portfolio related to our deferred compensation plan, net unrealized gains and losses related to certain equity securities and non-service net periodic pension income (losses).

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Interest income	\$ 122	\$ 246	\$ 457	\$ 890
Foreign currency losses, net	(47)	(13)	(127)	(68)
Noncontrolling interests in income	(28)	(35)	(115)	(106)
Other loss, net	(43)	—	(20)	(35)
Total non-operating income, net	<u>\$ 4</u>	<u>\$ 198</u>	<u>\$ 195</u>	<u>\$ 681</u>

ORACLE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
February 29, 2020
(Unaudited)

Recent Accounting Pronouncements

Financial Instruments: In January 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)* (ASU 2020-01). ASU 2020-01 clarifies the interaction of the accounting for equity securities under Topic 321, the accounting for equity method investments in Topic 323, and the accounting for certain forward contracts and purchased options in Topic 815. ASU 2020-01 is effective for us beginning in the first quarter of fiscal 2022, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2020-01 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) and also issued subsequent amendments to the initial guidance (collectively, Topic 326). Topic 326 requires measurement and recognition of expected credit losses for financial assets held. We will adopt Topic 326 in our first quarter of fiscal 2021. We are currently evaluating the impact of our pending adoption of Topic 326 on our consolidated financial statements.

Income Taxes: In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12), which is intended to simplify various areas related to the accounting for income taxes and improve consistent application of Topic 740. ASU 2019-12 is effective for us beginning in the first quarter of fiscal 2022, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2019-12 on our consolidated financial statements.

2. ACQUISITIONS**Fiscal 2020 and 2019 Acquisitions**

During the first nine months of fiscal 2020 and full year of fiscal 2019, we acquired certain companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate to our condensed consolidated financial statements.

3. FAIR VALUE MEASUREMENTS

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

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

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

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- 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

(in millions)	February 29, 2020			May 31, 2019		
	Fair Value Measurements			Fair Value Measurements		
	Using Input Types			Using Input Types		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Corporate debt securities and other	\$ —	\$ 2,514	\$ 2,514	\$ 4,899	\$ 17,343	\$ 22,242
Commercial paper debt securities	—	11,840	11,840	—	—	—
Money market funds	—	—	—	5,700	—	5,700
Derivative financial instruments	—	22	22	—	5	5
Total assets	\$ —	\$ 14,376	\$ 14,376	\$ 10,599	\$ 17,348	\$ 27,947
Liabilities:						
Derivative financial instruments	\$ —	\$ 274	\$ 274	\$ —	\$ 230	\$ 230

We classify our marketable securities as available-for-sale debt securities at the time of purchase and reevaluate such classification as of each balance sheet date. Our marketable securities investments consist of Tier 1 commercial paper debt securities, corporate debt securities and certain other securities. Marketable securities as presented per our condensed consolidated balance sheets included securities with original maturities at the time of purchase greater than three months and the remainder of the securities were included in cash and cash equivalents. As of February 29, 2020 and May 31, 2019, approximately 98% and 33%, respectively, of our marketable securities investments mature within one year and 2% and 67%, respectively, mature within one to four years. Our valuation techniques used to measure the fair values of our instruments that were classified as Level 1 in the table above were derived from quoted market prices and active markets for these instruments that exist. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that were corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others.

Based on the trading prices of the \$51.7 billion and \$56.1 billion of senior notes and the related fair value hedges that we had outstanding as of February 29, 2020 and May 31, 2019, respectively, the estimated fair values of the senior notes and the related fair value hedges using Level 2 inputs at February 29, 2020 and May 31, 2019 were \$58.4 billion and \$58.4 billion, respectively.

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4. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2020 and the net book value of intangible assets as of February 29, 2020 and May 31, 2019 were as follows:

(Dollars in millions)	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted Average Useful Life ⁽²⁾
	May 31, 2019	Additions & Adjustments, net ⁽¹⁾	February 29, 2020	May 31, 2019	Expense	February 29, 2020	May 31, 2019	February 29, 2020	
Developed technology	\$ 5,406	\$ 16	\$ 5,422	\$ (3,467)	\$ (615)	\$ (4,082)	\$ 1,939	\$ 1,340	5
Cloud services and license support agreements and related relationships	5,693	12	5,705	(2,711)	(511)	(3,222)	2,982	2,483	4
Other	1,589	2	1,591	(1,231)	(95)	(1,326)	358	265	4
Total intangible assets, net	<u>\$ 12,688</u>	<u>\$ 30</u>	<u>\$ 12,718</u>	<u>\$ (7,409)</u>	<u>\$ (1,221)</u>	<u>\$ (8,630)</u>	<u>\$ 5,279</u>	<u>\$ 4,088</u>	

(1) Amounts also include any net changes in intangible asset balances for the periods presented that resulted from foreign currency translations.

(2) Represents weighted-average useful lives (in years) of intangible assets acquired during fiscal 2020.

As of February 29, 2020, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of fiscal 2020	\$ 366
Fiscal 2021	1,345
Fiscal 2022	1,097
Fiscal 2023	674
Fiscal 2024	445
Fiscal 2025	126
Thereafter	35
Total intangible assets, net	<u>\$ 4,088</u>

The changes in the carrying amounts of goodwill, net, which is generally not deductible for tax purposes, for our operating segments for the nine months ended February 29, 2020 were as follows:

(in millions)	Cloud and License	Hardware	Services	Total Goodwill, net
Balances as of May 31, 2019	\$ 39,633	\$ 2,367	\$ 1,779	\$ 43,779
Goodwill from acquisitions	74	—	—	74
Goodwill adjustments, net ⁽¹⁾	(65)	—	(7)	(72)
Balances as of February 29, 2020	<u>\$ 39,642</u>	<u>\$ 2,367</u>	<u>\$ 1,772</u>	<u>\$ 43,781</u>

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

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5. RESTRUCTURING ACTIVITIES

Fiscal 2019 Oracle Restructuring Plan

During fiscal 2019, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations due to our acquisitions and certain other operational activities (2019 Restructuring Plan). In the third quarter of fiscal 2020 and fourth quarter of fiscal 2019, our management supplemented the 2019 Restructuring Plan to reflect additional actions that we expect to take. The total estimated restructuring costs associated with the 2019 Restructuring Plan are up to \$781 million and will be recorded to the restructuring expense line item within our condensed consolidated statements of operations as they are incurred. We recorded \$186 million of restructuring expenses in connection with the 2019 Restructuring Plan in the first nine months of fiscal 2020 and we expect to incur the majority of the estimated remaining \$119 million through the end of fiscal 2020. Any changes to the estimates or timing of executing the 2019 Restructuring Plan will be reflected in our future results of operations.

Summary of All Plans

	Accrued May 31, 2019(2)	Nine Months Ended February 29, 2020				Accrued February 29, 2020(2)	Total Costs Accrued to Date	Total Expected Program Costs
(in millions)		Initial Costs(3)	Adj. to Cost(4)	Cash Payments	Others(5)			
2019 Restructuring Plan(1)								
Cloud and license	\$ 72	\$ 90	\$ (6)	\$ (107)	\$ (1)	\$ 48	\$ 271	\$ 360
Hardware	18	20	1	(27)	—	12	74	81
Services	15	34	—	(27)	—	22	76	86
Other(6)	108	46	1	(95)	(44)	16	241	254
Total 2019 Restructuring Plan	\$ 213	\$ 190	\$ (4)	\$ (256)	\$ (45)	\$ 98	\$ 662	\$ 781
Total other restructuring plans(7)	\$ 49	\$ —	\$ (5)	\$ (7)	\$ (16)	\$ 21		
Total restructuring plans	\$ 262	\$ 190	\$ (9)	\$ (263)	\$ (61)	\$ 119		

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

(2) The balances at February 29, 2020 and May 31, 2019 included \$118 million and \$239 million, respectively, recorded in other current liabilities, and \$1 million and \$23 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 adjustments and certain other adjustments including those related to our adoption of Topic 842 as of June 1, 2019.

(6) Represents employee related severance costs for functions that are not included within our operating segments and certain other restructuring costs.

(7) 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 periodic impact to our condensed consolidated statements of operations was not significant.

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6. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	February 29, 2020	May 31, 2019
Cloud services and license support	\$ 6,859	\$ 7,340
Hardware	566	635
Services	358	360
Cloud license and on-premise license	31	39
Deferred revenues, current	7,814	8,374
Deferred revenues, non-current (in other non-current liabilities)	603	669
Total deferred revenues	<u>\$ 8,417</u>	<u>\$ 9,043</u>

Deferred cloud services and license support revenues and deferred hardware revenues substantially represent customer payments made in advance for cloud or support contracts that are typically billed in advance with corresponding revenues generally being recognized ratably over the contractual periods. Deferred services revenues include prepayments for our services business and revenues for these services are generally recognized as the services are performed. Deferred cloud license and on-premise license revenues typically resulted from customer payments that related to undelivered products and services or specified enhancements.

In connection with our acquisitions, we have estimated the fair values of the cloud services and license support performance obligations 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 services and license 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. Refer to Note 10 for additional information.

7. DERIVATIVE FINANCIAL INSTRUMENTS

We held the following derivative instruments that were designated and accounted for as hedging instruments pursuant to ASC 815, *Derivatives and Hedging* (ASC 815) as of February 29, 2020 and May 31, 2019:

- interest rate swap agreements, which are used to protect us against changes in the fair values of certain of our fixed-rate borrowings attributable to the movements in benchmark interest rates. We have designated these swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges pursuant to ASC 815;
- cross-currency interest rate swap agreements, which are used to protect us against changes in the fair values of certain of our fixed-rate Euro-denominated borrowings attributable to the movements in benchmark interest rates and foreign currency exchange rates by effectively converting the fixed-rate, Euro-denominated borrowings, including the annual interest payments and the payment of principal at maturity, to variable-rate, U.S. Dollar denominated debt based on LIBOR. We have designated these swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges pursuant to ASC 815; and

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- cross-currency swap agreements, which are used to manage foreign currency exchange risk by converting certain of our fixed-rate Euro-denominated borrowings including periodic interest payments and the payment of principal at maturity to fixed-rate U.S. Dollar denominated debt and are accounted for as cash flow hedges pursuant to ASC 815.

We also held certain foreign currency contracts that were not designated as hedges pursuant to ASC 815. As of February 29, 2020 and May 31, 2019, the notional amounts of such forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$4.0 billion and \$3.8 billion, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$3.5 billion and \$3.3 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal as of February 29, 2020 and May 31, 2019. Net gains or losses related to these forward contracts are included in non-operating income, net.

See Note 10 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019 for additional information regarding the purpose, accounting and classification of our derivative instruments. None of our derivative instruments are used for trading purposes. The effects of derivative instruments designated as hedges on certain of our condensed 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 Instruments Designated as Hedges in Condensed Consolidated Balance Sheets

(in millions)	Balance Sheet Location	Fair Value as of	
		February 29, 2020	May 31, 2019
Derivative assets:			
Interest rate swap agreements designated as fair value hedges	Other non-current assets	\$ 22	\$ 5
Total derivative assets		<u>\$ 22</u>	<u>\$ 5</u>
Derivative liabilities:			
Cross-currency swap agreements designated as cash flow hedges	Other current liabilities	253	—
Interest rate swap agreements designated as fair value hedges	Other current liabilities	\$ —	\$ 5
Cross-currency interest rate swap agreements designated as fair value hedges	Other non-current liabilities	21	17
Cross-currency swap agreements designated as cash flow hedges	Other non-current liabilities	—	208
Total derivative liabilities		<u>\$ 274</u>	<u>\$ 230</u>

Effects of Fair Value Hedging Relationships on Hedged Items in Condensed Consolidated Balance Sheets

(in millions)	February 29, 2020	May 31, 2019
Notes payable, current:		
Carrying amount of hedged item	\$ —	\$ 1,994
Cumulative hedging adjustments included in the carrying amount	—	(5)
Notes payable and other borrowings, non-current:		
Carrying amounts of hedged items	3,670	3,652
Cumulative hedging adjustments included in the carrying amount	61	44

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Effects of Derivative Instruments Designated as Hedges on Income

(in millions)	Three Months Ended			
	February 29, 2020		February 28, 2019	
	Non-operating income, net	Interest expense	Non-operating income, net	Interest expense
Condensed consolidated statements of operations line amounts in which the hedge effects were recorded	\$ 4	\$ (456)	\$ 198	\$ (509)
Gain (loss) on hedges recognized in income:				
Interest rate swaps designated as fair value hedges:				
Derivative instruments	\$ —	\$ 10	\$ —	\$ 43
Hedged items	—	(10)	—	(43)
Cross-currency interest rate swaps designated as fair value hedges:				
Derivative instruments	—	6	7	9
Hedged items	(1)	(6)	(4)	(9)
Cross-currency swap agreements designated as cash flow hedges:				
Amount of gain (loss) reclassified from accumulated OCL	(18)	—	11	—
Total gain (loss) on hedges recognized in income	\$ (19)	\$ —	\$ 14	\$ —

(in millions)	Nine Months Ended			
	February 29, 2020		February 28, 2019	
	Non-operating income, net	Interest expense	Non-operating income, net	Interest expense
Condensed consolidated statements of operations line amounts in which the hedge effects were recorded	\$ 195	\$ (1,416)	\$ 681	\$ (1,557)
Gain (loss) on hedges recognized in income:				
Interest rate swaps designated as fair value hedges:				
Derivative instruments	\$ —	\$ 22	\$ —	\$ 5
Hedged items	—	(22)	—	(5)
Cross-currency interest rate swaps designated as fair value hedges:				
Derivative instruments	(13)	13	(21)	10
Hedged items	11	(13)	22	(10)
Cross-currency swap agreements designated as cash flow hedges:				
Amount of loss reclassified from accumulated OCI or OCL	(36)	—	(26)	—
Total loss on hedges recognized in income	\$ (38)	\$ —	\$ (25)	\$ —

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Gain (Loss) on Derivative Instruments Designated as Hedges included in Other Comprehensive Loss (OCL)

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Cross-currency swap agreements designated as cash flow hedges	\$ (11)	\$ (7)	\$ (45)	\$ (62)

8. STOCKHOLDERS' EQUITY

Common Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 11, 2019 and March 12, 2020, we announced that our Board of Directors approved expansions of our stock repurchase program collectively totaling \$30.0 billion. As of February 29, 2020, approximately \$6.8 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 254.4 million shares for \$14.0 billion during the nine months ended February 29, 2020 (including 2.0 million shares for \$104 million that were repurchased but not settled) and 621.8 million shares for \$30.0 billion during the nine months ended February 28, 2019 under the stock repurchase program.

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

Dividends on Common Stock

In March 2020, our Board of Directors declared a quarterly cash dividend of \$0.24 per share of our outstanding common stock. The dividend is payable on April 23, 2020 to stockholders of record as of the close of business on April 9, 2020. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Fiscal 2020 Stock-Based Awards Activity and Compensation Expense

During the first nine months of fiscal 2020, we issued 45 million restricted stock-based units (RSUs), substantially all of which were issued as a part of our annual stock-based award process and are subject to service-based vesting restrictions. These fiscal 2020 stock-based awards issuances were partially offset by stock-based award forfeitures and cancellations of 14 million shares during the first nine months of fiscal 2020.

The RSUs that were granted during the nine months ended February 29, 2020 have vesting restrictions, valuations and contractual lives of a similar nature to those described in Note 13 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

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

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Cloud services and license support	\$ 22	\$ 26	\$ 83	\$ 74
Hardware	3	2	8	7
Services	14	12	42	37
Sales and marketing	67	89	192	278
Research and development	238	254	781	732
General and administrative	17	44	98	131
Total stock-based compensation	<u>\$ 361</u>	<u>\$ 427</u>	<u>\$ 1,204</u>	<u>\$ 1,259</u>

9. INCOME TAXES

Our effective tax rates for the periods presented are 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 varied from the tax computed at the U.S. federal statutory income tax rate for the periods presented primarily due to earnings in foreign operations, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based compensation, the Foreign Derived Intangible Income deduction and the tax effect of Global Intangible Low-Taxed Income. In fiscal 2018, the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. The more significant provisions of the Tax Act applicable to us are described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019. During the third quarter and first nine months of fiscal 2019, we recorded net benefits of \$236 million and \$389 million, respectively, in accordance with SEC Staff Accounting Bulletin No. 118 related to adjustments in our estimates of the one-time transition tax on certain foreign subsidiary earnings affected by the Tax Act. Our effective tax rates were 16.4% and 16.1%, respectively, for the three and nine months ended February 29, 2020, respectively, and 11.1% and 12.6%, respectively, for the three and nine months ended February 28, 2019, respectively.

Our net deferred tax assets were \$2.8 billion and \$2.4 billion as of February 29, 2020 and May 31, 2019, respectively. We believe that it is more likely than not that the net deferred tax assets will be realized in the foreseeable future. Realization of our net deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences, net operating loss carryforwards and tax credit carryforwards. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

Domestically, U.S. federal and state taxing authorities are currently examining income tax returns of Oracle and various acquired entities for years through fiscal 2017. Our U.S. federal income tax returns have been examined for all years prior to fiscal 2010, and we are no longer subject to audit for those periods. Our U.S. state income tax returns, with some exceptions, have been examined for all years prior to fiscal 2004, and we are no longer subject to audit for those periods.

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

On June 7, 2019, the U.S. Court of Appeals for the Ninth Circuit, reversing a previous decision of the U.S. Tax Court, held that the U.S. Treasury Department's regulations requiring the inclusion of stock-based compensation expense in a taxpayer's cost-sharing calculations were valid. Our condensed consolidated financial statements have been

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prepared consistent with this outcome, but we will continue to monitor any ongoing developments, including the outcome of Altera Corporation's February 10, 2020 petition for Writ of Certiorari to the U.S. Supreme Court, to determine if future changes are required.

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

We believe that we have adequately provided under GAAP for outcomes related to our tax audits. However, there can be no assurances as to the possible outcomes or any related financial statement effect thereof.

10. 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 (CODMs) are our Chief Executive Officer and Chief Technology Officer. We are organized by line of business and geographically. While our CODMs 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. The footnote information below presents the financial information provided to our CODMs for their review and assists our CODMs with evaluating the company's performance and allocating company resources.

We have three businesses—cloud and license, hardware and services—each of which is comprised of a single operating segment. All three of our businesses market and sell our offerings globally to businesses of many sizes, government agencies, educational institutions and resellers with a worldwide sales force positioned to offer the combinations that best meet customer needs.

Our cloud and license business engages in the sale, marketing and delivery of our applications and infrastructure technologies through cloud and on-premise deployment models, including our cloud services and license support offerings, and our cloud license and on-premise license offerings. Cloud services and license support revenues are generated from offerings that are typically contracted with customers directly, billed to customers in advance, delivered to customers over time with our revenue recognition occurring over the contractual terms, and renewed by customers upon completion of the contractual terms. Cloud services and license support contracts provide customers with access to the latest updates to the applications and infrastructure technologies as they become available and for which the customer contracted and also include related technical support services over the contractual term. Cloud license and on-premise license revenues represent fees earned from granting customers licenses, generally on a perpetual basis, to use our database and middleware and our applications software products within cloud and on-premise IT environments. We generally recognize revenues at the point in time the software is made available to the customer to download and use, which typically is immediate upon signature of the license contract. In each fiscal year, our cloud and license business' contractual activities are typically highest in

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our fourth fiscal quarter and the related cash flows are typically highest in the following quarter (i.e., in the first fiscal quarter of the next fiscal year) as we receive payments from these contracts.

Our hardware business provides Oracle Engineered Systems, servers, storage, industry-specific hardware, operating systems, virtualization, management and other hardware-related software to support diverse IT environments. Our hardware business also offers hardware support, which provides customers with software updates for the software components that are essential to the functionality of their hardware products, such as Oracle Solaris and certain other software, and can also include product repairs, maintenance services and technical support services.

Our services business provides services to customers and partners to help maximize the performance of their investments in Oracle applications and infrastructure technologies.

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

The following table presents summary results for each of our three businesses:

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Cloud and license:				
Revenues ⁽¹⁾	\$ 8,162	\$ 7,917	\$ 23,718	\$ 23,259
Cloud services and license support expenses	943	890	2,844	2,668
Sales and marketing expenses	1,816	1,780	5,428	5,357
Margin ⁽²⁾	\$ 5,403	\$ 5,247	\$ 15,446	\$ 15,234
Hardware:				
Revenues	\$ 857	\$ 915	\$ 2,542	\$ 2,711
Hardware products and support expenses	262	331	803	973
Sales and marketing expenses	107	123	338	381
Margin ⁽²⁾	\$ 488	\$ 461	\$ 1,401	\$ 1,357
Services:				
Revenues	\$ 778	\$ 786	\$ 2,372	\$ 2,416
Services expenses	660	662	2,025	2,015
Margin ⁽²⁾	\$ 118	\$ 124	\$ 347	\$ 401
Totals:				
Revenues ⁽¹⁾	\$ 9,797	\$ 9,618	\$ 28,632	\$ 28,386
Expenses	3,788	3,786	11,438	11,394
Margin ⁽²⁾	\$ 6,009	\$ 5,832	\$ 17,194	\$ 16,992

(1) Cloud and license revenues presented for management reporting included revenues related to cloud and license obligations that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our condensed consolidated statements of operations for the periods presented due to business combination accounting requirements. See Note 6 for an explanation of these adjustments and the table below for a reconciliation of our total operating segment revenues to our total consolidated revenues as reported in our condensed consolidated statements of operations.

(2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of research and development, general and administrative and certain other allocable expenses, net. Additionally, the margins reported above do not reflect amortization of intangible assets, acquisition related and other expenses, restructuring expenses, stock-based compensation, interest expense or certain other non-operating income, net.

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

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Total revenues for operating segments	\$ 9,797	\$ 9,618	\$ 28,632	\$ 28,386
Cloud and license revenues ⁽¹⁾	(1)	(4)	(3)	(17)
Total revenues	<u>\$ 9,796</u>	<u>\$ 9,614</u>	<u>\$ 28,629</u>	<u>\$ 28,369</u>
Total margin for operating segments	\$ 6,009	\$ 5,832	\$ 17,194	\$ 16,992
Cloud and license revenues ⁽¹⁾	(1)	(4)	(3)	(17)
Research and development	(1,500)	(1,426)	(4,588)	(4,464)
General and administrative	(288)	(316)	(903)	(935)
Amortization of intangible assets	(400)	(407)	(1,221)	(1,265)
Acquisition related and other	(7)	4	(44)	(29)
Restructuring	(60)	(43)	(181)	(275)
Stock-based compensation for operating segments	(106)	(129)	(325)	(396)
Expense allocations and other, net	(119)	(112)	(341)	(333)
Interest expense	(456)	(509)	(1,416)	(1,557)
Non-operating income, net	4	198	195	681
Income before provision for income taxes	<u>\$ 3,076</u>	<u>\$ 3,088</u>	<u>\$ 8,367</u>	<u>\$ 8,402</u>

(1) Cloud and license revenues presented for management reporting included revenues related to cloud and license obligations that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our condensed consolidated statements of operations for the periods presented due to business combination accounting requirements. See Note 6 for an explanation of these adjustments and this table for a reconciliation of our total operating segment revenues to our total revenues as reported in our condensed consolidated statements of operations.

Disaggregation of Revenues

We have considered information that is regularly reviewed by our CODMs in evaluating financial performance, and disclosures presented outside of our financial statements in our earnings releases and used in investor presentations to disaggregate revenues to depict how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors. The principal category we use to disaggregate revenues is the nature of our products and services as presented in our condensed consolidated statements of operations, the total of which is reconciled to revenues from our reportable segments as per the preceding tables of this footnote.

The following table is a summary of our total revenues by geographic region. The relative proportion of our total revenues between each geographic region as presented in the table below was materially consistent across each of our operating segments' revenues for the periods presented.

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(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Americas	\$ 5,363	\$ 5,266	\$ 15,817	\$ 15,671
EMEA ⁽¹⁾	2,835	2,781	8,083	8,139
Asia Pacific	1,598	1,567	4,729	4,559
Total revenues	<u>\$ 9,796</u>	<u>\$ 9,614</u>	<u>\$ 28,629</u>	<u>\$ 28,369</u>

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

The following table presents our cloud services and license support revenues by applications and infrastructure ecosystems.

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Applications cloud services and license support	\$ 2,809	\$ 2,637	\$ 8,265	\$ 7,838
Infrastructure cloud services and license support	4,121	4,025	12,281	12,070
Total cloud services and license support revenues	<u>\$ 6,930</u>	<u>\$ 6,662</u>	<u>\$ 20,546</u>	<u>\$ 19,908</u>

11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted-average number of common shares outstanding during the period, plus the dilutive effect of outstanding restricted stock-based awards, stock options, and shares issuable under the employee stock purchase plan as applicable pursuant to 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		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Net income	\$ 2,571	\$ 2,745	\$ 7,019	\$ 7,343
Weighted average common shares outstanding	3,190	3,526	3,251	3,716
Dilutive effect of employee stock plans	81	91	86	95
Dilutive weighted average common shares outstanding	<u>3,271</u>	<u>3,617</u>	<u>3,337</u>	<u>3,811</u>
Basic earnings per share	\$ 0.81	\$ 0.78	\$ 2.16	\$ 1.98
Diluted earnings per share	\$ 0.79	\$ 0.76	\$ 2.10	\$ 1.93
Shares subject to anti-dilutive restricted stock-based awards and stock options excluded from calculation ⁽¹⁾	55	67	55	73

(1) These weighted shares relate to anti-dilutive restricted service based stock-based awards and stock options as calculated using the treasury stock method and contingently issuable shares under performance-based stock option (PSO) and performance-based restricted stock unit award (PSU) arrangements. Such shares could be dilutive in the future.

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12. LEGAL PROCEEDINGS

Hewlett-Packard Company Litigation

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

After a bench trial on the meaning of the HP Settlement Agreement, the court found that the HP Settlement Agreement required Oracle to continue to develop certain of its software products for use on HP's Itanium-based servers at no cost to HP. The case proceeded to a jury trial in May 2016. On June 30, 2016, the jury returned a verdict in favor of HP on its claims for breach of contract and breach of the implied covenant of good faith and fair dealing and against Oracle on its cross-claims. The jury awarded HP \$3.0 billion in damages. Under the court's rulings, HP is entitled to post-judgment interest, but not pre-judgment interest, on this award.

After the trial court denied Oracle's motion for a new trial, Oracle filed a notice of appeal on January 17, 2017. On February 2, 2017, HP filed a notice of appeal of the trial court's denial of pre-judgment interest.

Oracle has posted a mandated surety bond with the trial court for the amounts owing. No amounts have been paid or recorded to our results of operations. We continue to believe that we have meritorious defenses against HP's claims, and we intend to present these defenses to the appellate court. Oracle filed its opening brief on March 7, 2019. Briefing on the appeal was completed November 1, 2019, and the appellate court has not scheduled a date for oral argument. We cannot currently estimate a reasonably possible range of loss for this action due to the complexities and uncertainty surrounding the appeal process and the nature of the claims. Litigation is inherently unpredictable, and the outcome of the appeal process related to this action is uncertain. It is possible that the resolution of this action could have a material impact on our future cash flows and results of operations.

Derivative Litigation Concerning Oracle's NetSuite Acquisition

On May 3 and July 18, 2017, two alleged stockholders filed separate derivative lawsuits in the Court of Chancery of the State of Delaware, purportedly on Oracle's behalf. Thereafter, the court consolidated the two derivative cases and designated the July 18, 2017 complaint as the operative complaint. The consolidated lawsuit was brought against all the then-current members and one former member of our Board of Directors, and Oracle as a nominal defendant. Plaintiff alleges that the defendants breached their fiduciary duties by causing Oracle to agree to purchase NetSuite Inc. (NetSuite) at an excessive price. Plaintiff seeks declaratory relief, unspecified monetary damages (including interest), and attorneys' fees and costs. The defendants filed a motion to dismiss, which the court denied on March 19, 2018.

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On May 4, 2018, the Board of Directors established a Special Litigation Committee (the SLC) to investigate the allegations in this derivative action. Three non-employee directors served on the SLC. On August 15, 2019, the SLC filed a letter with the court, stating that the SLC believed that plaintiff should be allowed to proceed with the derivative litigation on behalf of Oracle. After the SLC advised the Board that it had fulfilled its duties and obligations, the Board withdrew the SLC's authority, except that the SLC maintained certain authority to respond to discovery requests in the litigation.

After plaintiff filed its initial complaint, plaintiff filed several amended complaints. Plaintiff filed its most recent amended complaint on February 18, 2020. The complaint asserts claims for breach of fiduciary duty against our Chief Executive Officer, our Chief Technology Officer, the estate of Mark Hurd (our former Chief Executive Officer who passed away on October 18, 2019), and two other members of our Board of Directors. Oracle is named as a nominal defendant. The complaint also asserts an aiding-and-abetting claim against NetSuite's former Chief Executive Officer and NetSuite's former Chief Technology Officer. The two former NetSuite officers moved to dismiss the complaint, and the court held a hearing on that motion on March 11, 2020. The court has not yet ruled on that motion. Our Chief Executive Officer and Chief Technology Officer answered the latest complaint on March 3, 2020, and Oracle filed an answer on the same day. On February 20, 2020, the other defendants filed a motion to dismiss. No hearing has been scheduled for this motion.

While Oracle continues to evaluate these claims, we do not believe this litigation will have a material impact on our financial position or results of operations.

Securities Class Action and Derivative Litigation Concerning Oracle's Cloud Business

On August 10, 2018, a putative class action, brought by an alleged stockholder of Oracle, was filed in the U.S. District Court for the Northern District of California against us, our Chief Technology Officer, our then-two Chief Executive Officers, two other Oracle executives, and one former Oracle executive. As noted above, Mr. Hurd, one of our Chief Executive Officers, passed away on October 18, 2019. On March 8, 2019, plaintiff filed an amended complaint. Plaintiff alleges that the defendants made or are responsible for false and misleading statements regarding Oracle's cloud business. Plaintiff further alleges that the former Oracle executive engaged in insider trading. Plaintiff seeks a ruling that this case may proceed as a class action, and seeks damages, attorneys' fees and costs, and unspecified declaratory/injunctive relief. On April 19, 2019, defendants moved to dismiss plaintiff's amended complaint. On December 17, 2019, the court granted this motion, giving plaintiffs an opportunity to file an amended complaint, which plaintiff filed on February 17, 2020. Defendants plan to file a motion to dismiss, which is scheduled for hearing on September 24, 2020. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

On February 12, 2019, a stockholder derivative lawsuit was filed in the U.S. District Court for the Northern District of California. The derivative suit is brought by two alleged stockholders of Oracle, purportedly on Oracle's behalf, against all members of our Board of Directors, and Oracle as a nominal defendant. Plaintiffs claim that the alleged actions described in the August 10, 2018 class action discussed above caused harm to Oracle, and that Oracle's Board members violated their fiduciary duties of care, loyalty, reasonable inquiry, and good faith by failing to prevent this alleged harm. Plaintiffs also allege that defendants' actions constitute gross mismanagement, waste, and securities fraud. Plaintiffs seek a ruling that this case may proceed as a derivative action, a finding that defendants are liable for breaching their fiduciary duties, an order directing defendants to enact corporate reforms, attorneys' fees and costs, and unspecified equitable relief. On April 26, 2019, the court approved a stay of this action, which will be lifted if the class action discussed above is dismissed, if the motion to dismiss the class action is denied, or if either party voluntarily chooses to lift the stay.

On May 8, 2019, a second derivative action was filed in the U.S. District Court for the Northern District of California. The derivative suit is brought by an alleged stockholder of Oracle, purportedly on Oracle's behalf,

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against our Chief Technology Officer, our then-two Chief Executive Officers, one former Oracle executive, and Oracle as a nominal defendant. Plaintiff claims that the alleged actions described in the August 10, 2018 class action discussed above caused harm to Oracle, and plaintiff raises further allegations of impropriety relating to Oracle's stock buybacks and acquisition of NetSuite. Plaintiff asserts claims for violation of securities laws, violation of fiduciary duties, contribution and indemnification. Plaintiff seeks a ruling that the case may proceed as a derivative action, and seeks damages, declaratory and other equitable relief, attorneys' and expert fees and costs. On June 4, 2019, the court issued an order finding that this case was related to the derivative case above and staying the case under the court's prior stay order. On July 8, 2019, plaintiffs in the two derivative actions filed a consolidated complaint. The actions remain stayed.

While Oracle continues to evaluate these claims, we do not believe this litigation will have a material impact on our financial position or results of operations.

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 businesses and significant trends. This overview is followed by a summary of our critical accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then provide a more detailed analysis of our results of operations and financial condition.

Business Overview

Oracle provides products and services that address enterprise information technology (IT) environments. Our products and services include applications and infrastructure offerings that are delivered worldwide through a variety of flexible and interoperable IT deployment models. These models include on-premise deployments, cloud-based deployments, and hybrid deployments (an approach that combines both on-premise and cloud-based deployment) such as our Oracle Cloud at Customer offering (an instance of Oracle Cloud in a customer's own data center). Accordingly, we offer choice and flexibility to our customers and facilitate the product, service and deployment combinations that best suit our customers' needs. Through our worldwide sales force and Oracle Partner Network, we sell to customers all over the world including businesses of many sizes, government agencies, educational institutions and resellers.

We have three businesses: cloud and license; hardware; and services; each of which comprises a single operating segment. The descriptions set forth below as a part of Management's Discussion and Analysis of Financial Condition and Results of Operations and the information contained within Note 10 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report provide additional information related to our businesses and operating segments and align to how our chief operating decision makers (CODMs), which include our Chief Executive Officer and Chief Technology Officer, view our operating results and allocate resources.

Cloud and License Business

Our cloud and license line of business, which represented 83% of our total revenues on a trailing 4-quarter basis, markets, sells and delivers a broad spectrum of applications and infrastructure technologies through our cloud and license offerings.

Cloud services and license support revenues include:

- license support revenues, which are earned by providing Oracle license support services to customers that have elected to purchase support services in connection with the purchase of Oracle applications and infrastructure software licenses for use in cloud, on-premise and other IT environments. Substantially all license support customers renew their support contracts with us upon expiration in order to continue to benefit from technical support services and the periodic issuance of unspecified updates and enhancements, which current license support customers are entitled to receive. License support contracts are generally priced as a percentage of the net fees paid by the customer to purchase a cloud license and/or on-premise license; are generally billed in advance of the support services being performed; are generally renewed at the customer's option; and are generally recognized as revenues ratably over the contractual period that the support services are provided, which is generally one year; and
- cloud services revenues, which provide customers access to Oracle Cloud applications and infrastructure technologies via cloud-based deployment models that Oracle develops, provides unspecified updates and enhancements for, hosts, manages and supports and that customers access by entering into a subscription agreement with us for a stated period. The majority of our Oracle Cloud Services arrangements are generally billed in advance of the cloud services being performed; have durations of one to three years; are generally renewed at the customer's option; and are generally recognized as revenues ratably over the contractual period of the cloud contract or, in the case of usage model contracts, as the cloud services are consumed over time.

Cloud license and on-premise license revenues include revenues from the licensing of our software products, including Oracle Applications, Oracle Database, Oracle Middleware and Java, among others, which our customers deploy within cloud-based, on-premise and other IT environments. Our cloud license and on-premise license transactions are generally perpetual in nature and are generally recognized up front at the point in time when the software is made available to the customer to download and use. Revenues from usage-based royalty arrangements for distinct cloud licenses and on-premise licenses are recognized at the point in time when the software end user usage occurs. The timing of a few large license transactions can substantially affect our quarterly license revenues due to the point in time nature of revenue recognition for license transactions, which is different than the typical revenue recognition pattern for our cloud services and license support revenues in which revenues are generally recognized ratably over the contractual terms. Cloud license and on-premise license customers have the option to purchase and renew license support contracts, as described above.

Providing choice and flexibility to our customers as to when and how they deploy our applications and infrastructure technologies are important elements of our corporate strategy. In recent periods, customer demand for our applications and infrastructure technologies delivered through our Oracle Cloud Services has increased. To address customer demand and enable customer choice, we have introduced certain programs for customers to pivot their applications and infrastructure licenses and the related license support to the Oracle Cloud for new deployments and to migrate to and expand with the Oracle Cloud for their existing workloads. We expect these trends to continue.

Our cloud and license business' revenue growth is affected by many factors, including the strength of general economic and business conditions; governmental budgetary constraints; the strategy for and competitive position of our offerings; the continued renewal of our cloud services and license support customer contracts by the customer contract base; substantially all customers continuing to purchase license support contracts in connection with their license purchases; the pricing of license support contracts sold in connection with the sales of licenses; the pricing, amounts and volumes of licenses and cloud services sold; and foreign currency rate fluctuations.

On a constant currency basis, we expect that our total cloud and license revenues generally will continue to increase due to:

- expected growth in our cloud services and license support offerings; and
- continued demand for our cloud license and on-premise license offerings.

We believe these factors should contribute to future growth in our cloud and license business' revenues, which should enable us to continue to make investments in research and development to develop and improve our cloud and license products and services.

Our cloud and license business' 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 cloud and license business' revenues over those quarterly periods and because the majority of our costs for this business are generally fixed in the short term. The historical upward trend of our cloud and license business' revenues over the course of the four quarters within a particular fiscal year is primarily due to the addition of new cloud services and license support contracts to the customer contract base that we generally recognize as revenues ratably; the renewal of existing customers' cloud services and license support contracts over the course of each fiscal year that we generally recognize as revenues ratably; and the historical upward trend of our cloud license and on-premise license revenues, which we generally recognize at a point in time upon delivery; in each case over those four quarterly periods.

Hardware Business

Our hardware business, which represented 9% of our total revenues on a trailing 4-quarter basis, provides a broad selection of hardware products and hardware-related software products including Oracle Engineered Systems, servers, storage, industry-specific hardware, operating systems, virtualization, management and other hardware related software, and related hardware support. Each hardware product and its related software, such as an operating system or firmware, are highly interdependent and interrelated and are accounted for as a combined performance obligation. The revenues for this combined performance obligation are generally recognized at the point in time that the hardware product and its related software are delivered to the customer and ownership is transferred to the customer. We expect to make investments in research and development to improve existing

hardware products and services and to develop new hardware products and services. The majority of our hardware products are sold through indirect channels, including independent distributors and value-added resellers. Our hardware support offerings provide customers with unspecified software updates for software components that are essential to the functionality of our hardware products and associated software products such as Oracle Solaris. Our hardware support offerings can also include product repairs, maintenance services and technical support services. Hardware support contracts are entered into and renewed at the option of the customer, are generally priced as a percentage of the net hardware products fees and are generally recognized as revenues ratably as the hardware support services are delivered over the contractual terms.

We generally expect our hardware business to have lower operating margins as a percentage of revenues than our cloud and license 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.

Our quarterly hardware revenues are difficult to predict. Our hardware revenues, cost of hardware and hardware operating margins that we report are affected by many factors, including our ability to timely manufacture or deliver a few large hardware transactions; our strategy for and the position of our hardware products relative to competitor offerings; customer demand for competing offerings, including cloud infrastructure offerings; the strength of general economic and business conditions; governmental budgetary constraints; whether customers decide to purchase hardware support contracts at or in close proximity to the time of hardware product sale; the percentage of our hardware support contract customer base that renews its support contracts and the close association between hardware products, which have a finite life, and customer demand for related hardware support as hardware products age; customer decisions to either maintain or upgrade their existing hardware infrastructure to newly developed technologies that are available; and foreign currency rate fluctuations.

Services Business

Our services business, which represented 8% of our total revenues on a trailing 4-quarter basis, helps customers and partners maximize the performance of their investments in Oracle applications and infrastructure technologies. We believe that our services are differentiated based on our focus on Oracle technologies, extensive experience, broad sets of intellectual property and best practices. Our services offerings include consulting services, advanced customer support services and education services. Our services business has lower margins than our cloud and license and hardware businesses. Our services revenues are affected by many factors including, our strategy for, and the competitive position of, our services; customer demand for our cloud and license and hardware offerings and the associated services for these offerings; general economic conditions; governmental budgetary constraints; personnel reductions in our customers' IT departments; and tighter controls over customer discretionary spending.

Acquisitions

Our selective and active acquisition program is another important element of our corporate strategy. Historically, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies. The pace of our acquisitions has slowed recently, but as compelling opportunities become available, we may acquire companies, products, services and technologies in furtherance of our corporate strategy. Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report provides additional information related to our recent acquisitions.

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

Critical Accounting Policies and Estimates

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

- Revenue Recognition;
- Business Combinations;
- Goodwill and Intangible Assets—Impairment Assessments;
- Accounting for Income Taxes; and
- Legal and Other Contingencies.

During the first nine months of fiscal 2020, 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, 2019 provides a more complete discussion of our critical accounting policies and estimates.

Results of Operations

Impacts of COVID-19 to Oracle's Business

The impacts of the global emergence of Coronavirus disease (COVID-19) on our business are currently unknown. We are conducting business as usual with some modifications to employee travel, employee work locations, and cancellation of certain marketing events, among other modifications. We have observed other companies taking precautionary and preemptive actions to address COVID-19 and companies may take further actions that alter their normal business operations. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, partners, suppliers and stockholders. It is not clear what the potential effects any such alterations or modifications may have on our business, including the effects on our customers and prospects, or on our financial results for our fourth quarter of fiscal 2020, which is historically our largest revenue quarter of our fiscal year, in particular with respect to demand for transactional products such as cloud and on-premise licenses and hardware and certain services that we generally recognize as revenues upon delivery to customers.

Presentation of Operating Segment Results and Other Financial Information

In our results of operations discussion below, we provide an overview of our total consolidated revenues, total consolidated expenses and total consolidated operating margin, all of which are presented on a GAAP basis. We also present a GAAP-based discussion below for substantially all of the other expense items as presented in our condensed consolidated statements of operations that are not directly attributable to our three businesses.

In addition, we discuss below the results of each our three businesses—cloud and license, hardware and services—which are our operating segments as defined pursuant to ASC 280, *Segment Reporting*. The financial reporting for our three businesses that is presented below is presented in a manner that is consistent with that used by our CODMs. Our operating segment presentation below reflects revenues, direct costs and sales and marketing

expenses that correspond to and are directly attributable to each of our three businesses. We also utilize these inputs to calculate and present a segment margin for each business in the discussion below.

Consistent with our internal management reporting processes, the below operating segment presentation is noted to include any revenues adjustments related to cloud services and license support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our condensed consolidated statements of operations for the periods presented due to business combination accounting requirements. Refer to “Supplemental Disclosure Related to Certain Charges” below for additional discussion of these items and Note 10 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for a reconciliation of the summations of our total operating segment revenues as presented in the discussion below to total revenues as presented per our condensed consolidated statements of operations for all periods presented.

In addition, research and development expenses, general and administrative expenses, stock-based compensation expenses, amortization of intangible assets, certain other expense allocations, acquisition related and other expenses, restructuring expenses, interest expense, non-operating income, net and provision for income taxes are not attributed to our three operating segments because our management does not view the performance of our three businesses including such items and/or it is impractical to do so. Refer to “Supplemental Disclosure Related to Certain Charges” below for additional discussion of certain of these items and Note 10 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for a reconciliation of the summations of total segment margin as presented in the discussion below to total income before provision for income taxes as presented per our condensed consolidated statements of operations for all periods presented.

Constant Currency Presentation

Our international operations have provided and are expected to continue to provide a significant portion of each of our businesses’ revenues and expenses. As a result, each businesses’ revenues and expenses and our 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 effects of foreign currency rate fluctuations, we compare the percent change in the results from one period to another period in this Quarterly Report using constant currency disclosure. To present this information, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e., the rates in effect on May 31, 2019, which was the last day of our prior fiscal year) rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on February 29, 2020 and February 28, 2019, our financial statements would reflect reported revenues of \$1.09 million in the first nine months of fiscal 2020 (using 1.09 as the month-end average exchange rate for the period) and \$1.14 million in the first nine months of fiscal 2019 (using 1.14 as the month-end average exchange rate for the period). The constant currency presentation, however, would translate the results for the first nine months of fiscal 2020 and 2019 using the May 31, 2019 exchange rate and indicate, in this example, no change in revenues during either period. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

Total Revenues and Operating Expenses

	Three Months Ended				Nine Months Ended			
(Dollars in millions)	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
Total Revenues by Geography:								
Americas	\$ 5,363	2%	2%	\$ 5,266	\$ 15,817	1%	1%	\$ 15,671
EMEA(1)	2,835	2%	4%	2,781	8,083	-1%	2%	8,139
Asia Pacific	1,598	2%	4%	1,567	4,729	4%	5%	4,559
Total revenues	9,796	2%	3%	9,614	28,629	1%	2%	28,369
Total Operating Expenses	6,268	1%	2%	6,215	19,041	0%	1%	19,091
Total Operating Margin	<u>\$ 3,528</u>	4%	5%	<u>\$ 3,399</u>	<u>\$ 9,588</u>	3%	5%	<u>\$ 9,278</u>
Total Operating Margin %	36%			35%	33%			33%
% Revenues by Geography:								
Americas	55%			55%	55%			55%
EMEA	29%			29%	28%			29%
Asia Pacific	16%			16%	17%			16%
Total Revenues by Business:								
Cloud and license	\$ 8,161	3%	4%	\$ 7,913	\$ 23,715	2%	3%	\$ 23,242
Hardware	857	-6%	-5%	915	2,542	-6%	-5%	2,711
Services	778	-1%	0%	786	2,372	-2%	-1%	2,416
Total revenues	<u>\$ 9,796</u>	2%	3%	<u>\$ 9,614</u>	<u>\$ 28,629</u>	1%	2%	<u>\$ 28,369</u>
% Revenues by Business:								
Cloud and license	83%			82%	83%			82%
Hardware	9%			10%	9%			10%
Services	8%			8%	8%			8%

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

Excluding the effects of currency rate fluctuations, our total revenues increased in the fiscal 2020 periods presented, relative to the corresponding prior year periods, due to growth in our cloud and license business' revenues, which were partially offset by decreases in our hardware revenues. The constant currency increases in our cloud and license revenues during the fiscal 2020 periods presented were attributable to growth in our cloud services and license support revenues as customers purchased our applications and infrastructure technologies via cloud deployment models and license deployment models and renewed their related cloud and license support contracts to continue to gain access to our latest technology and support services. The constant currency decreases in our hardware revenues during the fiscal 2020 periods presented were due to reductions in our hardware products revenues and hardware support revenues primarily due to the emphasis we placed on the marketing and sale of our cloud-based infrastructure technologies, which resulted in reduced sales volumes of certain of our hardware product lines and also impacted the volume of customers that purchased hardware support contracts. In constant currency, the Americas region contributed 41% and 35%, respectively, the EMEA region contributed 39% and 27%, respectively, and the Asia Pacific region contributed 20% and 38%, respectively, to the growth in our total revenues during the third quarter and first nine months of fiscal 2020, respectively.

Excluding the effects of currency rate fluctuations, our total operating expenses increased in the fiscal 2020 periods presented, relative to the corresponding prior year periods, primarily due to higher constant currency cloud services and license support expenses resulting primarily from increased headcount and infrastructure expenses to support the increases in our cloud and license business' revenues; and higher research and development expenses; in each case during the fiscal 2020 periods presented relative to the corresponding prior year periods. These constant currency expense increases were partially offset by certain expense decreases during the fiscal 2020 periods presented, relative to the corresponding prior year periods, primarily lower hardware products costs and a related decrease in hardware sales and marketing costs, both of which aligned to lower hardware revenues; lower general and administrative expenses due primarily to lower stock-based compensation expenses; lower amortization of intangible assets; and during the first nine months of fiscal 2020, lower restructuring expenses.

In constant currency, our total operating margin and operating margin as a percentage of total revenues increased slightly during the fiscal 2020 periods presented due to the constant currency growth in our total revenues, which exceeded our constant currency total operating expense growth during the same periods.

Supplemental Disclosure Related to Certain Charges

To supplement our condensed consolidated financial information, we believe that the following information is helpful to an overall understanding of our past financial performance and prospects for the future.

Our operating results reported pursuant to GAAP included the following business combination accounting adjustments, expenses related to acquisitions, certain other expenses, and certain income items that affected our GAAP net income:

(in millions)	Three Months Ended		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Cloud services and license support deferred revenues ⁽¹⁾	\$ 1	\$ 4	\$ 3	\$ 17
Amortization of intangible assets ⁽²⁾	400	407	1,221	1,265
Acquisition related and other ⁽³⁾⁽⁵⁾	7	(4)	44	29
Restructuring ⁽⁴⁾	60	43	181	275
Stock-based compensation, operating segments ⁽⁵⁾	106	129	325	396
Stock-based compensation, R&D and G&A ⁽⁵⁾	255	298	879	863
Income tax effects ⁽⁶⁾	(240)	(230)	(769)	(733)
Income tax reform ⁽⁷⁾	—	(236)	—	(389)
	<u>\$ 589</u>	<u>\$ 411</u>	<u>\$ 1,884</u>	<u>\$ 1,723</u>

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

(2) Represents the amortization of intangible assets, substantially all of which were acquired in connection with our acquisitions. As of February 29, 2020, estimated future amortization related to intangible assets was as follows (in millions):

Remainder of fiscal 2020	\$ 366
Fiscal 2021	1,345
Fiscal 2022	1,097
Fiscal 2023	674
Fiscal 2024	445
Fiscal 2025	126
Thereafter	35
Total intangible assets, net	<u>\$ 4,088</u>

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

(4) Restructuring expenses during the first nine months of fiscal 2020 and 2019 both primarily related to employee severance in connection with our Fiscal 2019 Oracle Restructuring Plan (2019 Restructuring Plan). Additional information regarding certain of our restructuring plans is provided in management's discussion below under "Restructuring Expenses", in Note 5 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report, and in Note 8 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

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- (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		Nine Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Cloud services and license support	\$ 22	\$ 26	\$ 83	\$ 74
Hardware	3	2	8	7
Services	14	12	42	37
Sales and marketing	67	89	192	278
Stock-based compensation, operating segments	106	129	325	396
Research and development	238	254	781	732
General and administrative	17	44	98	131
Total stock-based compensation	\$ 361	\$ 427	\$ 1,204	\$ 1,259

- (6) For the third quarter and first nine months of fiscal 2020, the applicable jurisdictional tax rates applied to our income before provision for income taxes after adjusting for the effects of items within the table above, such as for stock-based compensation, amortization of intangible assets, restructuring, and certain other acquisition related items, resulted in an effective tax rate of 19.1% and 19.2%, respectively, instead of 16.4% and 16.1%, respectively, as derived per our condensed consolidated statements of operations. For the third quarter and first nine months of fiscal 2019, the applicable jurisdictional tax rates applied to our income before provision for income taxes after adjusting for the effects of items within the table above, such as for stock-based compensation, amortization of intangible assets, restructuring, and certain other acquisition related items, and after excluding the effects of income tax reform (see footnote (7) below), resulted in an effective tax rate of 20.4% and 19.4%, respectively, instead of 11.1% and 12.6%, respectively, which represented our effective tax rates as derived per our condensed consolidated statements of operations.
- (7) The income tax reform adjustment presented in the table above was due to an income tax expense adjustment made pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118) during the third quarter and first nine months of fiscal 2019, related to the enactment of the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act). The more significant provisions of the Tax Act as applicable to us are described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

Cloud and License Business

Our cloud and license business engages in the sale, marketing and delivery of our applications and infrastructure technologies through various deployment models, including license support offerings; Oracle Cloud Services offerings; and cloud license and on-premise license offerings. License support revenues are typically generated through the sale of license support contracts related to cloud licenses and on-premise licenses, are purchased by our customers at their option and are generally recognized as revenues ratably over the contractual term, which is generally one year. Our cloud services deliver applications and infrastructure technologies on a subscription basis via cloud-based deployment models that we develop, provide unspecified updates and enhancements for, host, manage and support, and revenues are generally recognized over the contractual term, which is generally one to three years, or in the case of usage model contracts, as the cloud services are consumed. Cloud license and on-premise license revenues represent fees earned from granting customers licenses, generally on a perpetual basis, to use our database and middleware and our applications software products within cloud and on-premise IT environments and are generally recognized up front at the point in time when the software is made available to the customer to download and use. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market certain of our offerings through indirect channels. Costs associated with our cloud and license business are included in cloud services and license support expenses, and sales and marketing expenses. These costs are largely personnel and infrastructure related including the cost of providing our cloud services and license support offerings, salaries and commissions earned by our sales force for the sale of our cloud and license offerings, and marketing program costs.

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(Dollars in millions)	Three Months Ended			Nine Months Ended				
	February 29,	Percent Change		February 28,	February 29,	Percent Change		February 28,
	2020	Actual	Constant	2019	2020	Actual	Constant	2019
Cloud and License Revenues:								
Americas(1)	\$ 4,569	3%	3%	\$ 4,444	\$ 13,396	2%	2%	\$ 13,133
EMEA(1)	2,320	3%	5%	2,257	6,591	0%	3%	6,582
Asia Pacific(1)	1,273	5%	7%	1,216	3,731	5%	6%	3,544
Total revenues(1)	8,162	3%	4%	7,917	23,718	2%	3%	23,259
Expenses:								
Cloud services and license support(2)	943	6%	7%	890	2,844	7%	8%	2,668
Sales and marketing(2)	1,816	2%	3%	1,780	5,428	1%	3%	5,357
Total expenses(2)	2,759	3%	5%	2,670	8,272	3%	4%	8,025
Total Margin	\$ 5,403	3%	4%	\$ 5,247	\$ 15,446	1%	2%	\$ 15,234
Total Margin %	66%			66%	65%			65%
% Revenues by Geography:								
Americas	56%			56%	56%			57%
EMEA	28%			29%	28%			28%
Asia Pacific	16%			15%	16%			15%
Revenues by Offerings:								
Cloud services and license support(1)	\$ 6,931	4%	5%	\$ 6,666	\$ 20,549	3%	4%	\$ 19,925
Cloud license and on-premise license	1,231	-2%	0%	1,251	3,169	-5%	-4%	3,334
Total revenues(1)	\$ 8,162	3%	4%	\$ 7,917	\$ 23,718	2%	3%	\$ 23,259
Cloud Services and License Support Revenues by Ecosystem:								
Applications cloud services and license support(1)	\$ 2,809	6%	7%	\$ 2,640	\$ 8,268	5%	6%	\$ 7,854
Infrastructure cloud services and license support(1)	4,122	2%	4%	4,026	12,281	2%	3%	12,071
Total cloud services and license support revenues(1)	\$ 6,931	4%	5%	\$ 6,666	\$ 20,549	3%	4%	\$ 19,925

(1) Includes cloud services and license support revenue adjustments related to certain cloud services and license support contracts that would have otherwise been recorded as revenues by the acquired businesses as independent entities but were not recognized in our GAAP-based condensed consolidated statements of operations for the periods presented due to business combination accounting requirements. Such revenue adjustments were included in our operating segment results for purposes of reporting to and review by our CODMs. See "Presentation of Operating Segment Results and Other Financial Information" above for additional information.

(2) Excludes stock-based compensation and certain allocations. Also excludes amortization of intangible assets and certain other GAAP-based expenses, which were not allocated to our operating segment results for purposes of reporting to and review by our CODMs, as further described under "Presentation of Operating Segment Results and Other Financial Information" above.

Excluding the effects of currency rate fluctuations, total revenues from our cloud and license business increased in the fiscal 2020 periods presented, relative to the corresponding prior year periods, due to growth in our cloud services and license support revenues, which was primarily due to increased customer purchases of and renewals of applications and infrastructure cloud-based services and license support contracts in recent periods for which we delivered such services during the fiscal 2020 periods presented. In constant currency, the Americas region contributed 43% and 43%, respectively, the EMEA region contributed 33% and 25%, respectively, and the Asia Pacific region contributed 24% and 32%, respectively, to the revenue growth for this business during the third quarter and the first nine months of fiscal 2020, respectively.

In constant currency, total cloud and license expenses increased in the fiscal 2020 periods presented, relative to the corresponding prior year periods, due to higher sales and marketing expenses and higher cloud services and license support expenses, each of which increased primarily due to higher employee related expenses from higher headcount and due to higher technology infrastructure expenses. Excluding the effects of currency rate fluctuations, our cloud and license business' total margins increased during the fiscal 2020 periods presented,

relative to the corresponding prior year periods, primarily due to the fiscal 2020 increases in revenues for this business, while total fiscal 2020 margins as a percentage of revenues remained flat in constant currency.

Hardware Business

Our hardware business' revenues are generated from the sales of our Oracle Engineered Systems, servers, storage, and industry-specific hardware. The hardware product and related software, such as an operating system or firmware, are highly interdependent and interrelated and are accounted for as a combined performance obligation. The revenues for this combined performance obligation are generally recognized at the point in time that the hardware product is delivered to the customer and ownership is transferred to the customer. Our hardware business also earns revenues from the sale of hardware support contracts purchased by our customers at their option and are generally recognized as revenues ratably as the hardware support services are delivered over the contractual term, which is generally one year. The majority of our hardware products are sold through indirect channels such as independent distributors and value-added resellers and we also market and sell our hardware products through our direct sales force. Operating expenses associated with our hardware business include the cost of hardware 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; the cost of materials used to repair customer products; the cost of labor and infrastructure to provide support services; and sales and marketing expenses, which are largely personnel related and include variable compensation earned by our sales force for the sales of our hardware offerings.

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29,	Percent Change		February 28,	February 29,	Percent Change		February 28,
	2020	Actual	Constant	2019	2020	Actual	Constant	2019
Hardware Revenues:								
Americas	\$ 425	-6%	-6%	\$ 452	\$ 1,275	-8%	-7%	\$ 1,379
EMEA	265	-5%	-2%	278	749	-6%	-3%	796
Asia Pacific	167	-10%	-8%	185	518	-3%	-2%	536
Total revenues	857	-6%	-5%	915	2,542	-6%	-5%	2,711
Expenses:								
Hardware products and support ⁽¹⁾	262	-21%	-20%	331	803	-17%	-16%	973
Sales and marketing ⁽¹⁾	107	-13%	-12%	123	338	-11%	-10%	381
Total expenses ⁽¹⁾	369	-19%	-17%	454	1,141	-16%	-14%	1,354
Total Margin	<u>\$ 488</u>	6%	7%	<u>\$ 461</u>	<u>\$ 1,401</u>	3%	4%	<u>\$ 1,357</u>
Total Margin %	57%			50%	55%			50%
% Revenues by Geography:								
Americas	50%			50%	50%			51%
EMEA	31%			30%	30%			29%
Asia Pacific	19%			20%	20%			20%

(1) Excludes stock-based compensation and certain allocations. Also excludes amortization of intangible assets and certain other GAAP-based expenses, which were not allocated to our operating segment results for purposes of reporting to and review by our CODMs, as further described under "Presentation of Operating Segments and Other Financial Information" above.

Excluding the effects of currency rate fluctuations, total hardware revenues decreased in the fiscal 2020 periods presented, relative to the corresponding prior year periods, due to lower hardware products revenues and lower hardware support revenues. The decreases in hardware products and hardware support revenues in the fiscal 2020 periods presented, relative to the corresponding fiscal 2019 periods presented, were primarily attributable to our continued emphasis on the marketing and sale of our cloud-based infrastructure technologies, which resulted in reduced sales volumes of certain of our hardware product lines and also impacted the volume of hardware support contracts sold in recent periods. These fiscal 2020 hardware revenue decreases were partially offset by increased hardware revenues related to certain of our strategic hardware offerings, namely our Oracle Exadata offerings.

Excluding the effects of currency rate fluctuations, total hardware expenses decreased in the fiscal 2020 periods presented, relative to the corresponding prior year periods, primarily due to lower hardware products expenses, lower hardware support costs, and lower sales and marketing expenses, all of which aligned to lower hardware revenues.

In constant currency, total margin and total margin as a percentage of revenues for our hardware business increased during the fiscal 2020 periods presented, relative to the corresponding prior year periods, primarily due to lower hardware expenses.

Services Business

We offer services to customers and partners to help to maximize the performance of their investments in Oracle applications and infrastructure technologies. Services revenues are generally recognized over time as the services are performed. 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				Nine Months Ended			
	February 29,	Percent Change		February 28,	February 29,	Percent Change		February 28,
	2020	Actual	Constant	2019	2020	Actual	Constant	2019
Services Revenues:								
Americas	\$ 370	-1%	0%	\$ 374	\$ 1,150	-2%	-2%	\$ 1,177
EMEA	249	1%	4%	245	743	-2%	0%	760
Asia Pacific	159	-5%	-4%	167	479	0%	1%	479
Total revenues	778	-1%	0%	786	2,372	-2%	-1%	2,416
Total Expenses⁽¹⁾	660	0%	1%	662	2,025	1%	2%	2,015
Total Margin	\$ 118	-5%	-4%	\$ 124	\$ 347	-14%	-13%	\$ 401
Total Margin %	15%			16%	15%			17%
% Revenues by Geography:								
Americas	48%			48%	49%			49%
EMEA	32%			31%	31%			31%
Asia Pacific	20%			21%	20%			20%

(1) Excludes stock-based compensation and certain allocations. Also excludes certain other GAAP-based expenses, which were not allocated to our operating segment results for purposes of reporting to and review by our CODMs, as further described under "Presentation of Operating Segments and Other Financial Information" above.

Fiscal Third Quarter 2020 Compared to Fiscal Third Quarter 2019: Excluding the effects of currency rate fluctuations, our total services revenues were flat during the third quarter of fiscal 2020. In constant currency, our consulting revenues and advanced customer support revenues increased modestly during the third quarter of fiscal 2020 and were offset by a decline in our education services revenues. A constant currency increase in services revenues in the EMEA region was partially offset by a constant currency decrease in services revenues in the Asia Pacific region during the third quarter of fiscal 2020, while the Americas was flat.

In constant currency, total services expenses increased slightly during the third quarter of fiscal 2020, relative to the corresponding prior year period, primarily due to an increase in employee related expenses associated with our consulting offerings, which were partially offset by a decline in our education services expenses. In constant currency, total margin and total margin as a percentage of total services revenues decreased during the third quarter of fiscal 2020, relative to the corresponding prior year period, due to increased expenses for this business.

First Nine Months Fiscal 2020 Compared to First Nine Months Fiscal 2019: Excluding the effects of currency rate fluctuations, our total services revenues decreased slightly during the first nine months of fiscal 2020 primarily due to a decrease in our education services revenues, partially offset by increases in consulting revenues and advanced customer support revenues. Constant currency decreases in services revenues in the Americas region were partially offset by constant currency increases in services revenues in the Asia Pacific region during the first nine months of fiscal 2020, while the EMEA region was flat.

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In constant currency, total services expenses increased, total margin decreased, and total margin as a percentage of revenues decreased during the first nine months of fiscal 2020, relative to the corresponding prior year period, primarily due to similar reasons as noted above.

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				Nine Months Ended			
	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
Research and development ⁽¹⁾	\$ 1,262	8%	8%	\$ 1,172	\$ 3,807	2%	2%	\$ 3,732
Stock-based compensation	238	-6%	-6%	254	781	7%	7%	732
Total expenses	<u>\$ 1,500</u>	<u>5%</u>	<u>5%</u>	<u>\$ 1,426</u>	<u>\$ 4,588</u>	<u>3%</u>	<u>3%</u>	<u>\$ 4,464</u>
% of Total Revenues	15%			15%	16%			16%

(1) Excluding stock-based compensation

On a constant currency basis, total research and development expenses increased during the fiscal 2020 periods presented, relative to the corresponding prior year periods, primarily due to higher employee related expenses, primarily higher variable compensation expenses, and increased infrastructure related expenses during each of the fiscal 2020 periods presented.

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

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
General and administrative ⁽¹⁾	\$ 271	0%	0%	\$ 272	\$ 805	0%	1%	\$ 804
Stock-based compensation	17	-62%	-62%	44	98	-25%	-25%	131
Total expenses	<u>\$ 288</u>	<u>-9%</u>	<u>-8%</u>	<u>\$ 316</u>	<u>\$ 903</u>	<u>-3%</u>	<u>-3%</u>	<u>\$ 935</u>
% of Total Revenues	3%			3%	3%			3%

(1) Excluding stock-based compensation

On a constant currency basis, total general and administrative expenses decreased during the fiscal 2020 periods presented, relative to the corresponding prior year periods, primarily due to lower stock-based compensation expenses, and lower professional fees in each of the fiscal 2020 periods presented. These decreases were partially offset by higher employee related expenses during the fiscal 2020 periods presented. In addition, during the first nine months of fiscal 2019, we recorded a \$29 million litigation related benefit that decreased our expenses during that period.

Amortization of Intangible Assets: Substantially all of our intangible assets were 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. Note 4 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report has additional information regarding our intangible assets and related amortization.

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
Developed technology	\$ 200	-8%	-8%	\$ 216	\$ 615	-4%	-4%	\$ 640
Cloud services and license support agreements and related relationships	169	4%	4%	163	511	-5%	-5%	539
Other	31	14%	14%	28	95	12%	12%	86
Total amortization of intangible assets	<u>\$ 400</u>	<u>-2%</u>	<u>-2%</u>	<u>\$ 407</u>	<u>\$ 1,221</u>	<u>-3%</u>	<u>-3%</u>	<u>\$ 1,265</u>

Amortization of intangible assets decreased during the fiscal 2020 periods presented, relative to the corresponding prior year periods, due to a reduction in expenses associated with certain of our intangible assets that became fully amortized, partially offset by additional amortization from intangible assets that we acquired in connection with our recent acquisitions.

Acquisition Related and Other Expenses: Acquisition related and other expenses primarily consist of personnel related costs for transitional and certain other employees, integration related professional services, certain business combination adjustments including adjustments after the measurement period has ended and certain other operating items, net.

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
Transitional and other employee related costs	\$ 2	-87%	-87%	\$ 13	\$ 9	-77%	-77%	\$ 39
Business combination adjustments, net	2	112%	112%	(20)	4	119%	119%	(20)
Other, net	3	-16%	-17%	3	31	224%	223%	10
Total acquisition related and other expenses	<u>\$ 7</u>	<u>297%</u>	<u>295%</u>	<u>\$ (4)</u>	<u>\$ 44</u>	<u>54%</u>	<u>55%</u>	<u>\$ 29</u>

On a constant currency basis, acquisition related and other expenses increased during the fiscal 2020 periods presented, relative to the corresponding prior year periods, due to higher other expenses, net, which was primarily attributable to higher asset impairment costs related to certain right of use assets and other assets that were abandoned in connection with plans to improve our cost structure and operations prospectively. In addition, during the fiscal 2019 periods presented, we recorded certain business combination related adjustments that benefited our expenses during those periods. These unfavorable impacts to our expenses in the fiscal 2020 periods presented were partially offset by lower transitional employee related costs during the fiscal 2020 periods presented relative to the corresponding prior year periods.

Restructuring Expenses: Restructuring expenses resulted 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 other contract termination costs to improve our cost structure prospectively. Prior to fiscal 2020, restructuring expenses also included charges for duplicate facilities. For additional information regarding our restructuring plans, see Note 5 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report and Note 8 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
Restructuring expenses	<u>\$ 60</u>	<u>42%</u>	<u>47%</u>	<u>\$ 43</u>	<u>\$ 181</u>	<u>-34%</u>	<u>-33%</u>	<u>\$ 275</u>

Restructuring expenses in the fiscal 2020 and 2019 periods presented primarily related to our 2019 Restructuring Plan. Our management approved, committed to and initiated the 2019 Restructuring Plan in order to restructure and further improve efficiencies in our operations. The total estimated restructuring costs associated with the 2019 Restructuring Plan are up to \$781 million, of which approximately \$119 million were remaining as of February 29, 2020, and will be recorded to the restructuring expense line item within our condensed consolidated statements of operations as they are incurred through an expected end date of fiscal 2020. Our estimated costs and timing are subject to change in future periods.

The majority of the initiatives undertaken by our 2019 Restructuring Plan were effected to implement our continued emphasis in developing, marketing and selling our cloud-based offerings. These initiatives impacted certain of our cloud services and license support, sales and marketing, services and research and development operations. Cost savings that are expected to be realized pursuant to our 2019 Restructuring Plan initiatives are expected to be partially offset by investments in resources and geographies that best address the development, marketing, sale and support of our cloud-based offerings including investments in our second-generation cloud infrastructure.

Interest Expense:

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
Interest expense	\$ 456	-10%	-10%	\$ 509	\$ 1,416	-9%	-9%	\$ 1,557

Interest expense decreased due to lower average borrowings during the fiscal 2020 periods presented, relative to the corresponding prior year periods, primarily due to the maturities and repayments of \$4.5 billion of senior notes during the first nine months of fiscal 2020 and \$2.0 billion of senior notes during fiscal 2019.

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 Corporation Japan) and net other income (losses), including net realized gains and losses related to all of our investments, net unrealized gains and losses related to the small portion of our investment portfolio related to our deferred compensation plan, net unrealized gains and losses related to certain equity securities and non-service net periodic pension income (losses).

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
Interest income	\$ 122	-50%	-50%	\$ 246	\$ 457	-49%	-49%	\$ 890
Foreign currency losses, net	(47)	264%	300%	(13)	(127)	86%	93%	(68)
Noncontrolling interests in income	(28)	-19%	-19%	(35)	(115)	8%	8%	(106)
Other loss, net	(43)	*	*	—	(20)	-44%	-43%	(35)
Total non-operating income, net	\$ 4	-98%	-99%	\$ 198	\$ 195	-71%	-72%	\$ 681

* Not meaningful

On a constant currency basis, our non-operating income, net decreased during the fiscal 2020 periods presented, relative to the corresponding prior year periods, primarily due to lower interest income in the fiscal 2020 periods presented, which was primarily attributable to lower average cash, cash equivalent and marketable securities balances and, to a lesser extent, lower interest rates on these balances during the fiscal 2020 periods presented, and due to higher foreign currency losses in the fiscal 2020 periods presented.

Provision for Income Taxes: Our effective tax rates for each of the periods presented were 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 varied from the tax computed at the U.S. federal statutory income tax rate for the periods presented primarily due to earnings in foreign operations, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based compensation, the Foreign Derived Intangible Income deduction and the tax effect of Global Intangible Low-Taxed Income. Our effective tax rate in the first nine months of fiscal 2019 was also affected by an adjustment made pursuant to SAB 118 related to the enactment of

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the Tax Act, for which the more significant provisions of the Tax Act as applicable to us are described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019. Future effective tax rates could be adversely affected by an unfavorable shift of earnings weighted to jurisdictions with higher tax rates, by unfavorable changes in tax laws and regulations, by adverse rulings in tax related litigation, or by shortfalls in stock-based compensation realized by employees relative to stock-based compensation that was recorded for book purposes, among others.

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2020	Percent Change		February 28, 2019	February 29, 2020	Percent Change		February 28, 2019
		Actual	Constant			Actual	Constant	
Provision for income taxes	\$ 505	47%	47%	\$ 343	\$ 1,348	27%	27%	\$ 1,059
Effective tax rate	16.4%			11.1%	16.1%			12.6%

Fiscal Third Quarter 2020 Compared to Fiscal Third Quarter 2019: Provision for income taxes increased in the third quarter of fiscal 2020, relative to the corresponding prior year period, primarily due to the absence of the net favorable impact of a change in estimate related to our adoption of the Tax Act, as recorded pursuant to SAB 118, in the third quarter of fiscal 2019. This unfavorable variance to our provision for income taxes was partially offset by a favorable jurisdictional mix of our earnings during the third quarter of fiscal 2020.

First Nine Months Fiscal 2020 Compared to First Nine Months Fiscal 2019: Provision for income taxes increased in the first nine months of fiscal 2020, relative to the corresponding prior year period, primarily due to the absence of the net favorable impact of a change in estimate related to our adoption of the Tax Act, as recorded pursuant to SAB 118, in the first nine months of fiscal 2019. This unfavorable variance to our provision for income taxes was partially offset by higher excess tax benefits recognized on stock-based compensation expense and a favorable jurisdictional mix of our earnings during the first nine months of fiscal 2020.

Liquidity and Capital Resources

(Dollars in millions)	February 29, 2020	Change	May 31, 2019
Working capital	\$ 17,702	-36%	\$ 27,756
Cash, cash equivalents and marketable securities	\$ 25,858	-32%	\$ 37,827

Working capital: The decrease in working capital as of February 29, 2020 in comparison to May 31, 2019 was primarily due to cash used for repurchases of our common stock, the reclassification of \$1.0 billion and €1.25 billion of long-term senior notes as current liabilities, cash used to pay dividends to our stockholders during the first nine months of fiscal 2020, and the prospective recognition of current operating lease liabilities associated with our adoption of Topic 842 as of June 1, 2019. These unfavorable impacts were partially offset by the favorable effects to our net current assets resulting from our net income during the first nine months of fiscal 2020 and, to a lesser extent, proceeds from stock option exercises. 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 consist of corporate debt securities and certain other securities. The decrease in cash, cash equivalents and marketable securities at February 29, 2020 in comparison to May 31, 2019 was primarily due to \$13.9 billion of repurchases of our common stock, the repayments of \$4.5 billion of borrowings, payments of cash dividends to our stockholders and cash used for capital expenditures. These cash outflows during the first nine months of fiscal 2020 were partially offset by certain cash inflows, primarily cash inflows generated by our operations and cash inflows from stock option exercises during the first nine months of fiscal 2020.

The amount of cash, cash equivalents and marketable securities that we report in U.S. Dollars for a significant portion of the cash, cash equivalents and marketable securities balances 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 condensed consolidated balance sheets and is also presented as a line item in our condensed consolidated statements of comprehensive income included elsewhere in this Quarterly Report). As the U.S. Dollar generally strengthened against certain major international currencies on a net basis during the first nine months of fiscal

2020, the amount of cash, cash equivalents and marketable securities that we reported in U.S. Dollars for these subsidiaries decreased on a net basis as of February 29, 2020 relative to what we would have reported using constant currency rates from the May 31, 2019 balance sheet date.

(Dollars in millions)	Nine Months Ended		
	February 29, 2020	Change	February 28, 2019
Net cash provided by operating activities	\$ 9,525	-6%	\$ 10,129
Net cash provided by investing activities	\$ 14,099	-24%	\$ 18,651
Net cash used for financing activities	\$ (20,265)	-43%	\$ (35,595)

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 license 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 licenses, cloud services, hardware offerings and other 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 products, taxes, interest payments and leased facilities.

Net cash provided by operating activities decreased in the first nine months of fiscal 2020, relative to the corresponding prior year period, due primarily to lower net income and certain cash unfavorable changes in working capital balances during the first nine months of fiscal 2020, in each case relative to the corresponding prior year period.

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

Net cash provided by investing activities decreased during the first nine months of fiscal 2020, primarily due to a decrease in total proceeds from the sales and maturities of marketable securities and other investments during the first nine months of fiscal 2020, relative to the corresponding prior year period. This cash unfavorable variance to our investing activities during the first nine months of fiscal 2020 was partially offset by a decrease in the purchases of marketable securities and other investments during the first nine months of fiscal 2020 relative to the corresponding prior year period.

Cash flows from financing activities: The changes in cash flows from financing activities primarily relate to borrowings and repayments related to our debt instruments, stock repurchases, dividend payments and net proceeds related to employee stock programs.

Net cash used for financing activities in the first nine months of fiscal 2020 decreased compared to the first nine months of fiscal 2019 primarily due to decreased stock repurchases as we used cash to repurchase \$13.9 billion of common stock in the first nine months of fiscal 2020 compared to \$29.9 billion in the first nine months of fiscal 2019.

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

(Dollars in millions)	Trailing 4-Quarters Ended		
	February 29, 2020	Change	February 28, 2019
Net cash provided by operating activities	\$ 13,947	-6%	\$ 14,789
Capital expenditures	(1,544)	-5%	(1,625)
Free cash flow	\$ 12,403	-6%	\$ 13,164
Net income	\$ 10,759		\$ 10,619
Free cash flow as percent of net income	115%		124%

Long-Term Customer Financing: We offer certain of our customers the option to acquire licenses, cloud services, hardware and other 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 generally 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. We financed \$548 million and \$451 million, respectively, or approximately 17% and 14%, respectively, of our cloud license and on-premise license revenues in the first nine months of fiscal 2020 and 2019, respectively.

Contractual Obligations: During the first nine months of fiscal 2020, 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, 2019.

We believe that our current cash, cash equivalents and marketable securities and cash generated from operations will be sufficient to meet our working capital, capital expenditures and contractual obligation requirements. In addition, we believe that we could fund our 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.

Restricted Stock-Based Awards and Stock Options

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 restricted stock-based awards and stock options dilute existing stockholders and have sought to control the number of stock-based awards granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution since June 1, 2016 has been a weighted-average annualized rate of 1.4% per year. The potential dilution percentage is calculated as the average annualized new restricted stock-based awards and stock options granted and assumed, net of restricted stock-based awards and stock options 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 restricted stock-based awards vest and all stock options are exercised. Of the outstanding stock options at February 29, 2020, which generally have a ten-year exercise period, approximately 31% have exercise prices higher than the market price of our common stock on such date. In recent years, our stock repurchase program has more than offset the dilutive effect of our stock-based compensation program. However, we may modify the levels of our stock repurchases in the

future depending on a number of factors, including the amount of cash we have available for acquisitions, to pay dividends, to repay or repurchase indebtedness or for other purposes. At February 29, 2020, the maximum potential dilution from all outstanding restricted stock-based awards and unexercised stock options, regardless of when granted and regardless of whether vested or unvested, was 9.0%.

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

There were no significant changes to our quantitative and qualitative disclosures about market risk during the first nine months of fiscal 2020. 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, 2019 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 and Financial Officer), as of the end of the period covered by this Quarterly Report, our Principal Executive and Financial Officer has 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 and 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 and 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The material set forth in Note 9 (pertaining to information regarding contingencies related to our income taxes) and Note 12 (pertaining to information regarding legal contingencies) 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, 2019. 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 11, 2019, and March 12, 2020, we announced that our Board of Directors approved expansions of our stock repurchase program collectively totaling \$30.0 billion. As of February 29, 2020, approximately \$6.8 billion remained available for stock repurchases pursuant to our stock repurchase program.

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

The following table summarizes the stock repurchase activity for the three months ended February 29, 2020 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

(in millions, except per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
December 1, 2019—December 31, 2019	18.2	\$ 54.88	18.2	\$ 9,848.4
January 1, 2020—January 31, 2020	27.6	\$ 54.32	27.6	\$ 8,348.4
February 1, 2020—February 29, 2020	27.6	\$ 54.31	27.6	\$ 6,848.4
Total	73.4	\$ 54.46	73.4	

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Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference				
		Form	File No.	Exhibit	Filing Date	Filed By
31.01‡	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive and Financial Officer					
32.01†	Section 1350 Certification of Principal Executive and Financial Officer					
101‡	Interactive Data Files Pursuant to Rule 405 of Regulation S-T, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets as of February 29, 2020 and May 31, 2019, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended February 29, 2020 and February 28, 2019, (iii) Condensed Consolidated Statements of Equity for the three and nine months ended February 29, 2020 and February 28, 2019, (iv) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended February 29, 2020 and February 28, 2019, (v) Condensed Consolidated Statements of Cash Flows for the nine months ended February 29, 2020 and February 28, 2019 and (vi) Notes to Condensed Consolidated Financial Statements					
104‡	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2020, formatted in Inline XBRL					

‡ Filed herewith.

† Furnished herewith.

SIGNATURES

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

ORACLE CORPORATION

Date: March 13, 2020

By: /s/ SAFRA A. CATZ

Safra A. Catz

Chief Executive Officer and Director

(Principal Executive and Financial Officer)

Date: March 13, 2020

By: /s/ WILLIAM COREY WEST

William Corey West

Executive Vice President, Corporate Controller
and Chief Accounting 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. I am 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. 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: March 13, 2020

By: /s/ SAFRA A. CATZ

Safra A. Catz

Chief Executive Officer and Director

(Principal Executive and Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE AND 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 (Principal Executive and Financial Officer) of Oracle Corporation, certifies that, to the best of 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: March 13, 2020

By: /s/ SAFRA A. CATZ

Safra A. Catz

Chief Executive Officer and Director

(Principal Executive and Financial Officer)

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of Oracle Corporation, regardless of any general incorporation language in such filing.