ORACLE CORP
Form 10-Q
March 18, 2019
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2019

or

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

For the transition period from ____________ to ____________

Commission File Number: 001-35992

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	54-2185193 (I.R.S. Employer Identification No.)
500 Oracle Parkway	
Redwood City, California (Address of principal executive offices)	94065 (Zip Code)

(650) 506-7000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 13, 2019 was: 3,417,654,000.

ORACLE CORPORATION

FORM 10-Q QUARTERLY REPORT

TABLE OF CONTENTS

Table of Contents

Cautionary Note on Forward-Looking Statements

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

- our expectation that we will continue to acquire companies, products, services and technologies to further our corporate strategy;
- our belief that our acquisitions enhance the products and services that we can offer to customers, expand our customer base, provide greater scale to accelerate innovation, grow our revenues and earnings, and increase stockholder value;
- 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, continued demand for our cloud license and on-premise license offerings, and contributions from acquisitions;
- our belief that our Oracle Cloud Infrastructure offerings are large opportunities for us to expand our cloud and license business;
- our expectation that we will continue to place significant strategic emphasis on growing our cloud offerings;
- our expectation that we and our customers will renew our cloud software-as-a-service (SaaS) and infrastructure-as-a-service (IaaS) contracts and hardware contracts when they are eligible for renewal, and our expectation that substantially all of our customers 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 make significant investments in research and development and related product opportunities, 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;
- our expectation that we will continue paying cash dividends;
- 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 plan will create;
- the timing and amount of our 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 expectation that seasonal trends will continue in the future;
- 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 pr 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, 2018 and our other Quarterly Reports on Form 10-Q filed by us in our fiscal 2019, which runs from June 1, 2018 to May 31, 2019.

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)
ORACLE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of February 28, 2019 and May 31, 2018

(Unaudited)

(in millions, except per share data)	February 28, 2019	May 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$14,720	$21,620
Marketable securities	25,310	45,641
Trade receivables, net of allowances for doubtful accounts of $351 and $370 as of February 28, 2019 and May 31, 2018, respectively	3,993	5,136
Prepaid expenses and other current assets	3,594	3,762
Total current assets	47,617	76,159
Non-current assets:		
Property, plant and equipment, net	6,197	5,897
Intangible assets, net	5,678	6,670
Goodwill, net	43,776	43,755
Deferred tax assets	2,033	1,395
Other non-current assets	4,137	3,975
Total non-current assets	61,821	61,692
Total assets	$109,438	$137,851
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and other borrowings, current	$4,487	$4,491
Accounts payable	603	529
Accrued compensation and related benefits	1,258	1,806
Deferred revenues	8,007	8,341
Other current liabilities	3,631	3,957
Total current liabilities	17,986	19,124
Non-current liabilities:		
Notes payable and other borrowings, non-current	51,672	56,128
Income taxes payable	13,208	13,429
Other non-current liabilities	2,334	2,297
Total non-current liabilities	67,214	71,854

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: 3,443 shares and 3,997 shares as of February 28, 2019 and May 31, 2018, respectively	26,732	28,950
(Accumulated deficit) retained earnings	(1,284)	19,111
Accumulated other comprehensive loss	(1,734)	(1,689)
Total Oracle Corporation stockholders' equity	23,714	46,372
Noncontrolling interests	524	501
Total equity	24,238	46,873
Total liabilities and equity	$109,438	$137,851

See notes to condensed consolidated financial statements.

Table of Contents

ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended February 28, 2019 and 2018

(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 28,		February 28,	
(in millions, except per share data)	2019	2018	2019	2018
Revenues:				
Cloud services and license support	$6,662	$6,587	$19,908	$19,454
Cloud license and on-premise license	1,251	1,299	3,334	3,525
Hardware	915	994	2,711	2,878
Services	786	796	2,416	2,512
Total revenues	9,614	9,676	28,369	28,369
Operating expenses:				
Cloud services and license support[1]	937	894	2,807	2,645
Hardware[1]	339	393	998	1,116
Services[1]	700	709	2,127	2,126
Sales and marketing[1]	2,051	2,042	6,191	6,118
Research and development	1,426	1,496	4,464	4,541
General and administrative	316	339	935	977
Amortization of intangible assets	407	394	1,265	1,205
Acquisition related and other	(4)	3	29	32
Restructuring	43	91	275	506
Total operating expenses	6,215	6,361	19,091	19,266
Operating income	3,399	3,315	9,278	9,103
Interest expense	(509)	(533)	(1,557)	(1,477)
Non-operating income, net	198	409	681	891
Income before provision for income taxes	3,088	3,191	8,402	8,517
Provision for income taxes	343	7,238	1,059	8,206
Net income (loss)	$2,745	$(4,047)	$7,343	$311
Earnings (loss) per share:				
Basic	$0.78	$(0.98)	$1.98	$0.07
Diluted	$0.76	$(0.98)	$1.93	$0.07
Weighted average common shares outstanding:				
Basic	3,526	4,122	3,716	4,146
Diluted	3,617	4,122	3,811	4,268

[1] Exclusive of amortization of intangible assets, which is shown separately.

See notes to condensed consolidated financial statements.

Table of Contents

ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three and Nine Months Ended February 28, 2019 and 2018

(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 28,		February 28,	
(in millions)	2019	2018	2019	2018
Net income (loss)	$2,745	$(4,047)	$7,343	$311
Other comprehensive income (loss), net of tax:				
Net foreign currency translation gains (losses)	10	43	(148)	51
Net unrealized gains on defined benefit plans	6	8	19	26
Net unrealized gains (losses) on marketable securities	233	(439)	120	(567)
Net unrealized (losses) gains on cash flow hedges	(18)	6	(36)	19
Total other comprehensive income (loss), net	231	(382)	(45)	(471)
Comprehensive income (loss)	$2,976	$(4,429)	$7,298	$(160)

See notes to condensed consolidated financial statements.

Table of Contents

ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

For the Three and Nine Months Ended February 28, 2019 and 2018

(Unaudited)

(in millions, except per share data)	Three Months Ended February 28, 2019	2018	Nine Months Ended February 28, 2019	2018
Common stock and additional paid in capital				
Balance, beginning of period	$27,430	$28,474	$28,950	$27,065
Common stock issued	450	763	1,476	2,116
Stock-based compensation	427	389	1,259	1,211
Repurchase of common stock	(1,533)	(548)	(4,496)	(884)
Other, net	(42)	(30)	(457)	(460)
Balance, end of period	$26,732	$29,048	$26,732	$29,048
(Accumulated deficit) retained earnings				
Balance, beginning of period	$5,107	$29,149	$19,111	$28,535
Cumulative-effect of accounting change	—	—	(110)	—
Repurchase of common stock	(8,466)	(3,452)	(25,505)	(5,617)
Cash dividends declared	(670)	(783)	(2,126)	(2,362)
Net income (loss)	2,745	(4,047)	7,343	311
Other, net	—	—	3	—
Balance, end of period	$(1,284)	$20,867	$(1,284)	$20,867
Other equity, net				
Balance, beginning of period	$(1,482)	$(513)	$(1,188)	$(470)
Other comprehensive income (loss), net	231	(382)	(45)	(471)
Other, net	41	51	23	97
Balance, end of period	$(1,210)	$(844)	$(1,210)	$(844)
Total stockholders' equity	$24,238	$49,071	$24,238	$49,071
Cash dividends declared per common share	$0.19	$0.19	$0.57	$0.57

See notes to condensed consolidated financial statements.

6

Table of Contents

ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended February 28, 2019 and 2018

(Unaudited)

(in millions)	Nine Months Ended February 28, 2019	2018
Cash flows from operating activities:		
Net income	$7,343	$311
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	900	878
Amortization of intangible assets	1,265	1,205
Deferred income taxes	(741)	(740)
Stock-based compensation	1,259	1,211
Other, net	144	(62)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	1,106	1,633
Decrease (increase) in prepaid expenses and other assets	168	(105)
Decrease in accounts payable and other liabilities	(647)	(607)
(Decrease) increase in income taxes payable	(410)	7,444
Decrease in deferred revenues	(258)	(442)
Net cash provided by operating activities	10,129	10,726
Cash flows from investing activities:		
Purchases of marketable securities and other investments	(1,310)	(24,496)
Proceeds from maturities of marketable securities and other investments	10,210	14,808
Proceeds from sales of marketable securities	11,328	2,261
Acquisitions, net of cash acquired	(330)	—
Capital expenditures	(1,247)	(1,358)
Net cash provided by (used for) investing activities	18,651	(8,785)
Cash flows from financing activities:		
Payments for repurchases of common stock	(29,887)	(6,421)
Proceeds from issuances of common stock	1,468	2,116
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(455)	(467)
Payments of dividends to stockholders	(2,126)	(2,362)
Proceeds from borrowings, net of issuance costs	—	9,945
Repayments of borrowings	(4,500)	(7,300)
Other, net	(95)	(34)
Net cash used for financing activities	(35,595)	(4,523)
Effect of exchange rate changes on cash and cash equivalents	(85)	285
Net decrease in cash and cash equivalents	(6,900)	(2,297)

Cash and cash equivalents at beginning of period	21,620	21,784
Cash and cash equivalents at end of period	$14,720	$19,487
Non-cash investing and financing transactions:		
Fair values of restricted stock-based awards and stock options assumed in connection with acquisitions	$8	$—
Change in unsettled repurchases of common stock	$114	$80
Change in unsettled investment purchases	$—	$(299)
Change in unsettled investment sales	$(168)	$—

See notes to condensed consolidated financial statements.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2019

(Unaudited)

1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

We have prepared the condensed consolidated financial statements included herein pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures herein are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2018.

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, 2019.

During the first nine months of fiscal 2019, we adopted the following Accounting Standards Updates:

- Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers: Topic 606 and subsequent amendments to the initial guidance: ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, ASU 2016-20, ASU 2017-10, ASU 2017-13 and ASU 2017-14 (collectively, Topic 606), utilizing the full retrospective method of transition whereby the results and related disclosures for the comparative fiscal 2018 periods presented in this Form 10-Q were recast to be presented as if Topic 606 had been in effect during such fiscal 2018 periods with any retrospective adjustments applicable prior to June 1, 2016 included as a cumulative-effect adjustment to accumulated other comprehensive loss and retained earnings. Refer to the Revenue Recognition and Deferred Sales Commission sections below for accounting policy updates upon our adoption of Topic 606.
- ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. We early adopted this new standard on June 1, 2018 using the modified retrospective method, which requires us to account for ASU 2017-12 as of the date of adoption with any retrospective adjustments applicable to prior periods included as a cumulative-effect adjustment to accumulated other comprehensive loss and retained earnings. The adoption of ASU 2017-12 did not have a material impact on our condensed consolidated financial statements as of the adoption date or for any of the periods presented. As a result of the adoption of ASU 2017-12, we have elected to modify certain of our hedge documentation to exclude the fair value of certain components of the related hedging instrument in our assessment of hedge effectiveness. See Note 7 for additional explanations of the impact of adoption.
-

ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Costs (ASU 2017-07), which provides guidance on the capitalization, presentation and disclosure of net benefit costs related to postretirement benefit plans. We adopted ASU 2017-07 on a full retrospective basis, which resulted in the retrospective reclassification of $14 million and $41 million of non-service net periodic pension cost for the three and nine months ended February 28, 2018, respectively, from line items within operating expenses into non-operating income, net.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

- ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16), which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. We adopted ASU 2016-16 on a modified retrospective basis through a cumulative-effect adjustment that resulted in a $110 million decrease in prepaid assets with the corresponding offset to retained earnings.
- ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01), which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Upon adoption of ASU 2016-01, we have elected to measure the investments we hold in certain non-marketable equity securities in which we do not have a controlling interest or significant influence that have no readily determinable fair values at cost, less impairment, adjusted for observable price changes from orderly transactions for identical or similar investments of the same issuer. We adopted the guidance prospectively effective June 1, 2018, and there was no material impact to our condensed consolidated financial statements upon adoption or for any of the periods presented.

The impacts of adopting Topic 606 and ASU 2017-07 for select historical condensed consolidated statements of operations line items were as follows:

	Three Months Ended February 28, 2018			Nine Months Ended February 28, 2018		
(in millions, except per share data)	As Previously Reported	Adjustments	As Adjusted	As Previously Reported	Adjustments	As Adjusted
Total revenues	$9,771	$ (95)	$ 9,676	$28,579	$ (210)	$ 28,369
Total operating expenses	$6,361	$ —	$ 6,361	$19,280	$ (14)	$ 19,266
Non-operating income, net	$423	$ (14)	$ 409	$929	$ (38)	$ 891
Provision for income taxes	$7,324	$ (86)	$ 7,238	$8,333	$ (127)	$ 8,206
Net income (loss)	$(4,024)	$ (23)	$ (4,047)	$418	$ (107)	$ 311
Basic earnings (loss) per share	$(0.98)	$ —	$ (0.98)	$0.10	$ (0.03)	$ 0.07
Diluted earnings (loss) per share	$(0.98)	$ —	$ (0.98)	$0.10	$ (0.03)	$ 0.07

The impact of adopting Topic 606 for select historical condensed consolidated balance sheet line items was as follows:

	As of May 31, 2018		
(in millions, except per share data)	As Previously Reported	Adjustments	As Adjusted
Trade receivables, net of allowances for doubtful accounts	$5,279	$ (143)	$ 5,136
Prepaid expenses and other current assets	$3,424	$ 338	$ 3,762
Deferred tax assets	$1,491	$ (96)	$ 1,395
Other non-current assets	$3,487	$ 488	$ 3,975
Total current liabilities	$19,195	$ (71)	$ 19,124
Total non-current liabilities	$71,845	$ 9	$ 71,854
Total equity	$46,224	$ 649	$ 46,873

There have been no other significant changes in our reported financial position or results of operations and cash flows as a result of the adoption of new accounting pronouncements. Except for the updates to our revenue recognition and deferred sales commission policies noted below, there have been no changes to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2018 that have had a significant impact on our condensed consolidated financial statements or notes thereto as of and for the three and nine months ended February 28, 2019.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

Impacts of the U.S. Tax Cuts and Jobs Act of 2017

The comparability of our operating results in the third quarter and first nine months of fiscal 2019 compared to the corresponding prior year periods was impacted by the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act), which was effective for us starting in our third quarter of fiscal 2018. Information regarding our adoption and prospective impacts of the Tax Act on our tax and liquidity profile is included in our Annual Report on Form 10-K for our fiscal year ended May 31, 2018. The net expense related to the enactment of the Tax Act has been accounted for during the third quarter and first nine months of fiscal 2018 based on provisional estimates pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118). In the third quarter of fiscal 2019, we completed our analysis of the impacts of the Tax Act. We recorded a tax benefit of $376 million and $529 million, respectively, during the three and nine months ended February 28, 2019, respectively, in accordance with SAB 118 related to adjustments in our estimates of the one-time transition tax on certain foreign subsidiary earnings. We also recorded a tax expense of $140 million during the fiscal 2019 periods presented in accordance with SAB 118 related to the remeasurement of our net deferred tax assets and liabilities.

Additionally, we completed our analysis of the accounting policy election required with regard to the Tax Act's Global Intangible Low-Taxed Income (GILTI) provision. The Financial Accounting Standards Board (FASB) allows companies to adopt a policy election to account for GILTI under one of two methods: (i) account for GILTI as a component of tax expense in the period in which a company is subject to the rules (the period cost method), or (ii) account for GILTI in a company's measurement of deferred taxes (the deferred method). We elected the deferred method, under which we recorded the income tax expense impact to our condensed consolidated financial statements during the third quarter of fiscal 2019.

Revenue Recognition

Our sources of revenues include:

- cloud and license revenues, which include the sale of: cloud services and license support; and cloud licenses and on-premise licenses, which represent licenses purchased by customers for use in both cloud and on-premise IT environments;
- hardware revenues, which include the sale of hardware products including Oracle Engineered Systems, servers, and storage products, and industry-specific hardware; and hardware support revenues; and
- services revenues, which are earned from providing cloud-, license- and hardware-related services including consulting, advanced customer support and education services.

License support revenues are typically generated through the sale of license support contracts related to cloud license and on-premise licenses purchased by our customers at their option. License support contracts provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period and include internet access to technical content, as well as internet and telephone access to technical support personnel. License support contracts are generally priced as a percentage of the net cloud license and on-premise license fees. Substantially all of our customers renew their license support contracts annually.

Cloud services revenues include revenues from Oracle Cloud Software-as-a-Service (SaaS) and Infrastructure-as-a-Service (IaaS) offerings (collectively, Oracle Cloud Services), which deliver applications and infrastructure technologies, respectively, via cloud-based deployment models that we develop functionality for, provide unspecified updates and enhancements for, host, manage and support and that customers access by entering into a subscription agreement with us for a stated period. Our IaaS offerings also include Oracle Managed Cloud Services, which are designed to provide comprehensive software and hardware management, maintenance and security services for customer cloud-based, on-premise or other IT infrastructure for a fee for a stated term.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

Cloud license and on-premise license revenues primarily represent amounts earned from granting customers licenses to use our database, middleware, application and industry-specific software products which our customers use for cloud-based, on-premise and other IT environments. The vast majority of our cloud license and on-premise license arrangements include license support contracts, which are entered into at the customer's option.

Revenues from the sale of hardware products represent amounts earned primarily from the sale of our Oracle Engineered Systems, computer servers, storage, and industry-specific hardware. Our hardware support offerings generally provide customers with software updates for the software components that are essential to the functionality of the hardware products purchased and can also include product repairs, maintenance services and technical support services. Hardware support contracts are generally priced as a percentage of the net hardware products fees.

Our consulting services are offered as standalone arrangements or as a part of arrangements to customers buying other products and services. Our advanced customer support services are offered as standalone arrangements or as a part of arrangements to customers buying other products and services. We offer these advanced customer support services to Oracle customers to enable increased performance and higher availability of their products and services. Education services include instructor-led, media-based and internet-based training in the use of our cloud, software and hardware products.

Topic 606 is a single standard for revenue recognition that applies to all of our cloud, software, hardware and services arrangements and generally requires revenues to be recognized upon the transfer of control of promised goods or services provided to our customers, reflecting the amount of consideration we expect to receive for those goods or services. Pursuant to Topic 606, revenues are recognized upon the application of the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenues when, or as, the contractual performance obligations are satisfied.

The timing of revenue recognition may differ from the timing of invoicing to our customers. We record an unbilled receivable, which is included within accounts receivable on our condensed consolidated balance sheets, when revenue is recognized prior to invoicing. We record deferred revenues on our condensed consolidated balance sheets when revenues are recognized subsequent to cash collection for an invoice. Our standard payment terms are generally net 30 days but may vary. Invoices for cloud license and on-premise licenses and hardware products are generally issued when the license is made available for customer use or upon delivery to the customer of the hardware product. Invoices for license support and hardware support contracts are generally invoiced annually in advance. Cloud SaaS and IaaS contracts are generally invoiced annually, quarterly or monthly in advance. Services are generally invoiced in advance or as the services are performed. Most contracts that contain a financing component are contracts financed through our financing division. The transaction price for a contract that is financed through our financing division is adjusted to reflect the time value of money and interest revenue is recorded as a component of non-operating income, net within our condensed consolidated statements of operations based on market rates in the country in which the transaction is being financed.

Our revenue arrangements generally include standard warranty or service level provisions that our arrangements will perform and operate in all material respects as defined in the respective agreements, the financial impacts of which have historically been and are expected to continue to be insignificant. Our arrangements generally do not

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

include a general right of return relative to the delivered products or services. We recognize revenues net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

Revenue Recognition for Cloud Services

Revenues from cloud services provided on a subscription basis are generally recognized ratably over the contractual period that the services are delivered, beginning on the date our service is made available to our customers. We recognize revenue ratably because the customer receives and consumes the benefits of the cloud services throughout the contract period. Revenues from cloud services provided on a consumption basis, such as metered services, are generally recognized based on the utilization of the services by the customer.

Revenue Recognition for License Support and Hardware Support

Oracle's primary performance obligations with respect to license support contracts and hardware support contracts are to provide customers with technical support as needed and unspecified software product upgrades, maintenance releases and patches during the term of the support period when they are available. Oracle is obligated to make the license and hardware support services available continuously throughout the contract period. Therefore, revenues for license support contracts and hardware support contracts are generally recognized ratably over the contractual periods that the support services are provided.

Revenue Recognition for Cloud License and On-Premise License

Revenues from distinct cloud license and on-premise license performance obligations are generally recognized upfront 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. For usage-based royalty arrangements with a fixed minimum guarantee amount, the minimum amount is generally recognized upfront when the software is made available to the royalty customer.

Revenue Recognition for Hardware Products

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.

Revenue Recognition for Services

Services revenues are generally recognized over time as the services are performed. Revenues for fixed price services are generally recognized over time applying input methods to estimate progress to completion. Revenues for consumption-based services are generally recognized as the services are performed.

Allocation of the Transaction Price for Contracts that have Multiple Performance Obligations

Many of our contracts include multiple performance obligations. Judgment is required in determining whether each performance obligation is distinct. Oracle products and services generally do not require a significant amount of integration or interdependency. We allocate the transaction price for each contract to each performance obligation based on the relative standalone selling price (SSP) for each performance obligation within each contract.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

We use judgment in determining the SSP for products and services. For substantially all performance obligations except cloud licenses and on-premise licenses, we are able to establish SSP based on the observable prices of products or services sold separately in comparable circumstances to similar customers. We typically establish a standalone selling price range for our products and services which is reassessed on a periodic basis or when facts and circumstances change. Our cloud licenses and on-premise licenses have not historically been sold on a standalone basis, as substantially all customers elect to purchase license support contracts at the time of a cloud license and on-premise license purchase. License support contracts are generally priced as a percentage of the net fees paid by the customer to access the license. We are unable to establish SSP for our cloud licenses and on-premise licenses based on observable prices given the same products are sold for a broad range of amounts (that is, the selling price is highly variable) and a representative SSP is not discernible from past transactions or other observable evidence. As a result, the SSP for a cloud license and an on-premise license included in a contract with multiple performance obligations is determined by applying a residual approach whereby all other performance obligations within a contract are first allocated a portion of the transaction price based upon their respective SSPs, with any residual amount of transaction price allocated to cloud license and on-premise license revenues.

Deferred Sales Commissions

We defer sales commissions earned by our sales force that are considered to be incremental and recoverable costs of obtaining a cloud, license support and hardware support contract. Initial sales commissions for the majority of these aforementioned contracts are generally deferred and amortized on a straight-line basis over a period of benefit that we estimate to be four to five years. We determine the period of benefit by taking into consideration the historical and expected durations of our customer contracts, the expected useful lives of our technologies, and other factors. Sales commissions for renewal contracts relating to our cloud-based arrangements are generally deferred and then amortized on a straight-line basis over the related contractual renewal period, which is generally one to three years. Amortization of deferred sales commissions is included as a component of sales and marketing expenses in our condensed consolidated statements of operations.

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 28, 2019 and May 31, 2018.

The amount of revenues recognized during the nine months ended February 28, 2019 that were included in the opening deferred revenues balance as of May 31, 2018 was approximately $7.7 billion. Revenues recognized from performance obligations satisfied in prior periods were immaterial during each of the three and nine months ended February 28, 2019 and 2018. Impairment losses recognized on our receivables were immaterial in each of the three and nine months ended February 28, 2019 and 2018.

Remaining performance obligations represent contracted revenues that had not yet been recognized, and include deferred revenues; invoices that have been issued to customers but were uncollected and have not been recognized as revenues; and amounts that will be invoiced and recognized as revenues in future periods. The volumes and amounts of customer contracts that we book and total revenues that we recognize are impacted by a variety of seasonal factors. In each fiscal year, the amounts and volumes of contracting activity and our total revenues are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. These seasonal impacts influence how our remaining performance obligations change over time. As of February 28, 2019, our remaining performance obligations were $31.5 billion, approximately 62% of which we expect to recognize as revenues over the next twelve months and the remainder thereafter.

Refer to Note 10 for our discussion of revenues disaggregation.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

Cash, Cash Equivalents and Restricted Cash

Restricted cash that was included within cash and cash equivalents as presented within our condensed consolidated balance sheets as of February 28, 2019 and May 31, 2018 and our condensed consolidated statements of cash flows for the nine months ended February 28, 2019 and 2018 was nominal.

Acquisition Related and Other Expenses

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

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	2019	2018	2019	2018
Transitional and other employee related costs	$13	$ 9	$39	$ 32
Stock-based compensation	—	—	—	1
Professional fees and other, net	3	(8)	10	(1)
Business combination adjustments, net	(20)	2	(20)	—
Total acquisition related and other expenses	$(4)	$ 3	$29	$ 32

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, and non-service net periodic pension income (losses).

(in millions)	Three Months Ended February 28, 2019	2018	Nine Months Ended February 28, 2019	2018
Interest income	$246	$313	$890	$852
Foreign currency losses, net	(13)	(35)	(68)	(46)
Noncontrolling interests in income	(35)	(37)	(106)	(111)
Other (loss) income, net	—	168	(35)	196
Total non-operating income, net	$198	$409	$681	$891

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 $274 million and $1.3 billion for the three and nine months ended February 28, 2019, respectively, and $360 million and $1.3 billion for the three and nine months ended February 28, 2018, respectively.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

Recent Accounting Pronouncements

Internal-use Software: In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15), which clarifies the accounting for implementation costs in cloud computing arrangements. ASU 2018-15 is effective for us in the first quarter of fiscal 2020, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2018-15 on our consolidated financial statements.

Retirement Benefits: In August 2018, the FASB issued ASU 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans (ASU 2018-14), which modifies the disclosure requirements for defined benefit pension plans and other postretirement plans. ASU 2018-14 is effective for us in the first quarter of fiscal 2021, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2018-14 on our consolidated financial statements.

Fair Value Measurement: In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which modifies the disclosure requirements on fair value measurements. ASU 2018-13 is effective for us in the first quarter of fiscal 2020, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2018-13 on our consolidated financial statements.

Comprehensive Income: In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02), which allows companies to reclassify stranded tax effects resulting from the Tax Act, from accumulated other comprehensive income to retained earnings. The guidance also requires certain new disclosures regardless of the election. ASU 2018-02 is effective for us in the first quarter of fiscal 2020, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2018-02 on our consolidated financial statements.

Financial Instruments: In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13) and subsequent amendment to the initial guidance: ASU 2018-19 (collectively, Topic 326). Topic 326 requires measurement and recognition of expected credit losses for financial assets held. Topic 326 is effective for us in our first quarter of fiscal 2021, and earlier adoption is permitted beginning in the first quarter of fiscal 2020. We are currently evaluating the impact of our pending adoption of Topic 326 on our consolidated financial statements.

Leases: In February 2016, the FASB issued 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 assets. We expect to adopt Topic ASC 842 using the effective date of June 1, 2019 as the date of our initial application of the standard. Consequently, financial information for the comparative periods will not be updated. We are currently evaluating the impact of our pending adoption of Topic 842 on our consolidated financial statements. We currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of Topic 842, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

2. ACQUISITIONS

Fiscal 2018 Acquisition of Aconex Limited

On March 28, 2018, we completed our acquisition of Aconex Limited (Aconex), a provider of cloud-based collaboration software for construction projects.

We have included the financial results of Aconex in our condensed consolidated financial statements from the date of acquisition. These results were not individually material to our condensed consolidated financial statements. The total preliminary purchase price for Aconex was approximately $1.2 billion, which consisted of approximately $1.2 billion in cash and $7 million for the fair values of stock options and restricted stock-based awards assumed. In connection with the Aconex acquisition, we have preliminarily recorded $20 million of net liabilities and $377 million of identifiable intangible assets based on their estimated fair values, and $864 million of residual goodwill. Goodwill generated from our acquisition of Aconex was primarily attributable to synergies expected to arise after the acquisition and is not expected to be tax deductible.

Other Fiscal 2019 and 2018 Acquisitions

During the first nine months of fiscal 2019 and the full fiscal year of 2018, we acquired certain other 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.

The preliminary fair values of net tangible assets and intangible assets acquired were based on preliminary valuations, and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas that remain preliminary relate to the fair values of intangible assets acquired, certain tangible assets and liabilities acquired, certain legal matters, income and non-income based taxes and residual goodwill. We expect to continue to obtain information to assist us in determining the fair values of the net assets acquired during the measurement period.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, Aconex and certain other companies that we acquired since the beginning of fiscal 2018 that were considered relevant for the purposes of unaudited pro forma financial information disclosure as if the companies were combined as of the beginning of fiscal 2018. The unaudited pro forma financial information for all periods presented included the business combination accounting effects resulting from these acquisitions, including amortization charges from acquired intangible assets (certain of which are preliminary), stock-based compensation charges for unvested restricted stock-based awards and stock options assumed, if any, and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2018. The unaudited pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2018.

The unaudited pro forma financial information for the three and nine months ended February 28, 2019 presented the historical results of Oracle for the three and nine months ended February 28, 2019, and certain other companies that we acquired since the beginning of fiscal 2019 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

The unaudited pro forma financial information for the three and nine months ended February 28, 2018 combined the historical results of Oracle for the three and nine months ended February 28, 2018 and the historical results of Aconex for the twelve month period ended December 31, 2017 (adjusted due to differences in reporting periods and considering the date we acquired Aconex) and certain other companies that we acquired since the beginning of fiscal 2018 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above. The unaudited pro forma financial information was as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions, except per share data)	2019	2018	2019	2018
Total revenues	$9,614	$9,724	$28,376	$28,507
Net income (loss)	$2,745	$(4,070)	$7,336	$242
Basic earnings (loss) per share	$0.78	$(0.99)	$1.97	$0.06
Diluted earnings (loss) per share	$0.76	$(0.99)	$1.92	$0.06

3. FAIR VALUE MEASUREMENTS

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

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

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

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

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	February 28, 2019 Fair Value Measurements Using Input Types			May 31, 2018 Fair Value Measurements Using Input Types		
(in millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Corporate debt securities and other	$—	$25,361	$25,361	$223	$44,079	$44,302
Commercial paper debt securities	—	348	348	—	1,647	1,647
Money market funds	6,050	—	6,050	6,500	—	6,500
Derivative financial instruments	—	—	—	—	29	29
Total assets	$6,050	$25,709	$31,759	$6,723	$45,755	$52,478
Liabilities:						
Derivative financial instruments	$—	$206	$206	$—	$158	$158

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 28, 2019 and May 31, 2018, approximately 23% and 26%, respectively, of our marketable securities investments mature within one year and 77% and 74%, respectively, mature within one to five 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 $56.0 billion and $58.0 billion of senior notes and the related fair value hedges that we had outstanding as of February 28, 2019 and May 31, 2018, respectively, the estimated fair values of the senior notes and the related fair value hedges using Level 2 inputs at February 28, 2019 and May 31, 2018 were $56.9 billion and $59.0 billion, respectively.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

4. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2019 and the net book value of intangible assets as of February 28, 2019 and May 31, 2018 were as follows:

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted
(Dollars in millions)	May 31, 2018	Additions & Adjustments, net[1]	February 28, 2019	May 31, 2018	Expense	February 28, 2019	May 31, 2018	February 28, 2019	Average Useful Life[2]
Developed technology	$5,309	$ 271	$5,580	$(2,814)	$(640)	$(3,454)	$2,495	$2,126	3
Cloud services and license support agreements and related relationships	5,999	(15)	5,984	(2,285)	(539)	(2,824)	3,714	3,160	4
Other	1,622	17	1,639	(1,161)	(86)	(1,247)	461	392	5
Total intangible assets, net	$12,930	$ 273	$13,203	$(6,260)	$(1,265)	$(7,525)	$6,670	$5,678	3

(1) Amounts also include any 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 2019.

Total amortization expense related to our intangible assets was $407 million and $1.3 billion for the three and nine months ended February 28, 2019, respectively, and $394 million and $1.2 billion for the three and nine months ended February 28, 2018, respectively. As of February 28, 2019, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of fiscal 2019	$401
Fiscal 2020	1,492
Fiscal 2021	1,269
Fiscal 2022	1,018
Fiscal 2023	622
Fiscal 2024	391

Thereafter	485
Total intangible assets, net	$5,678

The changes in the carrying amounts of goodwill, net, which is generally not deductible for tax purposes, for our operating segments for the nine months ended February 28, 2019 were as follows:

(in millions)	Cloud and License	Hardware	Services	Total Goodwill, net
Balances as of May 31, 2018	$39,600	$ 2,367	$ 1,788	$ 43,755
Goodwill from acquisitions	96	—	—	96
Goodwill adjustments, net[1]	(65)	—	(10)	(75)
Balances as of February 28, 2019	$39,631	$ 2,367	$ 1,778	$ 43,776

[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.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

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 recent acquisitions and certain other operational activities (2019 Restructuring Plan). The total estimated restructuring costs associated with the 2019 Restructuring Plan are up to $432 million and will be recorded to the restructuring expense line item within our condensed consolidated statements of operations as they are incurred. We recorded $297 million of restructuring expenses in connection with the 2019 Restructuring Plan in the first nine months of fiscal 2019 and we expect to incur the majority of the estimated remaining $135 million through the end of fiscal 2020. Any changes to the estimates of executing the 2019 Restructuring Plan will be reflected in our future results of operations.

Summary of All Plans

(in millions)	Accrued May 31, 2018[2]	Nine Months Ended February 28, 2019 Initial Costs[3]	Adj. to Cost[4]	Cash Payments	Others[5]	Accrued February 28, 2019[2]	Total Costs Accrued to Date	Total Expected Program Costs
2019 Restructuring Plan[1]								
Cloud and license	$ —	$141	$ (3)	$ (86)	$ (1)	$ 51	$ 138	$ 230
Hardware	—	48	—	(29)	—	19	48	66
Services	—	31	1	(21)	—	11	32	45
Other[6]	—	80	(1)	(35)	2	46	79	91
Total 2019 Restructuring Plan	$ —	$300	$ (3)	$ (171)	$ 1	$ 127	$ 297	$ 432
Total other restructuring plans[7]	$ 282	$5	$ (42)	$ (167)	$ 2	$ 80		
Total restructuring plans	$ 282	$305	$ (45)	$ (338)	$ 3	$ 207		

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

(2) The balances at February 28, 2019 and May 31, 2018 included $183 million and $257 million, respectively, recorded in other current liabilities, and $24 million and $25 million, respectively, recorded in other non-current liabilities.

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

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

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

(6) 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.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

6. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	February 28, 2019	May 31, 2018
Cloud services and license support	$ 6,807	$ 7,265
Hardware	550	645
Services	378	404
Cloud license and on-premise license	272	27
Deferred revenues, current	8,007	8,341
Deferred revenues, non-current (in other non-current liabilities)	626	625
Total deferred revenues	$ 8,633	$ 8,966

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.

7. DERIVATIVE FINANCIAL INSTRUMENTS

We held the following derivative and non-derivative instruments that were accounted for pursuant to ASC 815, Derivatives and Hedging (ASC 815):

- 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. As a result of our adoption of ASU 2017-12, we have elected to exclude the portion of the change in fair value of these swap agreements attributable to the related cross-currency basis spread in our assessment of hedge effectiveness. The change in fair value of these swap agreements attributable to the cross-currency basis spread is included in accumulated other comprehensive loss;

21

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

- cross-currency swap agreements, which are used to manage foreign currency exchange risk by converting certain of our fixed-rate Euro-denominated borrowings to fixed-rate U.S. Dollar denominated debt and are accounted for as cash flow hedges pursuant to ASC 815; and

- foreign currency borrowings, which were used to reduce the volatility in stockholders' equity caused by the changes in the foreign currency exchange rates of the Euro with respect to the U.S. Dollar and were accounted for as net investment hedges pursuant to ASC 815 in the first quarter of fiscal 2018. In the fourth quarter of fiscal 2018, we de-designated the foreign currency borrowings as a net investment hedge.

We also held certain foreign currency contracts that were not designated as hedges pursuant to ASC 815. As of February 28, 2019 and May 31, 2018, the notional amounts of such forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$3.8 billion and \$3.4 billion, respectively, and the notional amount of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$3.2 billion and \$1.4 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal as of February 28, 2019 and May 31, 2018. The cash flows related to these foreign currency contracts are classified as operating activities. Net gains or losses related to these forward contracts are included in non-operating income, net.

Our adoption of ASU-2017-12 during fiscal 2019 did not have a material impact on our previously existing hedge designations. 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, 2018 for additional information regarding the purpose, accounting and classification of our derivative and non-derivative instruments. None of our derivative instruments are used for trading purposes. The effects of derivative and non-derivative instruments designated as hedges on certain of our 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

		Fair Value as of	
(in millions)	Balance Sheet Location	February 28,	May 31,

		2019	2018
Derivative assets:			
Interest rate swap agreements designated as fair value hedges	Other non-current assets	$—	$24
Cross-currency interest rate swap agreements designated as fair value hedges	Other non-current assets	—	5
Total derivative assets		$—	$29
Derivative liabilities:			
Interest rate swap agreements designated as fair value hedges	Other current liabilities	$11	$7
Interest rate swap agreements designated as fair value hedges	Other non-current liabilities	15	48
Cross-currency interest rate swap agreements designated as fair value hedges	Other non-current liabilities	15	—
Cross-currency swap agreements designated as cash flow hedges	Other non-current liabilities	165	103
Total derivative liabilities		$206	$158

22

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

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

(in millions)	February 28, 2019	May 31, 2018
Notes payable and other borrowings, current:		
Carrying amount of hedged item	$ 1,988	$ 1,492
Cumulative hedging adjustments included in the carrying amount	(11)	(7)
Notes payable and other borrowings, non-current:		
Carrying amounts of hedged items	3,631	5,584
Cumulative hedging adjustments included in the carrying amount	24	(19)

Effects of Derivative Instruments Designated as Hedges on Income

	Three Months Ended February 28,			
	2019		2018	
(in millions)	Non-operating income, net	Interest expense	Non-operating income, net	Interest expense
Condensed consolidated statements of income line amounts in which the hedge effects were recorded	$ 198	$ (509)	$ 409	$ (533)
Gain (loss) on hedges recognized in income:				
Interest rate swaps designated as fair value hedges:				
Derivative instruments	$—	$ 43	$—	$ (47)
Hedged items	—	(43)	—	47
Cross-currency interest rate swaps designated as fair value hedges:				
Derivative instruments	7	9	—	—

Hedged items	(4)	(9)	—	—
Cross-currency swap agreements designated as cash flow hedges:				
Amount of gain reclassified from accumulated OCI or OCL	11	—	51	—
Total gain on hedges recognized in income	$ 14	$ —	$ 51	$ —

23

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

	Nine Months Ended			
	February 28,			
	2019		2018	
(in millions)	Non-operating income, net	Interest expense	Non-operating income, net	Interest expense
Condensed consolidated statements of income line amounts in which the hedge effects were recorded	$681	$(1,557)	$891	$(1,477)
Gain (loss) on hedges recognized in income:				
Interest rate swaps designated as fair value hedges:				
Derivative instruments	$—	$5	$—	$(94)
Hedged items	—	(5)	—	94
Cross-currency interest rate swaps designated as fair value hedges:				
Derivative instruments	(21)	10	—	—
Hedged items	22	(10)	—	—
Cross-currency swap agreements designated as cash flow hedges:				
Amount of gain (loss) reclassified from accumulated OCI or OCL	(26)	—	142	—
Total gain (loss) on hedges recognized in income	$(25)	$—	$142	$—

Gain (Loss) on Derivative and Non-Derivative Instruments Designated as Hedges included in Other Comprehensive Income (OCI) or Loss (OCL)

	Three Months Ended	Nine Months Ended

(in millions)	February 28, 2019	2018	February 28, 2019	2018
Cross-currency swap agreements designated as cash flow hedges	$(7)	$57	$(62)	$161
Foreign currency borrowings designated as net investment hedge	—	(31)	—	(85)

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 17, 2018 and February 15, 2019, we announced that our Board of Directors approved expansions of our stock repurchase program collectively totaling $24.0 billion. As of February 28, 2019, approximately $11.8 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 621.8 million shares for $30.0 billion during the nine months ended February 28, 2019 (including 5.6 million shares for $293 million that were repurchased but not settled) and 131.6 million shares for $6.5 billion during the nine months ended February 28, 2018 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.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

Dividends on Common Stock

In March 2019, our Board of Directors declared a quarterly cash dividend of $0.24 per share of our outstanding common stock, an increase of $0.05 per share over the dividend declared in December 2018. The dividend is payable on April 25, 2019 to stockholders of record as of the close of business on April 11, 2019. 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 2019 Stock-Based Awards Activity and Compensation Expense

During the first nine months of fiscal 2019, we issued 49 million restricted stock-based units (RSUs) and 7 million stock options (SOs). Substantially all of the awards were issued as a part of our annual stock-based award process and are subject to service-based vesting restrictions. Our fiscal 2019 stock-based awards issuances were partially offset by forfeitures and cancellations of 24 million shares during the first nine months of fiscal 2019.

The RSUs and SOs that were granted during the nine months ended February 28, 2019 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, 2018.

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

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in millions)	2019	2018	2019	2018
Cloud services and license support	$26	$21	$74	$58
Hardware	2	2	7	8
Services	12	13	37	41
Sales and marketing	89	87	278	275
Research and development	254	221	732	693
General and administrative	44	45	131	135

Acquisition related and other	—	—	—	1
Total stock-based compensation	$427	$389	$1,259	$1,211

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. In the third quarter of fiscal 2018, the Tax Act was signed into law. The more significant provisions of the Tax Act as applicable to us are described in Note 1 under “Impacts of the U.S. Tax Cuts and Jobs Act of 2017” above and in our Annual Report on Form 10-K for the fiscal year ended May 31, 2018. During the first nine months of fiscal 2019, we recorded a net benefit of $389 million in accordance with SAB 118 related to adjustments in our estimates of the one-time transition tax on certain foreign subsidiary earnings, and the remeasurement of our net deferred tax assets and liabilities affected by the Tax Act. Our provision for income taxes for the first nine months of fiscal 2019 varied from the 21% U.S. statutory rate imposed by the Tax Act 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, the tax effect of GILTI, and a reduction to our transition tax recorded consistent with the provision of SAB 118. Our provision for income taxes for the fiscal 2018 periods presented varied from the 21% U.S. statutory rate imposed by the Tax Act primarily due to the impacts of the Tax Act upon adoption, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

compensation and the U.S. domestic production activity deduction. Our effective tax rates were 11.1% and 12.6%, respectively, for the three and nine months ended February 28, 2019, respectively, and 226.8% and 96.4%, respectively, for the three and nine months ended February 28, 2018, respectively.

Our net deferred tax assets were $2.0 billion and $1.3 billion as of February 28, 2019 and May 31, 2018, 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 2007, and we are no longer subject to audit for those periods. Our U.S. state income tax returns, with some exceptions, have been examined for all years prior to fiscal 2004, and we are no longer subject to audit for those periods.

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

On July 27, 2015, in Altera Corp. v. Commissioner, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. Currently the U.S. Court of Appeals for the Ninth Circuit is reviewing the case, and a final decision has yet to be issued. At this time, the U.S. Department of the Treasury has not withdrawn the requirement to include stock-based compensation from its regulations. We have reviewed this case and its impact on Oracle and concluded that no adjustment to the consolidated financial statements is appropriate at this time. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements.

We are under audit by the IRS and various other domestic and foreign tax authorities with regards to income tax and indirect tax matters and are involved in various challenges and litigation in a number of countries, including, in particular, Australia, Brazil, India, Korea, Spain and the United Kingdom, 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.

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

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 Officers 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 includes 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 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.

Table of Contents

ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 28, 2019

(Unaudited)

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

(in millions)	Three Months Ended February 28, 2019	2018	Nine Months Ended February 28, 2019	2018
Cloud and license:				
Revenues[1]	$7,917	$7,891	$23,259	$23,018
Cloud services and license support expenses	890	854	2,668	2,526
Sales and marketing expenses	1,780	1,743	5,357	5,200
Margin[2]	$			