ORACLE CORP
Form 10-Q
December 18, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-35992

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware	**54-2185193**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	Identification No.)
500 Oracle Parkway	
Redwood City, California	**94065**
(Address of principal executive offices)	**(Zip Code)**

(650) 506-7000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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
(Do not check if a 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 December 11, 2017 was: 4,139,602,000.

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FORM 10-Q QUARTERLY REPORT

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Cautionary Note on Forward-Looking Statements

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

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

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

our expectation that we will continue to place significant strategic emphasis on growing our cloud SaaS and cloud PaaS and IaaS offerings, which has affected the growth of our new software license revenues and hardware revenues and to a lesser extent, has also affected the growth of our software license updates and product support revenues;

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

our expectation that our hardware business will have lower operating margins as a percentage of revenues than our cloud and on-premise software business;

our expectation that we will continue to make significant investments in research and development and related product opportunities, including those related to hardware products and services, and our belief that research and development efforts are essential to maintaining our competitive position;

our 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 2017 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;

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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 cloud PaaS and IaaS contracts from companies that we have acquired, we will recognize revenues for the full contracts values over the respective renewal periods;

our ability to predict quarterly hardware revenues;

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, estimat 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, 2017 and our other Quarterly Reports on Form 10-Q to be filed by us in our fiscal year 2018, which runs from June 1, 2017 to May 31, 2018.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

ORACLE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of November 30, 2017 and May 31, 2017

(Unaudited)

(in millions, except per share data)	November 30, 2017	May 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,310	$ 21,784
Marketable securities	50,270	44,294
Trade receivables, net of allowances for doubtful accounts of $339 and $319 as of November 30, 2017 and May 31, 2017, respectively	3,798	5,300
Inventories	436	300
Prepaid expenses and other current assets	2,731	2,837
Total current assets	78,545	74,515
Non-current assets:		
Property, plant and equipment, net	5,868	5,315
Intangible assets, net	6,794	7,679
Goodwill, net	42,964	43,045
Deferred tax assets	1,222	1,143
Other assets	3,369	3,294
Total non-current assets	60,217	60,476
Total assets	$ 138,762	$ 134,991
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and other borrowings, current	$ 2,499	$ 9,797
Accounts payable	554	599
Accrued compensation and related benefits	1,500	1,966
Deferred revenues	8,076	8,233
Other current liabilities	2,865	3,583
Total current liabilities	15,494	24,178
Non-current liabilities:		
Notes payable and other borrowings, non-current	58,170	48,112
Income taxes payable	6,082	5,681
Other non-current liabilities	2,716	2,774

Total non-current liabilities	66,968	56,567
Commitments and contingencies		
Oracle Corporation stockholders equity:		
Preferred stock, $0.01 par value authorized: 1.0 shares; outstanding: none		
Common stock, $0.01 par value and additional paid in capital authorized: 11,000 shares; outstanding: 4,143 shares and 4,137 shares as of November 30, 2017 and May 31, 2017, respectively	28,474	27,065
Retained earnings	28,296	27,598
Accumulated other comprehensive loss	(902)	(803)
Total Oracle Corporation stockholders equity	55,868	53,860
Noncontrolling interests	432	386
Total equity	56,300	54,246
Total liabilities and equity	$ 138,762	$ 134,991

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended November 30, 2017 and 2016

(Unaudited)

(in millions, except per share data)	Three Months Ended November 30, 2017	Three Months Ended November 30, 2016	Six Months Ended November 30, 2017	Six Months Ended November 30, 2016
Revenues:				
Cloud software as a service	$ 1,123	$ 725	$ 2,189	$ 1,382
Cloud platform as a service and infrastructure as a service	396	328	797	639
Total cloud revenues	1,519	1,053	2,986	2,021
New software licenses	1,353	1,347	2,319	2,377
Software license updates and product support	4,953	4,777	9,904	9,570
Total on-premise software revenues	6,306	6,124	12,223	11,947
Total cloud and on-premise software revenues	7,825	7,177	15,209	13,968
Hardware revenues	940	1,014	1,884	2,010
Services revenues	856	844	1,716	1,652
Total revenues	9,621	9,035	18,809	17,630
Operating expenses:				
Cloud software as a service[(1)]	396	316	770	600
Cloud platform as a service and infrastructure as a service[(1)]	241	156	468	288
Software license updates and product support[(1)]	257	242	515	516
Hardware[(1)]	351	386	724	776
Services[(1)]	720	697	1,422	1,393
Sales and marketing[(1)]	2,082	1,960	4,074	3,879
Research and development	1,475	1,510	3,049	3,030
General and administrative	321	303	642	618
Amortization of intangible assets	400	302	811	613
Acquisition related and other	17	40	28	54
Restructuring	292	86	416	185
Total operating expenses	6,552	5,998	12,919	11,952
Operating income	3,069	3,037	5,890	5,678
Interest expense	(475)	(451)	(944)	(867)
Non-operating income, net	273	99	505	247
Income before provision for income taxes	2,867	2,685	5,451	5,058
Provision for income taxes	634	653	1,009	1,194

Net income	$ 2,233	$ 2,032	$ 4,442	$ 3,864
Earnings per share:				
Basic	$ 0.54	$ 0.50	$ 1.07	$ 0.94
Diluted	$ 0.52	$ 0.48	$ 1.04	$ 0.92
Weighted average common shares outstanding:				
Basic	4,160	4,104	4,158	4,112
Diluted	4,283	4,195	4,283	4,208
Dividends declared per common share	$ 0.19	$ 0.15	$ 0.38	$ 0.30

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

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended November 30, 2017 and 2016

(Unaudited)

(in millions)	Three Months Ended November 30, 2017	2016	Six Months Ended November 30, 2017	2016
Net income	$ 2,233	$ 2,032	$ 4,442	$ 3,864
Other comprehensive loss, net of tax:				
Net foreign currency translation losses	(40)	(204)	(2)	(71)
Net unrealized gains on defined benefit plans	11	2	18	7
Net unrealized losses on marketable securities	(192)	(356)	(128)	(213)
Net unrealized gains on cash flow hedges	35	19	13	21
Total other comprehensive loss, net	(186)	(539)	(99)	(256)
Comprehensive income	$ 2,047	$ 1,493	$ 4,343	$ 3,608

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended November 30, 2017 and 2016

(Unaudited)

(in millions)	Six Months Ended November 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 4,442	$ 3,864
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	573	463
Amortization of intangible assets	811	613
Deferred income taxes	95	103
Stock-based compensation	822	646
Other, net	81	85
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	1,529	1,680
Increase in inventories	(135)	(116)
Decrease in prepaid expenses and other assets	138	321
Decrease in accounts payable and other liabilities	(618)	(499)
Increase in income taxes payable	22	9
Decrease in deferred revenues	(344)	(208)
Net cash provided by operating activities	7,416	6,961
Cash flows from investing activities:		
Purchases of marketable securities and other investments	(18,022)	(10,090)
Proceeds from maturities and sales of marketable securities and other investments	11,566	6,080
Acquisitions, net of cash acquired		(9,854)
Capital expenditures	(1,072)	(1,056)
Net cash used for investing activities	(7,528)	(14,920)
Cash flows from financing activities:		
Payments for repurchases of common stock	(2,454)	(2,569)
Proceeds from issuances of common stock	1,353	746
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(434)	(188)
Payments of dividends to stockholders	(1,579)	(1,232)
Proceeds from borrowings, net of issuance costs	9,945	13,932
Repayments of borrowings	(7,300)	(3,750)
Distributions to noncontrolling interests	(34)	(200)
Net cash (used for) provided by financing activities	(503)	6,739
Effect of exchange rate changes on cash and cash equivalents	141	(340)
Net decrease in cash and cash equivalents	(474)	(1,560)
Cash and cash equivalents at beginning of period	21,784	20,152

Cash and cash equivalents at end of period	$ 21,310	$ 18,592
Non-cash investing and financing transactions:		
Fair values of restricted stock-based awards and stock options assumed in connection with acquisitions	$	$ 84
Increase (decrease) in unsettled repurchases of common stock	$ 47	$ (70)
Decrease in unsettled investment purchases	$ (303)	$ (130)

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2017

(Unaudited)

1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

We have prepared the condensed consolidated financial statements included herein pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures herein are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017.

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, 2018. Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect total revenues, operating income or net income.

During the first half of fiscal 2017, we adopted Accounting Standards Update (ASU) 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which did not have a material impact to our reported financial position or results of operations. There have been no significant changes in our reported financial position or results of operations and cash flows as a result of our adoption of new accounting pronouncements or changes to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017.

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 November 30, 2017 and May 31, 2017 and our condensed consolidated statements of cash flows for the six months ended November 30, 2017 and 2016 was nominal.

Acquisition Related and Other Expenses

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

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Transitional and other employee related costs	$ 14	$ 8	$ 23	$ 16
Stock-based compensation		11	1	11
Professional fees and other, net	3	22	6	27
Business combination adjustments, net		(1)	(2)	

Total acquisition related and other expenses	$ 17	$ 40	$ 28	$ 54

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2017

(Unaudited)

Non-Operating Income, net

Non-operating income, net consists primarily of interest income, net foreign currency exchange gains (losses), the noncontrolling interests in the net profits of our majority-owned subsidiaries (primarily Oracle Financial Services Software Limited and Oracle Japan) and net other income (losses), including net realized gains and losses related to all of our investments and net unrealized gains and losses related to the small portion of our investment portfolio that we classify as trading.

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	2017	2016	2017	2016
Interest income	$ 279	$ 204	$ 536	$ 381
Foreign currency losses, net	(7)	(69)	(11)	(82)
Noncontrolling interests in income	(28)	(41)	(75)	(76)
Other income, net	29	5	55	24
Total non-operating income, net	$ 273	$ 99	$ 505	$ 247

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 $159 million and $1.0 billion for the three and six months ended November 30, 2017, respectively, and $121 million and $1.0 billion for the three and six months ended November 30, 2016, respectively.

Recent Accounting Pronouncements

Derivatives and Hedging: In August 2017, the Financial Accounting Standards Board (FASB) issued 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. ASU 2017-12 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 2017-12 on our consolidated financial statements.

Retirement Benefits: In March 2017, the FASB issued ASU 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07), which provides guidance on the capitalization, presentation and disclosure of net benefit costs. ASU 2017-07 is effective for us in the first quarter of fiscal 2019. We are currently evaluating the impact of our pending adoption of ASU 2017-07 on our consolidated financial statements.

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

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2017

(Unaudited)

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

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

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and issued subsequent amendments to the initial guidance in September 2017 within ASU 2017-13 (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. Topic 842 is effective for us in our first quarter of fiscal 2020 on a modified retrospective basis, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of 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.

Revenue Recognition: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606* and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016, December 2016, May 2017 and September 2017 within 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, respectively (collectively, Topic 606). Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. Topic 606 also provides guidance on the recognition of costs related to obtaining customer contracts. Topic 606 is effective for us as of our first quarter of fiscal 2019 using either of two methods: (1) retrospective application of Topic 606 to each prior reporting period presented with the option to elect certain practical expedients as defined within Topic 606 or (2) retrospective application of Topic 606 with the cumulative effect of initially applying Topic 606 recognized at the date of initial application and providing certain additional disclosures as defined per Topic 606. The accounting for the recognition of costs related to obtaining customer contracts under Topic 606 is significantly different than our current capitalization policy. The adoption of Topic 606 will result in additional types of costs that will be capitalized. Additionally, it is possible that amounts capitalized will be amortized over a period longer than our current policy. We plan to adopt Topic 606 in the first quarter of fiscal 2019 pursuant to the aforementioned adoption method (1) and we do not believe there will be a material impact to our revenues upon adoption. We are continuing to evaluate the impact to our revenues and costs related to our pending adoption of Topic 606 and our preliminary assessments are subject to change.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2017

(Unaudited)

2. ACQUISITIONS

Fiscal 2017 Acquisition of NetSuite Inc., a Related Party

On November 7, 2016, we completed our acquisition of NetSuite Inc. (NetSuite), a provider of cloud-based enterprise resource planning (ERP) software and related applications and a related party to Oracle. We acquired NetSuite to, among other things, expand our cloud software as a service offerings with a complementary set of cloud ERP and related cloud software applications for customers.

Lawrence J. Ellison, Oracle s Chairman of the Board and Chief Technology Officer and Oracle s largest stockholder, is an affiliate of NetSuite s largest stockholder, NetSuite Restricted Holdings LLC (a single member LLC investment entity whose interests are beneficially owned by a trust controlled by Mr. Ellison), which owned approximately 40% of the issued and outstanding NetSuite Shares immediately prior to the conclusion of the merger.

The total purchase price for NetSuite was approximately $9.1 billion, which consisted of approximately $9.0 billion in cash and $78 million for the fair values of restricted stock-based awards and stock options assumed. In allocating the purchase price based on estimated fair values, we recorded approximately $6.7 billion of goodwill, $3.2 billion of identifiable intangible assets and $763 million of net tangible liabilities. See Note 2 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017 for additional information regarding our acquisition of NetSuite.

Other Fiscal 2017 Acquisitions

During fiscal 2017, we acquired certain companies and purchased certain technology and development assets primarily to expand our cloud-based offerings. These acquisitions were not significant individually or in the aggregate. We have included the financial results of the acquired companies in our condensed consolidated financial statements from their respective acquisition dates, and the results from each of these companies were not individually material to our condensed consolidated financial statements. The total of the purchase prices, certain of which were preliminary, for these acquisitions was approximately $3.0 billion, which consisted of approximately $3.0 billion in cash and $13 million for the fair values of restricted stock-based awards and stock options assumed. As of November 30, 2017, we recorded $244 million of net tangible assets and $948 million of identifiable intangible assets, based on their estimated fair values, and $1.8 billion of residual goodwill related to our fiscal 2017 acquisitions. Certain amounts included in these totals were preliminary and subject to change during the respective measurement periods (up to one year from the respective acquisition dates) as we obtain additional information for the preliminary fair value estimates of the assets acquired and liabilities assumed. The primary areas of those preliminary estimates that are not yet finalized related to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters, income and non-income based taxes and residual goodwill.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, NetSuite and certain other companies that we acquired since the beginning of fiscal 2017 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 2017. 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 2017. The unaudited pro forma financial information as presented below is for informational purposes only and is not

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2017

(Unaudited)

necessarily indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2017.

The unaudited pro forma financial information for the three and six months ended November 30, 2017 presented the historical results of Oracle for the three and six months ended November 30, 2017 as we did not complete any material acquisitions during the first half of fiscal 2018.

The unaudited pro forma financial information for the three and six months ended November 30, 2016 combined the historical results of Oracle for the three and six months ended November 30, 2016, the historical results of NetSuite for the three and six months ended September 30, 2016 (adjusted due to differences in reporting periods and considering the date we acquired NetSuite) and the historical results of certain other companies that we acquired since the beginning of fiscal 2017 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above. The unaudited pro forma financial information was as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions, except per share data)	**2017**	**2016**	**2017**	**2016**
Total revenues	$ 9,621	$ 9,225	$ 18,809	$ 18,126
Net income	$ 2,233	$ 1,914	$ 4,442	$ 3,571
Basic earnings per share	$ 0.54	$ 0.47	$ 1.07	$ 0.87
Diluted earnings per share	$ 0.52	$ 0.46	$ 1.04	$ 0.85

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.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	November 30, 2017			May 31, 2017		
	Fair Value Measurements Using Input Types			Fair Value Measurements Using Input Types		
(in millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Corporate debt securities and other	$ 887	$ 47,540	$ 48,427	$ 580	$ 41,038	$ 41,618
Commercial paper debt securities		3,443	3,443		5,053	5,053
Money market funds	5,500		5,500	3,302		3,302
Derivative financial instruments					40	40
Total assets	$ 6,387	$ 50,983	$ 57,370	$ 3,882	$ 46,131	$ 50,013
Liabilities:						
Derivative financial instruments	$	$ 94	$ 94	$	$ 191	$ 191

Our marketable securities investments consist of Tier 1 commercial paper debt securities, corporate debt securities and certain other securities. As of November 30, 2017 and May 31, 2017, approximately 24% and 32%, respectively, of our marketable securities investments mature within one year and 76% and 68%, respectively, mature within one to six years. Our valuation techniques used to measure the fair values of our marketable securities that were classified as Level 1 in the table above were derived from quoted market prices and active markets for these instruments that exist. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that were corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others.

Based on the trading prices of the $60.9 billion and $54.0 billion of senior notes and the related fair value hedges that were outstanding as of November 30, 2017 and May 31, 2017, respectively, the estimated fair values of the senior notes and the related fair value hedges using Level 2 inputs at November 30, 2017 and May 31, 2017 were $63.6 billion and $56.5 billion, respectively.

4. INVENTORIES

Inventories consisted of the following:

(in millions)	November 30,	May 31,

	2017	2017
Raw materials	$ 288	$ 186
Work-in-process	35	42
Finished goods	113	72
Total inventories	$ 436	$ 300

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5. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2018 and the net book value of intangible assets as of November 30, 2017 and May 31, 2017 were as follows:

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets,	
n millions)	May 31, 2017	Additions & Adjustments, net	November 30, 2017	May 31, 2017	Expense	November 30, 2017	May 31, 2017	Noven 2
d technology	$ 5,397	$ (214)	$ 5,183	$ (2,295)	$ (378)	$ (2,673)	$ 3,102	$
S and IaaS agreements and related relationships	4,105	122	4,227	(1,089)	(301)	(1,390)	3,016	
support agreements and related relationships	1,565		1,565	(559)	(62)	(621)	1,006	
	1,998	18	2,016	(1,443)	(70)	(1,513)	555	
ngible assets, net	$ 13,065	$ (74)	$ 12,991	$ (5,386)	$ (811)	$ (6,197)	$ 7,679	$

Total amortization expense related to our intangible assets was $400 million and $811 million for the three and six months ended November 30, 2017, respectively, and $302 million and $613 million for the three and six months ended November 30, 2016, respectively. As of November 30, 2017, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of fiscal 2018	$ 781
Fiscal 2019	1,411
Fiscal 2020	1,210
Fiscal 2021	1,023
Fiscal 2022	918
Fiscal 2023	567
Thereafter	884
Total intangible assets, net	$ 6,794

The changes in the carrying amounts of goodwill, net, which is generally not deductible for tax purposes, for our operating segments for the six months ended November 30, 2017 were as follows:

(in millions)	Cloud and On-Premise Software	Hardware	Services	Total Goodwill, net
Balances as of May 31, 2017	$ 38,791	$ 2,367	$ 1,887	$ 43,045
Goodwill adjustments, net[1]	(81)			(81)

Balances as of November 30, 2017	$ 38,710	$ 2,367	$ 1,887	$ 42,964

(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).

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6. NOTES PAYABLE AND OTHER BORROWINGS

Senior Notes

In November 2017, we issued $10.0 billion, par value, of fixed-rate senior notes comprised of the following as of November 30, 2017:

		November 30, 2017	
(Dollars in millions)	Date of Issuance	Amount	Effective Interest Rate
$1,250, 2.625%, due February 2023	November 2017	$ 1,250	2.637%
$2,000, 2.95%, due November 2024	November 2017	2,000	2.975%
$2,750, 3.25%, due November 2027	November 2017	2,750	3.263%
$1,750, 3.80%, due November 2037	November 2017	1,750	3.827%
$2,250, 4.00%, due November 2047	November 2017	2,250	4.027%
Total fixed rate senior notes		$ 10,000	
Unamortized discount/issuance costs		(55)	
Total fixed rate senior notes, net		$ 9,945	

We issued the senior notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock, repayment of indebtedness and future acquisitions. The interest is payable semi-annually. We may redeem some or all of the senior notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances.

The senior notes rank pari passu with any other existing and future unsecured and unsubordinated indebtedness of Oracle Corporation. All existing and future indebtedness and liabilities of the subsidiaries of Oracle Corporation are or will be effectively senior to the senior notes. We were in compliance with all debt-related covenants at November 30, 2017.

There have been no other significant changes in our notes payable or other borrowing arrangements that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017.

7. RESTRUCTURING ACTIVITIES

Fiscal 2017 Oracle Restructuring Plan

During fiscal 2017, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations due to our recent acquisitions and certain other operational activities (2017 Restructuring Plan). In the first quarter of fiscal 2018, our management supplemented the 2017 Restructuring Plan to reflect additional actions that we expect to take. The total estimated restructuring costs associated with the 2017 Restructuring Plan are up to $1.1 billion and will be recorded to the restructuring expense line item within our condensed consolidated statements of operations as they are incurred. We recorded $416 million of restructuring expenses in connection with the

2017 Restructuring Plan in the first half of fiscal 2018 and we expect to incur the majority of the estimated remaining $212 million through the end of fiscal 2018. Any changes to the estimates of executing the 2017 Restructuring Plan will be reflected in our future results of operations.

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Summary of All Plans

(in millions)	Accrued May 31, 2017[2]	Six Months Ended November 30, 2017				Accrued November 30, 2017[2]	Total Costs Accrued to Date	Total Expected Program Costs
		Initial Costs[3]	Adj. to Cost[4]	Cash Payments	Others[5]			
Fiscal 2017 Oracle Restructuring Plan[1]								
Cloud and on-premise software	$ 85	$ 92	$ (4)	$ (105)	$ 4	$ 72	$ 266	$ 300
Hardware	31	118	(4)	(46)	1	100	202	241
Services	25	31	(1)	(36)	1	20	88	130
Other	44	178	6	(130)	(6)	92	346	443
Total Fiscal 2017 Oracle Restructuring Plan	$ 185	$ 419	$ (3)	$ (317)	$	$ 284	$ 902	$ 1,114
Total other restructuring plans[6]	$ 79	$ 1	$ 1	$ (24)	$ 4	$ 61		
Total restructuring plans	$ 264	$ 420	$ (2)	$ (341)	$ 4	$ 345		

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

(2) The balances at November 30, 2017 and May 31, 2017 included $318 million and $242 million, respectively, recorded in other current liabilities, and $27 million and $22 million, respectively, recorded in other non-current liabilities.

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

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

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

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

8. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	November 30, 2017	May 31, 2017
Software license updates and product support	$ 5,791	$ 5,952
Cloud SaaS, PaaS and IaaS	1,273	1,192
Hardware	607	640
Services	351	382
New software licenses	54	67
Deferred revenues, current	8,076	8,233
Deferred revenues, non-current (in other non-current liabilities)	597	602
Total deferred revenues	$ 8,673	$ 8,835

Deferred software license updates and product support revenues and deferred hardware revenues substantially represent customer payments made in advance for support contracts that are typically billed on a per annum basis in advance with corresponding revenues being recognized ratably over the support periods. Deferred cloud software as a service (SaaS) and deferred cloud platform as a service (PaaS) and infrastructure as a service (IaaS) revenues generally resulted from customer payments made in advance for our cloud-based offerings that are recognized over the corresponding contractual term. Deferred services revenues include prepayments for our

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services business and revenues for these services are generally recognized as the services are performed. Deferred new software licenses revenues typically resulted from customer payments that relate to undelivered products or specified enhancements, customer specific acceptance provisions, time-based license arrangements and software license transactions that cannot be separated from undelivered consulting or other services.

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

We held certain derivative and non-derivative instruments that were accounted for pursuant to ASC 815, *Derivatives and Hedging* (ASC 815) and that were utilized in a consistent manner as of November 30, 2017 and May 31, 2017 and during the three and six months ended November 30, 2017 and 2016. These instruments include:

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

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

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

We also held certain foreign currency contracts that were not designated as hedges pursuant to ASC 815. As of November 30, 2017 and May 31, 2017, 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 $3.4 billion, respectively, and the notional amount of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were $1.5 billion and $1.4 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal as of November 30, 2017 and May 31, 2017. 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.

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See Note 11 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017 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 and Non-Derivative Instruments Designated as Hedges in Condensed Consolidated Balance Sheets

(in millions)	Balance Sheet Location	Fair Value as of November 30, 2017	Fair Value as of May 31, 2017
Interest rate swap agreements designated as fair value hedges	Other (non-current liabilities) assets	$ (7)	$ 40
Cross-currency swap agreements designated as cash flow hedges	Other non-current liabilities	$ (87)	$ (191)
Foreign currency borrowings designated as net investment hedge	Notes payable, non-current	$ (1,051)	$ (980)

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

	Amount of Gain (Loss) Recognized in Accumulated OCI or OCL (Effective Portion)				Location and Amount of Gain (Loss) Reclassified from Accumulated OCI or OCL into Income (Effective Portion)				
	Three Months Ended November 30,		Six Months Ended November 30,			Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	2017	2016	2017	2016		2017	2016	2017	2016
Cross-currency swap agreements designated as cash flow hedges	$ 19	$ (54)	$ 104	$ (51)	Non-operating income (expense), net	$ (16)	$ (73)	$ 91	$ (72)
Foreign currency borrowings designated as net investment hedge	$ 10	$ 44	$ (54)	$ 43	Not applicable	$	$	$	$

	Location and Amount of Gain (Loss) Recognized in Income on Derivative		Location and Amount of Gain (Loss) on Hedged Item Recognized in Income Attributable to Risk Being Hedged	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended

(in millions)		November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016		November 30, 2017	November 30, 2016	November 30, 2017	November 30, 2016
Interest rate swap agreements designated as fair value hedges	Interest expense	$ (47)	$ (77)	$ (47)	$ (68)	Interest expense	$ 47	$ 77	$ 47	$ 68

10. STOCKHOLDERS EQUITY

Common Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On December 14, 2017, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional $12.0 billion. As of November 30, 2017, approximately $2.8 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 50.9 million shares for $2.5 billion during the six months ended November 30, 2017 (including 1.5 million shares for $73 million that were repurchased but not settled) and 62.0 million shares for $2.5 billion during the six months ended November 30, 2016 under the stock repurchase program.

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

Dividends on Common Stock

During the six months ended November 30, 2017, our Board of Directors declared cash dividends of $0.38 per share of our outstanding common stock, which we paid during the same period.

In December 2017, our Board of Directors declared a quarterly cash dividend of $0.19 per share of our outstanding common stock. The dividend is payable on January 24, 2018 to stockholders of record as of the close of business on January 10, 2018. 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 2018 Stock-Based Awards Activity, Valuation and Compensation Expense

During the first half of fiscal 2018, we issued 38 million restricted stock-based awards and 77 million stock options (consisting of 8 million service-based stock options (SOs) and 69 million performance-based and market-based stock options (PSOs)). 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, with the PSOs primarily having performance-based and market-based vesting restrictions. Our fiscal 2018 stock-based awards issuances were partially offset by forfeitures and cancellations of 13 million shares during the first half of fiscal 2018.

The RSUs and SOs that were granted during the six months ended November 30, 2017 have vesting restrictions, valuations and contractual lives of a similar nature to those described in Note 14 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017.

The fiscal 2018 PSOs granted consist of seven numerically equivalent vesting tranches that potentially may vest. Each of six of the individual vesting tranches are governed by an all or nothing vesting schedule requiring the attainment of both a performance metric and a market capitalization metric, which may be achieved at any time, in order for each individual tranche to fully vest during a five year performance period, assuming continued employment and service through the date the Compensation Committee of the Board of Directors certifies that the last of the two metrics for a particular tranche is attained. The seventh vesting tranche requires attainment of a market-based metric to be achieved at any time during a five year performance period and continued employment and service through the vesting date. The PSOs have contractual lives of eight years in comparison to the ten year contractual lives for the fiscal 2018 SOs issued. We estimated the fair values of the PSOs using a Monte Carlo simulation approach with the following assumptions: risk-free interest rate of 2.14%, expected term of 7 years, expected volatility of 22.44% and dividend yield of 1.49%. Stock-based compensation expense is to be recognized for each of the six performance-based and market-based tranches once each vesting tranche becomes probable of achievement over the longer of the estimated implicit service period for performance-metric achievement or derived service period for market-based metric achievement. We have preliminarily estimated service periods for those tranches that have been deemed probable of achievement to be approximately three to five years. Stock-based compensation for the market-based tranche will be recognized using the derived service period for the market-based metric achievement, which we have initially estimated to be approximately three years.

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

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Cloud SaaS	$ 11	$ 6	$ 20	$ 11
Cloud PaaS and IaaS	2	1	4	2
Software license updates and product support	7	6	14	12
Hardware	3	3	6	6
Services	14	9	28	17
Sales and marketing	98	68	187	133
Research and development	237	188	472	382
General and administrative	46	35	90	72
Acquisition related and other		11	1	11
Total stock-based compensation	$ 418	$ 327	$ 822	$ 646

11. INCOME TAXES

The effective tax rates for each of 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 differs from the tax computed at the U.S. federal statutory income tax rate due primarily to certain earnings considered as indefinitely reinvested in foreign operations, state taxes, the U.S. research and development tax credit, changes in unrecognized tax benefits due to settlements with tax authorities and other events, the tax effects of stock-based compensation and the U.S. domestic production activity deduction. Our effective tax rate was 22.1% and 18.5% for the three and six months ended November 30, 2017, respectively, and 24.3% and 23.6% for the three and six months ended November 30, 2016, respectively.

Recently, proposals that would make fundamental changes in the domestic and international tax laws of the United States have been passed by both houses of Congress, and there appears to be a significant likelihood that changes along these lines will become law. If so, it is likely that different provisions will affect our tax profile in ways that are both favorable and unfavorable with the net effect to be determined by the specific provisions included in any legislation ultimately adopted.

Our net deferred tax assets were $800 million and $683 million as of November 30, 2017 and May 31, 2017, 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 2016. Our U.S. federal income tax returns have been examined for all years prior to fiscal 2007, and we are no longer subject to audit for those periods. Our U.S. state income tax returns, with some exceptions, have been examined for all years prior to fiscal 2004, and we are no longer subject to audit for those periods.

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

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

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

12. SEGMENT INFORMATION

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision makers (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. In recent periods, customer demand has increased at a greater rate for cloud-based IT deployment models relative to on-premise IT deployment models. Our CODMs view the operating results of our three businesses and allocate resources in a manner that is consistent with the changing market dynamics that we have experienced. As a result, in the fourth quarter of fiscal 2017, we updated our operating segments. 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 on-premise software, hardware and services each of which is comprised of a single operating segment.

Our cloud and on-premise software line of business markets, sells and delivers a broad spectrum of applications, platform and infrastructure technologies through our cloud offerings and on-premise software offerings. Our Oracle Cloud SaaS and Cloud PaaS and IaaS offerings deliver certain of our applications, platform and infrastructure technologies on a subscription basis via cloud-based deployment models that we host, manage and support. Our IaaS offerings also include Oracle Managed Cloud Services, which are designed to provide comprehensive software and hardware management, maintenance and security services for on-premise, cloud-based or hybrid IT infrastructures. Our cloud and on-premise software business also licenses our software products, generally on a perpetual basis, including Oracle Applications, Oracle Database, Oracle Fusion

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Middleware and Java, among others, for on-premise and other IT environments. Customers that license our software have the option to purchase software license updates and product support contracts, which provide customers with rights to unspecified software product upgrades and maintenance releases, patch releases, internet access to technical content, as well as internet and telephone access to technical support personnel during the support period.

Our hardware business provides Oracle Engineered Systems, servers, storage, industry-specific hardware, virtualization software, operating systems including the Oracle Solaris Operating System and management software to support diverse IT environments. Our hardware business also includes hardware support, which provides customers with software updates for the software components that are essential to the functionality of the hardware products, such as Oracle Solaris and certain other software, and can 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, platform 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 (fiscal 2017 results have been recast to conform to the current year s presentation):

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Cloud and on-premise software:				
Revenues[1]	$ 7,834	$ 7,212	$ 15,243	$ 14,021
Cloud SaaS, PaaS and IaaS expenses	615	457	1,195	859
Software license updates and product support expenses	240	225	480	481
Sales and marketing expenses	1,776	1,633	3,460	3,229
Margin[2]	$ 5,203	$ 4,897	$ 10,108	$ 9,452
Hardware:				
Revenues	$ 940	$ 1,014	$ 1,884	$ 2,010
Hardware products and support expenses	344	378	709	759
Sales and marketing expenses	154	202	325	404
Margin[2]	$ 442	$ 434	$ 850	$ 847
Services:				
Revenues	$ 856	$ 844	$ 1,716	$ 1,652
Services expenses	683	667	1,348	1,333
Margin[2]	$ 173	$ 177	$ 368	$ 319

Totals:

Revenues[1]	$ 9,630	$ 9,070	$ 18,843	$ 17,683
Expenses	3,812	3,562	7,517	7,065
Margin[2]	$ 5,818	$ 5,508	$ 11,326	$ 10,618

(1) Cloud and on-premise software revenues for management reporting included revenues related to cloud and on-premise software obligations that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our consolidated statements of operations for the periods presented due to business combination accounting requirements. See Note 8 for an explanation of these adjustments and the table below for a reconciliation of our total operating segment revenues to our total consolidated revenues as reported in our consolidated statements of operations.

(2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, general and administrative and certain other allocable expenses, net. Additionally, the margins reported above do not

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(Unaudited)

reflect amortization of intangible assets, acquisition related and other expenses, restructuring expenses, stock-based compensation, interest expense or certain other non-operating income, net.

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

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Total revenues for operating segments	$ 9,630	$ 9,070	$ 18,843	$ 17,683
Cloud and on-premise software revenues[1]	(9)	(35)	(34)	(53)
Total revenues	$ 9,621	$ 9,035	$ 18,809	$ 17,630
Total margin for operating segments	$ 5,818	$ 5,508	$ 11,326	$ 10,618
Cloud and on-premise software revenues[1]	(9)	(35)	(34)	(53)
Research and development	(1,475)	(1,510)	(3,049)	(3,030)
General and administrative	(321)	(303)	(642)	(618)
Amortization of intangible assets	(400)	(302)	(811)	(613)
Acquisition related and other	(17)	(40)	(28)	(54)
Restructuring	(292)	(86)	(416)	(185)
Stock-based compensation for operating segments	(135)	(93)	(259)	(181)
Expense allocations and other, net	(100)	(102)	(197)	(206)
Interest expense	(475)	(451)	(944)	(867)
Non-operating income, net	273	99	505	247
Income before provision for income taxes	$ 2,867	$ 2,685	$ 5,451	$ 5,058

[1] Cloud and on-premise software revenues for management reporting included revenues related to cloud and on-premise software obligations that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our consolidated statements of operations for the periods presented due to business combination accounting requirements. See Note 8 for an explanation of these adjustments and this table for a reconciliation of our total operating segment revenues to our total consolidated revenues as reported in our consolidated statements of operations.

13. EARNINGS PER SHARE

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

(in millions, except per share data)	Three Months Ended November 30, 2017	2016	Six Months Ended November 30, 2017	2016
Net income	$ 2,233	$ 2,032	$ 4,442	$ 3,864
Weighted average common shares outstanding	4,160	4,104	4,158	4,112
Dilutive effect of employee stock plans	123	91	125	96
Dilutive weighted average common shares outstanding	4,283	4,195	4,283	4,208
Basic earnings per share	$ 0.54	$ 0.50	$ 1.07	$ 0.94
Diluted earnings per share	$ 0.52	$ 0.48	$ 1.04	$ 0.92
Shares subject to anti-dilutive restricted stock-based awards and stock options excluded from calculation[(1)]	76	77	53	74

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(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 PSO and PSU arrangements. Such shares could be dilutive in the future.

14. LEGAL PROCEEDINGS

Hewlett-Packard Company Litigation

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

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

The court bifurcated the trial and tried HP s causes of action for declaratory relief and promissory estoppel without a jury in June 2012. The court issued a final statement of decision on August 28, 2012, finding that the Hurd Settlement Agreement required Oracle to continue to develop certain of its software products for use on HP s Itanium-based servers and to port such products at no cost to HP for as long as HP sells those servers (the Phase One Ruling). A jury trial began on May 23, 2016. On June 30, 2016, the jury returned a verdict in favor of HP on its claims for breach of contract and breach of the implied covenant of good faith and fair dealing and against Oracle on its claim for violation of the Lanham Act (the Phase Two Jury Verdict). The jury awarded HP damages in the amount of $3.0 billion, and HP is entitled to post-judgment interest on this award. On August 30, 2016, the court denied HP s motion for pre-judgment interest. Judgment was entered on October 20, 2016. Oracle posted certain court-mandated surety bonds with the court in order to proceed with its motion for a new trial and entered into related indemnification agreements with each of the surety bond issuing companies. Oracle filed a motion for a new trial on November 14, 2016, which was denied.

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

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surrounding the appeal process and the nature of the claims. Litigation is inherently unpredictable, and the outcome of the appeal process related to this action is uncertain. It is possible that the resolution of this action could have a material impact to our future cash flows and results of operations.

Derivative Litigation

On May 3, 2017, a stockholder derivative lawsuit was filed in the Court of Chancery of the State of Delaware. The derivative suit is brought by an alleged stockholder of Oracle, purportedly on Oracle s behalf, against Oracle, our Chairman of the Board of Directors and Chief Technology Officer in his capacities as a director, officer and an alleged controlling stockholder, one of our Chief Executive Officers (who is also a director), three other 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, an order rescinding or reforming the NetSuite transaction, unspecified monetary damages (including interest), attorneys fees and costs, and disgorgement of various unspecified profits, fees, compensation, and benefits. On July 19, 2017, defendants moved to dismiss this complaint.

On July 18, 2017, a second stockholder derivative lawsuit was filed in the Court of Chancery of the State of Delaware, brought by another alleged stockholder of Oracle, purportedly on Oracle s behalf. The suit is brought against all 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 at an excessive price. Plaintiff seeks declaratory relief, unspecified monetary damages (including interest), and attorneys fees and costs.

On August 9, 2017, the court consolidated the two derivative cases, and vacated the scheduling order relating to defendants motion to dismiss the first case. In a September 7, 2017, order, the court appointed plaintiff s counsel in the second case as lead plaintiffs counsel and designated the July 18, 2017 complaint as the operative complaint. The parties agreed to a briefing schedule, which the court approved. Consistent with this schedule, the defendants filed a motion to dismiss on October 27, 2017, and the Plaintiffs filed an opposition on December 15, 2017. The defendants reply to the plaintiffs opposition is due by January 9, 2018 and oral argument is scheduled for January 25, 2018.

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.

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

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

Business Overview

Oracle Corporation provides products and services that address all aspects of corporate information technology (IT) environments applications, platform and infrastructure. Our products are delivered to over 400,000 worldwide customers through a variety of flexible and interoperable IT deployment models including on-premise, cloud-based or hybrid that enable customer choice and that best meet customer IT needs.

Our Oracle Cloud offerings provide a comprehensive and fully integrated stack of applications, platform, compute, storage and networking services in all three primary layers of the cloud: Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS). Our on-premise IT offerings include Oracle Applications, Oracle Database and Oracle Fusion Middleware software, among others; hardware products including Oracle Engineered Systems, servers, storage and industry-specific products, among others; and related support and services. We provide our cloud and on-premise offerings to businesses of many sizes, government agencies, educational institutions and resellers with a sales force positioned to offer the combinations that best suit customer needs.

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

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

As customers deploy with the Oracle Cloud, many are adopting a hybrid IT model whereby certain of their IT instances are deployed using the Oracle Cloud, while other of their IT instances are deployed using Oracle on-premise offerings, with both instances designed with capabilities to be managed as though they are a single instance. Our Oracle Cloud at Customer program provides another deployment option for customers to utilize the Oracle Cloud Machine and Oracle Database Exadata Cloud Machine to bring certain Oracle Cloud SaaS, PaaS and IaaS offerings to a customer s on-premise IT environment to meet data sovereignty, data residency, data

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protection and regulatory business policy requirements, among others, while benefiting from the many advantages of a cloud service.

A selective and active acquisition program is another important element of our corporate strategy. We believe that our acquisitions enhance the products and services that we can offer to customers, expand our customer base, provide greater scale to accelerate innovation, grow our revenues and earnings, and increase stockholder value. In recent years, we have invested billions of dollars to acquire a number of companies, products, services and technologies that add to, are complementary to, or have otherwise enhanced our existing offerings. We expect to continue to acquire companies, products, services and technologies to further our corporate strategy.

In recent periods, customer demand has increased at a greater rate for cloud-based IT deployment models relative to on-premise IT deployment models. To address this demand, we have increased our investments in and focus on the development, marketing and sale of our cloud-based applications, platform and infrastructure technologies resulting in higher growth of our cloud SaaS and cloud PaaS and IaaS revenues as customer preferences have pivoted to the Oracle Cloud for new deployments and as customers migrate to and expand with the Oracle Cloud for their existing on-premise workloads. We expect these trends to continue. We believe that offering customers broad, comprehensive, flexible and interoperable deployment models for our applications, platform and infrastructure technologies is important to our growth strategy and better address customer needs relative to our competitors, many of whom provide fewer offerings and more restrictive deployment models. We enable our customers to evolve and transform to substantially any IT deployment model at whatever pace is most appropriate for them.

We have three businesses: cloud and on-premise software; hardware; and services; each of which comprises a single operating segment. Our chief operating decision makers (CODMs), which include our Chief Executive Officers and Chief Technology Officer, view the operating results of our three businesses and allocate resources in a manner that is consistent with the changing market dynamics that we have experienced in recent periods. As a result, during the fourth quarter of fiscal 2017, we updated our operating segments. The discussion and analysis of financial condition and results of operations presented below provides the current view that is utilized by our CODMs to evaluate performance and determine resource allocations and the prior periods results presented below were recast to conform to the current periods presentation. In addition to the discussion below, Note 12 of Notes to Condensed Consolidated Financial Statements, included elsewhere in this Quarterly Report, provides additional information related to our businesses and operating segments, including the recasting of our segments financial information from prior periods to conform to the current year s presentation.

Cloud and On-Premise Software Business

Our cloud and on-premise software line of business, which represented 80% of our total revenues on a trailing 4-quarter basis, markets, sells and delivers a broad spectrum of applications, platform and infrastructure technologies through our cloud and on-premise software offerings.

Our Oracle Cloud SaaS, PaaS and IaaS offerings deliver applications, platform and infrastructure technologies via cloud-based deployment models that we 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 on-premise, cloud-based, or hybrid IT infrastructure for a stated period. The majority of our SaaS, PaaS and IaaS arrangements have an average duration of approximately three years and we strive to renew these contracts when they are eligible for renewal.

We offer customers the ability to license our software products including Oracle Applications, Oracle Database, Oracle Fusion Middleware and Java, among others, for on-premise and other IT environments. Our new software license transactions are generally perpetual in nature and are generally recognized when unrestricted access to the software license is granted provided all other revenue recognition criteria are met. The timing of a few large software license transactions can substantially affect our quarterly new software licenses revenues, which is different than the typical revenue recognition pattern for our cloud-based offerings in which revenues are generally recognized ratably over the subscription period. New software license customers have the option to purchase software license updates and product support contracts, which grant rights to unspecified product

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upgrades and maintenance releases and patches released during the term of the support period, as well as technical support assistance. Our software license updates and product support contracts are generally one year in duration and are generally billed in advance of the service being performed and are generally recognized as revenues as the software support services are delivered.

Our cloud SaaS, cloud PaaS and IaaS revenues and new software licenses revenues are affected by the strength of general economic and business conditions, governmental budgetary constraints, the strategy for and competitive position of our offerings, our acquisitions, our ability to deliver and renew our cloud contracts with our existing customers and foreign currency rate fluctuations. In recent periods, we have placed significant strategic emphasis on growing our cloud SaaS and cloud PaaS and IaaS revenues, which represented 16% of our total consolidated revenues during each of the second quarter and first half of fiscal 2018, and 12% and 11% of our total consolidated revenues during the second quarter and first half of fiscal 2017, respectively. This emphasis has affected the growth of our new software licenses revenues and, to a lesser extent, has also affected the growth of our software license updates and product support revenues. We expect these trends will continue with the mix of this business revenues continuing to shift toward cloud-based services.

Our software license updates and product support revenues growth is primarily influenced by four factors: (1) the percentage of our software support contract customer base that renews its software support contracts and the percentage of customers that purchase software support contracts in connection with their purchase of a new software license; (2) the pricing of new software support contracts sold in connection with the sale of new software licenses; (3) the pricing of new software licenses sold; and (4) the amount of software support contracts assumed from companies we have acquired. Substantially all of our customers purchase software license updates and product support contracts when they acquire on-premise new software licenses and renew their software license updates and product support contracts when eligible in order to benefit from Oracle s research and development investments that are utilized as a part of unspecified periodic software updates that may be released and that customers with current software support contracts are entitled to.

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

- expected growth in our cloud SaaS offerings and our cloud PaaS and IaaS offerings;
- continued demand for our on-premise software products and related software support, including the high percentage of customers that purchase and renew their software license updates and product support contracts; and
- contributions from our acquisitions.

We believe all of these factors should contribute to future growth in our cloud and on-premise software revenues, which should enable us to continue to make investments in research and development to develop and improve our cloud and on-premise software products and services.

Our cloud and on-premise software 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 new software licenses revenues over those quarterly periods and because the majority of our costs for this business are generally fixed in the short term.

Hardware Business

Our hardware business, which represented 11% 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, virtualization software, operating systems, and management software that are generally recognized as revenues upon delivery to the customer provided all other revenue recognition criteria are met, and also include related hardware support. 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

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software updates for software components that are essential to the functionality of our hardware products, such as Oracle Solaris and certain other software products, and can include product repairs, maintenance services and technical support services. Hardware support contracts are generally priced as a percentage of the net hardware products fees and are generally recognized as revenues as the hardware support services are delivered.

We generally expect our hardware business to have lower operating margins as a percentage of revenues than our cloud and on-premise software business due to the incremental costs we incur to produce and distribute these products and to provide support services, including direct materials and labor costs.

Our quarterly hardware revenues are difficult to predict. Our hardware revenues, cost of hardware and hardware operating margins that we report are affected by: our ability to timely manufacture or deliver a few large hardware transactions; our strategy for and the competitive position of our hardware products relative to competitor offerings; customer demand for competing offerings such as PaaS and IaaS; 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; certain of our acquisitions; and foreign currency rate fluctuations.

Services Business

Our services business helps customers and partners maximize the performance of their investments in Oracle applications, platform and infrastructure technologies. We believe that our services are differentiated based on our focus on Oracle technologies, extensive experience, and broad sets of intellectual property and best practices. Our services offerings include consulting services, advanced support services and education services and represented 9% of our total revenues on a trailing 4-quarter basis. Our services business has lower margins than our cloud and on-premise software and hardware businesses. Our services revenues are impacted by our strategy for and the competitive position of our services; customer demand for our cloud and on-premise software and hardware offerings and the associated services for these offerings; our strategic emphasis on growing our cloud revenues; certain of our acquisitions; general economic conditions; governmental budgetary constraints; personnel reductions in our customers IT departments; and tighter controls over discretionary spending.

Acquisitions

Our selective and active acquisition program is another important element of our corporate strategy. In recent years, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies, including NetSuite Inc. in the second quarter of fiscal 2017.

We expect to continue to acquire companies, products, services and technologies in furtherance of our corporate strategy. Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report provides additional information related to our recent acquisitions.

We believe 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 U.S. Securities and Exchange Commission. GAAP, as set forth within the ASC, requires us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments

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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.

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

During the first half of fiscal 2018, 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, 2017 provides a more complete discussion of our critical accounting policies and estimates.

Results of Operations

Impacts of Acquisitions

The comparability of our operating results in the second quarter and first half of fiscal 2018 compared to the same periods of fiscal 2017 was impacted by our recent acquisitions, including our acquisition of NetSuite Inc. during the second quarter of fiscal 2017. In our discussion of changes in our results of operations from the second quarter and first half of fiscal 2018 compared to the same periods of fiscal 2017, we may qualitatively disclose the impact of our acquired products and services (for the one-year period subsequent to the acquisition date) to the growth in certain of our businesses revenues where such qualitative discussions would be meaningful for an understanding of the factors that influenced the changes in our results of operations. When material, we may also provide quantitative disclosures related to such acquired products and services. Expense contributions from our recent acquisitions for each of the respective period comparisons may not be separately identifiable due to the integration of these businesses into our existing operations, and/or were insignificant to our results of operations during the periods presented.

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

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

although substantially all of our on-premise software license customers, including customers from acquired companies, renew their software license updates and product support contracts when the contracts are eligible for renewal, and we strive to renew cloud SaaS, PaaS and IaaS contracts, the amounts shown as cloud and on-premise software deferred revenues in our Supplemental Disclosure Related to Certain Charges (presented below) are not necessarily indicative of revenue improvements we will achieve upon contract renewals to the extent customers do not renew.

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Seasonality

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

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 statement 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 on-premise software, 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 includes revenues adjustments related to cloud and on-premise software contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our 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 12 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 operating segments because our management does not view the performance of our 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 12 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 of 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, 2017, 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 November 30, 2017 and 2016, our financial statements would reflect reported revenues of $1.19 million in the first half of fiscal 2018 (using 1.19 as the month-end average exchange rate for the period) and $1.05 million in the first half of fiscal 2017

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(using 1.05 as the month-end average exchange rate for the period). The constant currency presentation, however, would translate the results for the three and six months ended November 30, 2017 and 2016 using the May 31, 2017 exchange rate and indicate, in this example, no change in revenues during the period. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

Total Revenues and Operating Expenses

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	**2017**	**Actual**	**Constant**	**2016**	**2017**	**Actual**	**Constant**	**2016**
Total Revenues by Geography:								
Americas	$ 5,306	8%	7%	$ 4,936	$ 10,479	7%	7%	$ 9,752
EMEA[1]	2,802	10%	4%	2,557	5,341	7%	3%	4,971
Asia Pacific[2]	1,513	-2%	-2%	1,542	2,989	3%	3%	2,907
Total revenues	9,621	6%	5%	9,035	18,809	7%	5%	17,630
Total Operating Expenses	6,552	9%	8%	5,998	12,919	8%	7%	11,952
Total Operating Margin	$ 3,069	1%	-1%	$ 3,037	$ 5,890	4%	2%	$ 5,678
Total Operating Margin %	32%			34%	31%			32%
% Revenues by Geography:								
Americas	55%			55%	56%			55%
EMEA	29%			28%	28%			28%
Asia Pacific	16%			17%	16%			17%
Total Revenues by Business:								
Cloud and on-premise software	$ 7,825	9%	7%	$ 7,177	$ 15,209	9%	7%	$ 13,968
Hardware	940	-7%	-9%	1,014	1,884	-6%	-8%	2,010
Services	856	1%	0%	844	1,716	4%	2%	1,652
Total revenues	$ 9,621	6%	5%	$ 9,035	$ 18,809	7%	5%	$ 17,630
% Revenues by Business:								
Cloud and on-premise software	81%			80%	81%			79%
Hardware	10%			11%	10%			12%
Services	9%			9%	9%			9%

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

(2) The Asia Pacific region includes Japan

Excluding the effects of foreign currency rate variations, our total revenues increased in the second quarter and first half of fiscal 2018 relative to the corresponding prior year periods primarily due to growth in our cloud and on-premise software revenues, partially offset by a decrease in our hardware revenues. The constant currency increases in our cloud and on-premise software revenues during the fiscal 2018 periods presented were attributable to growth in our cloud SaaS and cloud PaaS and IaaS revenues, growth in our software license updates and product support revenues, and revenue contributions from our recent acquisitions. The constant currency decreases in our hardware revenues during the fiscal 2018 periods presented were due to reductions in our hardware products revenues and hardware support revenues as we continued to place emphasis on the development, marketing and sale of our cloud-based infrastructure technologies.

Excluding the effects of foreign currency rate variations, our total operating expenses increased during the second quarter and first half of fiscal 2018 relative to the corresponding prior year periods primarily due to higher cloud SaaS and cloud PaaS and IaaS expenses resulting primarily from increased headcount and infrastructure expenses to support the increases in our cloud SaaS and cloud PaaS and IaaS revenues; higher sales and marketing expenses; increased stock-based compensation expenses; increased restructuring expenses; and higher intangible asset

amortization due to additional amortization from intangible assets that we acquired in connection with our acquisition of NetSuite and other recently acquired companies. These constant currency expense increases in the fiscal 2018 periods presented were partially offset by certain reduced operating expenses

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during the fiscal 2018 periods relative to the corresponding prior year periods, primarily lower hardware products costs and lower hardware employee related expenses, which aligned to lower hardware revenues.

In constant currency, our total operating margin and operating margin as a percentage of revenues decreased during the second quarter of fiscal 2018 as our total expenses, primarily cloud-based expenses, restructuring expenses and amortization of intangibles, grew at a faster rate than our total revenues in the second quarter of fiscal 2018 relative to the prior year period. In constant currency, our total operating margin increased during the first half of fiscal 2018 due to the increase in our total revenues; and operating margin as a percentage of total revenues decreased during the first half of fiscal 2018 as our total expenses grew at a faster rate than our total revenues.

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. You should review the introduction under Impact of Acquisitions (above) for a discussion of the inherent limitations in comparing pre- and post-acquisition information.

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

	Three Months Ended November 30,		Six Months Ended November 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Cloud and on-premise software deferred revenues[1]	$ 9	$ 35	$ 34	$ 53
Acquired deferred sales commissions amortization[2]	(5)	(9)	(16)	(9)
Amortization of intangible assets[3]	400	302	811	613
Acquisition related and other[4][6]	17	40	28	54
Restructuring[5]	292	86	416	185
Stock-based compensation, operating segments[6]	135	93	259	181
Stock-based compensation, R&D and G&A[6]	283	223	562	454
Income tax effects[7]	(374)	(228)	(885)	(486)
	$ 757	$ 542	$ 1,209	$ 1,045

(1) In connection with our acquisitions, we have estimated the fair values of the cloud SaaS and cloud PaaS and IaaS subscription obligations assumed. Due to our application of business combination accounting rules, we did not recognize the cloud SaaS and cloud PaaS and IaaS, 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) Certain acquired companies capitalized sales commissions associated with subscription agreements and amortized these amounts over the related contractual terms. Business combination accounting rules generally require us to eliminate these acquired capitalized sales commissions balances as of the acquisition date and our post-combination GAAP sales and marketing expenses generally do not reflect the amortization of these acquired deferred sales commissions balances. This adjustment is intended to include, and thus reflect, the full amount of amortization related to such balances as though the acquired companies operated independently in the periods presented.

(3) Represents the amortization of intangible assets, substantially all of which were acquired in connection with our acquisitions. As of November 30, 2017, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of fiscal 2018	$ 781
Fiscal 2019	1,411

Fiscal 2020	1,210
Fiscal 2021	1,023
Fiscal 2022	918
Fiscal 2023	567
Thereafter	884
Total intangible assets, net	$ 6,794

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

(5) Restructuring expenses during the first half of fiscal 2018 and 2017 primarily related to employee severance in connection with our Fiscal 2017 Oracle Restructuring Plan (2017 Restructuring Plan). Additional information regarding certain of our restructuring plans is provided in the discussion below under Restructuring Expenses , Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report, and in Note 9 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017.

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2017	2016	2017	2016
Cloud SaaS	$ 11	$ 6	$ 20	$ 11
Cloud PaaS and IaaS	2	1	4	2
Software license updates and product support	7	6	14	12
Hardware	3	3	6	6
Services	14	9	28	17
Sales and marketing	98	68	187	133
Stock-based compensation, operating segments	135	93	259	181
Research and development	237	188	472	382
General and administrative	46	35	90	72
Acquisition related and other		11	1	11
Total stock-based compensation	$ 418	$ 327	$ 822	$ 646

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

(7) The income tax effects presented were calculated as if the above described charges were not included in our results of operations for each of the respective periods presented. Income tax effects for the second quarter and first half of fiscal 2018 were calculated based on the applicable jurisdictional tax rates applied to the items within the table above and resulted in effective tax rates of 25.2% and 25.1%, respectively, instead of 22.1% and 18.5%, respectively, which represented our effective tax rates as derived per our condensed consolidated statements of operations, primarily due to the net tax effects on stock-based compensation expense and acquisition related items, including the tax effects of amortization of intangible assets. Income tax effects for the second quarter and first half of fiscal 2017 were calculated reflecting effective tax rates of 25.5% and 25.5%, respectively, instead of 24.3% and 23.6%, respectively, which represented our effective tax rates as derived per our condensed consolidated statements of operations, primarily due to the net tax effects of acquisition related items, including the tax effects of amortization of intangible assets and the net tax effects of stock-based compensation.

Cloud and On-Premise Software Business

Our cloud and on-premise software business engages in the sale, marketing and delivery of our cloud SaaS and cloud PaaS and IaaS offerings and the licensing of our software for on-premise and other IT environments with the option to purchase software license updates and product support contracts. Our cloud SaaS and cloud PaaS and IaaS offerings are generally subscription based and generally recognized as revenues over the subscription period. New software licenses 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 on-premise and other IT environments and are generally recognized when unrestricted access to the software license is granted provided all other revenue recognition criteria are met. Software license updates and product support revenues are typically generated through the sale of software support contracts related to on-premise new software licenses purchased by our customers at their option and are generally recognized as revenues ratably over the contractual term. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market our offerings through indirect channels. Costs associated with our cloud and on-premise software business are included in cloud SaaS, PaaS and IaaS expenses, software license updates and product support expenses, and sales and marketing expenses. These costs are largely personnel and

infrastructure related including the cost of providing our cloud SaaS, PaaS, IaaS and

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software support offerings, salaries and commissions earned by our sales force for the sale of our cloud and software offerings, and marketing program costs.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Cloud and On-Premise Software Revenues:								
Americas[1]	$ 4,418	9%	9%	$ 4,035	$ 8,695	10%	9%	$ 7,930
EMEA[1]	2,259	12%	7%	2,008	4,279	9%	5%	3,911
Asia Pacific[1]	1,157	-1%	-1%	1,169	2,269	4%	4%	2,180
Total revenues[1]	7,834	9%	7%	7,212	15,243	9%	7%	14,021
Expenses:								
Cloud SaaS, PaaS and IaaS[2]	615	34%	33%	457	1,195	39%	38%	859
Software license updates and product support[2]	240	7%	6%	225	480	0%	-1%	481
Sales and marketing[2]	1,776	8%	6%	1,633	3,460	7%	5%	3,229
Total expenses[2]	2,631	13%	11%	2,315	5,135	12%	11%	4,569
Total Margin	$ 5,203	6%	5%	$ 4,897	$ 10,108	7%	6%	$ 9,452
Total Margin %	66%			68%	66%			67%
% Revenues by Geography:								
Americas	56%			56%	57%			56%
EMEA	29%			28%	28%			28%
Asia Pacific	15%			16%	15%			16%
Revenues by Offerings:								
Cloud software as a service[1]	$ 1,130	49%	47%	$ 759	$ 2,219	55%	54%	$ 1,434
Cloud platform as a service and infrastructure as a service[1]	398	22%	20%	328	801	25%	24%	639
New software licenses	1,353	0%	-2%	1,347	2,319	-2%	-4%	2,377
Software license updates and product support[1]	4,953	4%	2%	4,778	9,904	3%	2%	9,571
Total cloud and on-premise software revenues[1]	$ 7,834	9%	7%	$ 7,212	$ 15,243	9%	7%	$ 14,021
% Revenues by Offerings:								
Cloud software as a service[1]	14%			11%	15%			10%
Cloud platform as a service and infrastructure as a service[1]	5%			5%	5%			5%
New software licenses	17%			18%	15%			17%
Software license updates and product support[1]	64%			66%	65%			68%

(1) Includes cloud and on-premise software revenue adjustments related to certain cloud and software 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 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 on-premise software business increased in the second quarter and first half of fiscal 2018 relative to the corresponding prior year periods due to growth in our cloud SaaS and cloud PaaS and IaaS revenues, growth in our software license updates and product support revenues and revenue contributions from our recent acquisitions, including our acquisition of NetSuite. The increases in our cloud SaaS and cloud PaaS and IaaS revenues during the fiscal 2018 periods presented were primarily due to the continued strategic emphasis we placed on selling, marketing and growing our cloud offerings and we expect these revenue trends will continue. The increases in software license updates and product support revenues during the fiscal 2018 periods presented were a result of substantially all customers electing to purchase software support contracts in conjunction with their purchase of new software licenses,

and due to the renewal of substantially all of the software support customer base eligible for renewal during the trailing 4-quarter period. During the second quarter of fiscal 2018, constant currency revenues grew in the Americas and EMEA regions and were partially offset by modest revenue declines in the Asia Pacific region

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for this segment. During the first half of fiscal 2018, the Americas region contributed 72%, the EMEA region contributed 19% and the Asia Pacific region contributed 9% of constant currency revenues growth for this segment.

In constant currency, total cloud and on-premise software expenses increased in the fiscal 2018 periods presented relative to the corresponding prior year periods primarily due to higher cloud SaaS, PaaS and IaaS expenses resulting primarily from increased headcount and technology infrastructure expenses that were incurred to support the related cloud SaaS and cloud PaaS and IaaS revenues increases; and higher sales and marketing expenses resulting from increased headcount.

Excluding the effects of currency rate fluctuations, our cloud and on-premise software segment s total margin increased during the fiscal 2018 periods presented relative to the corresponding prior year periods due to the increases in revenues during the fiscal 2018 periods. Total margin as a percentage of revenues for this segment decreased during the fiscal 2018 periods presented relative the corresponding prior year periods as total fiscal 2018 expenses grew at a faster rate than total fiscal 2018 revenues.

Hardware Business

Our hardware business revenues are generated from the sales of our Oracle Engineered Systems, computer server, storage, and industry-specific hardware products for on-premise IT environments that are generally recognized as revenues upon delivery to the customer provided all other revenue recognition criteria are met. 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. 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.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Hardware Revenues:								
Americas	$ 482	-5%	-6%	$ 510	$ 968	-7%	-7%	$ 1,036
EMEA	272	-8%	-12%	295	543	-5%	-8%	569
Asia Pacific	186	-11%	-12%	209	373	-8%	-8%	405
Total revenues	940	-7%	-9%	1,014	1,884	-6%	-8%	2,010
Expenses:								
Hardware products and support[(1)]	344	-9%	-11%	378	709	-7%	-8%	759
Sales and marketing[(1)]	154	-23%	-25%	202	325	-19%	-21%	404
Total expenses[(1)]	498	-14%	-16%	580	1,034	-11%	-13%	1,163
Total Margin	$ 442	2%	0%	$ 434	$ 850	0%	-1%	$ 847
Total Margin %	47%			43%	45%			42%
% Revenues by Geography:								
Americas	51%			50%	51%			52%
EMEA	29%			29%	29%			28%
Asia Pacific	20%			21%	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.

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Excluding the effects of currency rate fluctuations, total hardware revenues decreased in the second quarter and first half of fiscal 2018, relative to the second quarter and first half of fiscal 2017, due to our continued emphasis on the development, marketing and sale of our cloud-based infrastructure technologies, which resulted in reduced sales volumes of many of our on-premise hardware product lines and also impacted the volume of customers that purchased hardware support contracts during the fiscal 2018 periods.

Excluding the effects of currency rate fluctuations, total hardware expenses decreased in the fiscal 2018 periods presented, relative to the fiscal 2017 periods presented, due primarily to lower hardware products costs and lower employee related expenses, which aligned to lower hardware revenues.

In constant currency, total margin for our hardware segment was flat during the second quarter of fiscal 2018 and decreased slightly during the first half of fiscal 2018 due to revenue declines in the fiscal 2018 periods, which were generally offset by expense declines in the fiscal 2018 periods, in each case relative to the corresponding prior year periods. In constant currency, total margin as a percentage of revenues increased for this segment during the fiscal 2018 periods presented relative to the corresponding prior year periods primarily due to lower fiscal 2018 expenses for this segment.

Services Business

We offer services to customers and partners to help to maximize the performance of their investments in Oracle applications, platform and infrastructure technologies. Services revenues are generally recognized 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.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Services Revenues:								
Americas	$ 415	-3%	-3%	$ 426	$ 850	1%	1%	$ 839
EMEA	270	6%	1%	254	519	6%	2%	491
Asia Pacific	171	5%	5%	164	347	8%	8%	322
Total revenues	856	1%	0%	844	1,716	4%	2%	1,652
Total Expenses[(1)]	683	2%	0%	667	1,348	1%	-1%	1,333
Total Margin	$ 173	-2%	-3%	$ 177	$ 368	15%	15%	$ 319
Total Margin %	20%			21%	21%			19%
% Revenues by Geography:								
Americas	48%			50%	50%			50%
EMEA	32%			30%	30%			30%
Asia Pacific	20%			20%	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 Second Quarter 2018 Compared to Fiscal Second Quarter 2017: Excluding the effects of currency rate fluctuations, our total services revenues and expenses were flat in the second quarter of fiscal 2018. Constant currency increases in our consulting revenues and expenses during the second quarter of fiscal 2018, which were primarily attributable to our recent acquisitions, were offset by declines in other services revenues and expenses. In constant currency, revenues growth in the EMEA and Asia Pacific regions was offset by a decrease in revenues in the Americas region during the second quarter of fiscal 2018.

In constant currency, total margin and margin as a percentage of total services revenues decreased modestly.

First Half Fiscal 2018 Compared to First Half Fiscal 2017: Excluding the effects of currency rate fluctuations, our total services revenues increased in the first half of fiscal 2018 primarily due to constant currency increases in our consulting revenues, which were primarily

attributable to our recent acquisitions. The

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Americas region contributed 13%, the EMEA region contributed 24%, and the Asia Pacific region contributed 63% of the constant currency services revenues growth during the first half of fiscal 2018.

In constant currency, total services expenses decreased and total margin and total margin as a percentage of revenues increased during the first half of fiscal 2018 primarily due to a $30 million charge recorded during the first half of fiscal 2017, which increased our expenses in this period.

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

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Research and development[1]	$ 1,238	-6%	-7%	$ 1,322	$ 2,577	-3%	-4%	$ 2,648
Stock-based compensation	237	27%	27%	188	472	23%	23%	382
Total expenses	$ 1,475	-2%	-3%	$ 1,510	$ 3,049	1%	0%	$ 3,030
% of Total Revenues	15%			17%	16%			17%

(1) Excluding stock-based compensation

On a constant currency basis, total research and development expenses decreased during the second quarter of fiscal 2018 and were flat in the first half of fiscal 2018, each relative to the corresponding prior year periods, primarily due to lower fiscal 2018 employee related expenses related to lower headcount resulting from the restructuring of certain of our research and development operations. These fiscal 2018 cost savings were partially offset by investments in the development of our cloud-based offerings and by higher stock-based compensation during the fiscal 2018 periods relative to the corresponding prior year periods.

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

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
General and administrative[1]	$ 275	3%	2%	$ 268	$ 552	1%	0%	$ 546
Stock-based compensation	46	34%	34%	35	90	25%	25%	72
Total expenses	$ 321	6%	5%	$ 303	$ 642	4%	3%	$ 618
% of Total Revenues	3%			3%	3%			4%

(1) Excluding stock-based compensation

On a constant currency basis, total general and administrative expenses increased during the fiscal 2018 periods presented relative to the corresponding prior year periods due primarily to increased employee related expenses associated with higher headcount and higher stock-based compensation expenses, partially offset by lower professional services expenses that were primarily legal related.

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

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Developed technology	$ 188	31%	31%	$ 144	$ 378	35%	35%	$ 280
SaaS, PaaS and IaaS agreements and related relationships	150	76%	76%	85	301	103%	103%	148
Software support agreements and related relationships	31	0%	0%	31	62	-2%	-2%	63
Other	31	-26%	-26%	42	70	-43%	-43%	122
Total amortization of intangible assets	$ 400	33%	33%	$ 302	$ 811	32%	32%	$ 613

Amortization of intangible assets increased during the fiscal 2018 periods presented relative to the corresponding prior year periods due to additional amortization from intangible assets that we acquired in connection with our recent acquisitions, primarily our acquisition of NetSuite.

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

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Transitional and other employee related costs	$ 14	81%	76%	$ 8	$ 23	48%	44%	$ 16
Stock-based compensation		-109%	-109%	11	1	-97%	-97%	11
Professional fees and other, net	3	-86%	-86%	22	6	-77%	-77%	27
Business combination adjustments, net		-103%	-103%	(1)	(2)	*	*	
Total acquisition related and other expenses	$ 17	-58%	-59%	$ 40	$ 28	-48%	-48%	$ 54

* Not meaningful

On a constant currency basis, acquisition related and other expenses decreased in the fiscal 2018 periods presented, relative to the corresponding prior year periods, primarily due to lower stock-based compensation expenses and lower professional fees.

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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 may also include charges for duplicate facilities and other contract termination costs to improve our cost structure prospectively. For additional information regarding our restructuring plans, see Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report and Note 9 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Restructuring expenses	$ 292	241%	227%	$ 86	$ 416	125%	118%	$ 185

Restructuring expenses in the fiscal 2018 and 2017 periods presented primarily related to our 2017 Restructuring Plan. Our management approved, committed to and initiated the 2017 Restructuring Plan in order to restructure and further improve efficiencies in our operations. In the first quarter of fiscal 2018, our management supplemented the 2017 Restructuring Plan to reflect additional actions that we expect to take. The total estimated restructuring costs associated with the 2017 Restructuring Plan are up to $1.1 billion and will be recorded to the restructuring expense line item within our condensed consolidated statements of operations as they are incurred. The total estimated remaining restructuring costs associated with the 2017 Restructuring Plan were approximately $212 million as of November 30, 2017 and the majority of the remaining costs are expected to be incurred through the end of fiscal 2018. Our estimated costs are subject to change in future periods.

The majority of the initiatives undertaken by our 2017 Restructuring Plan were effected to implement our continued move toward developing, marketing and selling our cloud-based offerings. These initiatives impacted certain of our sales and marketing and research and development operations. Cost savings that are expected to be realized pursuant to our 2017 Restructuring Plan initiatives are primarily expected to be offset by investments in resources and geographies that best address the development, marketing and sale of our cloud-based offerings as customer preferences pivot to the Oracle Cloud.

Interest Expense:

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Interest expense	$ 475	5%	5%	$ 451	$ 944	9%	9%	$ 867

Interest expense increased in the fiscal 2018 periods presented relative to the corresponding prior year periods, primarily due to higher average borrowings resulting from our issuance of $10.0 billion of senior notes in November 2017 (refer to Recent Financing Activities presented below for additional information), which was partially offset by a reduction in interest expense resulting from the maturity and repayment of $3.5 billion of senior notes during the first half of fiscal 2018.

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Non-Operating Income, net: Non-operating income, net consists primarily of interest income, net foreign currency exchange gains (losses), the noncontrolling interests in the net profits of our majority-owned subsidiaries (primarily Oracle Financial Services Software Limited and Oracle Japan) and net other income (losses), including net realized gains and losses related to all of our investments and net unrealized gains and losses related to the small portion of our investment portfolio that we classify as trading.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Interest income	$ 279	37%	36%	$ 204	$ 536	41%	40%	$ 381
Foreign currency losses, net	(7)	-90%	-92%	(69)	(11)	-87%	-89%	(82)
Noncontrolling interests in income	(28)	-31%	-31%	(41)	(75)	-1%	-1%	(76)
Other income, net	29	445%	442%	5	55	126%	125%	24
Total non-operating income, net	$ 273	176%	178%	$ 99	$ 505	104%	105%	$ 247

On a constant currency basis, our non-operating income, net increased during the fiscal 2018 periods presented, relative to the fiscal 2017 periods presented, primarily due to higher interest income resulting from higher cash, cash equivalent and short-term investment balances and higher interest rates, and lower foreign currency losses, net.

Provision for Income Taxes: Our effective tax rate in all periods is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to certain earnings considered as indefinitely reinvested in foreign operations, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based compensation and the U.S. domestic production activity deduction. 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. Recently, proposals that would make fundamental changes in the domestic and international tax laws of the United States have been passed by both houses of Congress, and there appears to be a significant likelihood that changes along these lines will become law. If so, it is likely that different provisions will affect our tax profile in ways that are both favorable and unfavorable with the net effect to be determined by the specific provisions included in any legislation ultimately adopted.

	Three Months Ended November 30,				Six Months Ended November 30,			
		Percent Change				Percent Change		
(Dollars in millions)	2017	Actual	Constant	2016	2017	Actual	Constant	2016
Provision for income taxes	$ 634	-3%	-3%	$ 653	$ 1,009	-15%	-16%	$ 1,194
Effective tax rate	22.1%			24.3%	18.5%			23.6%

Provision for income taxes decreased in the second quarter and first half of fiscal 2018, relative to the corresponding prior year periods, in substantial part due to the favorable impact of excess tax benefits recognized on stock-based compensation expense and, in the first half of fiscal 2018, a favorable change in the jurisdictional mix of earnings. These decreases during the fiscal 2018 periods were partially offset by higher income before provision for income taxes during the fiscal 2018 periods presented.

Liquidity and Capital Resources

(Dollars in millions)	November 30, 2017	Change	May 31, 2017
Working capital	$ 63,051	25%	$ 50,337
Cash, cash equivalents and marketable securities	$ 71,580	8%	$ 66,078

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Working capital: The increase in working capital as of November 30, 2017 in comparison to May 31, 2017 was primarily due to the issuance of $10.0 billion of long-term senior notes in November 2017 (refer to Recent Financing Activities Below for additional information), the favorable impacts to our net current assets resulting from our net income during the first half of fiscal 2018 and proceeds from stock option exercises. These favorable working capital movements were partially offset by cash used for repurchases of our common stock, cash used to pay dividends to our stockholders and cash used for capital expenditures during the first half of fiscal 2018. 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 Tier-1 commercial paper debt securities, corporate debt securities and certain other securities. The increase in cash, cash equivalents and marketable securities at November 30, 2017 in comparison to May 31, 2017 was primarily due to the issuance of $10.0 billion of senior notes (refer to Recent Financing Activities Below for additional information), cash inflows generated by our operations and cash inflows from stock option exercises during the first half of fiscal 2018. These cash inflows were partially offset by certain cash outflows, primarily the repayment of $7.3 billion of borrowings, repurchases of our common stock, payments of cash dividends to our stockholders and cash used for capital expenditures. Cash, cash equivalents and marketable securities included $58.5 billion held by our foreign subsidiaries as of November 30, 2017, a significant portion of which was generated from the earnings of these foreign subsidiaries that we consider as indefinitely reinvested in our foreign operations outside the United States. These undistributed earnings that are considered as indefinitely reinvested overseas would be subject to U.S. income tax if repatriated to the United States and current tax proposals that are being contemplated by Congress could require some or all of these earnings to be repatriated. 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 weakened against certain major international currencies during the first half of fiscal 2018, the amount of cash, cash equivalents and marketable securities that we reported in U.S. Dollars for these subsidiaries increased on a net basis as of November 30, 2017 relative to what we would have reported using constant currency rates from the May 31, 2017 balance sheet date.

Days sales outstanding, which we calculate by dividing period end accounts receivable by average daily sales for the quarter, was 36 days at November 30, 2017 compared with 44 days at May 31, 2017. The days sales outstanding calculation excludes the impact of any revenue adjustments resulting from business combinations that reduced our acquired cloud and on-premise software obligations to fair value.

	Six Months Ended November 30,		
(Dollars in millions)	**2017**	**Change**	**2016**
Net cash provided by operating activities	$ 7,416	7%	$ 6,961
Net cash used for investing activities	$ (7,528)	-50%	$ (14,920)
Net cash (used for) provided by financing activities	$ (503)	107%	$ 6,739

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

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Net cash provided by operating activities increased during the first half of fiscal 2018 due primarily to higher net income partially offset by certain unfavorable working capital movements during the first half of fiscal 2018 relative to the corresponding prior year period.

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

Net cash used for investing activities decreased in the first half of fiscal 2018 relative to the first half of fiscal 2017 due primarily to a decrease in cash used for acquisitions, net of cash acquired.

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

Net cash used for financing activities in the first half of fiscal 2018 was $503 million in comparison to net cash provided by financing activities of $6.7 billion in the first half of fiscal 2017. The decrease in financing activities cash flows during the first half of fiscal 2018 relative to the first half of fiscal 2017 was primarily due to debt related cash flows for which we had $2.6 billion of cash inflows from borrowings, net of repayments, in the first half of fiscal 2018 in comparison to $10.2 billion of cash inflows form borrowings, net of repayments, in the first half of fiscal 2017.

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:

	Trailing 4-Quarters Ended November 30,		
(Dollars in millions)	**2017**	**Change**	**2016**
Net cash provided by operating activities	$ 14,581	2%	$ 14,249
Capital expenditures	(2,037)	27%	(1,604)
Free cash flow	$ 12,544	-1%	$ 12,645
Net income	$ 9,914		$ 8,820
Free cash flow as percent of net income	127%		143%

Long-Term Customer Financing: 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 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 $442 million and $268 million, respectively, or approximately 19% and 11%, respectively, of our new software licenses revenues in the first half of fiscal 2018 and 2017.

Recent Financing Activities:

Common Stock Repurchases: Our Board of Directors has approved a program for us to repurchase shares of our common stock. On December 14, 2017, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional $12.0 billion. As of November 30, 2017, approximately $2.8 billion remained available for stock repurchases pursuant to our stock repurchase program prior to the December 2017 program expansion. 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

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market purchases or pursuant to a Rule 10b5-1 plan. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

Senior Notes: In November 2017, we issued $10.0 billion of senior notes comprised of the following:

$1.25 billion of 2.625% senior notes due February 2023;

$2.00 billion of 2.95% senior notes due November 2024;

$2.75 billion of 3.25% senior notes due November 2027;

$1.75 billion of 3.80% senior notes due November 2037; and

$2.25 billion of 4.00% senior notes due November 2047.

We issued the senior notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock, repayment of indebtedness and future acquisitions. Additionally, during the first half of fiscal 2018, we repaid $3.5 billion of senior notes pursuant to their terms. Additional details regarding the senior notes are included in Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report and Note 8 of Notes to Condensed Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017. There have been no other significant changes in our notes payable or other borrowing arrangements that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017.

Contractual Obligations: During the first half of fiscal 2018, 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, 2017.

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, 2014 has been a weighted-average annualized rate of 1.2% per year. The potential dilution percentage is calculated as the average annualized new restricted stock-based awards or 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 November 30, 2017, which generally have a ten-year exercise period, 17.3% 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 have recently reduced the level of our stock repurchases and 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 November 30, 2017, the maximum potential dilution from all outstanding

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restricted stock-based awards and unexercised stock options, regardless of when granted and regardless of whether vested or unvested and including stock options where the strike price is higher than the market price as of such date, was 10.5%.

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 half of fiscal 2018. 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, 2017 for a more complete discussion of the market risks we encounter.

Item 4. Controls and Procedures

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

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

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The material set forth in Note 11 (pertaining to information regarding contingencies related to our income taxes) and Note 14 (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, 2017. 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 December 14, 2017, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional $12.0 billion. As of November 30, 2017, approximately $2.8 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 November 30, 2017 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
September 1, 2017 September 30, 2017	9.1	$ 48.73	9.1	$ 4,407.7
October 1, 2017 October 31, 2017	16.2	$ 49.24	16.2	$ 3,610.0
November 1, 2017 November 30, 2017	15.4	$ 49.42	15.4	$ 2,848.4
Total	40.7	$ 49.20	40.7	

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Item 6. Exhibits

Exhibit		Incorporated by Reference				
No.	**Exhibit Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed By**
4.14	Form of 2.625% Notes due 2023, 2.950% Notes due 2024, 3.250% Notes due 2027, 3.800% Notes due 2037 and 4.000% Notes due 2047, together with Officers' Certificate issued November 9, 2017 setting forth the terms of the Notes	8-K	001-35992	4.1	11/9/17	Oracle Corporation
10.04*	Oracle Corporation Amended and Restated 2000 Long-Term Equity Incentive Plan, as approved on November 15, 2017	8-K	001-35992	10.04	11/17/17	Oracle Corporation
31.01	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer					
31.02	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive and Financial Officer					
32.01	Section 1350 Certification of Principal Executive Officers and Principal Financial Officer					
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of November 30, 2017 and May 31, 2017, (ii) Condensed Consolidated Statements of Operations for the three and six months ended November 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended November 30, 2017 and 2016, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended November 30, 2017 and 2016 and (v) Notes to Condensed Consolidated Financial Statements					

* Indicates management contract or compensatory plan or arrangement.

Filed herewith.

Furnished herewith.

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SIGNATURES

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

ORACLE CORPORATION

Date: December 18, 2017

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

(Principal Executive and Financial Officer)

Date: December 18, 2017

By: /s/ WILLIAM COREY WEST
William Corey West
Executive Vice President, Corporate Controller

and Chief Accounting Officer