ORACLE CORP
Form 10-Q
March 22, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 2013

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: 000-51788

Oracle Corporation

(Exact name of registrant as specified in its charter)

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

(650) 506-7000

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of registrant s common stock outstanding as of March 15, 2013 was: 4,710,658,000.

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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 to continue to acquire companies, products, services and technologies;

our expectation that our software business total revenues generally will continue to increase;

our belief that software license updates and product support revenues and margins will grow;

our expectation that our hardware business will have lower operating margins as a percentage of revenues than our software business;

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

our expectation to continue to make significant investments in research and development and related product opportunities, including those related to hardware products and services;

our expectation to grow our consulting revenues;

the sufficiency of our sources of funding for acquisitions or other matters;

the payment of future dividends and our Board of Directors next opportunity to consider and approve a dividend;

our belief that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits and that any settlement will not have a material adverse effect on our consolidated financial position or results of operations;

our belief that certain legal proceedings and claims to which we are a party will not, individually or in the aggregate, result in losses that are materially in excess of amounts already recognized, if any;

our expectation to incur the majority of the remaining expenses pursuant to the Fiscal 2013 Oracle Restructuring Plan through fiscal 2014 and our expectation to improve efficiencies in our operations that will impact our Fiscal 2013 Oracle Restructuring Plan;

our expectation that to the extent customers renew support contracts or cloud software subscriptions contracts, we will recognize revenues for the full contracts values over the respective renewal periods;

our experience and ability to predict future quarterly hardware systems products revenues;

the timing of customer orders and delays in our ability to manufacture or deliver a few large transactions substantially affecting the amount of hardware systems products revenues, expenses and operating margins that we will report;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may be preceded by, followed by or include the words expects, anticipates, intends, plans, believes, seeks, estimates, will, 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 Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for our fiscal year ended May 31, 2012 and our other Quarterly Reports on Form 10-Q filed by us in our fiscal year 2013, which runs from June 1, 2012 to May 31, 2013.

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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 February 28, 2013 and May 31, 2012

(Unaudited)

(in millions, except per share data)	February 28, 2013	May 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,101	$ 14,955
Marketable securities	17,306	15,721
Trade receivables, net of allowances for doubtful accounts of $286 and $323 as of February 28, 2013 and May 31, 2012, respectively	4,169	6,377
Inventories	211	158
Deferred tax assets	829	877
Prepaid expenses and other current assets	2,070	1,935
Total current assets	40,686	40,023
Non-current assets:		
Property, plant and equipment, net	3,034	3,021
Intangible assets, net	6,662	7,899
Goodwill	26,102	25,119
Deferred tax assets	651	595
Other assets	2,315	1,670
Total non-current assets	38,764	38,304
Total assets	$ 79,450	$ 78,327
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable, current and other current borrowings	$ 1,250	$ 2,950
Accounts payable	361	438
Accrued compensation and related benefits	1,557	2,002
Deferred revenues	6,278	7,035
Other current liabilities	2,470	2,963
Total current liabilities	11,916	15,388
Non-current liabilities:		
Notes payable and other non-current borrowings	18,502	13,524
Income taxes payable	3,775	3,759
Other non-current liabilities	1,467	1,569

Total non-current liabilities	23,744	18,852
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: 4,719 shares as of February 28, 2013 and 4,905 shares as of May 31, 2012	18,645	17,489
Retained earnings	24,549	26,087
Accumulated other comprehensive income	154	112
Total Oracle Corporation stockholders equity	43,348	43,688
Noncontrolling interests	442	399
Total equity	43,790	44,087
Total liabilities and equity	$ 79,450	$ 78,327

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended February 28, 2013 and February 29, 2012

(Unaudited)

	Three Months Ended		Nine Months Ended	
(in millions, except per share data)	**February 28, 2013**	**February 29, 2012**	**February 28, 2013**	**February 29, 2012**
Revenues:				
New software licenses and cloud software subscriptions	$ 2,332	$ 2,374	$ 6,295	$ 5,921
Software license updates and product support	4,340	4,051	12,740	12,058
Software revenues	6,672	6,425	19,035	17,979
Hardware systems products	671	869	2,185	2,851
Hardware systems support	570	604	1,730	1,874
Hardware systems revenues	1,241	1,473	3,915	4,725
Services revenues	1,045	1,141	3,283	3,501
Total revenues	8,958	9,039	26,233	26,205
Operating expenses:				
Sales and marketing[1]	1,802	1,700	5,120	5,027
Software license updates and product support[1]	306	305	860	899
Hardware systems products[1]	337	424	1,087	1,367
Hardware systems support[1]	219	257	670	798
Services[1]	854	922	2,668	2,788
Research and development	1,186	1,145	3,586	3,297
General and administrative	260	261	798	848
Amortization of intangible assets	586	606	1,789	1,790
Acquisition related and other	32	38	(347)	63
Restructuring	42	64	318	217
Total operating expenses	5,624	5,722	16,549	17,094
Operating income	3,334	3,317	9,684	9,111
Interest expense	(205)	(190)	(588)	(574)
Non-operating (expense) income, net	(39)	21	(24)	42
Income before provision for income taxes	3,090	3,148	9,072	8,579
Provision for income taxes	586	650	1,953	2,050
Net income	$ 2,504	$ 2,498	$ 7,119	$ 6,529
Earnings per share:				
Basic	$ 0.53	$ 0.50	$ 1.48	$ 1.30
Diluted	$ 0.52	$ 0.49	$ 1.46	$ 1.28
Weighted average common shares outstanding:				

Basic	4,735	5,007	4,798	5,037
Diluted	4,812	5,080	4,873	5,118
Dividends declared per common share	$ 0.18	$ 0.06	$ 0.30	$ 0.18

(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 Nine Months Ended February 28, 2013 and February 29, 2012

(Unaudited)

	Three Months Ended		Nine Months Ended	
(in millions)	**February 28, 2013**	**February 29, 2012**	**February 28, 2013**	**February 29, 2012**
Net income	$ 2,504	$ 2,498	$ 7,119	$ 6,529
Other comprehensive income, net of tax:				
Net foreign currency translation (losses) gains	(22)	116	55	(139)
Net unrealized gains (losses) on defined benefit plans	2		6	(4)
Net unrealized (losses) gains on marketable securities	(48)	8	(19)	17
Total other comprehensive (loss) income, net	(68)	124	42	(126)
Comprehensive income	$ 2,436	$ 2,622	$ 7,161	$ 6,403

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended February 28, 2013 and February 29, 2012

(Unaudited)

(in millions)	Nine Months Ended February 28, 2013	Nine Months Ended February 29, 2012
Cash Flows From Operating Activities:		
Net income	$ 7,119	$ 6,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	400	350
Amortization of intangible assets	1,789	1,790
Deferred income taxes	108	(200)
Stock-based compensation	566	474
Tax benefits on the exercise of stock options and vesting of restricted stock-based awards	372	123
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	(220)	(71)
Other, net	120	67
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease in trade receivables, net	2,269	2,028
(Increase) decrease in inventories	(48)	139
(Increase) decrease in prepaid expenses and other assets	(241)	87
Decrease in accounts payable and other liabilities	(912)	(1,353)
(Decrease) increase in income taxes payable	(853)	259
Decrease in deferred revenues	(809)	(536)
Net cash provided by operating activities	9,660	9,686
Cash Flows From Investing Activities:		
Purchases of marketable securities and other investments	(24,027)	(29,745)
Proceeds from maturities and sales of marketable securities and other investments	22,359	26,472
Acquisitions, net of cash acquired	(1,592)	(2,833)
Capital expenditures	(467)	(431)
Net cash used for investing activities	(3,727)	(6,537)
Cash Flows From Financing Activities:		
Payments for repurchases of common stock	(8,204)	(3,457)
Proceeds from issuances of common stock	1,300	513
Payments of dividends to stockholders	(1,433)	(909)
Proceeds from borrowings, net of issuance costs	4,974	
Repayments of borrowings	(1,700)	(1,405)
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	220	71
Distributions to noncontrolling interests	(31)	(163)
Net cash used for financing activities	(4,874)	(5,350)
Effect of exchange rate changes on cash and cash equivalents	87	(181)
Net increase (decrease) in cash and cash equivalents	1,146	(2,382)
Cash and cash equivalents at beginning of period	14,955	16,163

Cash and cash equivalents at end of period	$ 16,101	$ 13,781
Non-cash investing and financing transactions:		
Fair value of stock options and restricted stock-based awards assumed in connection with acquisitions	$ 3	$ 19
Fair value of contingent consideration payable in connection with acquisition	$	$ 346
(Decrease) increase in unsettled repurchases of common stock	$ (36)	$ 26

See notes to condensed consolidated financial statements.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2013

(Unaudited)

1. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

We have prepared the condensed consolidated financial statements included herein pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures herein are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012.

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, 2013.

Pursuant to our adoption of Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* and Accounting Standards Update No. 2011-12, *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,* we elected to present separate consolidated statements of comprehensive income. There have been no other significant changes in our reported financial position or results of operations and cash flows as a result of the adoption of new accounting pronouncements or to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012 that have had a significant impact on our consolidated financial statements or notes thereto.

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

New Software Licenses and Cloud Software Subscriptions Revenues

New software licenses revenues represent fees earned from granting customers licenses to use our database and middleware and our application software products. Cloud software subscriptions revenues represent fees earned from granting customers access to select Oracle software applications and software platforms on a subscription basis through a cloud-based computing environment. Our new software licenses and cloud software subscriptions revenues for the three and nine months ended February 28, 2013 and February 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
New software licenses	$ 2,101	$ 2,264	$ 5,642	$ 5,637
Cloud software subscriptions	231	110	653	284
Total new software licenses and cloud software subscriptions revenues	$ 2,332	$ 2,374	$ 6,295	$ 5,921

Acquisition Related and Other Expenses

Acquisition related and other expenses consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments including adjustments after the measurement period has ended and changes in fair value

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2013

(Unaudited)

of contingent consideration payable (further discussed in Note 2 below) and certain other operating items, net. Stock- based compensation included in acquisition related and other expenses resulted from unvested options and restricted stock-based awards assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those options and restricted stock-based awards.

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Transitional and other employee related costs	$ 7	$ 6	$ 24	$ 18
Stock-based compensation	8	18	30	21
Professional fees and other, net	7	6	(282)	(1)
Business combination adjustments, net	10	8	(119)	25
Total acquisition related and other expenses	$ 32	$ 38	$ (347)	$ 63

Included in acquisition related and other expenses for the nine months ended February 28, 2013 were changes in estimates for contingent consideration payable of $118 million, and a benefit related to certain litigation of $306 million (see Note 14 for additional information), both of which reduced acquisition related and other expenses during this period.

Non-Operating (Expense) Income, net

Non-operating (expense) 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 (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		Nine Months Ended	
(in millions)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Interest income	$ 62	$ 60	$ 180	$ 175
Foreign currency losses, net	(87)	(28)	(150)	(68)
Noncontrolling interests in income	(29)	(35)	(93)	(88)
Other income, net	15	24	39	23
Total non-operating (expense) income, net	$ (39)	$ 21	$ (24)	$ 42

Included in our non-operating (expense) income, net for the three and nine months ended February 28, 2013 was a foreign currency remeasurement loss of $64 million resulting from the recent devaluation of the Venezuelan currency by the Venezuelan government for our Venezuelan subsidiary that we had previously designated as highly inflationary in accordance with the Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) 830, *Foreign Currency Matters*. As a large portion of our consolidated operations are international, we could experience additional foreign currency volatility in the future including additional foreign currency losses related to our

Venezuelan subsidiary if the Venezuelan government further devalues the Venezuelan currency, the amounts and timing of which are uncertain.

Sales of Financing Receivables

We offer certain of our customers the option to acquire our products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed on a non-recourse basis to

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2013

(Unaudited)

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 $486 million and $1.7 billion for the three and nine months ended February 28, 2013, respectively, and $374 million and $1.3 billion for the three and nine months ended February 29, 2012, respectively.

Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income: In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02), to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective for us in our first quarter of fiscal 2014 with earlier adoption permitted, which should be applied prospectively. We are currently evaluating the impact of our pending adoption of ASU 2013-02 on our consolidated financial statements.

Testing Indefinite-Lived Intangible Assets for Impairment: In July 2012, the FASB issued Accounting Standards Update No. 2012-02, *Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02), to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. ASU 2012-02 is effective for us in our fiscal 2014 and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2012-02 on our consolidated financial statements.

2. ACQUISITIONS

Proposed Acquisition

On February 4, 2013, we entered into an Agreement and Plan of Merger (Merger Agreement) with Acme Packet, Inc. (Acme Packet), a provider of session border control technology. Pursuant to the Merger Agreement, our wholly-owned subsidiary will merge with and into Acme Packet and Acme Packet will become a wholly-owned subsidiary of Oracle. Upon the consummation of the merger, each share of Acme Packet common stock will be converted into the right to receive $29.25 (Merger Consideration) in cash. In addition, the unvested portion of each Acme Packet stock option and restricted stock-based award and the vested portion of each Acme Packet stock option, the exercise price of which is equal to or greater than the Merger Consideration, in each case that is outstanding immediately prior to the consummation of the merger and held by employees, will generally be converted into a stock option or restricted stock-based award, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of Acme Packet is approximately $2.1 billion. The completion of the merger is subject to customary conditions, including without limitation, the approval of the merger by Acme Packet s stockholders.

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2013

(Unaudited)

Fiscal 2013 Acquisitions

Acquisition of Eloqua, Inc.

On February 8, 2013, we completed our acquisition of Eloqua, Inc. (Eloqua), a provider of cloud-based marketing automation and revenue performance management software. We have included the financial results of Eloqua in our consolidated financial statements from the date of acquisition. The total preliminary purchase price for Eloqua was approximately $935 million, which consisted of approximately $933 million in cash and $2 million for the fair value of stock options assumed. We have preliminarily recorded $327 million of identifiable intangible assets and $1 million of net tangible liabilities, based on their estimated fair values, and $609 million of residual goodwill.

Other Fiscal 2013 Acquisitions

During the first nine months of fiscal 2013, we acquired certain other companies and purchased certain technology and development assets to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate.

The preliminary fair value estimates for the assets acquired and liabilities assumed for certain acquisitions completed during the first nine months of fiscal 2013 were based upon preliminary calculations and valuations and our estimates and assumptions for each of these acquisitions are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the respective acquisition dates). The primary areas of those preliminary estimates that were not yet finalized related to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters and income and non-income based taxes.

Fiscal 2012 Acquisitions

Acquisition of Taleo Corporation

On April 5, 2012, we completed our acquisition of Taleo Corporation (Taleo), a provider of cloud-based talent management solutions. We have included the financial results of Taleo in our consolidated financial statements from the date of acquisition. The total preliminary purchase price for Taleo was approximately $2.0 billion, which consisted of approximately $2.0 billion in cash and $10 million for the fair value of stock options and restricted stock-based awards assumed. We have preliminarily recorded $1.1 billion of identifiable intangible assets and $267 million of net tangible liabilities related primarily to deferred tax liabilities and customer performance obligations that were assumed as a part of this acquisition based on their estimated fair values, and $1.2 billion of residual goodwill.

Acquisition of RightNow Technologies, Inc.

On January 25, 2012, we completed our acquisition of RightNow Technologies, Inc. (RightNow), a provider of cloud-based customer service. We have included the financial results of RightNow in our consolidated financial statements from the date of acquisition. The total purchase price for RightNow was approximately $1.5 billion, which consisted of approximately $1.5 billion in cash and $14 million for the fair value of stock options and restricted stock-based awards assumed. We recorded $697 million of identifiable intangible assets and $259 million of net tangible liabilities related primarily to customer performance obligations, convertible debt and deferred tax liabilities that were assumed as a part of this acquisition based on their estimated fair values, and $1.1 billion of residual goodwill.

Acquisition of Pillar Data Systems, Inc.

On July 18, 2011, we acquired Pillar Data Systems, Inc. (Pillar Data), a provider of enterprise storage systems solutions. Prior to the acquisition, Pillar Data was directly and indirectly majority-owned and controlled by

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ORACLE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 28, 2013

(Unaudited)

Lawrence J. Ellison, our Chief Executive Officer, director and largest stockholder. Pursuant to the agreement and plan of merger dated as of June 29, 2011 (Pillar Data Merger Agreement), we acquired all of the issued and outstanding equity interests of Pillar Data from the stockholders in exchange for rights to receive contingent cash consideration (Earn-Out), if any, pursuant to an Earn-Out calculation. An affiliate of Mr. Ellison has a preference right to receive the first approximately $565 million of the Earn-Out, if any, and rights to 55% of any amount of the Earn-Out that exceeds $565 million. The Earn-Out calculation methodology as defined by the Pillar Data Merger Agreement was disclosed in Note 2 of Notes to Consolidated Financial Statements as included in our Annual Report on Form 10-K for our fiscal year ended May 31, 2012. We do not expect the Earn-Out will be material to our results of operations or financial position.

We have included the financial results of Pillar Data in our consolidated financial statements from the date of acquisition. These results were not material to our consolidated financial statements. The estimated fair value of the liability for contingent consideration as of the acquisition date, representing the purchase price payable for our acquisition of Pillar Data, was approximately $346 million and was included in other non-current liabilities in our consolidated balance sheet. Our liability for contingent consideration payable may change until the liability is settled with the related impact recorded to our consolidated statements of operations as acquisition related and other expenses. In connection with our acquisition of Pillar Data, we recorded $142 million of identifiable intangible assets and $16 million of net tangible liabilities, based on their estimated fair values, and $220 million of residual goodwill. As of February 28, 2013, the estimated fair value of the Earn-Out liability was $269 million and resulted in a net benefit to acquisition related and other expenses of $118 million for the nine months ended February 28, 2013. The Earn-Out liability decreased as of February 28, 2013 in comparison to the amount recorded as of the acquisition date primarily due to a change in our estimate of year three revenues related to our acquisition of Pillar Data and the related impact to the liability calculation in accordance with the terms of the Pillar Data Merger Agreement, partially offset by the accretion of the liability from the application of appropriate discounting considering the uncertainties associated with the obligation. Our valuation techniques and inputs used to estimate the fair value of the Earn-Out liability are described in Note 3 below.

Other Fiscal 2012 Acquisitions

During fiscal 2012, we acquired certain other companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not individually significant. We have included the financial results of these companies in our consolidated financial statements from their respective acquisition dates and the results from each of these companies were not individually material to our consolidated financial statements. In the aggregate, the total purchase price for these acquisitions was approximately $1.6 billion and consisted of approximately $1.6 billion in cash and $5 million for the fair values of stock options assumed. We recorded $540 million of identifiable intangible assets and $29 million of net tangible assets, based on their estimated fair values, and $1.1 billion of residual goodwill.

The preliminary fair value estimates for the assets acquired and liabilities assumed for certain acquisitions completed during fiscal 2012 were based upon preliminary calculations and valuations and our estimates and assumptions for each of these acquisitions are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the respective acquisition dates). The primary areas of those preliminary estimates that were not yet finalized related to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters and income and non-income based taxes.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, Eloqua, Taleo, RightNow, Pillar Data and certain other companies that we acquired since the beginning of fiscal 2012 (which were considered significant for the purposes of unaudited pro forma financial information disclosure) as though the companies were combined as of the beginning of fiscal 2012. The pro

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forma financial information for all periods presented also included the business combination accounting effects resulting from these acquisitions including our amortization charges from acquired intangible assets (certain of which were preliminary), stock-based compensation charges for unvested stock options and restricted stock-based awards assumed, if any, and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2012. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2012.

The unaudited pro forma financial information for the three and nine months ended February 28, 2013 combined the historical results of Oracle for the three and nine months ended February 28, 2013, the historical results of Eloqua for the three and nine months ended September 30, 2012 (adjusted due to differences in reporting periods and considering the date we acquired Eloqua), the historical results of certain other companies that we acquired since the beginning of fiscal 2012 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above.

The unaudited pro forma financial information for the three and nine months ended February 29, 2012 combined the historical results of Oracle for the three and nine months ended February 29, 2012, the historical results of Eloqua for the three and nine months ended March 31, 2012 (due to differences in reporting periods), the historical results of Taleo for the three and nine months ended December 31, 2011 (due to differences in reporting periods), the historical results of RightNow for the three and nine months ended September 30, 2011 (adjusted due to differences in reporting periods and considering the date we acquired RightNow), the historical results of Pillar Data for the three months ended June 30, 2011 (adjusted due to differences in reporting periods and considering the date we acquired Pillar Data), the historical results of certain other companies that we acquired since the beginning of fiscal 2012 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.

	Three Months Ended		Nine Months Ended	
(in millions, except per share data)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Total revenues	$ 8,976	$ 9,194	$ 26,304	$ 26,765
Net income	$ 2,494	$ 2,423	$ 7,070	$ 6,247
Basic earnings per share	$ 0.53	$ 0.48	$ 1.47	$ 1.24
Diluted earnings per share	$ 0.52	$ 0.48	$ 1.45	$ 1.22

3. FAIR VALUE MEASUREMENTS

We perform fair value measurements in accordance with the guidance provided by ASC 820, *Fair Value Measurements and Disclosures*. 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;

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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.

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, 2 and 3 inputs are defined above):

	February 28, 2013 Fair Value Measurements Using Input Types				May 31, 2012 Fair Value Measurements Using Input Types			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:								
U.S. Treasury, U.S. government and U.S. government agency debt securities	$ 120	$	$	$ 120	$ 100	$	$	$ 100
Commercial paper debt securities		15,619		15,619		13,954		13,954
Corporate debt securities and other	199	4,351		4,550	254	1,983		2,237
Derivative financial instruments		50		50		69		69
Total assets	$ 319	$ 20,020	$	$ 20,339	$ 354	$ 16,006	$	$ 16,360
Liabilities:								
Contingent consideration	$	$	$ 269	$ 269	$	$	$ 387	$ 387

Our valuation techniques used to measure the fair values of our U.S. Treasury, U.S. government and U.S. government agency debt securities and certain other marketable securities that were classified as Level 1 in the table above were derived from quoted market prices and active markets for these instruments exist. Substantially all of these instruments have maturity dates, if any, within one year from our date of purchase. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, substantially all of which mature within one year and the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others. The fair value of contingent consideration payable that was classified as Level 3 in the table above was estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurement not supported by market activity included our probability assessments of expected future year three revenues related to our acquisition of Pillar Data and their related impact to the liability calculation, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the Pillar Data Merger Agreement.

Based on the trading prices of our $19.8 billion and $16.5 billion of borrowings, which consisted of senior notes that were outstanding as of February 28, 2013 and senior notes and short-term borrowings that were outstanding as of May 31, 2012, respectively, the estimated fair values of our borrowings using Level 2 inputs at February 28, 2013 and May 31, 2012 were $22.3 billion and $19.3 billion, respectively.

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4. INVENTORIES

Inventories consisted of the following:

(in millions)	February 28, 2013	May 31, 2012
Raw materials	$ 101	$ 45
Work-in-process	31	20
Finished goods	79	93
Total	$ 211	$ 158

5. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2013 and the net book value of intangible assets at February 28, 2013 and May 31, 2012 were as follows:

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		
(Dollars in millions)	May 31, 2012	Additions	February 28, 2013	May 31, 2012	Expense	February 28, 2013	May 31, 2012	February 28, 2013	Weighted Average Useful Life[1]
Software support agreements and related relationships	$ 5,294	$ 4	$ 5,298	$ (3,330)	$ (437)	$ (3,767)	$ 1,964	$ 1,531	5 years
Hardware systems support agreements and related relationships	768	8	776	(266)	(90)	(356)	502	420	5 years
Developed technology	6,908	230	7,138	(4,651)	(626)	(5,277)	2,257	1,861	6 years
Core technology	2,549	30	2,579	(1,609)	(246)	(1,855)	940	724	3 years
Customer relationships and contract backlog	2,260	40	2,300	(1,287)	(262)	(1,549)	973	751	2 years
Cloud software subscriptions and related relationships	989	238	1,227	(42)	(81)	(123)	947	1,104	8 years
Trademarks	597	13	610	(292)	(47)	(339)	305	271	5 years
Total intangible assets subject to amortization	19,365	563	19,928	(11,477)	(1,789)	(13,266)	7,888	6,662	6 years
In-process research and development	11	(11)					11		N.A.
Total intangible assets, net	$ 19,376	$ 552	$ 19,928	$ (11,477)	$ (1,789)	$ (13,266)	$ 7,899	$ 6,662	

[1] Represents weighted average useful lives of intangible assets acquired during fiscal 2013.

Total amortization expense related to our intangible assets was $586 million and $1.8 billion for the three and nine months ended February 28, 2013, respectively, and $606 million and $1.8 billion for the three and nine months ended February 29, 2012, respectively. As of February 28, 2013, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of Fiscal 2013	$ 582
Fiscal 2014	2,043
Fiscal 2015	1,582
Fiscal 2016	1,020
Fiscal 2017	450
Fiscal 2018	324
Thereafter	661
Total intangible assets, net	$ 6,662

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The changes in the carrying amounts of goodwill, which is generally not deductible for tax purposes, for our operating segments for the nine months ended February 28, 2013 were as follows:

(in millions)	New Software Licenses and Cloud Software Subscriptions	Software License Updates and Product Support	Hardware Systems Support	Other[3]	Total
Balances as of May 31, 2012	$ 7,367	$ 12,479	$ 1,193	$ 4,080	$ 25,119
Allocation of goodwill[1]	2,346			(2,346)	
Goodwill from acquisitions	929	26	61	72	1,088
Goodwill adjustments[2]	(85)	(30)	4	6	(105)
Balances as of February 28, 2013	$ 10,557	$ 12,475	$ 1,258	$ 1,812	$ 26,102

(1) Represents the allocation of goodwill to our operating segments upon completion of our intangible asset valuations.

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

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

6. NOTES PAYABLE AND OTHER BORROWINGS

Senior Notes

In October 2012, we issued $5.0 billion of fixed rate senior notes comprised of $2.5 billion of 1.20% notes due October 2017 (2017 Notes) and $2.5 billion of 2.50% notes due October 2022 (2022 Notes, and together with the 2017 Notes, the Senior Notes). We issued the Senior Notes for general corporate purposes, which may include stock repurchases, future acquisitions and repayment of indebtedness, including the repayment of $1.25 billion of 4.95% senior notes due April 2013.

The effective interest yields of the 2017 Notes and 2022 Notes at February 28, 2013 were 1.24% and 2.51%, respectively. Interest on the Senior Notes is payable semi-annually. We may redeem some or all of the Senior Notes of each series at any time, subject to payment of an applicable make-whole premium.

The Senior Notes rank pari passu with any other notes we may issue in the future pursuant to our commercial paper program (see Note 8 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012 for further information on our commercial paper program) and all existing and future senior indebtedness of Oracle Corporation. All existing and future liabilities of the subsidiaries of Oracle Corporation are or will be effectively senior to the Senior Notes. We were in compliance with all debt-related covenants at February 28, 2013.

Revolving Credit Agreement

On May 29, 2012, we borrowed $1.7 billion pursuant to a revolving credit agreement with JPMorgan Chase Bank, N.A., as initial lender and administrative agent; and J.P. Morgan Securities, LLC, as sole lead arranger and sole bookrunner (the 2012 Credit Agreement). On July 2, 2012, we repaid the $1.7 billion and the 2012 Credit Agreement expired pursuant to its terms.

There have been no other significant changes in our notes payable or other borrowing arrangements that were disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012.

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7. RESTRUCTURING ACTIVITIES

Fiscal 2013 Oracle Restructuring Plan

During the first quarter of fiscal 2013, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations (the 2013 Restructuring Plan) and our management subsequently amended the 2013 Restructuring Plan in the third quarter of fiscal 2013 to reflect additional actions that we expect to take. The total estimated restructuring costs associated with the 2013 Restructuring Plan are $420 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are incurred. We recorded $294 million of restructuring expenses in connection with the 2013 Restructuring Plan in the first nine months of fiscal 2013 and we expect to incur the majority of the estimated remaining $126 million through fiscal 2014. Any changes to the estimates of executing the 2013 Restructuring Plan will be reflected in our future results of operations.

Summary of All Plans

		Nine Months Ended February 28, 2013						
(in millions)	Accrued May 31, 2012[2]	Initial Costs[3]	Adj. to Cost[4]	Cash Payments	Others[5]	Accrued February 28, 2013[2]	Total Costs Accrued to Date	Total Expected Program Costs
Fiscal 2013 Oracle Restructuring Plan[1]								
New software licenses and cloud software subscriptions	$	$ 77	$ (4)	$ (52)	$ (1)	$ 20	$ 73	$ 86
Software license updates and product support		10	(6)	(9)	5		4	7
Hardware systems business		90	(2)	(55)	(2)	31	88	133
Services		60	(2)	(38)	1	21	58	114
General and administrative and other		71		(42)	(8)	21	71	80
Total Fiscal 2013 Oracle Restructuring Plan	$	$ 308	$ (14)	$ (196)	$ (5)	$ 93	$ 294	$ 420
Total other restructuring plans[6]	$ 337	$ 44	$ (20)	$ (162)	$	$ 199		
Total restructuring plans	$ 337	$ 352	$ (34)	$ (358)	$ (5)	$ 292		

(1) Restructuring costs recorded for individual line items presented related to employee severance costs except for general and administrative and other, which also included $39 million recorded during the first nine months of fiscal 2013 for facilities related restructuring, contract termination and other costs.

(2) The balances at February 28, 2013 and May 31, 2012 included $191 million and $178 million, respectively, recorded in other current liabilities, and $101 million and $159 million, respectively, recorded in other non-current liabilities.

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

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

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

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

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8. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	February 28, 2013	May 31, 2012
Software license updates and product support	$ 4,981	$ 5,565
Hardware systems support and other	613	714
Services	348	403
New software licenses and cloud software subscriptions	336	353
Deferred revenues, current	6,278	7,035
Deferred revenues, non-current (in other non-current liabilities)	305	296
Total deferred revenues	$ 6,583	$ 7,331

Deferred software license updates and product support revenues and deferred hardware systems support revenues represent customer payments made in advance for support contracts that are typically billed on a per annum basis in advance with corresponding revenues being recognized ratably over the support periods. Deferred services revenues include prepayments for our services business and revenues for these services are generally recognized as the services are performed. Deferred new software licenses and cloud software subscriptions revenues typically result from undelivered products or specified enhancements, customer specific acceptance provisions, time-based arrangements including cloud software subscriptions offerings that are typically billed in advance and recognized over the corresponding contractual term and software license transactions that cannot be segmented from undelivered consulting or other services.

In connection with our acquisitions, we have estimated the fair values of the cloud software subscriptions, software license updates and product support, and hardware systems support obligations assumed from our acquired companies. We have estimated the fair values of the 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 the acquired obligations. The aforementioned fair value adjustments recorded for obligations assumed from our acquisitions reduced the new software licenses and cloud software subscriptions, software license updates and product support and hardware systems support deferred revenues balances that we recorded as liabilities from these acquisitions and also reduced the resulting revenues that we recognized or will recognize over the terms of the acquired obligations during the post-combination periods.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

In September 2009, we entered into interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with our 3.75% senior notes due July 2014 (2014 Notes) so that the interest payable on these notes effectively became variable based on LIBOR. The critical terms of the interest rate swap agreements and the 2014 Notes match, including the notional amounts and maturity dates. Accordingly, we have designated these swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges pursuant to ASC 815, *Derivatives and Hedging*. These transactions are characterized as fair value hedges for financial accounting purposes because they protect us against changes in the fair value of our fixed rate borrowings due to benchmark interest rate movements. The changes in

fair values of these interest rate swap agreements are recognized as interest expense in our consolidated statements of operations with the corresponding amounts included in other assets or other non-current liabilities in our consolidated balance sheets. The amount of net gain

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(loss) attributable to the risk being hedged is recognized as interest expense in our consolidated statements of operations with the corresponding amount included in notes payable and other non-current borrowings. The periodic interest settlements, which occur at the same interval as the 2014 Notes, are recorded as interest expense. The fair values of these interest rate swap agreements recorded as other assets in our consolidated balance sheets were $50 million and $69 million as of February 28, 2013 and May 31, 2012, respectively.

We do not use interest rate swap agreements for trading purposes.

Foreign Currency Forward Contracts Not Designated as Hedges

We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effects of certain foreign currency exposures. We neither use these foreign currency forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to ASC 815 (refer to Note 11 of Notes to Consolidated Financial Statements as included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012 for additional information regarding these contracts). As of February 28, 2013 and May 31, 2012, respectively, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were $3.2 billion and $3.0 billion, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were $1.2 billion and $873 million, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at February 28, 2013 and May 31, 2012. Included in our non-operating (expense) income, net was $22 million and $73 million of net losses related to these forward contracts for the three and nine months ended February 28, 2013, respectively, and $128 million and $30 million of net losses for the three and nine months ended February 29, 2012, respectively.

10. STOCKHOLDERS EQUITY

Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On June 18, 2012, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional $10.0 billion. Approximately $5.0 billion remained available for stock repurchases as of February 28, 2013 pursuant to our stock repurchase program. We repurchased 261.7 million shares for $8.2 billion during the nine months ended February 28, 2013 (including 2.9 million shares for $100 million that were repurchased but not settled) and 119.6 million shares for $3.5 billion during the nine months ended February 29, 2012 under the stock repurchase program.

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

Dividends on Common Stock

During the nine months ended February 28, 2013, our Board of Directors declared cash dividends of $0.30 per share of our outstanding common stock, including an accelerated cash dividend totaling $0.18 per share of outstanding common stock, which we paid on December 21, 2012. This accelerated cash dividend was intended by our Board of Directors to be in lieu of quarterly dividends that we would have otherwise announced with our earnings results for the second, third and fourth quarters of fiscal 2013, and that would have been paid in calendar

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year 2013. The next opportunity for our Board of Directors to consider and approve the declaration of a dividend will be when we announce our earnings results for the first quarter of fiscal 2014, which ends on August 31, 2013. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Stock-Based Compensation Expense and Valuation of Stock Options

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

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Sales and marketing	$ 32	$ 30	$ 112	$ 86
Software license updates and product support	5	5	15	13
Hardware systems products	1		2	1
Hardware systems support	1	1	3	4
Services	7	6	24	16
Research and development	86	74	258	213
General and administrative	40	41	122	120
Acquisition related and other	8	18	30	21
Total stock-based compensation	$ 180	$ 175	$ 566	$ 474

During the first nine months of fiscal 2013, we issued 118 million stock options (including our annual grant of stock options in our first quarter of fiscal 2013 and certain stock options assumed from companies that we acquired). These stock option-based award issuances were partially offset by forfeitures and cancellations of 17 million shares during the first nine months of fiscal 2013.

We estimate the fair values of our share-based payments using the Black-Scholes-Merton option-pricing model, which was developed for use in estimating the fair values of stock options. Option valuation models, including the Black-Scholes-Merton option-pricing model, require the input of assumptions, including stock price volatility. Changes in the input assumptions can materially affect the fair value estimates and ultimately how much we recognize as stock-based compensation expense. We recognize stock-based compensation expense on a straight-line basis over the service period of the award, which is generally four years. The fair values of our stock options were estimated at the grant dates, or at the acquisition dates for options assumed in a business combination. The weighted average input assumptions used and resulting fair values of our stock options were as follows for the three and nine months ended February 28, 2013 and February 29, 2012:

	Three Months Ended		Nine Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Expected life (in years)	4.7	4.7	5.1	5.1
Risk-free interest rate	0.7%	0.8%	0.7%	1.6%
Volatility	26%	32%	31%	30%
Dividend yield	0.7%	0.8%	0.8%	0.7%

Weighted-average fair value per share	$ 7.00	$ 15.52	$ 7.97	$ 9.33

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

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11. INCOME TAXES

The effective tax rate for the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Our provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to earnings considered as indefinitely reinvested in foreign operations, state taxes, the retroactive extension of the U.S. research and development tax credit and the U.S. domestic production activity deduction. Our effective tax rate was 19.0% and 21.5% for the three and nine months ended February 28, 2013, respectively, and 20.7% and 23.9% for the three and nine months ended February 29, 2012, respectively.

During fiscal 2012, we increased the number of foreign subsidiaries in countries with lower statutory rates than the rate used in the United States, the earnings of which we consider to be indefinitely reinvested outside the United States.

Our net deferred tax assets were $1.4 billion as of both February 28, 2013 and May 31, 2012. We believe it is more likely than not that the net deferred tax assets will be realized in the foreseeable future. Realization of our net deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences, net operating loss carryforwards, and tax credit carryforwards. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

Domestically, U.S. federal and state taxing authorities are currently examining income tax returns of Oracle and various acquired entities for years through fiscal 2010. Our U.S. federal and, with some exceptions, our state income tax returns have been examined for all years prior to fiscal 2000, 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 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 1998.

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

12. SEGMENT INFORMATION

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. We are organized geographically and by line of business. While our Chief Executive Officer evaluates results in a number of different ways, the line of business management structure is the primary basis for which the allocation of resources and financial results are assessed. We have three businesses software, hardware systems and services which are further divided into certain operating segments. Our software business is comprised of two operating segments: (1) new software licenses and cloud software subscriptions and (2) software license updates and product support. Our hardware systems business is comprised of two operating segments: (1) hardware systems products and (2) hardware systems support. All other operating segments are combined under our services business.

The new software licenses and cloud software subscriptions line of business is engaged in licensing our database and middleware software and our applications software, and providing access to select Oracle software applications and software platforms on a subscription basis through a cloud-based computing environment.

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Database and middleware software generally includes database and database management software; application server and cloud application software; Service-Oriented Architecture and business process management software; business intelligence software; identity and access management software; data integration software; web experience management, portals, content management and social network software; and development tools. Our database and middleware software product offerings also include Java, which is a global software development platform used in a wide range of computers, networks and devices. Applications software generally provides enterprise information that enables companies to manage their business cycles and provides intelligence and includes enterprise resource planning software including human capital management; customer relationship management; financials; governance, risk and compliance; procurement; supply chain management; enterprise portfolio project management; enterprise performance management; business intelligence analytic applications; web commerce; and industry-specific applications. Oracle Cloud, which is a family of our cloud-based software subscription offerings, provides our customers and partners subscription-based, self-service access to certain of our database and middleware and applications software and includes hosting, infrastructure management, the use of software updates, and support.

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

The hardware systems products line of business consists primarily of computer server, storage and networking product offerings and hardware-related software, including the Oracle Solaris Operating System. As a part of this line of business, we offer our Oracle Engineered Systems, including Oracle Exadata Database Machine, Oracle Exalogic Elastic Cloud, Oracle Exalytics In-Memory Machine, SPARC SuperCluster, Oracle Database Appliance, and Oracle Big Data Appliance, which are engineered to run certain of our hardware and software offerings to create performance and operational cost advantages for customers. Most of our computer servers are based on our SPARC family of microprocessors and on microprocessors from Intel Corporation. Our servers range from high performance computing servers to cost efficient, entry-level servers, and run with Oracle Solaris, Oracle Linux and certain other operating systems environments. Our storage products are designed to securely manage, protect, archive and restore customers data assets and consist of tape, disk and networking solutions for open systems and mainframe server environments. Our hardware systems support line of business offers customers contracts that provide software updates for the software components that are essential to the functionality of our hardware systems and storage products and may also include product repairs, maintenance services and technical support services.

Our services business is comprised of the remainder of our operating segments and offers consulting, managed cloud services and education services. Our consulting line of business primarily provides services to customers in business and IT strategy alignment, enterprise architecture planning and design, initial product implementation and integration and ongoing product enhancements and upgrades. Oracle managed cloud services provide comprehensive software and hardware management and maintenance services for customers hosted at our Oracle data center facilities, select partner data centers, or physically on-premise at customer facilities. Additionally, we provide support services, both on-premise and remote, to Oracle customers to enable increased performance and higher availability of their products and services. Education services provide training to customers, partners and employees as a part of our mission to further the adoption and usage of our software and hardware products by our customers and to create opportunities to grow our product revenues.

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

Certain costs have been reclassified in the fiscal 2013 and 2012 periods presented to align with our current line of business management structure.

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The following table presents summary results for each of our three businesses and for the operating segments of our software and hardware systems businesses:

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
New software licenses and cloud software subscriptions:				
Revenues[1]	$ 2,334	$ 2,370	$ 6,321	$ 5,908
Sales and distribution expenses	1,379	1,239	3,812	3,595
Margin[2]	$ 955	$ 1,131	$ 2,509	$ 2,313
Software license updates and product support:				
Revenues[1]	$ 4,344	$ 4,068	$ 12,752	$ 12,098
Software license updates and product support expenses	276	282	808	824
Margin[2]	$ 4,068	$ 3,786	$ 11,944	$ 11,274
Total software business:				
Revenues[1]	$ 6,678	$ 6,438	$ 19,073	$ 18,006
Expenses	1,655	1,521	4,620	4,419
Margin[2]	$ 5,023	$ 4,917	$ 14,453	$ 13,587
Hardware systems products:				
Revenues	$ 671	$ 869	$ 2,185	$ 2,851
Hardware systems products expenses	336	425	1,086	1,365
Sales and distribution expenses	212	250	643	788
Margin[2]	$ 123	$ 194	$ 456	$ 698
Hardware systems support:				
Revenues[1]	$ 572	$ 610	$ 1,740	$ 1,900
Hardware systems support expenses	210	247	646	767
Margin[2]	$ 362	$ 363	$ 1,094	$ 1,133
Total hardware systems business:				
Revenues[1]	$ 1,243	$ 1,479	$ 3,925	$ 4,751
Expenses	758	922	2,375	2,920
Margin[2]	$ 485	$ 557	$ 1,550	$ 1,831
Total services business:				
Revenues[1]	$ 1,049	$ 1,145	$ 3,294	$ 3,514
Services expenses	826	893	2,579	2,700
Margin[2]	$ 223	$ 252	$ 715	$ 814
Totals:				

Revenues[1]	$ 8,970	$ 9,062	$ 26,292	$ 26,271
Expenses	3,239	3,336	9,574	10,039
Margin[2]	$ 5,731	$ 5,726	$ 16,718	$ 16,232

(1) Operating segment revenues generally differ from the external reporting classifications due to certain software license products that are classified as service revenues for management reporting purposes. New software licenses and cloud software subscriptions revenues for management reporting included revenues related to cloud software subscriptions contracts that would have otherwise been recorded by

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the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amounts of $6 million and $37 million for the three and nine months ended February 28, 2013, respectively. Software license updates and product support revenues for management reporting included revenues related to software support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amounts of $4 million and $17 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $12 million and $40 million for the nine months ended February 28, 2013 and February 29, 2012, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of $2 million and $6 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $10 million and $26 million for the nine months ended February 28, 2013 and February 29, 2012, respectively. See Note 8 for an explanation of these adjustments and the table below for a reconciliation of our total operating segment revenues to our total revenues.

(2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, marketing and partner programs, and corporate, general and administrative and information technology expenses. Additionally, the margins do not reflect amortization of intangible assets, acquisition related and other expenses, restructuring expenses, stock-based compensation, interest expense or certain other expenses, 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		Nine Months Ended	
(in millions)	**February 28, 2013**	**February 29, 2012**	**February 28, 2013**	**February 29, 2012**
Total revenues for operating segments	$ 8,970	$ 9,062	$ 26,292	$ 26,271
New software licenses and cloud software subscriptions revenues[1]	(6)		(37)	
Software license updates and product support revenues[1]	(4)	(17)	(12)	(40)
Hardware systems support revenues[1]	(2)	(6)	(10)	(26)
Total revenues	$ 8,958	$ 9,039	$ 26,233	$ 26,205
Total margin for operating segments	$ 5,731	$ 5,726	$ 16,718	$ 16,232
New software licenses and cloud software subscriptions revenues[1]	(6)		(37)	
Software license updates and product support revenues[1]	(4)	(17)	(12)	(40)
Hardware systems support revenues[1]	(2)	(6)	(10)	(26)
Product development	(1,050)	(1,022)	(3,180)	(2,937)
Marketing and partner program expenses	(136)	(138)	(426)	(426)
Corporate, general and administrative and information technology expenses	(352)	(354)	(1,062)	(1,127)
Amortization of intangible assets	(586)	(606)	(1,789)	(1,790)
Acquisition related and other	(32)	(38)	347	(63)
Restructuring	(42)	(64)	(318)	(217)
Stock-based compensation	(172)	(157)	(536)	(453)
Interest expense	(205)	(190)	(588)	(574)
Other, net	(54)	14	(35)	
Income before provision for income taxes	$ 3,090	$ 3,148	$ 9,072	$ 8,579

(1) New software licenses and cloud software subscriptions revenues for management reporting included revenues related to cloud software subscriptions contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amounts of $6 million and $37 million for the three and nine months ended February 28, 2013, respectively. Software license updates and product support revenues for management reporting included revenues related to software support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying condensed consolidated statements of operations in the amounts of $4 million and $17 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $12 million and $40 million for the nine months ended February 28, 2013 and February 29, 2012, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of $2 million and $6 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $10 million and $26 million for the nine months ended February 28, 2013 and February 29, 2012, respectively.

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13. EARNINGS PER SHARE

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

	Three Months Ended		Nine Months Ended	
(in millions, except per share data)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net income	$ 2,504	$ 2,498	$ 7,119	$ 6,529
Weighted average common shares outstanding	4,735	5,007	4,798	5,037
Dilutive effect of employee stock plans	77	73	75	81
Dilutive weighted average common shares outstanding	4,812	5,080	4,873	5,118
Basic earnings per share	$ 0.53	$ 0.50	$ 1.48	$ 1.30
Diluted earnings per share	$ 0.52	$ 0.49	$ 1.46	$ 1.28
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation[(1)]	210	118	207	106

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

14. LEGAL PROCEEDINGS

SAP Intellectual Property Litigation

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

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

On August 2, 2012, Oracle and the SAP Defendants stipulated to a judgment of $306 million against the SAP Defendants, in lieu of having a second jury trial, while preserving both parties rights to appeal prior court orders. We recorded a $306 million non-current receivable, included in other assets, in our condensed consolidated balance sheet and we recognized a corresponding benefit to our results of operations for the first

quarter of fiscal 2013. Previously during trial we received payment of $120 million in attorneys fees from SAP under a stipulation, and we recorded this payment upon receipt as a benefit to our results of operations during the second quarter of fiscal 2011. On August 3, 2012, the court entered the judgment and vacated the date set for the new trial. Oracle filed a Notice of Appeal on August 31, 2012, and the SAP Defendants filed a notice of appeal on September 14, 2012. These appeals are scheduled to be fully briefed by March 25, 2013. The appellate court has not yet scheduled a date for oral argument.

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Hewlett-Packard Company Litigation

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

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

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

Derivative Litigations and Related Action

Various stockholder derivative lawsuits have been filed against Oracle and certain former and current directors in connection with a qui tam lawsuit that had been filed against Oracle in the United States District Court for the Eastern District of Virginia. The qui tam action alleged that Oracle made false statements to the General Services Administration (GSA) in 1997-1998 while negotiating its GSA contract, among other claims. Oracle settled this action without admitting liability, and the case was dismissed on October 11, 2011. Thereafter, the following stockholder derivative actions have been filed, claiming that the named officer and director defendants were responsible for certain alleged conduct in the qui tam action and thereby exposing Oracle to reputational damage, monetary damages and costs and asserting claims for breach of fiduciary duty, abuse of control and unjust enrichment: on August 2, 2010, a stockholder derivative lawsuit was filed in the United States District Court for the Northern District of California; on August 19, 2010, a similar stockholder derivative lawsuit was filed in California Superior Court, County of San Mateo; and on September 8, 2011, another stockholder derivative lawsuit was filed in the United States District Court for the Northern District of California. The first two derivative actions were consolidated, but pursuant to a motion by Oracle, they were dismissed on November 11, 2011, with leave to plaintiffs to amend. No amended complaint has been filed.

On September 12, 2011, two alleged stockholders of Oracle filed a Verified Petition for Writ of Mandate for Inspection of Corporate Books and Records in California Superior Court, County of San Mateo. The petition originally named as respondents Oracle and two of our officers, both of whom were subsequently dismissed. The alleged stockholders claim that they are investigating alleged corporate mismanagement relating to the claims in the qui tam action, and asked the court to compel the inspection of certain of Oracle s accounting books and records and minutes of meetings of the stockholders, our Board of Directors and the committees of our Board of

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Directors, related to those allegations, plus expenses of the audit and attorneys fees. At a hearing on November 10, 2011, the court granted the alleged stockholders request for a Writ of Mandate, which was confirmed in a judgment on December 12, 2011. Oracle filed a notice of appeal on February 2, 2012.

The parties in the derivative and Writ of Mandate actions discussed above have agreed to mediate all disputes and have stipulated to a stay of further proceedings in each of the trial courts. On June 5, 2012, the parties met with a mediator, and they continued settlement discussions thereafter. In January 2013, the parties reached an agreement in principal to settle these actions, subject to court approval.

On September 30, 2011, a stockholder derivative lawsuit was filed in the Delaware Court of Chancery and a second stockholder was permitted to intervene as a plaintiff on November 15, 2011. The derivative suit is brought by two alleged stockholders of Oracle, purportedly on Oracle s behalf, against our current directors, including against our Chief Executive Officer as an alleged controlling stockholder. Plaintiffs allege that Oracle s directors breached their fiduciary duties in agreeing to purchase Pillar Data Systems, Inc. at an excessive price. Plaintiffs allege breach of fiduciary duty, aiding and abetting breach of fiduciary duty, waste of corporate assets and unjust enrichment. Plaintiffs seek an injunction of the Pillar Data transaction, rescission of the Pillar Data transaction, disgorgement of our Chief Executive Officer s alleged profits and other declaratory and monetary relief. Defendants moved to dismiss the operative complaint, and at a hearing on August 22, 2012, the court dismissed all claims without prejudice against two of our directors and dismissed with prejudice plaintiffs claims for breach of the fiduciary duty of care. The court ruled that all other claims for breach of fiduciary duty remain in the case. The court also dismissed with prejudice plaintiffs claims for aiding and abetting breach of fiduciary duty, waste of corporate assets and unjust enrichment. The court further dismissed with prejudice plaintiffs requests for relief, other than their request for monetary relief and for costs and expenses incurred in this action. The parties currently are conducting fact discovery.

While the outcome of the derivative litigations and the related action noted above 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.

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

Business Overview

We are the world s largest provider of enterprise software and a leading provider of computer hardware products and services. Our software, hardware systems, and services businesses develop, manufacture, market, host and support database and middleware software, applications software and hardware systems, with the latter consisting primarily of computer server and storage products. Our businesses provide products and services that are built upon industry standards, are engineered to work together or independently within existing customer information technology (IT) environments and run securely on a wide range of customer IT environments, including cloud computing environments.

Cloud computing environments provide on demand access to a shared pool of computing resources in a scalable, self-service manner, delivering advantages in speed, agility and efficiency. Cloud computing has evolved from technologies and services that Oracle has provided for many years, including clustering, server virtualization, Service-Oriented Architecture (SOA), shared services, large-scale management automation, and more recently, our Oracle Engineered Systems. Our secure, reliable and scalable product offerings are designed to improve business efficiencies at a low total cost of ownership. We seek to be an industry leader in each of the product offering categories in which we compete and to expand into new and emerging markets.

We believe our ability to offer our customers choice and flexibility in the manner in which they deploy our products and services while maintaining enterprise-grade reliability, security and interoperability based upon industry-standards is important to our corporate strategy. Oracle Fusion Applications, for example, offer customers a choice of deployment models to run our standards-based software applications in on-premise or cloud computing IT environments. Oracle Cloud, a family of our cloud-based software subscription offerings, provides access to select Oracle software applications and software platforms on a subscription basis in a secure, standards-based cloud computing environment. Oracle Cloud includes software applications as a service, such as Oracle Fusion Human Capital Management and Oracle Fusion Customer Relationship Management, and software platform services such as Oracle Database and Oracle Java, among others.

We are organized into three businesses software, hardware systems and services which are further divided into certain operating segments. We believe our internal growth and continued innovation with respect to our software, hardware and services businesses are the foundation of our long-term strategic plans. We continue to focus the engineering of our hardware and software products to make them work together more effectively and deliver improved computing performance, reliability and security to our customers. For example, Oracle Engineered Systems, which include our Oracle Exadata Database Machine, Oracle Exalogic Elastic Cloud and SPARC SuperCluster products, among others, combine certain of our hardware and software offerings to provide engineered systems that increase computing performance and reduce storage requirements relative to our competitors products, creating time savings, efficiencies and operational cost advantages for our customers.

We believe that an active acquisition program is an important element of our corporate strategy as it strengthens our competitive position, enhances the products and services that we can offer to customers, expands our customer base, provides greater scale to accelerate innovation, grows our revenues and earnings and increases stockholder value. 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.

Each of our businesses and operating segments has unique characteristics and faces different opportunities and challenges. Although we report our actual results in U.S. Dollars, we conduct a significant number of transactions in currencies other than U.S. Dollars. Therefore, we present constant currency information to

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provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. An overview of our three businesses and related operating segments follows.

Software Business

Our software business, which represented 73% of our total revenues on a trailing 4-quarter basis, is comprised of two operating segments: (1) new software licenses and cloud software subscriptions and (2) software license updates and product support. On a constant currency basis, we expect that our software business total revenues generally will continue to increase due to continued demand for our software products and software license updates and product support offerings, including the high percentage of customers that renew their software license updates and product support contracts, and due to our acquisitions, which should allow us to grow our profits and continue to make investments in research and development.

New Software Licenses and Cloud Software Subscriptions: We license our database and middleware, as well as our applications software, and provide access to certain of our software offerings through cloud software subscriptions contracts. We offer customers choice and flexibility in the manner in which they deploy our enterprise-grade, standards-based software products within on-premise or cloud computing IT environments. Our customers include businesses of many sizes, government agencies, educational institutions and resellers. We market and sell our software products and services to these customers with a sales force positioned to offer the combinations that best fit their needs. We enable customers to evolve and transform to substantially any IT environment at whatever pace is most appropriate for them.

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

For certain of our acquired businesses, we recorded adjustments to reduce cloud software subscription obligations to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize cloud software subscriptions revenues related to cloud software subscriptions contracts that would have been otherwise recorded by the acquired businesses as independent entities in the amounts of $6 million and $37 million for the three and nine months ended February 28, 2013, respectively. To the extent underlying cloud software subscriptions contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the cloud software subscriptions contracts over their respective contractual periods.

Software License Updates and Product Support: Customers that purchase software license updates and product support are granted rights to unspecified product upgrades and maintenance releases issued during the support period, as well as technical support assistance. Our software license updates and product support contracts are generally one year in duration and substantially all of our customers renew their software license

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updates and product support contracts annually. The growth of software license updates and product support revenues is primarily influenced by three factors: (1) the percentage of our software support contract customer base that renews its software support contracts, (2) the amount of new software support contracts sold in connection with the sale of new software licenses and (3) the amount of software support contracts assumed from companies we have acquired.

Software license updates and product support revenues, which represented 45% of our total revenues on a trailing 4-quarter basis, is our highest margin business unit. Our software support margins over the trailing 4-quarters were 88% and accounted for 74% of our total margins over the same period. Our software license updates and product support margins have been affected by fair value adjustments relating to software support obligations assumed in business combinations (described further below) and by amortization of intangible assets. However, over the longer term, we believe that software license updates and product support revenues and margins will grow for the following reasons:

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

- substantially all of our customers purchase software license updates and product support contracts when they buy new software licenses, resulting in a further increase in our software support contract base. Even if new software licenses revenues growth was flat, software license updates and product support revenues would continue to grow in comparison to the corresponding prior year periods assuming contract renewal and cancellation rates and foreign currency rates remained relatively constant since substantially all new software licenses transactions result in the sale of software license updates and product support contracts, which add to our software support contract base; and

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

We recorded adjustments to reduce software support obligations assumed in business combinations to their estimated fair values at the acquisition dates. As a result, as required by business combination accounting rules, we did not recognize software license updates and product support revenues related to software support contracts that would have been otherwise recorded by the acquired businesses as independent entities in the amounts of $4 million and $17 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $12 million and $40 million for the nine months ended February 28, 2013 and February 29, 2012, respectively. To the extent underlying software support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the software support contracts over the respective support periods, the majority of which are one year.

Hardware Systems Business

Our hardware systems business consists of two operating segments: (1) hardware systems products and (2) hardware systems support. Our hardware business represented 15% of our total revenues on a trailing 4-quarter basis. We expect our hardware business to have lower operating margins as a percentage of revenues than our software business due to the incremental costs we incur to produce and distribute these products and to provide support services, including direct materials and labor costs. We expect to make investments in research and development to improve existing hardware products and services and to develop new hardware products and services.

Hardware Systems Products: We provide a complete selection of hardware systems and related services including servers, storage, networking, virtualization software, operating systems, and management software to support diverse IT environments, including public and private cloud computing environments. We engineer our hardware systems with virtualization and management capabilities to enable the rapid deployment and efficient management of cloud IT infrastructures. Our hardware systems products consist primarily of computer server, storage and hardware-related software, including our Oracle Solaris operating system. Our hardware systems component products are designed to be open, or to work in customer environments that may include other Oracle or non-Oracle hardware or software components.

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We have also engineered our hardware systems products to create performance and operational cost advantages for customers when our hardware and software products are combined as Oracle Engineered Systems. Our Oracle Engineered Systems include Oracle Exadata Database Machine, Oracle Exalogic Elastic Cloud, Oracle Exalytics In- Memory Machine, SPARC SuperCluster, Oracle Database Appliance and the Oracle Big Data Appliance. By combining our server and storage hardware with our software, our open, integrated products better address customer on-premise and cloud computing requirements for performance, scalability, reliability, security, ease of management and lower total cost of ownership.

We offer a wide range of server systems using our SPARC microprocessor. Our SPARC servers are differentiated by their reliability, security, scalability and customer environments that they target (general purpose or specialized systems). Our midsize and large servers are designed to offer greater performance and lower total cost of ownership than mainframe systems for business critical applications and for customers having more computationally intensive needs. Our SPARC servers run the Oracle Solaris operating system and are designed for the most demanding mission critical enterprise environments at any scale.

We also offer enterprise x86 servers. These x86 servers are primarily based on microprocessor platforms from Intel Corporation and are also compatible with Oracle Solaris, Oracle Linux, Microsoft Windows and other operating systems.

Our Netra line of servers are aimed at the unique needs of original equipment manufacturers (OEMs) and network equipment providers. Rack-optimized systems and our blade product offerings combine high-density hardware architecture and system management software that OEMs find particularly useful in building their own solution architectures.

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

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

To produce our hardware products, we rely on both our internal manufacturing operations as well as third party manufacturing partners. Our internal manufacturing operations consist primarily of final assembly, test and quality control of enterprise and data center servers and storage systems. For all other manufacturing, we rely on third party manufacturing partners. We distribute most of our hardware products either from our facilities or partner facilities. We strive to reduce costs by simplifying our manufacturing processes through increased standardization of components across product types and a build-to-order manufacturing process in which products generally are built only after customers have placed firm orders. In addition, we seek to enhance hardware systems support processes that are designed to proactively identify and solve quality issues and to increase the amount of new hardware systems support contracts sold in connection with the sales of new hardware products.

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

We have limited experience in predicting our quarterly hardware systems products revenues. The timing of customer orders and delays in our ability to timely manufacture or deliver a few large hardware transactions could substantially affect the amount of hardware systems products revenues, expenses and operating margins that we report.

Hardware Systems Support: Our hardware systems support offerings provide customers with software updates for the software components that are essential to the functionality of our server and storage products, such as Oracle Solaris, and can include product repairs, maintenance services and technical support services. Typically, our hardware systems support contract arrangements are invoiced to the customer at the beginning of the support

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period and are one year in duration. Our hardware systems support revenues that we report are influenced by a number of factors, including the volume of purchases of hardware products, the mix of hardware products purchased, whether customers decide to purchase hardware systems support contracts at or in close proximity to the time of sale, and the percentage of our hardware systems support contract customer base that renews its support contracts. All of these factors are heavily influenced by our customers decisions to either maintain or upgrade their existing hardware systems infrastructure to newly developed technologies that are available.

Our hardware systems support margins have been and will be affected by certain of our acquisitions and related accounting including fair value adjustments relating to hardware systems support obligations assumed and by the amortization of intangible assets. As required by business combination accounting rules, we recorded adjustments to reduce our hardware systems support revenues for contracts assumed from our acquisitions to their estimated fair values. These amounts would have been recorded as hardware systems support revenues by the acquired businesses as independent entities in the amounts of $2 million and $6 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $10 million and $26 million for the nine months ended February 28, 2013 and February 29, 2012, respectively. To the extent underlying hardware systems support contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the hardware systems support contracts over the respective support periods.

Services Business

Our services business is comprised of the remainder of our operating segments and offers consulting services, managed cloud services and education services. Our services business, which represented 12% of our total revenues on a trailing 4-quarter basis, has lower margins than our software and hardware businesses. Our services revenues are impacted by certain of our acquisitions, general economic conditions, personnel reductions in our customers IT departments, tighter controls over discretionary spending and the growth in our software and hardware systems products revenues.

Our consulting line of business primarily provides services to customers in business and IT strategy alignment, enterprise architecture planning and design, initial product implementation and integration, and ongoing product enhancements and upgrades. The amount of consulting revenues recognized tends to lag the amount of our software and hardware systems products revenues by several quarters since consulting services, if purchased, are typically segmentable from the products to which they relate and are performed after the customer s purchase of the products. Our services revenues as they relate to consulting services are dependent upon general economic conditions and the level of our product revenues, in particular the new software licenses sales of our application products. To the extent we are able to grow our products revenues, in particular our software application product revenues, we would also generally expect to be able to eventually grow our consulting revenues.

Oracle managed cloud services provide comprehensive software and hardware management and maintenance services including deployment, management, monitoring, patching, security and upgrade services for customers hosted at our Oracle data center facilities, select partner data centers or physically on-premise at customer facilities. Additionally, we provide support services, both on-premise and remote, to Oracle customers to enable increased performance and higher availability of their products and services. We believe that our managed cloud services offerings provide our customers with greater value and choice through increased business performance, reduced risk, a predictable cost and more flexibility in terms of service in order to maximize the performance of their Oracle software and hardware products and services.

Education services provide training to customers, partners and employees as a part of our mission to further the adoption and usage of our software and hardware products by our customers and create opportunities to grow our products revenues.

Acquisitions

An active acquisition program is another important element of our corporate strategy. In recent years, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies. We believe our acquisition program strengthens our competitive position, enhances the products and services that we can offer to customers, expands our customer base, provides greater scale to accelerate

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

On February 4, 2013, we entered into an Agreement and Plan of Merger (Merger Agreement) with Acme Packet, Inc. (Acme Packet), a provider of session border control technology. Pursuant to the Merger Agreement, our wholly-owned subsidiary will merge with and into Acme Packet and Acme Packet will become a wholly-owned subsidiary of Oracle. Upon the consummation of the merger, each share of Acme Packet common stock will be converted into the right to receive $29.25 (Merger Consideration) in cash. In addition, the unvested portion of each Acme Packet stock option and restricted stock-based award and the vested portion of each Acme Packet stock option, the exercise price of which is equal to or greater than the Merger Consideration, in each case that is outstanding immediately prior to the consummation of the merger and held by employees, will generally be converted into a stock option or restricted stock-based award, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of Acme Packet is approximately $2.1 billion. The completion of the merger is subject to customary conditions, including without limitation, the approval of the merger by Acme Packet s stockholders.

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

Business Combinations

Goodwill and Intangible Assets Impairment Assessments

Accounting for Income Taxes

Legal and Other Contingencies

Stock-Based Compensation

Allowances for Doubtful Accounts

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 these critical accounting policies and related disclosures with the Finance and Audit Committee of our Board of Directors.

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During the first nine months of fiscal 2013, 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, 2012 provides a more complete discussion of our critical accounting policies and estimates.

Results of Operations

Impact of Acquisitions

The comparability of our operating results in the third quarter and first nine months of fiscal 2013 compared to the same periods of fiscal 2012 is impacted by our acquisitions, primarily our acquisitions of Taleo Corporation (Taleo) in the fourth quarter of fiscal 2012 and RightNow Technologies, Inc. (RightNow) in the third quarter of fiscal 2012.

In our discussion of changes in our results of operations from the third quarter and first nine months of fiscal 2013 compared to the same periods of fiscal 2012, we quantify the contributions of our acquired products (for acquisitions that were completed since the beginning of fiscal 2012) to the growth in new software licenses and cloud software subscriptions revenues and to the growth in software license updates and product support revenues. The incremental contributions of our acquisitions to our other businesses and operating segments revenues and expenses are not provided as they either were not separately identifiable due to the integration of these operating segments into our existing operations and/or were insignificant to our results of operations during the periods presented.

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

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

- although substantially all of our 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 software subscriptions contracts and hardware systems support contracts, the amounts shown as new software licenses and cloud software subscriptions deferred revenues, software license updates and product support deferred revenues, and hardware systems support deferred revenues in our supplemental disclosure related to certain charges (presented below) are not necessarily indicative of revenue improvements we will achieve upon contract renewals to the extent customers do not renew.

Seasonality

Our quarterly revenues have historically been affected by a variety of seasonal factors, including the structure of our sales force incentive compensation plans, which are common in the technology industry. Our total revenues and operating margins are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. The operating margins of our businesses are generally affected by seasonal factors in a similar manner as our revenues (in particular, our new software licenses and cloud software subscriptions segment) as the majority of expenses within our cost structure are relatively fixed in the short term.

Constant Currency Presentation

Our international operations have provided and will continue to provide a significant portion of our total revenues and expenses. As a result, total revenues and expenses will continue to be affected by changes in the U.S. Dollar against major international currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the percent change in the results from one period to another period in this Quarterly Report using constant currency disclosure. To present this information, current and comparative prior period results for entities reporting in

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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, 2012, which was the last day of our prior fiscal year) rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on February 28, 2013 and February 29, 2012, our financial statements would reflect reported revenues of $1.31 million in the first nine months of fiscal 2013 (using 1.31 as the month-end average exchange rate for the period) and $1.34 million in the first nine months of fiscal 2012 (using 1.34 as the month-end average exchange rate for the period). The constant currency presentation would translate the results for the three and nine months ended February 28, 2013 and February 29, 2012 using the May 31, 2012 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				Nine Months Ended			
	February	Percent Change		February	February	Percent Change		February
(Dollars in millions)	28, 2013	Actual	Constant	29, 2012	28, 2013	Actual	Constant	29, 2012
Total Revenues by Geography:								
Americas	$ 4,698	0%	0%	$ 4,707	$ 13,808	3%	3%	$ 13,465
EMEA[1]	2,745	-2%	-1%	2,787	7,829	-5%	-1%	8,247
Asia Pacific[2]	1,515	-2%	2%	1,545	4,596	2%	5%	4,493
Total revenues	8,958	-1%	0%	9,039	26,233	0%	2%	26,205
Total Operating Expenses	5,624	-2%	-1%	5,722	16,549	-3%	-1%	17,094
Total Operating Margin	$ 3,334	1%	2%	$ 3,317	$ 9,684	6%	10%	$ 9,111
Total Operating Margin %	37%			37%	37%			35%
% Revenues by Geography:								
Americas	52%			52%	53%			51%
EMEA	31%			31%	30%			32%
Asia Pacific	17%			17%	17%			17%
Total Revenues by Business:								
Software	$ 6,672	4%	5%	$ 6,425	$ 19,035	6%	8%	$ 17,979
Hardware Systems	1,241	-16%	-15%	1,473	3,915	-17%	-15%	4,725
Services	1,045	-8%	-7%	1,141	3,283	-6%	-3%	3,501
Total revenues	$ 8,958	-1%	0%	$ 9,039	$ 26,233	0%	2%	$ 26,205
% Revenues by Business:								
Software	74%			71%	73%			69%
Hardware Systems	14%			16%	15%			18%
Services	12%			13%	12%			13%

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

(2) Asia Pacific includes Japan

Fiscal Third Quarter 2013 Compared to Fiscal Third Quarter 2012: Excluding the effect of unfavorable foreign currency rate fluctuations of 1 percentage point, our total revenues were flat in the third quarter of fiscal 2013. On a constant currency basis, the increase in our software business revenues resulting from growth in our software license updates and product support revenues was offset by decreases in revenues from our hardware systems and services businesses. On a constant currency basis, a decrease in total revenues in the third quarter of fiscal 2013 in the EMEA region was offset by an increase in total revenues in the Asia Pacific region, while the Americas region was flat.

Excluding the effect of favorable foreign currency rate fluctuations of 1 percentage point, total operating expenses decreased in the third quarter of fiscal 2013 due to lower hardware systems products costs associated with lower hardware systems products revenues, expense decreases in most of our other lines of business primarily due to lower variable compensation expenses and lower contractor expenses, a reduction in intangible

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asset amortization as certain intangible assets from our legacy acquisitions became fully amortized, and lower restructuring expenses, in each case in comparison to the corresponding prior year period. In constant currency, these expense decreases during the third quarter of fiscal 2013 were partially offset by increases in salaries and benefits expenses that were primarily related to additional sales and marketing and research and development headcount in comparison to the corresponding prior year period.

On a constant currency basis, our operating margin and our operating margin as a percentage of revenues increased during the third quarter of fiscal 2013 primarily due to a decrease in our total operating expenses.

First Nine Months Fiscal 2013 Compared to First Nine Months Fiscal 2012: Excluding the effect of unfavorable foreign currency rate fluctuations of 2 percentage points, our total revenues increased in the first nine months of fiscal 2013 due to an increase in our software business revenues, which was attributable to growth in our software license updates and product support revenues and our new software licenses and cloud software subscriptions revenues. This constant currency increase was partially offset by reductions in our hardware systems and services business revenues.

Excluding the effect of favorable foreign currency rate fluctuations of 2 percentage points, total operating expenses decreased modestly in the first nine months of fiscal 2013 primarily due to a $306 million benefit that we recorded during the first quarter of fiscal 2013 related to certain litigation (see Note 14 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information), a $118 million acquisition related benefit (described further below) and certain other operating expense decreases in most of our other lines of business primarily due to lower variable compensation expenses and lower external contractor expenses. In constant currency, these total expense decreases during the first nine months of fiscal 2013 were partially offset by higher salary and benefit expenses due to additional sales and marketing and research and development headcount added during the first nine months of fiscal 2013, and higher restructuring expenses primarily associated with our Fiscal 2013 Oracle Restructuring Plan.

On a constant currency basis, our operating margin and our operating margin as a percentage of revenues increased during the first nine months of fiscal 2013 due to the increase in our total revenues and the decrease in our total operating expenses.

Supplemental Disclosure Related to Certain Charges

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

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

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
New software licenses and cloud software subscriptions deferred revenues[1]	$ 6	$	$ 37	$
Software license updates and product support deferred revenues[1]	4	17	12	40
Hardware systems support deferred revenues[1]	2	6	10	26
Amortization of intangible assets[2]	586	606	1,789	1,790
Acquisition related and other[3][5]	32	38	(347)	63
Restructuring[4]	42	64	318	217
Stock-based compensation[5]	172	157	536	453
Income tax effects[6]	(240)	(258)	(630)	(740)
	$ 604	$ 630	$ 1,725	$ 1,849

[1] In connection with our acquisitions, we have estimated the fair values of the cloud software subscriptions, software support and hardware systems support obligations assumed. Due to our application of business combination accounting rules, we did not recognize cloud software subscriptions revenues related to contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of $6 million and $37 million for the

three and nine months ended February 28, 2013, respectively. We also did not recognize software license updates and product support revenues related to software support contracts that would have otherwise been recorded by the acquired

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businesses as independent entities in the amounts of $4 million and $17 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $12 million and $40 million for the nine months ended February 28, 2013 and February 29, 2012, respectively. In addition, we did not recognize hardware systems support revenues related to hardware systems support contracts that would have otherwise been recorded by the acquired businesses as independent entities in the amounts of $2 million and $6 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $10 million and $26 million for the nine months ended February 28, 2013 and February 29, 2012, respectively.

Approximately $7 million and $6 million of estimated cloud software subscriptions revenues assumed will not be recognized during the remainder of fiscal 2013 and fiscal 2014, respectively, that would have otherwise been recognized as revenues by the acquired businesses as independent entities due to the application of the aforementioned business combination accounting rules. Approximately $3 million and $2 million of estimated software license updates and product support revenues related to software support contracts assumed will not be recognized during the remainder of fiscal 2013 and fiscal 2014, respectively, that would have otherwise been recognized by the acquired businesses as independent entities due to the application of the aforementioned business combination accounting rules. Approximately $2 million of estimated hardware systems support revenues related to hardware systems support contracts assumed will not be recognized during each of the remainder of fiscal 2013 and fiscal 2014 that would have otherwise been recognized by certain acquired companies as independent entities due to the application of the aforementioned business combination accounting rules. To the extent customers renew these contracts with us, we expect to recognize revenues for the full contracts values over the respective contracts renewal periods.

(2) Represents the amortization of intangible assets substantially all of which were acquired in connection with our acquisitions. As of February 28, 2013, estimated future amortization expenses related to intangible assets were as follows (in millions):

Remainder of Fiscal 2013	$ 582
Fiscal 2014	2,043
Fiscal 2015	1,582
Fiscal 2016	1,020
Fiscal 2017	450
Fiscal 2018	324
Thereafter	661
Total intangible assets, net	$ 6,662

(3) Acquisition related and other expenses primarily consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments including certain adjustments after the measurement period has ended and changes in fair value of contingent consideration payable and certain other operating items, net. In the first nine months of fiscal 2013, acquisition related and other expenses included a benefit of $306 million related to certain litigation (see Note 14 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information), and a net benefit of $118 million due to an acquisition related item (see Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information).

(4) The significant majority of restructuring expenses during the first nine months of fiscal 2013 related to employee severance and facility exit costs in connection with our Fiscal 2013 Oracle Restructuring Plan (the 2013 Restructuring Plan). Restructuring expenses during the first nine months of fiscal 2012 primarily related to costs incurred pursuant to our Sun Restructuring Plan. Additional information regarding certain of our restructuring plans is provided in Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

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

	Three Months Ended		Nine Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Sales and marketing	$ 32	$ 30	$ 112	$ 86
Software license updates and product support	5	5	15	13
Hardware systems products	1		2	1
Hardware systems support	1	1	3	4
Services	7	6	24	16

Research and development	86	74	258	213
General and administrative	40	41	122	120
Subtotal	172	157	536	453
Acquisition related and other	8	18	30	21
Total stock-based compensation	$ 180	$ 175	$ 566	$ 474

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

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(6) The income tax effects presented were calculated as if the above described charges were not included in our results of operations for each of the respective periods presented. Income tax effects for the three months ended February 28, 2013 were calculated based on the applicable jurisdictional tax rates applied to the items within the table above and resulted in an effective tax rate of 21.0%, instead of 19.0%, which represented our effective tax rate as derived per our condensed consolidated statement of operations, primarily due to the net tax effects of acquisition related items, including the tax effects of amortization of intangible assets, and the disproportionate rate impact of discrete items for the quarter. Income tax effects for the first nine months of fiscal 2013 were calculated reflecting an effective tax rate of 22.6%, instead of 21.5%, which represented our effective tax rate as derived per our condensed consolidated statement of operations, primarily due to the net tax effects of acquisition related items, including the tax effects of amortization of intangible assets. Income tax effects for the three and nine months ended February 29, 2012 were calculated reflecting effective tax rates of 22.5% and 25.0%, respectively, instead of 20.7% and 23.9%, respectively, which represented our effective tax rates as derived per our condensed consolidated statements of operations, primarily due to income tax effects related to acquired tax exposures, the differences in jurisdictional tax rates and related tax benefits attributable to our restructuring expenses, and the disproportionate rate impact of discrete items for each of the respective periods.

Software Business

Our software business consists of our new software licenses and cloud software subscriptions segment and software license updates and product support segment.

New Software Licenses and Cloud Software Subscriptions: New software licenses revenues represent fees earned from granting customers licenses to use our database and middleware and our application software products. Cloud software subscriptions revenues represent fees earned from granting customers access to select Oracle software applications and software platforms on a subscription basis in a secure, standards-based cloud computing environment that includes access, hosting, infrastructure management, the use of software updates, and support. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market our products through indirect channels. Expenses associated with our new software licenses and cloud software subscriptions revenues are included in sales and marketing expenses, which are largely personnel related and include commissions earned by our sales force for the sale of our software offerings, marketing program costs, the cost of providing cloud software subscriptions services and amortization of intangible assets.

	Three Months Ended				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
New Software Licenses and Cloud Software Subscriptions Revenues:								
Americas	$ 1,205	-2%	-1%	$ 1,228	$ 3,271	10%	11%	$ 2,982
EMEA	690	0%	1%	693	1,734	1%	5%	1,718
Asia Pacific	437	-3%	1%	453	1,290	6%	8%	1,221
Total revenues	2,332	-2%	0%	2,374	6,295	6%	9%	5,921
Expenses:								
Sales and marketing[1]	1,548	10%	12%	1,402	4,332	5%	8%	4,110
Stock-based compensation	31	1%	1%	30	109	28%	28%	85
Amortization of intangible assets[2]	250	23%	23%	203	740	27%	27%	581
Total expenses	1,829	12%	13%	1,635	5,181	9%	11%	4,776
Total Margin	$ 503	-32%	-30%	$ 739	$ 1,114	-3%	-1%	$ 1,145
Total Margin %	22%			31%	18%			19%
% Revenues by Geography:								
Americas	52%			52%	52%			50%
EMEA	29%			29%	28%			29%
Asia Pacific	19%			19%	20%			21%

(1) Excluding stock-based compensation

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

Fiscal Third Quarter 2013 Compared to Fiscal Third Quarter 2012: Excluding the effect of unfavorable currency rate fluctuations of 2 percentage points, total new software licenses and cloud software subscriptions revenues were flat in the third quarter of fiscal 2013. In constant currency, a modest decrease in new software licenses and cloud software subscriptions revenues in the Americas region was substantially offset by modest revenue increases in the EMEA and Asia Pacific regions.

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In reported currency, our new software license revenues were $2.1 billion and $2.3 billion in the third quarter of fiscal 2013 and 2012, respectively, or a decrease of 6% after excluding unfavorable foreign currency fluctuations. Our cloud software subscriptions revenues were $231 million and $110 million in the third quarter of fiscal 2013 and 2012, respectively, an increase of 111% that was primarily due to incremental revenues from our acquisitions. In constant currency, our new software licenses and cloud software subscriptions revenues increased over the trailing 4-quarters by 10% due to growth across all regions and product types and incremental revenues from our acquisitions.

In reported currency, our recent acquisitions contributed $116 million of growth to our total new software licenses and cloud software subscriptions revenues during the third quarter of fiscal 2013.

As a result of our acquisitions, we recorded adjustments to reduce assumed cloud software subscriptions obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, cloud software subscriptions revenues in the amount of $6 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the third quarter of fiscal 2013. To the extent underlying cloud software subscriptions contracts are renewed with us following an acquisition, we will recognize the revenues for the full values of the cloud software subscriptions contracts over the respective contractual periods.

In reported currency, new software licenses revenues earned from transactions of $3 million or greater decreased by 17% in the third quarter of fiscal 2013 and represented 22% of our total new software licenses and cloud software subscriptions revenues in the third quarter of fiscal 2013 in comparison to 26% in the third quarter of fiscal 2012.

Excluding the effect of favorable currency rate fluctuations of 1 percentage point, total new software licenses and cloud software subscriptions expenses increased in the third quarter of fiscal 2013 primarily due to higher employee related expenses from increased headcount and higher intangible asset amortization.

Excluding the effect of currency rate fluctuations, total new software licenses and cloud software subscriptions margin and margin as a percentage of revenues decreased during the third quarter of fiscal 2013 primarily due to the aforementioned increases in our expenses.

First Nine Months Fiscal 2013 Compared to First Nine Months Fiscal 2012: Excluding the effect of unfavorable currency rate fluctuations of 3 percentage points, total new software licenses and cloud software subscriptions revenues increased in the first nine months of fiscal 2013 due to incremental revenues from our acquisitions, and growth across all regions and product types primarily during our first half of fiscal 2013. Excluding the effect of currency rate fluctuations, the Americas contributed 65%, EMEA contributed 15% and Asia Pacific contributed 20% to the increase in new software licenses and cloud software subscriptions revenues during the first nine months of fiscal 2013.

In reported currency, our new software licenses revenues were $5.6 billion in each of the first nine months of fiscal 2013 and 2012. In reported currency, our cloud software subscriptions revenues were $653 million and $284 million in the first nine months of fiscal 2013 and 2012, respectively. In constant currency, new software licenses revenues and cloud software subscriptions revenues increased by 2% and 130%, respectively, in the first nine months of fiscal 2013 primarily due to improved customer demand for our software product offerings, our sales force s execution and incremental revenues from our acquisitions. In reported currency, cloud software subscriptions revenues in the amount of $37 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the first nine months of fiscal 2013 due to business combination accounting rules.

In reported currency, our recent acquisitions contributed $390 million of growth to our total new software licenses and cloud software subscriptions revenues during the first nine months of fiscal 2013. In reported currency, new software licenses revenues earned from transactions of $3 million or greater increased by 12% in the first nine months of fiscal 2013 and represented 24% of our total new software licenses and cloud software subscriptions revenues in the first nine months of fiscal 2013 in comparison to 23% in the first nine months of fiscal 2012.

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Excluding the effect of favorable currency rate fluctuations of 2 percentage points, total new software licenses and cloud software subscriptions expenses increased in the first nine months of fiscal 2013 primarily due to the same reasons as noted above, partially offset by a decrease in certain legal expenses.

Excluding the effect of unfavorable currency rate fluctuations of 2 percentage points, total new software licenses and cloud software subscriptions margin and margin as a percentage of revenues decreased modestly during the first nine months of fiscal 2013 as our expenses increased at a faster rate than our revenues.

Software License Updates and Product Support: Software license updates grant customers rights to unspecified software product upgrades and maintenance releases issued during the support period. Product support includes internet access to technical content as well as internet and telephone access to technical support personnel in our global support centers. Expenses associated with our software license updates and product support line of business include the cost of providing the support services, largely personnel related expenses, and the amortization of our intangible assets associated with software support contracts and customer relationships obtained from acquisitions.

	Three Months Ended				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
Software License Updates and Product Support Revenues:								
Americas	$ 2,362	8%	8%	$ 2,194	$ 6,919	8%	8%	$ 6,431
EMEA	1,365	8%	7%	1,269	3,977	3%	8%	3,879
Asia Pacific	613	4%	9%	588	1,844	6%	9%	1,748
Total revenues	4,340	7%	8%	4,051	12,740	6%	8%	12,058
Expenses:								
Software license updates and product support[1]	301	1%	2%	300	845	-5%	-2%	886
Stock-based compensation	5	6%	6%	5	15	14%	14%	13
Amortization of intangible assets[2]	207	-5%	-5%	218	629	-3%	-3%	646
Total expenses	513	-2%	-1%	523	1,489	-4%	-2%	1,545
Total Margin	$ 3,827	8%	9%	$ 3,528	$ 11,251	7%	10%	$ 10,513
Total Margin %	88%			87%	88%			87%
% Revenues by Geography:								
Americas	54%			54%	54%			53%
EMEA	32%			31%	31%			32%
Asia Pacific	14%			15%	15%			15%

(1) Excluding stock-based compensation

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

Fiscal Third Quarter 2013 Compared to Fiscal Third Quarter 2012: Excluding the effect of unfavorable currency rate fluctuations of 1 percentage point, software license updates and product support revenues increased in the third quarter of fiscal 2013 as a result of new software licenses sold (with substantially all customers electing to purchase software support contracts) during the trailing 4-quarter period, the renewal of substantially all of the software support customer base eligible for renewal during the trailing 4-quarter period and incremental revenues from recent acquisitions. Excluding the effect of currency rate fluctuations, the Americas contributed 55%, EMEA contributed 29% and Asia Pacific contributed 16% to the increase in software license updates and product support revenues during the third quarter of fiscal 2013.

In reported currency, software license updates and product support revenues in the third quarter of fiscal 2013 included incremental revenues of $13 million from our recently acquired companies. As a result of our acquisitions, we recorded adjustments to reduce assumed software support obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, software

license updates and product support revenues related to software support contracts in the amounts of $4 million and $17 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the third quarter of fiscal 2013 and fiscal 2012, respectively. Historically, substantially all of our customers, including customers from acquired companies, renew their software support contracts when such contracts are eligible for renewal. To the extent these underlying support contracts are renewed, we will recognize the revenues for the full values of these contracts over the respective support periods, the substantial majority of which are one year in duration.

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Excluding the effect of foreign currency rate fluctuations, total software license updates and product support expenses decreased in the third quarter of fiscal 2013 primarily due to lower amortization of intangible assets, lower bad debt expenses, and lower variable compensation expenses, which were partially offset by an increase in certain non-income based taxes.

Excluding the effect of currency rate fluctuations, total software license updates and product support margin and margin as a percentage of revenues increased as our total revenues for this segment increased while our operating expenses decreased.

First Nine Months Fiscal 2013 Compared to First Nine Months Fiscal 2012: Excluding the effect of unfavorable currency rate fluctuations of 2 percentage points, software license updates and product support revenues increased in the first nine months of fiscal 2013 primarily due to the same reasons as noted above. Excluding the effect of currency rate fluctuations, the Americas contributed 56%, EMEA contributed 29% and Asia Pacific contributed 15% to the increase in software license updates and product support revenues during the first nine months of fiscal 2013.

In reported currency, software license updates and product support revenues in the first nine months of fiscal 2013 included incremental revenues of $47 million from our recently acquired companies. Due to our application of business combination accounting rules, software license updates and product support revenues related to software support contracts in the amounts of $12 million and $40 million that would have been otherwise recorded by our acquired businesses as independent entities were not recognized in the first nine months of fiscal 2013 and 2012, respectively.

Excluding the effect of favorable foreign currency rate fluctuations of 2 percentage points, total software license updates and product support expenses decreased primarily due to a reduction in certain non-income based taxes, lower amortization of intangible assets, lower bad debt expenses, and lower variable compensation expenses. In constant currency, software license updates and product support margin and margin as a percentage of revenues increased primarily due to the same reasons as noted above.

Hardware Systems Business

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

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

	Three Months Ended				Nine Months Ended			
(Dollars in millions)	February 28, 2013	Percent Change Actual	Percent Change Constant	February 29, 2012	February 28, 2013	Percent Change Actual	Percent Change Constant	February 29, 2012
Hardware Systems Products Revenues:								
Americas	$ 307	-25%	-25%	$ 410	$ 1,056	-24%	-23%	$ 1,382
EMEA	201	-24%	-24%	265	615	-30%	-27%	880
Asia Pacific	163	-16%	-14%	194	514	-13%	-12%	589
Total revenues	671	-23%	-22%	869	2,185	-23%	-22%	2,851
Expenses:								
Hardware systems products[1]	336	-21%	-20%	424	1,085	-21%	-19%	1,366
Sales and marketing[1]	222	-17%	-16%	268	676	-19%	-16%	831
Stock-based compensation	2	631%	631%		5	139%	139%	2
Amortization of intangible assets[2]	76	-21%	-21%	97	240	-19%	-19%	296
Total expenses	636	-19%	-19%	789	2,006	-20%	-18%	2,495
Total Margin	$ 35	-56%	-57%	$ 80	$ 179	-50%	-49%	$ 356
Total Margin %	5%			9%	8%			12%
% Revenues by Geography:								
Americas	46%			47%	48%			48%
EMEA	30%			31%	28%			31%
Asia Pacific	24%			22%	24%			21%

(1) Excluding stock-based compensation

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

On a constant currency basis, hardware systems products revenues decreased in the fiscal 2013 periods presented primarily due to reductions in the sales volumes of certain of our legacy product lines, including lower margin products. These revenue decreases were partially offset by increases in hardware revenues attributable to our Oracle Engineered Systems.

On a constant currency basis, total hardware systems products operating expenses declined in the fiscal 2013 periods presented primarily due to a reduction in hardware systems products costs associated with lower hardware revenues, a decrease in employee related expenses due to decreased headcount, and lower intangible asset amortization.

Excluding the effect of currency rate fluctuations, total hardware systems products margin and margin as a percentage of revenues decreased in the fiscal 2013 periods presented as our total revenues decreased at a faster rate than our total expenses.

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Hardware Systems Support: Our hardware systems support offerings provide customers with software updates for the software components that are essential to the functionality of our hardware systems and can include product repairs, maintenance services and technical support services. Expenses associated with our hardware systems support operating segment include the cost of materials used to repair customer products, the cost of providing support services, largely personnel related expenses, and the amortization of our intangible assets associated with hardware systems support contracts and customer relationships obtained from our acquisitions.

	Three Months Ended				Nine Months Ended			
(Dollars in millions)	February 28, 2013	Percent Change Actual	Percent Change Constant	February 29, 2012	February 28, 2013	Percent Change Actual	Percent Change Constant	February 29, 2012
Hardware Systems Support Revenues:								
Americas	$ 270	-5%	-5%	$ 286	$ 821	-6%	-5%	$ 869
EMEA	189	-10%	-10%	209	568	-15%	-11%	671
Asia Pacific	111	1%	5%	109	341	2%	5%	334
Total revenues	570	-6%	-5%	604	1,730	-8%	-5%	1,874
Expenses:								
Hardware systems support[1]	218	-15%	-15%	256	667	-16%	-14%	794
Stock-based compensation	1	37%	37%	1	3	-14%	-14%	4
Amortization of intangible assets[2]	49	-37%	-37%	77	162	-29%	-29%	229
Total expenses	268	-20%	-20%	334	832	-19%	-17%	1,027
Total Margin	$ 302	11%	13%	$ 270	$ 898	6%	9%	$ 847
Total Margin %	53%			45%	52%			45%
% Revenues by Geography:								
Americas	48%			47%	47%			46%
EMEA	33%			35%	33%			36%
Asia Pacific	19%			18%	20%			18%

(1) Excluding stock-based compensation

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

Excluding the impact of currency rate fluctuations, hardware systems support revenues decreased in the fiscal 2013 periods presented primarily due to reductions in sales volumes of certain of our legacy hardware systems product lines for which we offer our hardware systems support. As a result of our acquisitions, we recorded adjustments to reduce assumed hardware systems support obligations to their estimated fair values at the acquisition dates. Due to our application of business combination accounting rules, hardware systems support revenues related to hardware systems support contracts in the amounts of $2 million and $6 million that would have been otherwise reported by our acquired businesses as independent entities were not recognized in the third quarter of fiscal 2013 and fiscal 2012, respectively, and $10 million and $26 million were not recognized in the first nine months of fiscal 2013 and fiscal 2012, respectively. To the extent these underlying hardware systems support contracts are renewed, we will recognize the revenues for the full value of these contracts over the future support periods.

Excluding the effect of currency rate fluctuations, total hardware systems support expenses decreased in the fiscal 2013 periods presented primarily due to a reduction in employee related expenses attributable to decreased headcount, reduced service delivery costs due to operational initiatives, lower bad debt expenses, and lower amortization of intangible assets.

Excluding the effect of currency rate fluctuations, total hardware systems support margin and margin as a percentage of total revenues increased in the fiscal 2013 periods presented due to a reduction in our total hardware systems support expenses.

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Services Business

Our services business consists of consulting, managed cloud services and education services. Consulting revenues are earned by providing services to customers in business and IT strategy alignment, enterprise architecture planning and design, initial product implementation and integration and ongoing product enhancements and upgrades. Managed cloud services revenues are earned by providing services for comprehensive software and hardware management and maintenance services for customers hosted at our Oracle data center facilities, select partner data centers or physically on-premise at customer facilities. Additionally, we provide support services, both on-premise and remote, to customers to enable increased performance and higher availability of their products and services. Education revenues are earned by providing instructor-led, media-based and internet-based training in the use of our software and hardware products. The cost of providing our services consists primarily of personnel related expenses, technology infrastructure expenditures, facilities expenses and external contractor expenses.

	Three Months Ended				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
Services Revenues:								
Americas	$ 554	-6%	-5%	$ 589	$ 1,741	-3%	-2%	$ 1,801
EMEA	300	-15%	-14%	351	935	-15%	-11%	1,099
Asia Pacific	191	-5%	1%	201	607	1%	5%	601
Total revenues	1,045	-8%	-7%	1,141	3,283	-6%	-3%	3,501
Expenses:								
Services[1]	847	-8%	-6%	916	2,644	-5%	-1%	2,772
Stock-based compensation	7	17%	17%	6	24	47%	47%	16
Amortization of intangible assets[2]	4	-66%	-66%	11	18	-52%	-52%	38
Total expenses	858	-8%	-6%	933	2,686	-5%	-2%	2,826
Total Margin	$ 187	-10%	-9%	$ 208	$ 597	-12%	-9%	$ 675
Total Margin %	18%			18%	18%			19%
% Revenues by Geography:								
Americas	53%			52%	53%			52%
EMEA	29%			31%	29%			31%
Asia Pacific	18%			17%	18%			17%

(1) Excluding stock-based compensation

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

On a constant currency basis, our total services revenues decreased in the fiscal 2013 periods presented in comparison to the corresponding prior year periods due to revenue decreases in each of our services segments. The largest revenue decrease in the fiscal 2013 periods presented was to our consulting revenues, which were primarily impacted by weaker demand in EMEA due to weaker economic conditions.

Excluding the effect of currency rate fluctuations, total services expenses decreased during the fiscal 2013 periods presented in comparison to the corresponding prior year periods primarily due to expense decreases during our third quarter of fiscal 2013 across all of our services segments, which consisted primarily of decreases in external contractor costs, lower variable compensation expenses, and lower intangible asset amortization.

Excluding the effect of currency rate fluctuations, total services margin and margin as a percentage of revenues decreased during the fiscal 2013 periods presented as our services revenues declined at a faster rate than our services expenses.

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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				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
Research and development[1]	$ 1,100	3%	3%	$ 1,071	$ 3,328	8%	9%	$ 3,084
Stock-based compensation	86	16%	16%	74	258	21%	21%	213
Total expenses	$ 1,186	4%	4%	$ 1,145	$ 3,586	9%	10%	$ 3,297
% of Total Revenues	13%			13%	14%			13%

(1) Excluding stock-based compensation

On a constant currency basis, total research and development expenses increased during the fiscal 2013 periods presented primarily due to an increase in employee related expenses including salaries, benefits and stock-based compensation from increased headcount, and were partially offset by lower variable compensation expenses.

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

	Three Months Ended				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
General and administrative[1]	$ 220	0%	1%	$ 220	$ 676	-7%	-5%	$ 728
Stock-based compensation	40	-3%	-3%	41	122	2%	2%	120
Total expenses	$ 260	0%	1%	$ 261	$ 798	-6%	-4%	$ 848
% of Total Revenues	3%			3%	3%			3%

(1) Excluding stock-based compensation

Fiscal Third Quarter 2013 Compared to Fiscal Third Quarter 2012: On a constant currency basis, total general and administrative expenses increased modestly during the third quarter of fiscal 2013 primarily due to slightly higher salaries and benefits expenses due to a modest increase in headcount, partially offset by decreased variable compensation expenses.

First Nine Months Fiscal 2013 Compared to First Nine Months Fiscal 2012: On a constant currency basis, total general and administrative expenses decreased during the first nine months of fiscal 2013 primarily due to a decrease in professional fees and lower variable compensation expenses, partially offset by slightly higher salaries and benefits expenses due to a modest increase in headcount.

Amortization of Intangible Assets:

	Three Months Ended	Nine Months Ended

(Dollars in millions)	February 28, 2013	Percent Change Actual	Percent Change Constant	February 29, 2012	February 28, 2013	Percent Change Actual	Percent Change Constant	February 29, 2012
Software support agreements and related relationships	$ 145	-2%	-2%	$ 148	$ 437	0%	0%	$ 438
Hardware systems support agreements and related relationships	30	0%	0%	30	90	1%	1%	89
Developed technology	203	-12%	-12%	230	626	-9%	-9%	687
Core technology	82	-4%	-4%	85	246	-3%	-3%	253
Customer relationships and contract backlog	81	-12%	-12%	92	262	0%	0%	262
Cloud software subscriptions and related relationships	29	383%	383%	6	81	523%	523%	13
Trademarks	16	7%	7%	15	47	-2%	-2%	48
Total amortization of intangible assets	$ 586	-3%	-3%	$ 606	$ 1,789	0%	0%	$ 1,790

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Amortization of intangible assets decreased during the fiscal 2013 periods presented as certain of our intangible assets pertaining to our acquisitions of Sun Microsystems, Inc. and certain other companies became fully amortized. These decreases were partially offset by additional amortization from intangible assets that we recently acquired in connection with our acquisitions, including our acquisitions of RightNow and Taleo in fiscal 2012, among others. 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.

Acquisition Related and Other Expenses: Acquisition related and other expenses consist of personnel related costs for transitional and certain other employees, stock-based compensation expenses, integration related professional services, certain business combination adjustments including certain adjustments after the measurement period has ended and changes in fair value of contingent consideration payable (see Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report) and certain other operating items, net. Stock-based compensation expenses included in acquisition related and other expenses resulted from unvested stock options and restricted stock-based awards assumed from acquisitions whereby vesting was accelerated upon termination of the employees pursuant to the original terms of those stock options and restricted stock-based awards.

	Three Months Ended				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
Transitional and other employee related costs	$ 7	18%	19%	$ 6	$ 24	37%	42%	$ 18
Stock-based compensation	8	-55%	-55%	18	30	39%	39%	21
Professional fees and other, net	7	14%	16%	6	(282)	*	*	(1)
Business combination adjustments, net	10	25%	20%	8	(119)	-568%	-582%	25
Total acquisition related and other expenses	$ 32	-16%	-17%	$ 38	$ (347)	-652%	-660%	$ 63

* Not meaningful

Fiscal Third Quarter 2013 Compared to Fiscal Third Quarter 2012: Excluding the effect of currency rate fluctuations, the decrease in acquisition related and other expenses during the third quarter of fiscal 2013 was primarily due to a decrease in stock-based compensation expenses associated with our recent acquisitions.

First Nine Months Fiscal 2013 Compared to First Nine Months Fiscal 2012: On a constant currency basis, the decrease in our acquisition related and other expenses in the first nine months of fiscal 2013 was primarily due to a $306 million benefit that we recorded in the first quarter of fiscal 2013 related to certain litigation (see Note 14 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information) and the change in fair value of contingent consideration payable, which resulted in a net benefit of $118 million (see Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information).

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

	Three Months Ended				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
Restructuring expenses	$ 42	-35%	-36%	$ 64	$ 318	46%	52%	$ 217

Restructuring expenses in the fiscal 2013 periods presented primarily related to the Fiscal 2013 Oracle Restructuring Plan (the 2013 Restructuring Plan), which our management approved, committed to and initiated in order to restructure and further improve efficiencies in our operations. We amended the 2013 Restructuring Plan in the third quarter of fiscal 2013 to reflect additional actions that we expect to take to improve efficiencies in our

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operations. The total estimated restructuring costs associated with the 2013 Restructuring Plan are $420 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are incurred. The total estimated remaining restructuring costs associated with the 2013 Restructuring Plan were approximately $126 million as of February 28, 2013. The majority of the remaining costs are expected to be incurred through fiscal 2014. Our estimated costs may be subject to change in future periods.

Restructuring expenses in the first nine months of fiscal 2012 primarily related to our Sun Restructuring Plan. Note 9 of Notes to Consolidated Financial Statements as included in our Annual Report on Form 10-K for our fiscal year ended May 31, 2012 contains additional information pertaining to our Sun Restructuring Plan.

Interest Expense:

	Three Months Ended				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
Interest expense	$ 205	8%	8%	$ 190	$ 588	2%	3%	$ 574

Interest expense generally increased in the fiscal 2013 periods presented due to higher average borrowings resulting from our issuance of $5.0 billion of senior notes in October 2012 (see Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information).

Non-Operating (Expense) Income, net: Non-operating (expense) 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 (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				Nine Months Ended			
	February 28,	Percent Change		February 29,	February 28,	Percent Change		February 29,
(Dollars in millions)	2013	Actual	Constant	2012	2013	Actual	Constant	2012
Interest income	$ 62	3%	7%	$ 60	$ 180	3%	9%	$ 175
Foreign currency losses, net	(87)	210%	197%	(28)	(150)	120%	116%	(68)
Noncontrolling interests in income	(29)	-17%	-15%	(35)	(93)	7%	10%	(88)
Other income, net	15	-35%	-35%	24	39	70%	72%	23
Total non-operating (expense) income, net	$ (39)	284%	298%	$ 21	$ (24)	158%	166%	$ 42

Fiscal Third Quarter 2013 Compared to Fiscal Third Quarter 2012: On a constant currency basis, we incurred non-operating expense, net during the third quarter of fiscal 2013 due to an increase in foreign currency losses, net that included a loss relating to our Venezuelan subsidiary s operations. During our third quarter of fiscal 2013, the Venezuelan government devalued its currency and we recognized a $64 million foreign currency loss as a result of the remeasurement of certain assets and liabilities of our Venezuelan subsidiary. As a large portion of our consolidated operations are international, we could experience additional foreign currency volatility in the future including additional foreign currency losses related to our Venezuelan subsidiary if the Venezuelan government further devalues the Venezuelan currency, the amounts and timing of which are uncertain.

First Nine Months Fiscal 2013 Compared to First Nine Months Fiscal 2012: On a constant currency basis we incurred non-operating expense, net in the first nine months of fiscal 2013 primarily due to an increase in foreign currency transaction losses, net, as described above, and an increase in noncontrolling interests in income of our majority-owned subsidiaries. These favorable impacts to our non-operating expense, net during the first nine months of fiscal 2013 were partially offset by gains from our marketable securities that we designate as trading that are held to support our deferred compensation plan obligations.

Provision for Income Taxes: Our effective tax rate in all periods is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to earnings considered as indefinitely reinvested in foreign operations, state taxes, the U.S. research and development tax credit and the U.S. domestic production activity

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deduction. Future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where we have lower statutory tax rates, by unfavorable changes in tax laws and regulations or by adverse rulings in tax related litigation.

	Three Months Ended				Nine Months Ended			
(Dollars in millions)	February 28, 2013	Percent Change Actual	Percent Change Constant	February 29, 2012	February 28, 2013	Percent Change Actual	Percent Change Constant	February 29, 2012
Provision for income taxes	$ 586	-10%	-8%	$ 650	$ 1,953	-5%	-1%	$ 2,050
Effective tax rate	19.0%			20.7%	21.5%			23.9%

***Fiscal Third Quarter 2013 compared to Fiscal Third Quarter 2012*:** Provision for income taxes decreased during the third quarter of fiscal 2013 primarily due to the retroactive extension of the U.S. research and development credit.

***Fiscal Nine Months Fiscal 2013 Compared to First Nine Months Fiscal 2012*:** Provision for income taxes in the first nine months of fiscal 2013 decreased primarily due to a tax favorable change in the jurisdictional mix of our earnings, and the retroactive extension of the U.S. research and development credit, both of which more than offset our higher income before provision for income taxes.

Liquidity and Capital Resources

(Dollars in millions)	February 28, 2013	Change	May 31, 2012
Working capital	$ 28,770	17%	$ 24,635
Cash, cash equivalents and marketable securities	$ 33,407	9%	$ 30,676

Working capital: The increase in working capital as of February 28, 2013 in comparison to May 31, 2012 was primarily due to our issuance of $5.0 billion of senior notes in October 2012, the favorable impact to our net current assets resulting from our net income during the first nine months of fiscal 2013, and, to a lesser extent, cash proceeds from stock option exercises. This increase was partially offset by cash used for repurchases of our common stock (we used $8.2 billion of cash for common stock repurchases during the first nine months of fiscal 2013), cash used to pay dividends to our stockholders and cash used for acquisitions, all of which occurred during the first nine months of fiscal 2013. Our working capital may be impacted by some of the aforementioned factors in future periods, certain 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, U.S. Treasury obligations, U.S. government agency and government sponsored enterprise obligations, and other securities with original maturities of 90 days or less. Marketable securities primarily consist of time deposits held at major banks, Tier-1 commercial paper, corporate notes, U.S. Treasury obligations, U.S. government agency and government sponsored enterprise obligations and certain other securities. The increase in cash, cash equivalents and marketable securities at February 28, 2013 in comparison to May 31, 2012 was due to the issuance of $5.0 billion of senior notes in October 2012, an increase in cash generated from our operating activities, and to a lesser extent, cash proceeds from stock option exercises. This increase was partially offset by $8.2 billion of repurchases of our common stock, the repayment of $1.7 billion of short-term borrowings pursuant to certain revolving credit facilities, cash used for acquisitions and the payment of cash dividends to our stockholders. Cash, cash equivalents and marketable securities included $27.4 billion held by our foreign subsidiaries as of February 28, 2013, a significant portion of which was generated from the earnings of these foreign subsidiaries that we consider as indefinitely reinvested outside the United States. These undistributed earnings that are considered as indefinitely reinvested overseas would be subject to U.S. income tax if repatriated to the United States. The amount of cash, cash equivalents and marketable securities that we report in U.S. Dollars for a significant portion of the cash held by our foreign subsidiaries is subject to translation adjustments caused by changes in foreign currency exchange rates as of the end of each respective reporting period (the offset to which is recorded to accumulated other comprehensive income in our consolidated balance sheets and is also presented as a line item in our condensed consolidated statements of other comprehensive income included elsewhere in this Quarterly Report). As the U.S. Dollar generally weakened against certain major international currencies as of February 28, 2013 in comparison to May 31, 2012, the

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amount of cash, cash equivalents and marketable securities that we reported in U.S. Dollars for these subsidiaries generally increased as of February 28, 2013 relative to what we would have reported using constant currency rates as of May 31, 2012.

Days sales outstanding, which was calculated by dividing period end accounts receivable by average daily sales for the quarter, was 42 days at February 28, 2013 compared with 53 days at May 31, 2012. The days sales outstanding calculation excluded the revenue adjustments that reduced our acquired cloud software subscriptions obligations, software license updates and product support obligations and hardware systems support obligations to fair value. Our decline in days sales outstanding was primarily due to the collection, in our first nine months of fiscal 2013, of large software license and software support balances outstanding as of May 31, 2012.

	Nine Months Ended		
(Dollars in millions)	February 28, 2013	Change	February 29, 2012
Cash provided by operating activities	$ 9,660	0%	$ 9,686
Cash used for investing activities	$ (3,727)	-43%	$ (6,537)
Cash used for financing activities	$ (4,874)	-9%	$ (5,350)

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. We also generate significant cash from new software licenses sales and sales of hardware systems support arrangements, and to a lesser extent, sales of services, hardware systems products, and cloud software subscriptions. Our primary uses of cash from operating activities are for employee related expenditures, material and manufacturing costs related to the production of our hardware systems products, taxes and leased facilities.

Net cash provided by operating activities remained flat in the first nine months of fiscal 2013 in comparison to the corresponding prior year period. Cash favorable impacts of increased net income adjusted for stock-based compensation and depreciation, and a decrease in cash used to pay accrued compensation liabilities such as commissions and bonuses, were substantially offset by an increase in cash used to pay income taxes and certain other net cash unfavorable working capital movements, in each case during the first nine months of fiscal 2013 in comparison to the first nine months of fiscal 2012.

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

Net cash used for investing activities decreased in the first nine months of fiscal 2013 in comparison to the corresponding prior year period primarily due to a decrease in net cash used to purchase marketable securities (net of proceeds received from sales and maturities) and 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 payments under debt facilities as well as stock repurchases, dividend payments and proceeds from stock option exercises.

Net cash used for financing activities in the first nine months of fiscal 2013 decreased in comparison to the first nine months of fiscal 2012 primarily due to our issuance of $5.0 billion of senior notes in October 2012 and an increase in proceeds from stock option exercises, partially offset by an increase in our common stock repurchases (we used $8.2 billion of cash for common stock repurchases during the first nine months of fiscal 2013 in comparison to $3.5 billion in the first nine months of fiscal 2012), an increase in dividends paid (described in further detail below), and an increase in repayments of borrowings (we repaid $1.7 billion of short-term borrowings pursuant to our revolving credit facilities during the first nine months of fiscal 2013 in comparison to our repayments of $1.15 billion of short-term borrowings pursuant to our revolving credit facilities and $255 million of RightNow s legacy convertible notes in the first nine months of fiscal 2012).

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

	Trailing 4-Quarters Ended		
(Dollars in millions)	**February 28, 2013**	**Change**	**February 29, 2012**
Net cash provided by operating activities	$ 13,717	2%	$ 13,463
Capital expenditures[(1)]	(684)	34%	(509)
Free cash flow	$ 13,033	1%	$ 12,954
Net income	$ 10,571		$ 9,738
Free cash flow as percent of net income	123%		133%

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

Long-Term Customer Financing: We offer certain of our customers the option to acquire our software products, hardware systems products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed for our customers on a non-recourse basis to financial institutions within 90 days of the contracts dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financial assets because we are considered to have surrendered control of these financial assets. We financed $829 million and $705 million, respectively, or approximately 13% and 12%, respectively, of our new software licenses and cloud software subscriptions revenues in the first nine months of fiscal 2013 and 2012, and $94 million and $81 million, respectively, or approximately 4% and 3%, respectively, of our hardware systems products revenues in the first nine months of fiscal 2013 and 2012.

Recent Financing Activities:

Cash Dividends: In December 2012, our Board of Directors declared and paid an accelerated cash dividend totaling $0.18 per share of outstanding common stock. This accelerated cash dividend was intended by our Board of Directors to be in lieu of quarterly dividends that we would have otherwise announced with our quarterly earnings results for the second, third and fourth quarters of fiscal 2013, and that would have been paid in calendar year 2013. The next opportunity for our Board of Directors to consider and approve the declaration of a dividend will be when we announce our earnings results for the first quarter of fiscal 2014, which ends on August 31, 2013. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Senior Notes: In October 2012, we issued $5.0 billion of fixed rate senior notes comprised of $2.5 billion of 1.20% notes due October 2017 and $2.5 billion of 2.50% notes due October 2022. We issued these senior notes for general corporate purposes, which may include stock repurchases, future acquisitions and repayment of indebtedness, including repayment of our $1.25 billion of 4.95% senior notes due April 2013. Additional details regarding these senior notes are included in Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Revolving Credit Agreement: On July 2, 2012, our revolving credit agreement with JPMorgan Chase Bank, N.A., as initial lender and administrative agent; and J.P. Morgan Securities, LLC, as sole lead arranger and sole bookrunner (the 2012 Credit Agreement) to borrow $1.7 billion was repaid in full and the 2012 Credit Agreement expired pursuant to its terms.

Common Stock Repurchases: Our Board of Directors has approved a program for us to repurchase shares of our common stock. On June 18, 2012, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional $10.0 billion. As of February 28, 2013, approximately $5.0 billion

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

Contractual Obligations: During the first nine months of fiscal 2013, 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, 2012 other than the following:

Proposed Acquisition of Acme Packet, Inc.: On February 4, 2013, we entered into an Agreement and Plan of Merger (Merger Agreement) with Acme Packet, a provider of session border control technology. Pursuant to the Merger Agreement, our wholly-owned subsidiary will merge with and into Acme Packet and Acme Packet will become a wholly-owned subsidiary of Oracle. Upon the consummation of the merger, each share of Acme Packet common stock will be converted into the right to receive $29.25 (Merger Consideration) in cash. In addition, the unvested portion of each Acme Packet stock option and restricted stock-based award and the vested portion of each Acme Packet stock option, the exercise price of which is equal to or greater than the Merger Consideration, in each case that is outstanding immediately prior to the consummation of the merger and held by employees, will generally be converted into a stock option or restricted stock-based award, as the case may be, denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. The estimated total purchase price of Acme Packet is approximately $2.1 billion. The completion of the merger is subject to customary conditions, including without limitation, the approval of the merger by Acme Packet s stockholders.

Senior Notes: In October 2012, we issued $5.0 billion of fixed rate senior notes comprised of $2.5 billion of 1.20% notes due October 2017 and $2.5 billion of 2.50% notes due October 2022. Additional details regarding these senior notes are included in Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

We believe that our current cash, cash equivalents and marketable securities and cash generated from operations will be sufficient to meet our working capital, capital expenditures and contractual obligation requirements, including repayment of our $1.25 billion of 4.95% senior notes due April 2013. In addition, we believe we could fund any future acquisitions, including the proposed acquisition of Acme Packet, dividend payments and repurchases of common stock or debt with our internally available cash, cash equivalents and marketable securities, cash generated from operations, additional borrowings or from the issuance of additional securities.

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

Stock Options and Restricted Stock-Based Awards

Our stock-based compensation program is a key component of the compensation package we provide to attract and retain certain of our talented employees and align their interests with the interests of existing stockholders. We historically have granted only stock options to our employees and any restricted stock-based awards outstanding were assumed as a result of our acquisitions.

We recognize that stock options and restricted stock-based awards dilute existing stockholders and have sought to control the number of stock options and restricted stock-based awards granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution since June 1, 2009 has been a weighted average annualized rate of 1.5% per year. The potential dilution percentage is calculated as the average annualized new stock options or restricted stock-based awards granted and assumed, net of stock options and restricted stock-based awards forfeited by employees leaving the company, divided by the weighted average outstanding shares during the calculation period. This maximum potential dilution will only result if all

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stock options are exercised and restricted stock-based awards vest. Of the outstanding stock options at February 28, 2013, which generally have a 10-year exercise period, less than 1% have exercise prices higher than the current market price of our common stock. In recent years, our stock repurchase program has more than offset the dilutive effect of our stock-based compensation program; however, we may reduce the level of our stock repurchases in the future as we may use our available cash for acquisitions, to pay dividends, to repay or repurchase indebtedness or for other purposes. At February 28, 2013, the maximum potential dilution from all outstanding and unexercised stock options and restricted stock-based awards, regardless of when granted and regardless of whether vested or unvested and including stock options where the strike price is higher than the current market price, was 9.6%.

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

During the first nine months of fiscal 2013, there were no significant changes to our quantitative and qualitative disclosures about market risk. 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, 2012 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 Chief Executive Officer and our Chief Financial Officer), as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) were effective to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms and is accumulated and communicated to our management (including our Chief Executive Officer and our Chief Financial Officer) as appropriate to allow timely decisions regarding required disclosure.

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

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended May 31, 2012. 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 June 18, 2012, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional $10.0 billion. Approximately $5.0 billion remained available for stock repurchases as of February 28, 2013 pursuant to our stock repurchase program.

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

The following table summarizes the stock repurchase activity for the three months ended February 28, 2013 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

(in millions, except per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
December 1, 2012 December 31, 2012	28.5	$ 32.62	28.5	$ 6,103.6
January 1, 2013 January 31, 2013	14.8	$ 34.97	14.8	$ 5,585.0
February 1, 2013 February 28, 2013	18.1	$ 34.98	18.1	$ 4,951.7
Total	61.4	$ 33.88	61.4	

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Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference					Filed Herewith
		Form	File No.	Exhibit	Filing Date	Filed By	
31.01	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer						X
31.02	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer						X
32.01	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer						X
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of February 28, 2013 and May 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended February 28, 2013 and February 29, 2012, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended February 28, 2013 and February 29, 2012, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended February 28, 2013 and February 29, 2012 and (v) Notes to Condensed Consolidated Financial Statements						X

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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: March 22, 2013

By: /s/ Safra A. Catz
Safra A. Catz
President, Chief Financial Officer and Director

Date: March 22, 2013

By: /s/ William Corey West
William Corey West
Senior Vice President, Corporate Controller and Chief Accounting Officer