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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

The following financial statements are filed as a part of this report:

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Consolidated Financial Statements:	
Balance Sheets as of May 31, 2015 and 2014	86
Statements of Operations for the years ended May 31, 2015, 2014 and 2013	87
Statements of Comprehensive Income for the years ended May 31, 2015, 2014 and 2013	88
Statements of Equity for the years ended May 31, 2015, 2014 and 2013	89
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2. Financial Statement Schedules

The following financial statement schedule is filed as a part of this report:

Schedule II. Valuation and Qualifying Accounts	<u>Page</u> 136
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All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

(b) Exhibits

The information required by this Item is set forth in the Index of Exhibits that follows the signature page of this Annual Report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Oracle Corporation

We have audited the accompanying consolidated balance sheets of Oracle Corporation as of May 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a) 2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oracle Corporation at May 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Oracle Corporation's internal control over financial reporting as of May 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 25, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
June 25, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Oracle Corporation

We have audited Oracle Corporation's internal control over financial reporting as of May 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Oracle Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Oracle Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Oracle Corporation as of May 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2015 of Oracle Corporation and our report dated June 25, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
June 25, 2015

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ORACLE CORPORATION CONSOLIDATED BALANCE SHEETS As of May 31, 2015 and 2014

(in millions, except per share data)	May 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,716	\$ 17,769
Marketable securities	32,652	21,050
Trade receivables, net of allowances for doubtful accounts of \$285 and \$306 as of May 31, 2015 and 2014, respectively	5,618	6,087
Inventories	314	189
Deferred tax assets	663	914
Prepaid expenses and other current assets	2,220	2,119
Total current assets	<u>63,183</u>	<u>48,128</u>
Non-current assets:		
Property, plant and equipment, net	3,686	3,061
Intangible assets, net	6,406	6,137
Goodwill, net	34,087	29,652
Deferred tax assets	795	837
Other assets	2,746	2,451
Total non-current assets	<u>47,720</u>	<u>42,138</u>
Total assets	<u>\$ 110,903</u>	<u>\$ 90,266</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable, current	\$ 1,999	\$ 1,508
Accounts payable	806	471
Accrued compensation and related benefits	1,839	1,940
Income taxes payable	532	416
Deferred revenues	7,245	7,269
Other current liabilities	2,870	2,785
Total current liabilities	<u>15,291</u>	<u>14,389</u>
Non-current liabilities:		
Notes payable, non-current	39,959	22,589
Income taxes payable	4,386	4,184
Other non-current liabilities	2,169	1,657
Total non-current liabilities	<u>46,514</u>	<u>28,430</u>
Commitments and contingencies		
Oracle Corporation stockholders' equity:		
Preferred stock, \$0.01 par value—authorized: 1.0 shares; outstanding: none	—	—
Common stock, \$0.01 par value and additional paid in capital—authorized: 11,000 shares; outstanding: 4,343 shares and 4,464 shares as of May 31, 2015 and 2014, respectively	23,156	21,077
Retained earnings	26,503	25,965
Accumulated other comprehensive loss	(996)	(164)
Total Oracle Corporation stockholders' equity	<u>48,663</u>	<u>46,878</u>
Noncontrolling interests	435	569
Total equity	<u>49,098</u>	<u>47,447</u>
Total liabilities and equity	<u>\$ 110,903</u>	<u>\$ 90,266</u>

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended May 31, 2015, 2014 and 2013

(in millions, except per share data)	Year Ended May 31,		
	2015	2014	2013
Revenues:			
New software licenses	\$ 8,535	\$ 9,416	\$ 9,411
Cloud software as a service and platform as a service	1,485	1,121	910
Cloud infrastructure as a service	608	456	457
Software license updates and product support	18,847	18,206	17,142
Software and cloud revenues	29,475	29,199	27,920
Hardware systems products	2,825	2,976	3,033
Hardware systems support	2,380	2,396	2,313
Hardware systems revenues	5,205	5,372	5,346
Services revenues	3,546	3,704	3,914
Total revenues	38,226	38,275	37,180
Operating expenses:			
Sales and marketing ⁽¹⁾	7,655	7,567	7,062
Cloud software as a service and platform as a service ⁽¹⁾	773	455	327
Cloud infrastructure as a service ⁽¹⁾	344	308	304
Software license updates and product support ⁽¹⁾	1,199	1,162	1,175
Hardware systems products ⁽¹⁾	1,471	1,521	1,501
Hardware systems support ⁽¹⁾	816	836	890
Services ⁽¹⁾	2,929	2,954	3,182
Research and development	5,524	5,151	4,850
General and administrative	1,077	1,038	1,072
Amortization of intangible assets	2,149	2,300	2,385
Acquisition related and other	211	41	(604)
Restructuring	207	183	352
Total operating expenses	24,355	23,516	22,496
Operating income	13,871	14,759	14,684
Interest expense	(1,143)	(914)	(797)
Non-operating income (expense), net	106	(141)	11
Income before provision for income taxes	12,834	13,704	13,898
Provision for income taxes	2,896	2,749	2,973
Net income	\$ 9,938	\$ 10,955	\$ 10,925
Earnings per share:			
Basic	\$ 2.26	\$ 2.42	\$ 2.29
Diluted	\$ 2.21	\$ 2.38	\$ 2.26
Weighted average common shares outstanding:			
Basic	4,404	4,528	4,769
Diluted	4,503	4,604	4,844
Dividends declared per common share	\$ 0.51	\$ 0.48	\$ 0.30

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

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended May 31, 2015, 2014 and 2013

(in millions)	Year Ended May 31,		
	2015	2014	2013
Net income	\$ 9,938	\$ 10,955	\$ 10,925
Other comprehensive loss, net of tax:			
Net foreign currency translation losses	(770)	(78)	(123)
Net unrealized (losses) gains on defined benefit plans	(151)	23	(68)
Net unrealized gains (losses) on marketable securities	59	(15)	(20)
Net unrealized gains on cash flow hedges	30	5	—
Total other comprehensive loss, net	(832)	(65)	(211)
Comprehensive income	<u>\$ 9,106</u>	<u>\$ 10,890</u>	<u>\$ 10,714</u>

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended May 31, 2015, 2014 and 2013

	Common Stock and Additional Paid in Capital		Retained	Accumulated Other Comprehensive	Total Oracle Corporation Stockholders'	Noncontrolling	Total
(in millions)	Number of Shares	Amount	Earnings	(Loss) Income	Equity	Interests	Equity
Balances as of May 31, 2012	4,905	\$ 17,489	\$ 26,087	\$ 112	\$ 43,688	\$ 399	\$ 44,087
Common stock issued under stock-based compensation plans	84	1,417	—	—	1,417	—	1,417
Common stock issued under stock purchase plans	3	110	—	—	110	—	110
Assumption of stock-based compensation plan awards in connection with acquisitions	—	15	—	—	15	—	15
Stock-based compensation	—	755	—	—	755	—	755
Repurchase of common stock	(346)	(1,269)	(9,725)	—	(10,994)	—	(10,994)
Cash dividends declared (\$0.30 per share)	—	—	(1,433)	—	(1,433)	—	(1,433)
Tax benefit from stock plans	—	257	—	—	257	—	257
Other, net	—	119	—	—	119	66	185
Distributions to noncontrolling interests	—	—	—	—	—	(31)	(31)
Other comprehensive loss, net	—	—	—	(211)	(211)	(49)	(260)
Net income	—	—	10,925	—	10,925	112	11,037
Balances as of May 31, 2013	4,646	18,893	25,854	(99)	44,648	497	45,145
Common stock issued under stock-based compensation plans	95	2,026	—	—	2,026	—	2,026
Common stock issued under stock purchase plans	3	109	—	—	109	—	109
Assumption of stock-based compensation plan awards in connection with acquisitions	—	148	—	—	148	—	148
Stock-based compensation	—	805	—	—	805	—	805
Repurchase of common stock	(280)	(1,160)	(8,638)	—	(9,798)	—	(9,798)
Cash dividends declared (\$0.48 per share)	—	—	(2,178)	—	(2,178)	—	(2,178)
Tax benefit from stock plans	—	254	—	—	254	—	254
Other, net	—	2	(28)	—	(26)	12	(14)
Distributions to noncontrolling interests	—	—	—	—	—	(28)	(28)
Other comprehensive loss, net	—	—	—	(65)	(65)	(10)	(75)
Net income	—	—	10,955	—	10,955	98	11,053
Balances as of May 31, 2014	4,464	21,077	25,965	(164)	46,878	569	47,447
Common stock issued under stock-based compensation plans	70	1,688	—	—	1,688	—	1,688
Common stock issued under stock purchase plans	3	114	—	—	114	—	114
Assumption of stock-based compensation plan awards in connection with acquisitions	—	12	—	—	12	—	12
Stock-based compensation	—	933	—	—	933	—	933
Repurchase of common stock	(194)	(943)	(7,145)	—	(8,088)	—	(8,088)
Cash dividends declared (\$0.51 per share)	—	—	(2,255)	—	(2,255)	—	(2,255)
Tax benefit from stock plans	—	267	—	—	267	—	267
Other, net	—	8	—	—	8	15	23
Distributions to noncontrolling interests	—	—	—	—	—	(196)	(196)
Other comprehensive loss, net	—	—	—	(832)	(832)	(66)	(898)
Net income	—	—	9,938	—	9,938	113	10,051
Balances as of May 31, 2015	4,343	\$ 23,156	\$ 26,503	\$ (996)	\$ 48,663	\$ 435	\$ 49,098

See notes to consolidated financial statements.

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ORACLE CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended May 31, 2015, 2014 and 2013

(in millions)	Year Ended May 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 9,938	\$ 10,955	\$ 10,925
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	712	608	546
Amortization of intangible assets	2,149	2,300	2,385
Allowances for doubtful accounts receivable	56	122	118
Deferred income taxes	(548)	(248)	(117)
Stock-based compensation	933	805	755
Tax benefits on the exercise of stock options and vesting of restricted stock-based awards	396	480	410
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	(244)	(250)	(241)
Other, net	327	311	155
Changes in operating assets and liabilities, net of effects from acquisitions:			
Decrease in trade receivables	208	24	267
(Increase) decrease in inventories	(96)	57	(66)
Increase in prepaid expenses and other assets	(387)	(143)	(555)
Increase (decrease) in accounts payable and other liabilities	247	48	(541)
(Decrease) increase in income taxes payable	(10)	(320)	35
Increase in deferred revenues	655	172	148
Net cash provided by operating activities	14,336	14,921	14,224
Cash flows from investing activities:			
Purchases of marketable securities and other investments	(31,421)	(32,316)	(32,160)
Proceeds from maturities and sales of marketable securities and other investments	20,004	28,845	30,159
Acquisitions, net of cash acquired	(6,239)	(3,488)	(3,305)
Capital expenditures	(1,391)	(580)	(650)
Net cash used for investing activities	(19,047)	(7,539)	(5,956)
Cash flows from financing activities:			
Payments for repurchases of common stock	(8,087)	(9,813)	(11,021)
Proceeds from issuances of common stock	1,802	2,135	1,527
Payments of dividends to stockholders	(2,255)	(2,178)	(1,433)
Proceeds from borrowings, net of issuance costs	19,842	5,566	4,974
Repayments of borrowings	(1,500)	—	(2,950)
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	244	250	241
Distributions to noncontrolling interests	(196)	(28)	(31)
Other, net	—	—	193
Net cash provided by (used for) financing activities	9,850	(4,068)	(8,500)
Effect of exchange rate changes on cash and cash equivalents	(1,192)	(158)	(110)
Net increase (decrease) in cash and cash equivalents	3,947	3,156	(342)
Cash and cash equivalents at beginning of period	17,769	14,613	14,955
Cash and cash equivalents at end of period	\$ 21,716	\$ 17,769	\$ 14,613
Non-cash investing and financing transactions:			
Fair value of stock options and restricted stock-based awards assumed in connection with acquisitions	\$ 12	\$ 148	\$ 15
Increase (decrease) in unsettled repurchases of common stock	\$ 1	\$ (15)	\$ (27)
Increase in unsettled investment purchases	\$ 264	\$ 78	\$ —
Supplemental schedule of cash flow data:			
Cash paid for income taxes	\$ 3,055	\$ 2,841	\$ 2,644
Cash paid for interest	\$ 1,022	\$ 827	\$ 781

See notes to consolidated financial statements.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Oracle Corporation develops, manufactures, markets, sells, hosts and supports database and middleware software, application software, cloud infrastructure, hardware systems—including Oracle Engineered Systems, computer server, storage, networking and industry specific hardware products—and related services that are engineered to work together in cloud-based and on-premises information technology (IT) environments. We offer our customers the option to purchase our software and hardware systems products and related services to manage their own cloud-based or on-premises IT environments, or to deploy our comprehensive set of cloud service offerings including Oracle Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS). Customers that purchase our software products may elect to purchase software license updates and product support contracts, which provide our customers with rights to unspecified product upgrades and maintenance releases issued during the support period as well as technical support assistance. Customers that purchase our hardware products may elect to purchase hardware systems support contracts, which provide customers with software updates for software components that are essential to the functionality of our hardware products, such as Oracle Solaris and certain other software products, and can include product repairs, maintenance services, and technical support services. We also offer customers a broad set of services offerings including consulting services, advanced customer support services and education services.

Oracle Corporation conducts business globally and was incorporated in 2005 as a Delaware corporation and is the successor to operations originally begun in June 1977.

Basis of Financial Statements

The consolidated financial statements included our accounts and the accounts of our wholly- and majority-owned subsidiaries. Noncontrolling interest positions of certain of our consolidated entities are reported as a separate component of consolidated equity from the equity attributable to Oracle's stockholders for all periods presented. The noncontrolling interests in our net income were not significant to our consolidated results for the periods presented and therefore have been included as a component of non-operating income (expense), net in our consolidated statements of operations. Intercompany transactions and balances have been eliminated. Certain other prior year balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect total revenues, operating income or net income.

Acquisition related and other expenses as presented in our consolidated statements of operations for fiscal 2015 included \$186 million related to a goodwill impairment loss (refer to Note 7 below for additional information) and for fiscal 2015 and 2013 included benefits of \$53 million and \$306 million, respectively, related to certain litigation (refer to Note 18 below for additional information). Further, acquisition related and other expenses for fiscal 2013 included a change in fair value of contingent consideration payable, which resulted in a net benefit of \$387 million in fiscal 2013 (refer to Note 2 below for additional information).

In fiscal 2015, we adopted Accounting Standards Update (ASU) No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). In connection with the adoption of ASU 2015-03, we reclassified debt issuance costs related to our senior notes from other assets to notes payable, non-current as a deduction to the carrying amounts of our senior notes in our May 31, 2015 and 2014 consolidated balance sheets. The adoption of ASU 2015-03 did not have a material impact on our consolidated financial statements.

In fiscal 2015, we also adopted ASU 2015-02, *Amendments to the Consolidation Analysis*, ASU 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*, ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, and ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, none of which had an impact on our reported financial position or results of operations and cash flows.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2015

Use of Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as set forth in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) and we consider the various staff accounting bulletins and other applicable guidance issued by the U.S. Securities and Exchange Commission (SEC). These accounting principles require 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 consolidated financial statements will be affected. 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.

Revenue Recognition

Our sources of revenues include: (1) software and cloud revenues, including new software licenses revenues earned from granting licenses to use our software products and industry specific software; cloud SaaS and PaaS revenues generated from fees for granting customers access to a broad range of our software and related support offerings on a subscription basis in a secure, standards-based cloud computing environment; cloud IaaS revenues generated from fees for deployment and management offerings for our software and hardware and related IT infrastructure generally on a subscription basis; and software license updates and product support revenues (described further below); (2) hardware systems revenues, which include the sale of hardware systems products including Oracle Engineered Systems, computer servers, storage products, networking and data center fabric products, and industry specific hardware; and hardware systems support revenues; and (3) services, which include software and hardware related services including consulting, advanced customer support and education revenues. Revenues generally are recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

Revenue Recognition for Software Products and Software Related Services (Software Elements)

New software licenses revenues primarily represent fees earned from granting customers licenses to use our database, middleware and application software and exclude cloud SaaS and PaaS revenues and revenues derived from software license updates, which are included in software license updates and product support revenues. The basis for our new software licenses revenue recognition is substantially governed by the accounting guidance contained in ASC 985-605, *Software-Revenue Recognition*. We exercise judgment and use estimates in connection with the determination of the amount of software and software related services revenues to be recognized in each accounting period.

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize new software licenses revenues when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) the sale price is fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Revenues that are not recognized at the time of sale because the foregoing conditions are not met, are recognized when those conditions are subsequently met.

Substantially all of our software license arrangements do not include acceptance provisions. However, if acceptance provisions exist as part of public policy, for example, in agreements with government entities where acceptance periods are required by law, or within previously executed terms and conditions that are referenced in the current agreement and are short-term in nature, we generally recognize revenues upon delivery provided the

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2015

acceptance terms are perfunctory and all other revenue recognition criteria have been met. If acceptance provisions are not perfunctory (for example, acceptance provisions that are long-term in nature or are not included as standard terms of an arrangement), revenues are recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

The vast majority of our software license arrangements include software license updates and product support contracts, which are entered into at the customer's option and are recognized ratably over the term of the arrangement, typically one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period. Product support includes internet access to technical content, as well as internet and telephone access to technical support personnel. Software license updates and product support contracts are generally priced as a percentage of the net new software licenses fees. Substantially all of our customers renew their software license updates and product support contracts annually.

Revenue Recognition for Multiple-Element Arrangements—Software Products and Software Related Services (Software Arrangements)

We often enter into arrangements with customers that purchase both software related products and software related services from us at the same time, or within close proximity of one another (referred to as software related multiple-element arrangements). Such software related multiple-element arrangements include the sale of our software products, software license updates and product support contracts and other software related services whereby software license delivery is followed by the subsequent or contemporaneous delivery of the other elements. For those software related multiple-element arrangements, we have applied the residual method to determine the amount of new software license revenues to be recognized pursuant to ASC 985-605. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration generally recognized upon delivery of the software license. We allocate the fair value of each element of a software related multiple-element arrangement based upon its fair value as determined by our vendor specific objective evidence (VSOE—described further below), with any remaining amount allocated to the software license.

Revenue Recognition for Cloud SaaS, PaaS and IaaS Offerings, Hardware Systems Products, Hardware Systems Support and Related Services (Nonsoftware Elements)

Our revenue recognition policy for nonsoftware deliverables including cloud SaaS, PaaS and IaaS offerings, hardware systems products, support and related services is based upon the accounting guidance contained in ASC 605-25, *Revenue Recognition*, *Multiple-Element Arrangements*, and we exercise judgment and use estimates in connection with the determination of the amount of cloud SaaS, PaaS and IaaS revenues, hardware systems products revenues, support and related services revenues to be recognized in each accounting period.

Revenues from the sales of our nonsoftware elements are recognized when: (1) persuasive evidence of an arrangement exists; (2) we deliver the products and passage of the title to the buyer occurs; (3) the sale price is fixed or determinable; and (4) collection is reasonably assured. Revenues that are not recognized at the time of sale because the foregoing conditions are not met are recognized when those conditions are subsequently met. When applicable, we reduce revenues for estimated returns or certain other incentive programs where we have the ability to sufficiently estimate the effects of these items. Where an arrangement is subject to acceptance criteria and the acceptance provisions are not perfunctory (for example, acceptance provisions that are long-term in nature or are not included as standard terms of an arrangement), revenues are recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

Our cloud SaaS and PaaS offerings generally provide customers access to certain of our software within a cloud-based IT environment that we manage, host and support and offer to customers on a subscription basis. Revenues for our cloud SaaS and PaaS offerings are generally recognized ratably over the contract term commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2015

Our cloud IaaS offerings provide deployment and management offerings for our software and hardware and related IT infrastructure including comprehensive software and hardware management and maintenance services arrangements for customer IT infrastructure for a stated term that is hosted at our data center facilities, select partner data centers or physically on-premises at customer facilities generally for a term-based fee; and virtual machine instances that are subscription-based and designed for computing and reliable and secure object storage. Revenues for these cloud IaaS offerings are generally recognized ratably over the contract term commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied.

Revenues from the sale of hardware systems products represent amounts earned primarily from the sale of our Oracle Engineered Systems, computer servers, storage, networking and industry specific hardware.

Our hardware systems support offerings generally provide customers with software updates for the software components that are essential to the functionality of our hardware products and can also include product repairs, maintenance services and technical support services. Hardware systems support contracts are generally priced as a percentage of the net hardware systems products fees. Hardware systems support contracts are entered into at the customer's option and are recognized ratably over the contractual term of the arrangements, which are typically one year.

Revenue Recognition for Multiple-Element Arrangements—Cloud SaaS, PaaS and IaaS Offerings, Hardware Systems Products, Hardware Systems Support and Related Services (Nonsoftware Arrangements)

We enter into arrangements with customers that purchase both nonsoftware related products and services from us at the same time, or within close proximity of one another (referred to as nonsoftware multiple-element arrangements). Each element within a nonsoftware multiple-element arrangement is accounted for as a separate unit of accounting provided the following criteria are met: the delivered products or services have value to the customer on a standalone basis; and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by us. We consider a deliverable to have standalone value if the product or service is sold separately by us or another vendor or could be resold by the customer. Further, our revenue arrangements generally do not include a general right of return relative to the delivered products. Where the aforementioned criteria for a separate unit of accounting are not met, the deliverable is combined with the undelivered element(s) and treated as a single unit of accounting for the purposes of allocation of the arrangement consideration and revenue recognition. For those units of accounting that include more than one deliverable but are treated as a single unit of accounting, we generally recognize revenues over the contractual period of the arrangement or in the case of our cloud offerings, we generally recognize revenues over the contractual term of the cloud software subscription. For the purposes of revenue classification of the elements that are accounted for as a single unit of accounting, we allocate revenue to the respective revenue line items within our consolidated statements of operations based on a rational and consistent methodology utilizing our best estimate of relative selling prices of such elements.

For our nonsoftware multiple-element arrangements, we allocate revenue to each element based on a selling price hierarchy at the arrangement's inception. The selling price for each element is based upon the following selling price hierarchy: VSOE if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE are available (a description as to how we determine VSOE, TPE and ESP is provided below). If a tangible hardware systems product includes software, we determine whether the tangible hardware systems product and the software work together to deliver the product's essential functionality and, if so, the entire product is treated as a nonsoftware deliverable. The total arrangement consideration is allocated to each separate unit of accounting for each of the nonsoftware deliverables using the relative selling prices of each unit based on the aforementioned selling price hierarchy. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional products or services or meeting of any specified performance conditions.

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When possible, we establish VSOE of selling price for deliverables in software and nonsoftware multiple-element arrangements using the price charged for a deliverable when sold separately and for software license updates and product support and hardware systems support, based on the renewal rates offered to customers. TPE is established by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated customers. If we are unable to determine the selling price because VSOE or TPE does not exist, we determine ESP for the purposes of allocating the arrangement by reviewing historical transactions, including transactions whereby the deliverable was sold on a standalone basis and considering several other external and internal factors including, but not limited to, pricing practices including discounting, margin objectives, competition, contractually stated prices, the geographies in which we offer our products and services, the type of customer (i.e., distributor, value added reseller, government agency and direct end user, among others) and the stage of the product lifecycle. The determination of ESP is made through consultation with and approval by our management, taking into consideration our pricing model and go-to-market strategy. As our, or our competitors', pricing and go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes to our determination of VSOE, TPE and ESP. As a result, our future revenue recognition for multiple-element arrangements could differ materially from our results in the current period. Selling prices are analyzed on an annual basis or more frequently if we experience significant changes in our selling prices.

Revenue Recognition Policies Applicable to both Software and Nonsoftware Elements

Revenue Recognition for Multiple-Element Arrangements—Arrangements with Software and Nonsoftware Elements

We also enter into multiple-element arrangements that may include a combination of our various software related and nonsoftware related products and services offerings including new software licenses, software license updates and product support, cloud SaaS, PaaS and IaaS offerings, hardware systems products, hardware systems support, consulting, advanced customer support services and education. In such arrangements, we first allocate the total arrangement consideration based on the relative selling prices of the software group of elements as a whole and to the nonsoftware elements. We then further allocate consideration within the software group to the respective elements within that group following the guidance in ASC 985-605 and our policies as described above. After the arrangement consideration has been allocated to the elements, we account for each respective element in the arrangement as described above.

Other Revenue Recognition Policies Applicable to Software and Nonsoftware Elements

Many of our software arrangements include consulting implementation services sold separately under consulting engagement contracts and are included as a part of our services business. Consulting revenues from these arrangements are generally accounted for separately from new software licenses revenues because the arrangements qualify as services transactions as defined in ASC 985-605. The more significant factors considered in determining whether the revenues should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments and impact of milestones or acceptance criteria on the realizability of the software license fee. Revenues for consulting services are generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenues are deferred until the uncertainty is sufficiently resolved. We estimate the proportional performance on contracts with fixed or "not to exceed" fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If we do not have a sufficient basis to measure progress towards completion, revenues are recognized when we receive final acceptance from the customer that the services have been completed. When total cost estimates exceed revenues, we accrue for the estimated losses immediately using cost estimates that are based upon an average fully

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burdened daily rate applicable to the consulting organization delivering the services. The complexity of the estimation process and factors relating to the assumptions, risks and uncertainties inherent with the application of the proportional performance method of accounting affects the amounts of revenues and related expenses reported in our consolidated financial statements. A number of internal and external factors can affect our estimates, including labor rates, utilization and efficiency variances and specification and testing requirement changes.

Our advanced customer support services are offered as standalone arrangements or as a part of arrangements to customers buying other software and non-software products and services. We offer these advanced support services, both on-premises and remote, to Oracle customers to enable increased performance and higher availability of their products and services. Depending upon the nature of the arrangement, revenues from these services are recognized as the services are performed or ratably over the term of the service period, which is generally one year or less.

Education revenues are also a part of our services business and include instructor-led, media-based and internet-based training in the use of our software and hardware products. Education revenues are recognized as the classes or other education offerings are delivered.

If an arrangement contains multiple elements and does not qualify for separate accounting for the product and service transactions, then new software licenses revenues and/or hardware systems products revenues, including the costs of hardware systems products, are generally recognized together with the services based on contract accounting using either the percentage-of-completion or completed-contract method. Contract accounting is applied to any bundled software and cloud, hardware systems and services arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license or hardware systems product fees; (2) where consulting services include significant modification or customization of the software or hardware systems product or are of a specialized nature and generally performed only by Oracle; (3) where significant consulting services are provided for in the software license contract or hardware systems product contract without additional charge or are substantially discounted; or (4) where the software license or hardware systems product payment is tied to the performance of consulting services. For the purposes of revenue classification of the elements that are accounted for as a single unit of accounting, we allocate revenues to software and nonsoftware elements based on a rational and consistent methodology utilizing our best estimate of the relative selling price of such elements.

We also evaluate arrangements with governmental entities containing “fiscal funding” or “termination for convenience” provisions, when such provisions are required by law, to determine the probability of possible cancellation. We consider multiple factors, including the history with the customer in similar transactions, the “essential use” of the software or hardware systems products and the planning, budgeting and approval processes undertaken by the governmental entity. If we determine upon execution of these arrangements that the likelihood of cancellation is remote, we then recognize revenues once all of the criteria described above have been met. If such a determination cannot be made, revenues are recognized upon the earlier of cash receipt or approval of the applicable funding provision by the governmental entity.

We assess whether fees are fixed or determinable at the time of sale and recognize revenues if all other revenue recognition requirements are met. Our standard payment terms are net 30 days. However, payment terms may vary based on the country in which the agreement is executed. Payments that are due within six months are generally deemed to be fixed or determinable based on our successful collection history on such arrangements, and thereby satisfy the required criteria for revenue recognition.

While most of our arrangements for sales within our businesses include short-term payment terms, we have a standard practice of providing long-term financing to creditworthy customers primarily through our financing division. Since fiscal 1989, when our financing division was formed, we have established a history of collection, without concessions, on these receivables with payment terms that generally extend up to five years from the

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contract date. Provided all other revenue recognition criteria have been met, we recognize new software licenses revenues and hardware systems products revenues for these arrangements upon delivery, net of any payment discounts from financing transactions. We have generally sold receivables financed through our financing division on a non-recourse basis to third party financing institutions within 90 days of the contracts' dates of execution and we classify the proceeds from these sales as cash flows from operating activities in our consolidated statements of cash flows. We account for the sales of these receivables as "true sales" as defined in ASC 860, *Transfers and Servicing*, as we are considered to have surrendered control of these financing receivables. During fiscal 2015, 2014 and 2013, \$1.8 billion, \$2.0 billion and \$2.2 billion of our financing receivables were sold to financial institutions, respectively.

In addition, we enter into arrangements with leasing companies for the sale of our hardware systems products. These leasing companies, in turn, lease our products to end-users. The leasing companies generally have no recourse to us in the event of default by the end-user and we recognize revenue upon delivery, if all other revenue recognition criteria have been met.

Our customers include several of our suppliers and, occasionally, we have purchased goods or services for our operations from these vendors at or about the same time that we have sold our products to these same companies (Concurrent Transactions). Software license agreements or sales of hardware systems that occur within a three-month time period from the date we have purchased goods or services from that same customer are reviewed for appropriate accounting treatment and disclosure. When we acquire goods or services from a customer, we negotiate the purchase separately from any sales transaction, at terms we consider to be at arm's length and settle the purchase in cash. We recognize revenues from Concurrent Transactions if all of our revenue recognition criteria are met and the goods and services acquired are necessary for our current operations.

Business Combinations

We apply the provisions of ASC 805, *Business Combinations*, in the accounting for our acquisitions. It requires us to recognize separately from goodwill the assets acquired and the liabilities assumed, at the acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

Costs to exit or restructure certain activities of an acquired company or our internal operations are accounted for as termination and exit costs pursuant to ASC 420, *Exit or Disposal Cost Obligations*, and are accounted for separately from the business combination. A liability for costs associated with an exit or disposal activity is recognized and measured at its fair value in our consolidated statement of operations in the period in which the liability is incurred. When estimating the fair value of facility restructuring activities, assumptions are applied regarding estimated sub-lease payments to be received, which can differ materially from actual results. This may require us to revise our initial estimates which may materially affect our results of operations and financial position in the period the revision is made.

For a given acquisition, we may identify certain pre-acquisition contingencies as of the acquisition date and may extend our review and evaluation of these pre-acquisition contingencies throughout the measurement period in order to obtain sufficient information to assess whether we include these contingencies as a part of the fair value estimates of assets acquired and liabilities assumed and, if so, to determine their estimated amounts.

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If we cannot reasonably determine the fair value of a pre-acquisition contingency (non-income tax related) by the end of the measurement period, which is generally the case given the nature of such matters, we will recognize an asset or a liability for such pre-acquisition contingency if: (i) it is probable that an asset existed or a liability had been incurred at the acquisition date and (ii) the amount of the asset or liability can be reasonably estimated. Subsequent to the measurement period, changes in our estimates of such contingencies will affect earnings and could have a material effect on our results of operations and financial position.

In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly based upon facts and circumstances that existed as of the acquisition date with any adjustments to our preliminary estimates being recorded to goodwill if identified within the measurement period. Subsequent to the measurement period or our final determination of the tax allowance's or contingency's estimated value, whichever comes first, changes to these uncertain tax positions and tax related valuation allowances will affect our provision for income taxes in our consolidated statement of operations and could have a material impact on our results of operations and financial position.

Marketable and Non-Marketable Securities

In accordance with ASC 320, *Investments — Debt and Equity Securities*, and based on our intentions regarding these instruments, we classify substantially all of our marketable debt and equity securities as available-for-sale. Marketable debt and equity securities classified as available-for-sale are reported at fair value, with all unrealized gains (losses) reflected net of tax in stockholders' equity on our consolidated balance sheets, and as a line item in our consolidated statements of comprehensive income. If we determine that an investment has an other than temporary decline in fair value, we recognize the investment loss in non-operating income (expense), net in the accompanying consolidated statements of operations. We periodically evaluate our investments to determine if impairment charges are required. Substantially all of our marketable debt and equity investments are classified as current based on the nature of the investments and their availability for use in current operations.

We hold investments in certain non-marketable equity securities in which we do not have a controlling interest or significant influence. These equity securities are recorded at cost and included in other assets in the accompanying consolidated balance sheets. If based on the terms of our ownership of these non-marketable securities, we determine that we exercise significant influence on the entity to which these non-marketable securities relate, we apply the requirements of ASC 323, *Investments — Equity Method and Joint Ventures*, to account for such investments. Our non-marketable securities are subject to periodic impairment reviews.

Fair Values of Financial Instruments

We apply the provisions of ASC 820, *Fair Value Measurement* (ASC 820), to our assets and liabilities that we are required to measure at fair value pursuant to other accounting standards, including our investments in marketable debt and equity securities and our derivative financial instruments.

The additional disclosures regarding our fair value measurements are included in Note 4.

Allowances for Doubtful Accounts

We record allowances for doubtful accounts based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable, the collection history associated with the geographic region that the receivable was recorded in and current economic trends. We write-off a receivable and charge it against its recorded allowance when we have exhausted our collection efforts without success.

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Concentrations of Risk

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, derivatives and trade receivables. Our cash and cash equivalents are generally held with large, diverse financial institutions worldwide to reduce the amount of exposure to any single financial institution. Investment policies have been implemented that limit purchases of marketable debt securities to investment grade securities. Our derivative contracts are transacted with various financial institutions with high credit standings. We generally do not require collateral to secure accounts receivable. The risk with respect to trade receivables is mitigated by credit evaluations we perform on our customers, the short duration of our payment terms for the significant majority of our customer contracts and by the diversification of our customer base. No single customer accounted for 10% or more of our total revenues in fiscal 2015, 2014 or 2013.

We outsource the design, manufacturing, assembly and delivery of certain of our hardware products to a variety of companies, many of which are located outside the United States. Further, we have simplified our supply chain processes by reducing the number of third party manufacturing partners and the number of locations where these third party manufacturers build our hardware systems products. The inability of these third party manufacturing partners to fulfill orders for our hardware products could adversely impact future operating results of our hardware systems business.

Inventories

Inventories are stated at the lower of cost or market value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. We evaluate our ending inventories for estimated excess quantities and obsolescence. This evaluation includes analysis of sales levels by product and projections of future demand within specific time horizons (generally six to nine months). Inventories in excess of future demand are written down and charged to hardware systems products expenses. In addition, we assess the impact of changing technology to our inventories and we write down inventories that are considered obsolete. At the point of loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Other Receivables

Other receivables represent value-added tax and sales tax receivables associated with the sale of our products and services to third parties. Other receivables are included in prepaid expenses and other current assets in our consolidated balance sheets and totaled \$817 million and \$906 million at May 31, 2015 and 2014, respectively.

Deferred Sales Commissions

We defer sales commission expenses associated with our cloud SaaS, PaaS and IaaS offerings, and recognize the related expenses over the non-cancelable term of the related contracts, which are typically one to three years. Amortization of deferred sales commissions is included as a component of sales and marketing expense in our consolidated statements of operations.

Property, Plant and Equipment

Property, plant and equipment are stated at the lower of cost or realizable value, net of accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives of the assets, which range from one to fifty years. Leasehold improvements are amortized over the lesser of the estimated useful lives of the improvements or the lease terms, as appropriate. Property, plant and equipment are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We did not recognize any significant property impairment charges in fiscal 2015, 2014 or 2013.

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Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which generally range from one to ten years. Each period we evaluate the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

The carrying amounts of our goodwill and intangible assets are periodically reviewed for impairment (at least annually for goodwill and indefinite lived intangible assets) and whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. According to ASC 350, *Intangibles—Goodwill and Other*, we can opt to perform a qualitative assessment to test a reporting unit's goodwill for impairment or we can directly perform the two step impairment test. Based on our qualitative assessment, if we determine that the fair value of a reporting unit is more likely than not (i.e., a likelihood of more than 50 percent) to be less than its carrying amount, the two step impairment test will be performed. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference. During fiscal 2015, we recognized a \$186 million goodwill impairment loss (refer to Note 7 below for additional information). We did not recognize any goodwill impairment charges in fiscal 2014 or 2013.

Recoverability of finite lived intangible assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. Recoverability of indefinite lived intangible assets is measured by comparison of the carrying amount of the asset to its fair value. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. We did not recognize any intangible asset impairment charges in fiscal 2015, 2014 or 2013.

Derivative Financial Instruments

During fiscal 2015, 2014 and 2013, we used derivative and non-derivative financial instruments to manage foreign currency and interest rate risks (see Note 11 below for additional information). We account for these instruments in accordance with ASC 815, *Derivatives and Hedging* (ASC 815), which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of the reporting date. ASC 815 also requires that changes in our derivatives' fair values be recognized in earnings, unless specific hedge accounting and documentation criteria are met (i.e., the instruments are accounted for as hedges).

The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change. The loss or gain attributable to the risk being hedged is recognized in earnings with an offset recorded to the item for which the risk is being hedged. For a derivative instrument designated as a cash flow hedge, each reporting period we record the change in fair value on the effective portion to accumulated other comprehensive loss in our consolidated balance sheets and an amount is reclassified out of accumulated other comprehensive loss into earnings to offset the earnings impact that is attributable to the risk being hedged. For the non-derivative financial instrument designated as a net investment hedge of our investments in certain of our international subsidiaries, the change on account of remeasurement of the effective portion for each reporting period is recorded to accumulated other comprehensive loss in our consolidated balance sheets.

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We perform the effectiveness testing of our aforementioned designated hedges on a quarterly basis and the changes in ineffective portions, if any, are recognized immediately in earnings.

Legal Contingencies

We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. A description of our accounting policies associated with contingencies assumed as a part of a business combination is provided under “Business Combinations” above. For legal and other contingencies that are not a part of a business combination or related to income taxes, we accrue a liability for an estimated loss if the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated. Note 18 below provides additional information regarding certain of our legal contingencies.

Shipping and Handling Costs

Our shipping and handling costs for hardware systems products sales are included in hardware systems products expenses for all periods presented.

Foreign Currency

We transact business in various foreign currencies. In general, the functional currency of a foreign operation is the local country’s currency. Consequently, revenues and expenses of operations outside the United States are translated into U.S. Dollars using weighted average exchange rates while assets and liabilities of operations outside the United States are translated into U.S. Dollars using exchange rates at the balance sheet date. The effects of foreign currency translation adjustments are included in stockholders’ equity as a component of accumulated other comprehensive loss in the accompanying consolidated balance sheets and related periodic movements are summarized as a line item in our consolidated statements of comprehensive income. Net foreign exchange transaction losses included in non-operating income (expense), net in the accompanying consolidated statements of operations were \$157 million, \$375 million and \$162 million in fiscal 2015, 2014 and 2013, respectively.

Stock-Based Compensation

We account for share-based payments to employees, including grants of service-based employee stock options, service-based restricted stock awards, performance-based restricted stock awards (PSUs) and purchases under employee stock purchase plans, in accordance with ASC 718, *Compensation — Stock Compensation*, which requires that share-based payments (to the extent they are compensatory) be recognized in our consolidated statements of operations based on their fair values and the estimated number of shares we ultimately expect will vest. For our service-based awards, we recognize stock-based compensation expense on a straight-line basis over the service period of the award, which is generally four years. For our PSUs, we recognize stock-based compensation expense on a straight-line basis over the service period for each separately vesting tranche, which is generally twelve months, as the performance conditions to evaluate attainment of each tranche for each participant are independent of the performance conditions for the other tranches. We update the amount of stock-based compensation expense, net of forfeitures, to record as of the end of each reporting period based on the expected attainment of performance targets, which is subject to change until a final determination is known. Changes to the target estimates are reflected in the amount of stock-based compensation expense that we recognize for each tranche on a cumulative basis during the reporting period in which the target estimates are altered and may cause the amount of stock-based compensation expense that we record for such reporting period to vary.

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We record deferred tax assets for stock-based compensation awards that result in deductions on our income tax returns based on the amount of stock-based compensation recognized and the fair value attributable to the vested portion of stock awards assumed in connection with a business combination, at the statutory tax rate in the jurisdiction in which we will receive a tax deduction.

Advertising

All advertising costs are expensed as incurred. Advertising expenses, which are included within sales and marketing expenses, were \$55 million, \$79 million and \$85 million in fiscal 2015, 2014 and 2013, respectively.

Research and Development and Software Development Costs

All research and development costs are expensed as incurred.

Software development costs required to be capitalized under ASC 985-20, *Costs of Software to be Sold, Leased or Marketed*, and under ASC 350-40, *Internal-Use Software*, were not material to our consolidated financial statements in fiscal 2015, 2014 and 2013.

Acquisition Related and Other Expenses

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

(in millions)	Year Ended May 31,		
	2015	2014	2013
Transitional and other employee related costs	\$ 57	\$ 27	\$ 27
Stock-based compensation	5	10	33
Professional fees and other, net	(35)	20	(276)
Business combination adjustments, net	184	(16)	(388)
Total acquisition related and other expenses	<u>\$ 211</u>	<u>\$ 41</u>	<u>\$ (604)</u>

Included in acquisition related and other expenses for fiscal 2015 was a goodwill impairment loss of \$186 million (refer to Note 7 below for additional information). Included in acquisition related and other expenses for fiscal 2015 and 2013 were benefits of \$53 million and \$306 million, respectively, related to certain litigation (refer to Note 18 below for additional information). Also included in acquisition related and other expenses for fiscal 2013 were changes in estimates for contingent consideration payable, which reduced acquisition related and other expenses by \$387 million during fiscal 2013 (refer to Note 2 below for additional information).

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Non-Operating Income (Expense), net

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

(in millions)	Year Ended May 31,		
	2015	2014	2013
Interest income	\$ 349	\$ 263	\$ 237
Foreign currency losses, net	(157)	(375)	(162)
Noncontrolling interests in income	(113)	(98)	(112)
Other income, net	27	69	48
Total non-operating income (expense), net	<u>\$ 106</u>	<u>\$ (141)</u>	<u>\$ 11</u>

Included in foreign currency losses, net for fiscal 2015 were foreign currency remeasurement losses of \$23 million, related to our Venezuelan subsidiary due to the continued “highly inflationary” designation of the Venezuelan economy in accordance with ASC 830, *Foreign Currency Matters*; the introduction of currency exchange legislation in Venezuela in February 2015 to create a new foreign exchange mechanism known as SIMADI; and the remeasurement of certain assets and liabilities of our Venezuelan subsidiary pursuant to the SIMADI rate, which we determined, based upon our specific facts and circumstances, was the most appropriate for the reporting of our Venezuelan subsidiary’s Bolivar based transactions and net monetary assets in U.S. Dollars. We incurred losses related to our Venezuelan subsidiary of \$213 million and \$64 million during fiscal 2014 and 2013, respectively, for generally similar reasons.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes*. Deferred income taxes are recorded for the expected tax consequences of temporary differences between the tax bases of assets and liabilities for financial reporting purposes and amounts recognized for income tax purposes. We record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized.

A two-step approach is applied pursuant to ASC 740 in the recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained in an audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes line of our consolidated statements of operations.

A description of our accounting policies associated with tax related contingencies and valuation allowances assumed as a part of a business combination is provided under “Business Combinations” above.

Recent Accounting Pronouncements

Cloud Computing Arrangements that Include a Software Element: In April 2015, the FASB issued ASU 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05). ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes software. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement

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consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. ASU 2015-05 is effective for us in our first quarter of fiscal 2017 with early adoption permitted using either of two methods: (i) prospective to all arrangements entered into or materially modified after the effective date and represent a change in accounting principle; or (ii) retrospectively. We are currently evaluating the impact of our pending adoption of ASU 2015-05 on our consolidated financial statements.

Revenue Recognition: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us in our first quarter of fiscal 2018 using either of two methods: (i) retrospective application of ASU 2014-09 to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective application of ASU 2014-09 with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

2. ACQUISITIONS

Acquisition of MICROS Systems, Inc.

On June 22, 2014, we entered into an Agreement and Plan of Merger (Merger Agreement) with MICROS Systems, Inc. (MICROS), a provider of integrated software, hardware and services solutions to the hospitality and retail industries. On July 3, 2014, pursuant to the Merger Agreement, we commenced a tender offer to purchase all of the issued and outstanding shares of common stock of MICROS at a purchase price of \$68.00 per share, net to the holder in cash, without interest thereon, based upon the terms and subject to the conditions set forth in the Merger Agreement. Between September 3, 2014 and September 8, 2014, pursuant to the terms of the tender offer, we accepted and paid for the substantial majority of outstanding shares of MICROS common stock. On September 8, 2014, we effectuated the merger of MICROS with and into a wholly-owned subsidiary of Oracle pursuant to the terms of the Merger Agreement and applicable Maryland law and MICROS became an indirect, wholly-owned subsidiary of Oracle. Pursuant to the merger, shares of MICROS common stock that remained outstanding and were not acquired by us were converted into, and cancelled in exchange for, the right to receive \$68.00 per share in cash. The unvested equity awards to acquire MICROS common stock that were outstanding immediately prior to the conclusion of the merger were converted into equity awards denominated in shares of Oracle common stock based on formulas contained in the Merger Agreement. We acquired MICROS to, among other things, expand our software and cloud, hardware and related services offerings for hotels, food and beverage industries, facilities, and retailers. We have included the financial results of MICROS in our consolidated financial statements from the date of acquisition.

Pursuant to our business combinations accounting policy, we estimated the preliminary fair values of net tangible and intangible assets acquired and the excess of the consideration transferred over the aggregate of such fair values was recorded as goodwill. The preliminary fair values of net tangible assets and intangible assets acquired were based upon preliminary valuations and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas that remain preliminary relate to the fair values of intangible assets acquired, certain tangible assets and liabilities acquired, certain legal

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matters, income and non-income based taxes and residual goodwill. We expect to continue to obtain information to assist us in determining the fair values of the net assets acquired during the measurement period. The following table summarizes the estimated preliminary fair values of net assets acquired from MICROS:

(in millions)	
Cash and cash equivalents	\$ 675
Trade receivables, net	183
Inventories	44
Goodwill	3,277
Intangible assets	2,030
Other assets	149
Accounts payable and other liabilities	(348)
Deferred tax liabilities, net	(633)
Deferred revenues	(130)
Total	<u>\$ 5,247</u>

We do not expect the goodwill recognized as a part of the MICROS acquisition to be deductible for income tax purposes.

Other Fiscal 2015 Acquisitions

During fiscal 2015, 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 the acquired 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 preliminary purchase price for these acquisitions was approximately \$1.7 billion, which consisted of approximately \$1.7 billion in cash and \$7 million for the fair values of stock options and restricted stock-based awards assumed. We have preliminarily recorded \$14 million of net tangible assets and \$388 million of identifiable intangible assets, based on their estimated fair values, and \$1.3 billion of residual goodwill.

The initial purchase price calculation and related accounting for our acquisitions completed during fiscal 2015 is preliminary. The preliminary fair value estimates for the assets acquired and liabilities assumed for our acquisitions completed during fiscal 2015 were based upon preliminary calculations and valuations and our estimates and assumptions for these acquisitions are subject to change as we obtain additional information during the respective measurement periods (up to one year from the respective acquisition dates). The primary areas of those preliminary estimates that are not yet finalized relate to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters and income and non-income based taxes.

Fiscal 2014 Acquisitions

Acquisition of Responsys, Inc.

On February 6, 2014, we completed our acquisition of Responsys, Inc. (Responsys), a provider of enterprise-scale cloud-based business-to-consumer marketing software. We have included the financial results of Responsys in our consolidated financial statements from the date of acquisition. The total purchase price for Responsys was approximately \$1.6 billion, which consisted of approximately \$1.4 billion in cash and \$147 million for the fair values of stock options and restricted stock-based awards assumed. We recorded \$32 million of net tangible liabilities, related primarily to deferred tax liabilities, \$580 million of identifiable intangible assets, and \$14 million of in-process research and development, based on their estimated fair values, and \$1.0 billion of residual goodwill.

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Other Fiscal 2014 Acquisitions

During fiscal 2014, we acquired certain other companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not individually significant. We have included the financial results of these companies in our consolidated financial statements from their respective acquisition dates and the results from each of these companies were not individually material to our consolidated financial statements. In the aggregate, the total purchase price for these acquisitions was approximately \$2.3 billion, which consisted primarily of cash consideration, and we recorded \$230 million of net tangible liabilities, related primarily to deferred tax liabilities, \$1.1 billion of identifiable intangible assets, and \$99 million of in-process research and development, based on their estimated fair values, and \$1.3 billion of residual goodwill.

Fiscal 2013 Acquisitions

Acquisition of Acme Packet, Inc.

On March 28, 2013, we completed our acquisition of Acme Packet, Inc. (Acme Packet), a provider of session border control technology. We have included the financial results of Acme Packet in our consolidated financial statements from the date of acquisition. The total purchase price for Acme Packet was approximately \$2.1 billion, which consisted of approximately \$2.1 billion in cash and \$12 million for the fair value of stock options and restricted stock-based awards assumed. We have recorded \$247 million of net tangible assets, \$525 million of identifiable intangible assets, and \$45 million of in-process research and development, based on their estimated fair values, and \$1.3 billion of residual goodwill.

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 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 recorded \$1 million of net tangible assets and \$327 million of identifiable intangible assets, based on their estimated fair values, and \$607 million of residual goodwill.

Other Fiscal 2013 Acquisitions

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

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

In fiscal 2012, we acquired Pillar Data Systems, Inc. (Pillar Data), a provider of enterprise storage systems solutions. Pursuant to the agreement and plan of merger dated as of June 29, 2011, we acquired all of the issued and outstanding equity interests of Pillar Data from the stockholders in exchange for Pillar Data's former stockholders to have rights to receive contingent cash consideration (Earn-Out), if any, pursuant to an Earn-Out calculation. During fiscal 2013, we estimated that no amount of contingent consideration was to be payable pursuant to the Earn-Out calculation and we recognized a benefit of \$387 million. The Earn-Out period ended at the conclusion of our first quarter of fiscal 2015 and no amounts were paid to Pillar Data's former stockholders, including Lawrence J. Ellison, Oracle's Executive Chairman of the Board and Chief Technology Officer and largest stockholder.

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Unaudited Pro Forma Financial Information

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

The unaudited pro forma financial information for fiscal 2015 combined the historical results of Oracle for fiscal 2015, the historical results of MICROS for the six months ended June 30, 2014 (adjusted due to differences in reporting periods and considering the date we acquired MICROS), the historical results of certain other companies that we acquired since the beginning of fiscal 2015 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 fiscal 2014 combined the historical results of Oracle for fiscal 2014, the historical results of MICROS for the year ended June 30, 2014 (due to differences in reporting periods), the historical results of Responsys for the nine months ended September 30, 2013 (adjusted due to differences in reporting periods and considering the date we acquired Responsys), the historical results of certain other companies that we acquired since the beginning of fiscal 2014 based upon their respective previous reporting periods and the dates these companies were acquired by us, and the effects of the pro forma adjustments listed above. The unaudited pro forma financial information was as follows for fiscal 2015 and 2014:

(in millions, except per share data)	Year Ended May 31,	
	2015	2014
Total revenues	\$ 38,700	\$ 40,007
Net income	\$ 9,877	\$ 10,770
Basic earnings per share	\$ 2.24	\$ 2.38
Diluted earnings per share	\$ 2.19	\$ 2.34

3. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

Cash and cash equivalents primarily consist of deposits held at major banks, Tier-1 commercial paper and other securities with original maturities of 90 days or less. Marketable securities primarily consist of time deposits held at major banks, Tier-1 commercial paper, corporate notes and certain other securities.

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The amortized principal amounts of our cash, cash equivalents and marketable securities approximated their fair values at May 31, 2015 and 2014. We use the specific identification method to determine any realized gains or losses from the sale of our marketable securities classified as available-for-sale. Such realized gains and losses were insignificant for fiscal 2015, 2014 and 2013. The following table summarizes the components of our cash equivalents and marketable securities held, substantially all of which were classified as available-for-sale:

(in millions)	May 31,	
	2015	2014
U.S. Treasury securities	\$ 668	\$ —
Commercial paper debt securities	9,203	7,969
Corporate debt securities and other	28,844	16,657
Total investments	<u>\$ 38,715</u>	<u>\$ 24,626</u>
Investments classified as cash equivalents	<u>\$ 6,063</u>	<u>\$ 3,576</u>
Investments classified as marketable securities	<u>\$ 32,652</u>	<u>\$ 21,050</u>

As of May 31, 2015 and 2014, approximately 28% and 45%, respectively, of our marketable securities investments mature within one year and 72% and 55%, respectively, mature within one to six years. Our investment portfolio is subject to market risk due to changes in interest rates. As described above, we limit purchases of marketable debt securities to investment grade securities, which have high credit ratings and also limit the amount of credit exposure to any one issuer. As stated in our investment policy, we are averse to principal loss and seek to preserve our invested funds by limiting default risk and market risk.

4. FAIR VALUE MEASUREMENTS

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

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

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

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

(in millions)	May 31, 2015			May 31, 2014		
	Fair Value Measurements Using Input Types		Total	Fair Value Measurements Using Input Types		Total
	Level 1	Level 2		Level 1	Level 2	
Assets:						
U.S. Treasury securities	\$ 668	\$ —	\$ 668	\$ —	\$ —	\$ —
Commercial paper debt securities	—	9,203	9,203	—	7,969	7,969
Corporate debt securities and other	190	28,654	28,844	119	16,538	16,657
Derivative financial instruments	—	74	74	—	97	97
Total assets	<u>\$ 858</u>	<u>\$ 37,931</u>	<u>\$ 38,789</u>	<u>\$ 119</u>	<u>\$ 24,604</u>	<u>\$ 24,723</u>
Liabilities:						
Derivative financial instruments	<u>\$ —</u>	<u>\$ 244</u>	<u>\$ 244</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Our valuation techniques used to measure the fair values of our marketable securities that were classified as Level 1 in the table above were derived from quoted market prices and active markets for these instruments exist. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others.

Based on the trading prices of our \$42.0 billion and \$24.1 billion of borrowings, which consisted of senior notes that were outstanding as of May 31, 2015 and 2014, respectively, the estimated fair values of our borrowings using Level 2 inputs at May 31, 2015 and 2014 were \$44.1 billion and \$26.4 billion, respectively.

5. INVENTORIES

Inventories consisted of the following:

(in millions)	May 31,	
	2015	2014
Raw materials	\$ 112	\$ 74
Work-in-process	38	28
Finished goods	164	87
Total	<u>\$ 314</u>	<u>\$ 189</u>

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6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following:

(Dollars in millions)	Estimated Useful Life	May 31, 2015	May 31, 2014
Computer, network, machinery and equipment	1-5 years	\$ 3,345	\$ 2,468
Buildings and improvements	1-50 years	2,721	2,582
Furniture, fixtures and other	3-10 years	547	531
Land	—	589	632
Construction in progress	—	93	26
Total property, plant and equipment	1-50 years	7,295	6,239
Accumulated depreciation		(3,609)	(3,178)
Total property, plant and equipment, net		<u>\$ 3,686</u>	<u>\$ 3,061</u>

7. INTANGIBLE ASSETS AND GOODWILL

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

(Dollars in millions)	Intangible Assets, Gross				Accumulated Amortization				Intangible Assets, Net		Weighted Average Useful Life ⁽²⁾
	May 31, 2014	Additions ⁽¹⁾	Retirements	May 31, 2015	May 31, 2014	Expense	Retirements	May 31, 2015	May 31, 2014	May 31, 2015	
Software support agreements and related relationships	\$ 5,218	\$ 1,206	\$ (2,234)	\$ 4,190	\$ (4,403)	\$ (531)	\$ 2,234	\$ (2,700)	\$ 815	\$ 1,490	13 years
Hardware systems support agreements and related relationships	969	63	(20)	1,012	(530)	(144)	20	(654)	439	358	10 years
Developed technology	4,387	736	(521)	4,602	(2,176)	(700)	521	(2,355)	2,211	2,247	7 years
Core technology	1,617	—	(1,065)	552	(1,294)	(182)	1,065	(411)	323	141	N.A.
Customer relationships and contract backlog	2,054	204	(61)	2,197	(1,459)	(312)	61	(1,710)	595	487	6 years
SaaS, PaaS and IaaS agreements and related relationships and other.	1,789	204	—	1,993	(305)	(203)	—	(508)	1,484	1,485	10 years
Trademarks	516	35	(50)	501	(276)	(77)	50	(303)	240	198	10 years
Total intangible assets subject to amortization	16,550	2,448	(3,951)	15,047	(10,443)	(2,149)	3,951	(8,641)	6,107	6,406	10 years
In-process research and development	30	(30)	—	—	—	—	—	—	30	—	N.A.
Total intangible assets, net	<u>\$ 16,580</u>	<u>\$ 2,418</u>	<u>\$ (3,951)</u>	<u>\$ 15,047</u>	<u>\$ (10,443)</u>	<u>\$ (2,149)</u>	<u>\$ 3,951</u>	<u>\$ (8,641)</u>	<u>\$ 6,137</u>	<u>\$ 6,406</u>	

⁽¹⁾ The substantial majority of intangible assets acquired during fiscal 2015 related to our acquisition of MICROS.

⁽²⁾ Represents weighted average useful lives of intangible assets acquired during fiscal 2015.

Total amortization expense related to our intangible assets was \$2.1 billion, \$2.3 billion and \$2.4 billion in fiscal 2015, 2014 and 2013, respectively. As of May 31, 2015, estimated future amortization expenses related to intangible assets were as follows (in millions):

Fiscal 2016	\$ 1,624
Fiscal 2017	995
Fiscal 2018	848
Fiscal 2019	742
Fiscal 2020	598
Thereafter	1,599
Total intangible assets, net	<u>\$ 6,406</u>

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The changes in the carrying amounts of goodwill, net, which is generally not deductible for tax purposes, for our operating segments for fiscal 2015 and 2014 were as follows:

(in millions)	New Software Licenses and Cloud Software Subscriptions	Software License Updates and Product Support	Hardware Systems Support	Consulting	Other, net ⁽⁴⁾	Total Goodwill, net
Balances as of May 31, 2013	\$ 10,533	\$ 12,474	\$ 1,259	\$ 1,584	\$ 1,493	\$ 27,343
Allocation of goodwill ⁽¹⁾	875	—	380	13	(1,268)	—
Goodwill from acquisitions	1,721	4	436	134	—	2,295
Goodwill adjustments, net ⁽²⁾	10	(6)	7	2	1	14
Balances as of May 31, 2014	13,139	12,472	2,082	1,733	226	29,652
Goodwill from acquisitions	2,086	1,991	269	27	240	4,613
Goodwill adjustments, net ⁽²⁾	(8)	(2)	19	(1)	—	8
Goodwill impairment ⁽³⁾	—	—	—	—	(186)	(186)
Balances as of May 31, 2015	<u>\$ 15,217</u>	<u>\$ 14,461</u>	<u>\$ 2,370</u>	<u>\$ 1,759</u>	<u>\$ 280</u>	<u>\$ 34,087</u>

⁽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⁾ During fiscal 2015, we recorded a \$186 million goodwill impairment loss to our hardware systems products reporting unit. We considered several approaches to determine the fair value of our hardware systems reporting unit as of March 1, 2015 and concluded the most appropriate to be the income approach. The fair value of our hardware systems products reporting unit pursuant to the income approach was impacted by lower forecasted operating results for this reporting unit, primarily caused by lower forecasted revenues and our continued investment in hardware products research and development activities. We compared the implied fair value of goodwill in our hardware systems products reporting unit to its carrying value, which resulted in the \$186 million goodwill impairment loss and represented the aggregate amount of goodwill for our hardware systems products reporting unit. The aggregate hardware systems reporting unit goodwill that was impaired in fiscal 2015 resulted from our acquisitions of Pillar Data Systems, Inc., Xsigo Systems, Inc., GreenBytes, Inc. and MICROS Systems, Inc. Such impairment loss was recorded to acquisition related and other expenses in our fiscal 2015 consolidated statement of operations. We did not recognize any goodwill impairment losses in fiscal 2014 or 2013.

⁽⁴⁾ Represents goodwill allocated to our other operating segments. The balance as of May 31, 2013 included unallocated goodwill for certain of our acquisitions that was subsequently allocated based upon the finalization of valuations during fiscal 2014.

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8. NOTES PAYABLE AND OTHER BORROWINGS

Notes payable consisted of the following:

(Dollars in millions)	May 31,	
	2015	2014
3.75% senior notes due July 2014, net of fair value adjustment of \$8 as of May 31, 2014 ⁽¹⁾	\$ —	\$ 1,508
5.25% senior notes due January 2016, net of discount of \$1 and \$2 as of May 31, 2015 and 2014, respectively	1,999	1,998
Floating rate senior notes due July 2017, net of debt issuance cost of \$1 as of May 31, 2015	999	—
1.20% senior notes due October 2017, net of discount and debt issuance costs of \$6 and \$9 as of May 31, 2015 and 2014, respectively	2,494	2,491
5.75% senior notes due April 2018, net of debt issuance costs of \$7 and \$8 as of May 31, 2015 and 2014, respectively	2,493	2,492
Floating rate senior notes due January 2019, net of debt issuance costs of \$1 each as of May 31, 2015 and 2014	499	499
2.375% senior notes due January 2019, net of fair value losses of \$21 and \$15 and discount and debt issuance costs of \$7 and \$9 as of May 31, 2015 and May 31, 2014, respectively ⁽¹⁾	1,514	1,506
5.00% senior notes due July 2019, net of discount and debt issuance costs of \$11 and \$12 as of May 31, 2015 and 2014, respectively	1,739	1,738
Floating rate senior notes due October 2019, net of debt issuance cost of \$2 as of May 31, 2015	748	—
2.25% senior notes due October 2019, net of fair value loss of \$22 and discount and debt issuance cost of \$7 as of May 31, 2015 ⁽¹⁾	2,015	—
3.875% senior notes due July 2020, net of discount and debt issuance costs of \$4 and \$5 as of May 31, 2015 and 2014, respectively	996	995
2.25% senior notes due January 2021, net of discount and debt issuance costs of \$11 and \$14 as of May 31, 2015 and 2014, respectively ⁽²⁾	1,341	1,685
2.80% senior notes due July 2021, net of fair value loss of \$31 and discount and debt issuance cost of \$6 as of May 31, 2015 ⁽¹⁾	1,525	—
2.50% senior notes due May 2022, net of discount and debt issuance cost of \$17 as of May 31, 2015	2,483	—
2.50% senior notes due October 2022, net of discount and debt issuance costs of \$10 and \$11 as of May 31, 2015 and 2014, respectively	2,490	2,489
3.625% senior notes due July 2023, net of discount and debt issuance costs of \$11 and \$12 as of May 31, 2015 and 2014, respectively	989	988
3.40% senior notes due July 2024, net of discount and debt issuance cost of \$12 as of May 31, 2015	1,988	—
2.95% senior notes due May 2025, net of discount and debt issuance cost of \$22 as of May 31, 2015	2,478	—
3.125% senior notes due July 2025, net of discount and debt issuance costs of \$6 and \$9 as of May 31, 2015 and 2014, respectively ⁽²⁾	804	1,013
3.25% senior notes due May 2030, net of discount and debt issuance cost of \$6 as of May 31, 2015	494	—
4.30% senior notes due July 2034, net of discount and debt issuance cost of \$13 as of May 31, 2015	1,737	—
3.90% senior notes due May 2035, net of discount and debt issuance cost of \$18 as of May 31, 2015	1,232	—
6.50% senior notes due April 2038, net of discount and debt issuance costs of \$5 and \$6 as of May 31, 2015 and 2014, respectively	1,245	1,244
6.125% senior notes due July 2039, net of discount and debt issuance costs of \$12 and \$14 as of May 31, 2015 and 2014, respectively	1,238	1,236
5.375% senior notes due July 2040, net of discount and debt issuance costs of \$34 and \$35 as of May 31, 2015 and 2014, respectively	2,216	2,215
4.50% senior notes due July 2044, net of debt issuance cost of \$8 as of May 31, 2015	992	—
4.125% senior notes due May 2045, net of discount and debt issuance cost of \$24 as of May 31, 2015	1,976	—
4.375% senior notes due May 2055, net of discount and debt issuance cost of \$16 as of May 31, 2015	1,234	—
Total borrowings	\$ 41,958	\$ 24,097
Notes payable, current	\$ 1,999	\$ 1,508
Notes payable, non-current	\$ 39,959	\$ 22,589

⁽¹⁾ Refer to Note 11 for a description of our accounting for fair value hedges.

⁽²⁾ Euro based notes valued at May 31, 2015 and May 31, 2014 foreign exchange rates, respectively (see further discussion below).

Senior Notes and Other

In May 2015, we issued \$10.0 billion of senior notes comprised of \$2.5 billion of 2.50% notes due May 2022 (2022 Notes), \$2.5 billion of 2.95% notes due May 2025 (2025 Notes), \$500 million 3.25% notes due May 2030 (2030 Notes), \$1.25 billion of 3.90% notes due May 2035 (2035 Notes), \$2.0 billion of 4.125% notes due May 2045 (2045 Notes) and \$1.25 billion of 4.375% notes due May 2055 (2055 Notes, and together with the 2022 Notes, 2025 Notes, 2030 Notes, 2035 Notes

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and 2045 Notes, the May 2015 Senior Notes). We issued the May 2015 Senior Notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock and future acquisitions, and repayment of indebtedness.

In July 2014, we issued \$10.0 billion of senior notes comprised of \$1.0 billion of floating rate notes due July 2017 (2017 Floating Rate Notes), \$750 million of floating rate notes due October 2019 (2019 Floating Rate Notes), \$2.0 billion of 2.25% notes due October 2019 (2019 Notes), \$1.5 billion of 2.80% notes due July 2021 (2021 Notes), \$2.0 billion of 3.40% notes due July 2024 (2024 Notes), \$1.75 billion of 4.30% notes due July 2034 (2034 Notes) and \$1.0 billion of 4.50% notes due July 2044 (2044 Notes and, together with the 2017 Floating Rate Notes, 2019 Floating Rate Notes, 2019 Notes, 2021 Notes, 2024 Notes and 2034 Notes, the July 2014 Senior Notes). The floating rate notes bear interest at a floating rate equal to three-month LIBOR plus 0.20% for the 2017 Floating Rate Notes and 0.51% for the 2019 Floating Rate Notes (0.47% and 0.78% as of May 31, 2015, respectively) with interest payable quarterly. We issued the July 2014 Senior Notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock, our acquisition of MICROS and future acquisitions, and repayment of indebtedness.

In July 2013, we issued €2.0 billion (\$2.2 billion and \$2.7 billion as of May 31, 2015 and 2014, respectively) of fixed rate senior notes comprised of €1.25 billion of 2.25% notes due January 2021 (January 2021 Notes) and €750 million of 3.125% notes due July 2025 (July 2025 Notes, and together with the January 2021 Notes, the Euro Notes). The Euro Notes are registered and trade on the New York Stock Exchange.

In connection with the issuance of the January 2021 Notes, we entered into certain cross-currency swap agreements that have the economic effect of converting our fixed rate, Euro denominated debt, including annual interest payments and the payment of principal at maturity, to a fixed rate, U.S. Dollar denominated debt of \$1.6 billion with a fixed annual interest rate of 3.53% (see Note 11 for additional information). Further, we designated the July 2025 Notes as a net investment hedge of our investments in certain of our international subsidiaries that use the Euro as their functional currency in order to reduce the volatility in stockholders' equity caused by the changes in foreign currency exchange rates of the Euro with respect to the U.S. Dollar (see Note 11 for additional information).

In July 2013, we also issued \$3.0 billion of senior notes comprised of \$500 million of floating rate notes due January 2019 (January 2019 Floating Rate Notes), \$1.5 billion of 2.375% notes due January 2019 (January 2019 Notes) and \$1.0 billion of 3.625% notes due July 2023 (2023 Notes). The January 2019 Floating Rate Notes bear interest at a floating rate equal to three-month LIBOR plus 0.58% (0.86% and 0.81% as of May 31, 2015 and 2014, respectively) with interest payable quarterly.

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 (October 2022 Notes).

In July 2010, we issued \$3.25 billion of fixed rate senior notes comprised of \$1.0 billion of 3.875% notes due July 2020 (2020 Notes) and \$2.25 billion of 5.375% notes due July 2040 (2040 Notes).

In July 2009, we issued \$4.5 billion of fixed rate senior notes of which \$1.5 billion of 3.75% notes (2014 Notes) was due and paid in July 2014 (we also settled the fixed to variable interest rate swap agreements associated with the 2014 Notes) and \$1.75 billion of 5.00% notes due July 2019 (July 2019 Notes) and \$1.25 billion of 6.125% notes due July 2039 (2039 Notes) remained outstanding as of May 31, 2015.

In April 2008, we issued \$5.0 billion of fixed rate senior notes, of which \$1.25 billion of 4.95% senior notes was due and paid in April 2013, and \$2.5 billion of 5.75% senior notes due April 2018 (2018 Notes) and \$1.25 billion of 6.50% senior notes due April 2038 (2038 Notes) remained outstanding as of May 31, 2015.

In January 2006, we issued \$5.75 billion of senior notes, of which \$2.0 billion of 5.25% senior notes due January 2016 (2016 Notes) remained outstanding as of May 31, 2015.

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The effective interest yields of the 2016 Notes, 2017 Notes, 2018 Notes, January 2019 Notes, July 2019 Notes, 2019 Notes, 2020 Notes, 2021 Notes, 2022 Notes, October 2022 Notes, 2023 Notes, 2024 Notes, 2025 Notes, July 2025 Notes, 2030 Notes, 2034 Notes, 2035 Notes, 2038 Notes, 2039 Notes, 2040 Notes, 2044 Notes, 2045 Notes and 2055 Notes (collectively and together with the January 2021 Notes, the Senior Notes) at May 31, 2015 were 5.32%, 1.24%, 5.76%, 2.44%, 5.05%, 2.27%, 3.93%, 2.82%, 2.56%, 2.51%, 3.73%, 3.43%, 3.00%, 3.17%, 3.30%, 4.30%, 3.95%, 6.52%, 6.19%, 5.45%, 4.50%, 4.15%, and 4.40%, respectively. In July 2014 and July 2013, we entered into certain interest rate swap agreements that have the economic effects of modifying the fixed interest obligations associated with the 2019 Notes, January 2019 Notes and 2021 Notes so that the interest payable on these notes effectively became variable based on LIBOR (0.76%, 0.93% and 0.91%, respectively, at May 31, 2015; and 0.88% for the January 2019 Notes at May 31, 2014; see Note 11 for additional information). The effective interest yield of the January 2021 Notes was 2.33% (3.53% after the economic effects of the cross-currency swap agreements described above and in Note 11). Interest is payable semi-annually for the Senior Notes except for the Euro Notes for which interest is payable annually. We may redeem some or all of the Senior Notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances. The 2017 Floating Rate Notes, January 2019 Floating Rate Notes and 2019 Floating Rate Notes (collectively the Floating Rate Notes) may not be redeemed prior to their maturity.

The Senior Notes and the Floating Rate Notes rank pari passu with any other notes we may issue in the future pursuant to our commercial paper program (see additional discussion regarding our commercial paper program below) and all existing and future unsecured 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 and the Floating Rate Notes and any future issuances of commercial paper notes. We were in compliance with all debt-related covenants at May 31, 2015.

Future principal payments for all of our borrowings at May 31, 2015 were as follows (in millions):

Fiscal 2016	\$ 2,000
Fiscal 2017	—
Fiscal 2018	6,000
Fiscal 2019	2,000
Fiscal 2020	4,500
Thereafter	27,966
Total	<u>\$ 42,466</u>

Commercial Paper Program and Commercial Paper Notes

On April 22, 2013, pursuant to our existing \$3.0 billion commercial paper program which allows us to issue and sell unsecured short-term promissory notes pursuant to a private placement exemption from the registration requirements under federal and state securities laws, we entered into new dealer agreements with various banks and a new Issuing and Paying Agency Agreement with JP Morgan Chase Bank, N.A. As of May 31, 2015 and 2014, we did not have any outstanding commercial paper notes. We intend to back-stop any commercial paper notes that we may issue in the future with the 2013 Credit Agreement (see additional details below).

Revolving Credit Agreements

In April 2013, we entered into a \$3.0 billion Revolving Credit Agreement with Wells Fargo Bank, N.A., Bank of America, N.A., BNP Paribas, JPMorgan Chase Bank, N.A. and certain other lenders (the 2013 Credit Agreement). The 2013 Credit Agreement provides for an unsecured 5-year revolving credit facility to be used for general corporate purposes including back-stopping any commercial paper notes that we may issue. Subject to certain conditions stated in the 2013 Credit Agreement, we may borrow, prepay and re-borrow amounts under the

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2013 Credit Agreement at any time during the term of the 2013 Credit Agreement. Interest under the 2013 Credit Agreement is based on either (a) a LIBOR-based formula or (b) the Base Rate formula, each as set forth in the 2013 Credit Agreement. Any amounts drawn pursuant to the 2013 Credit Agreement are due on April 20, 2018. No amounts were outstanding pursuant to the 2013 Credit Agreement as of May 31, 2015 and 2014.

The 2013 Credit Agreement contains certain customary representations and warranties, covenants and events of default, including the requirement that our total net debt to total capitalization ratio not exceed 45% on a consolidated basis. If any of the events of default occur and are not cured within applicable grace periods or waived, any unpaid amounts under the 2013 Credit Agreement may be declared immediately due and payable and the 2013 Credit Agreement may be terminated. We were in compliance with the 2013 Credit Agreement's covenants as of May 31, 2015.

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). During fiscal 2013, we repaid the \$1.7 billion and the 2012 Credit Agreement expired pursuant to its terms.

9. RESTRUCTURING ACTIVITIES

Fiscal 2015 Oracle Restructuring Plan

During the second quarter of fiscal 2015, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations due to our acquisition of MICROS and certain other operational activities (2015 Restructuring Plan). The total estimated restructuring costs associated with the 2015 Restructuring Plan are up to \$626 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are incurred. We recorded \$100 million of restructuring expenses in connection with the 2015 Restructuring Plan in fiscal 2015 and we expect to incur the majority of the estimated remaining \$526 million through the end of fiscal 2016. Any changes to the estimates of executing the 2015 Restructuring Plan will be reflected in our future results of operations.

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 (2013 Restructuring Plan). Restructuring costs associated with the 2013 Restructuring Plan were recorded to the restructuring expense line item within our consolidated statements of operations as they were incurred. We recorded \$119 million, \$174 million and \$325 million of restructuring expenses in connection with the 2013 Restructuring Plan in fiscal 2015, 2014 and 2013, respectively. Actions pursuant to the 2013 Restructuring Plan were substantially complete as of May 31, 2015.

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Summary of All Plans

Fiscal 2015 Activity

	Accrued May 31, 2014 ⁽²⁾	Year Ended May 31, 2015				Accrued May 31, 2015 ⁽²⁾	Total Costs Accrued to Date	Total Expected Program Costs
(in millions)	Initial Costs ⁽³⁾	Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾				
Fiscal 2015 Oracle Restructuring Plan ⁽¹⁾								
New software licenses and cloud software subscriptions	\$ —	\$ 26	\$ 1	\$ (16)	\$ —	\$ 11	\$ 27	\$ 110
Software license updates and product support	—	7	—	(2)	—	5	7	209
Hardware systems business	—	22	(2)	(13)	(1)	6	20	65
Services	—	21	—	(12)	—	9	21	101
General and administrative and other	—	27	(2)	(20)	—	5	25	141
Total Fiscal 2015 Oracle Restructuring Plan	\$ —	\$ 103	\$ (3)	\$ (63)	\$ (1)	\$ 36	\$ 100	\$ 626
Total Fiscal 2013 Oracle Restructuring Plan ⁽⁶⁾	\$ 61	\$ 128	\$ (9)	\$ (138)	\$ (11)	\$ 31		
Total other restructuring plans ⁽⁶⁾	\$ 108	\$ 7	\$ (19)	\$ (43)	\$ —	\$ 53		
Total restructuring plans	\$ 169	\$ 238	\$ (31)	\$ (244)	\$ (12)	\$ 120		

Fiscal 2014 Activity

	Accrued May 31, 2013	Year Ended May 31, 2014				Accrued May 31, 2014 ⁽²⁾
(in millions)		Initial Costs ⁽³⁾	Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾	
Fiscal 2013 Oracle Restructuring Plan ⁽¹⁾						
New software licenses and cloud software subscriptions	\$ 16	\$ 57	\$ (8)	\$ (55)	\$ 2	\$ 12
Software license updates and product support	1	11	—	(10)	3	5
Hardware systems business	24	48	(3)	(52)	1	18
Services	18	39	(7)	(39)	—	11
General and administrative and other	12	42	(5)	(39)	5	15
Total Fiscal 2013 Oracle Restructuring Plan	<u>\$ 71</u>	<u>\$ 197</u>	<u>\$ (23)</u>	<u>\$ (195)</u>	<u>\$ 11</u>	<u>\$ 61</u>
Total other restructuring plans ⁽⁶⁾	<u>\$ 179</u>	<u>\$ 24</u>	<u>\$ (15)</u>	<u>\$ (58)</u>	<u>\$ (22)</u>	<u>\$ 108</u>
Total restructuring plans	\$ 250	\$ 221	\$ (38)	\$ (253)	\$ (11)	\$ 169

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Fiscal 2013 Activity

(in millions)	Accrued May 31, 2012	Initial Costs ⁽³⁾	Year Ended May 31, 2013 Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾	Accrued May 31, 2013
Fiscal 2013 Oracle Restructuring Plan ⁽¹⁾						
New software licenses and cloud software subscriptions	\$ —	\$ 85	\$ (8)	\$ (60)	\$ (1)	\$ 16
Software license updates and product support	—	13	(6)	(11)	5	1
Hardware systems business	—	99	(5)	(68)	(2)	24
Services	—	72	(5)	(50)	1	18
General and administrative and other	—	81	(1)	(52)	(16)	12
Total Fiscal 2013 Oracle Restructuring Plan	\$ —	\$ 350	\$ (25)	\$ (241)	\$ (13)	\$ 71
Total other restructuring plans ⁽⁶⁾	\$ 337	\$ 53	\$ (26)	\$ (185)	\$ —	\$ 179
Total restructuring plans	\$ 337	\$ 403	\$ (51)	\$ (426)	\$ (13)	\$ 250

- (1) Restructuring costs recorded for individual line items primarily related to employee severance costs except for general and administrative and other, which also included \$46 million recorded during fiscal 2013 for facilities related restructuring, contract termination and other costs.
- (2) The balances at May 31, 2015 and 2014 included \$86 million and \$100 million, respectively, recorded in other current liabilities, and \$34 million and \$69 million, respectively, recorded in other non-current liabilities.
- (3) Costs recorded for the respective restructuring plans during the current period presented.
- (4) All plan adjustments were changes in estimates whereby increases and decreases in costs were generally recorded to operating expenses in the period of adjustments.
- (5) Represents foreign currency translation and certain other adjustments.
- (6) Other restructuring plans presented in the tables 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 periods presented but for which the periodic impact to our consolidated statements of operations was not significant.

10. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	May 31, 2015	May 31, 2014
Software license updates and product support	\$ 5,635	\$ 5,909
Hardware systems support and other	703	664
Services	379	364
Cloud SaaS, PaaS and IaaS	404	248
New software licenses	124	84
Deferred revenues, current	7,245	7,269
Deferred revenues, non-current (in other non-current liabilities)	393	404
Total deferred revenues	\$ 7,638	\$ 7,673

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

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

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value Hedges — Interest Rate Swap Agreements

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

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

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

Cash Flow Hedges — Cross Currency Swap Agreements

In connection with the issuance of our January 2021 Notes, we entered into certain cross-currency swap agreements to manage the related foreign currency exchange risk by effectively converting the fixed-rate, Euro denominated January 2021 Notes, including the annual interest payments and the payment of principal at maturity, to fixed-rate, U.S. Dollar denominated debt. The economic effect of the swap agreements was to eliminate the uncertainty of the cash flows in U.S. Dollars associated with the January 2021 Notes by fixing the

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principal amount of the January 2021 Notes at \$1.6 billion with a fixed annual interest rate of 3.53%. We have designated these cross-currency swap agreements as qualifying hedging instruments and are accounting for these as cash flow hedges pursuant to ASC 815. The critical terms of the cross-currency swap agreements correspond to the January 2021 Notes, including the annual interest payments being hedged, and the cross-currency swap agreements mature at the same time as the January 2021 Notes.

We used the hypothetical derivative method to measure the effectiveness of our cross-currency swap agreements. The fair values of these cross-currency swap agreements are recognized as other assets or other non-current liabilities in our consolidated balance sheets. The effective portions of the changes in fair values of these cross-currency swap agreements are reported in accumulated other comprehensive loss in our consolidated balance sheets and an amount is reclassified out of accumulated other comprehensive loss into non-operating income (expense), net in the same period that the carrying value of the Euro denominated January 2021 Notes is remeasured and the interest expense is recognized. The ineffective portion of the unrealized gains and losses on these cross-currency swaps, if any, is recorded immediately to non-operating income (expense), net. We evaluate the effectiveness of our cross-currency swap agreements on a quarterly basis. We did not record any ineffectiveness for fiscal 2015 or 2014. The cash flows related to the cross-currency swap agreements that pertain to the periodic interest settlements are classified as operating activities and the cash flows that pertain to the principal balance are classified as financing activities.

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

Net Investment Hedge — Foreign Currency Borrowings

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

We used the spot method to measure the effectiveness of our net investment hedge. Under this method, for each reporting period, the change in the carrying value of the Euro denominated July 2025 Notes due to remeasurement of the effective portion is reported in accumulated other comprehensive loss on our consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, is recognized in non-operating income (expense), net in our consolidated statements of operations. We evaluate the effectiveness of our net investment hedge at the beginning of every quarter. We did not record any ineffectiveness for fiscal 2015 or 2014.

Foreign Currency Forward Contracts Not Designated as Hedges

We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effects of certain foreign currency exposures. Under this program, our strategy is to enter into foreign currency forward contracts so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. We may suspend this program from time to time. Our foreign currency exposures typically arise from intercompany sublicense fees, intercompany loans and other intercompany transactions that are generally expected to be cash settled in the near term. Our foreign currency forward contracts are generally short-term in duration. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of cross-currency exposures that we enter into, the currency exchange rates associated with these exposures and changes in those rates, the net realized and unrealized gains or losses on foreign currency forward contracts to offset these exposures and other factors.

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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. Accordingly, we recorded the fair values of these contracts as of the end of our reporting period to our consolidated balance sheet with changes in fair values recorded to our consolidated statement of operations. The balance sheet classification for the fair values of these forward contracts is prepaid expenses and other current assets for a net unrealized gain position and other current liabilities for a net unrealized loss position. The statement of operations classification for changes in fair values of these forward contracts is non-operating income (expense), net, for both realized and unrealized gains and losses.

As of May 31, 2015 and 2014, respectively, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$2.2 billion and \$3.6 billion, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$1.2 billion and \$2.0 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at May 31, 2015 and 2014.

Included in our non-operating income (expense), net were \$60 million, \$(69) million and \$(64) million of net gains (losses) related to these forward contracts for the years ended May 31, 2015, 2014 and 2013, respectively. The cash flows related to these foreign currency contracts are classified as operating activities.

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

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

(in millions)	May 31, 2015		May 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swap agreements designated as fair value hedges	Other assets	\$ 74	Other assets	\$ 15
Interest rate swap agreements designated as fair value hedges	Not applicable	\$ —	Prepaid expenses and other current assets	\$ 8
Cross-currency swap agreements designated as cash flow hedges	Other non-current liabilities	\$ (244)	Other assets	\$ 74
Foreign currency borrowings designated as net investment hedge	Notes payable, non-current	\$ (981)	Notes payable, non-current	\$ (1,116)

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

(in millions)	Amount of (Loss) Gain Recognized in Accumulated OCI or OCL (Effective Portion)			Location and Amount of (Loss) Gain Reclassified from Accumulated OCI or OCL into Income (Effective Portion)	
	Year Ended May 31,			Year Ended May 31,	
	2015	2014		2015	2014
Cross-currency swap agreements designated as cash flow hedges	\$ (318)	\$ 74	Non-operating income (expense), net	\$ (348)	\$ 69
Foreign currency borrowings designated as net investment hedge	\$ 208	\$ (34)	Not applicable	\$ —	\$ —

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(in millions)	Location and Amount of Gain (Loss) Recognized in Income on Derivative			Location and Amount of (Loss) Gain on Hedged Item Recognized in Income Attributable to Risk Being Hedged		
		Year Ended May 31,			Year Ended May 31,	
		2015	2014		2015	2014
Interest rate swap agreements designated as fair value hedges	Interest expense	\$ 51	\$ (18)	Interest expense	\$ (51)	\$ 18

12. COMMITMENTS AND CERTAIN CONTINGENCIES

Lease Commitments

We lease certain facilities, furniture and equipment under operating leases. As of May 31, 2015, future minimum annual operating lease payments and future minimum payments to be received from non-cancelable subleases were as follows:

(in millions)	
Fiscal 2016	\$ 330
Fiscal 2017	270
Fiscal 2018	209
Fiscal 2019	156
Fiscal 2020	107
Thereafter	175
Future minimum operating lease payments	1,247
Less: minimum payments to be received from non-cancelable subleases	(71)
Total future minimum operating lease payments, net	\$ 1,176

Lease commitments included future minimum rent payments for facilities that we have vacated pursuant to our restructuring and merger integration activities, as discussed in Note 9. We have approximately \$61 million in facility obligations, net of estimated sublease income and other costs, in accrued restructuring for these locations in our consolidated balance sheet at May 31, 2015.

Rent expense was \$290 million, \$278 million and \$313 million for fiscal 2015, 2014 and 2013, respectively, net of sublease income of approximately \$45 million, \$55 million and \$69 million, respectively. Certain lease agreements contain renewal options providing for extensions of the lease terms.

Unconditional Obligations

In the ordinary course of business, we enter into certain unconditional purchase obligations with our suppliers, which are agreements that are enforceable, legally binding and specify terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the payment. We utilize several external manufacturers to manufacture sub-assemblies for our hardware products and to perform final assembly and testing of finished hardware products. We also obtain individual components for our hardware systems products from a variety of individual suppliers based on projected demand information. Such purchase commitments are based on our forecasted component and manufacturing requirements and typically provide for fulfillment within agreed upon lead-times and/or commercially standard lead-times for the particular part or product and have been included in the amounts below. Routine arrangements for other materials and goods that are not related to our external manufacturers and certain other suppliers and that are entered into in the ordinary course of business are not included in the amounts below as they are generally entered into in order to secure pricing or other negotiated terms and are difficult to quantify in a meaningful way.

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As of May 31, 2015, our unconditional purchase and certain other obligations were as follows (in millions):

Fiscal 2016	\$ 713
Fiscal 2017	195
Fiscal 2018	124
Fiscal 2019	85
Fiscal 2020	64
Thereafter	—
Total	<u>\$ 1,181</u>

As described in Note 8 and Note 11 above, as of May 31, 2015 we have senior notes of \$42.0 billion that mature at various future dates and derivative financial instruments outstanding that we leverage to manage certain risks and exposures.

Guarantees

Our software, cloud and hardware systems product sales agreements generally include certain provisions for indemnifying customers against liabilities if our products infringe a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnifications and have not accrued any material liabilities related to such obligations in our consolidated financial statements. Certain of our product sales agreements also include provisions indemnifying customers against liabilities in the event we breach confidentiality or service level requirements. It is not possible to determine the maximum potential amount under these indemnification agreements due to our limited and infrequent history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

Our software license and hardware systems products agreements also generally include a warranty that our products will substantially operate as described in the applicable program documentation for a period of one year after delivery. Our software as a service, platform as a service and infrastructure as a service agreements generally include a warranty that the cloud services will be performed in all material respects as defined in the agreement during the service period. We also warrant that services we perform will be provided in a manner consistent with industry standards for a period of 90 days from performance of the services.

We occasionally are required, for various reasons, to enter into financial guarantees with third parties in the ordinary course of our business including, among others, guarantees related to foreign exchange trades, taxes, import licenses and letters of credit on behalf of parties with whom we conduct business. Such agreements have not had a material effect on our results of operations, financial position or cash flows.

13. STOCKHOLDERS' EQUITY

Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 18, 2014, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional \$13.0 billion. Approximately \$9.2 billion remained available for stock repurchases as of May 31, 2015, pursuant to our stock repurchase program. We repurchased 193.7 million shares for \$8.1 billion (including 2.2 million shares for \$95 million that were repurchased but not settled), 280.4 million shares for \$9.8 billion and 346.1 million shares for \$11.0 billion in fiscal 2015, 2014 and 2013, respectively, 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

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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 fiscal 2015, 2014 and 2013, our Board of Directors declared cash dividends of \$0.51, \$0.48 and \$0.30 per share of our outstanding common stock, respectively, which we paid during the same period.

In June 2015, our Board of Directors declared a quarterly cash dividend of \$0.15 per share of our outstanding common stock payable on July 29, 2015 to stockholders of record as of the close of business on July 8, 2015. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Accumulated Other Comprehensive Loss

The following table summarizes, as of each balance sheet date, the components of our accumulated other comprehensive loss, net of income taxes:

(in millions)	May 31,	
	2015	2014
Foreign currency translation losses and other, net	\$ (851)	\$ (81)
Unrealized losses on defined benefit plans, net	(304)	(153)
Unrealized gains on marketable securities, net	124	65
Unrealized gains on cash flow hedges, net	35	5
Total accumulated other comprehensive loss	<u>\$ (996)</u>	<u>\$ (164)</u>

14. EMPLOYEE BENEFIT PLANS

Stock-based Compensation Plans

Stock Plans

In fiscal 2001, we adopted the 2000 Long-Term Equity Incentive Plan, which provides for the issuance of non-qualified stock options and incentive stock options, as well as stock purchase rights, stock appreciation rights, and long-term performance awards, including restricted stock-based awards, to our eligible employees, officers and directors who are also employees or consultants, independent consultants and advisers. In fiscal 2011, our stockholders, upon the recommendation of our Board of Directors (the Board), approved the adoption of the Amended and Restated 2000 Long-Term Equity Incentive Plan (the 2000 Plan), which extended the termination date of the 2000 Plan by ten years and increased the number of authorized shares of stock that may be issued by 388,313,015 shares. In fiscal 2014, our stockholders, upon the recommendation of our Board, approved a further increase in the number of authorized shares of stock that may be issued under the 2000 Plan by 305,000,000 shares.

Under the terms of the 2000 Plan, options to purchase common stock are granted at not less than fair market value, become exercisable as established by the Compensation Committee of the Board (generally 25% annually over four years under our current practice) and generally expire no more than ten years from the date of grant. Long-term full value awards are granted in the form of restricted stock units (RSUs) and performance stock units (PSUs). The vesting schedule for RSUs is established by the Compensation Committee and generally requires vesting 25% annually over four years. The vesting schedule for PSUs is also established by the Compensation Committee and currently requires vesting over four fiscal years, if at all, based on relative performance. For each share granted as a full value award under the 2000 Plan, an equivalent of 2.5 shares is deducted from our pool of shares available for grant. As of May 31, 2015, the 2000 Plan had stock options to purchase 401 million shares of common stock outstanding of which 215 million shares were vested, 24 million unvested RSUs outstanding and

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3 million unvested PSUs outstanding. As of May 31, 2015, approximately 409 million shares of common stock were available for future awards under the 2000 Plan. To date, we have not issued any stock purchase rights or stock appreciation rights under the 2000 Plan.

In fiscal 1993, the Board adopted the 1993 Directors' Stock Plan (the Directors' Plan), which provides for the issuance of non-qualified stock options and other stock-based awards, including RSUs, to non-employee directors. The Directors' Plan has from time to time been amended and restated. Under the terms of the Directors' Plan, 10 million shares of common stock are reserved for issuance (including a fiscal 2013 amendment to increase the number of shares of our common stock reserved for issuance by 2 million shares). Options are granted at not less than fair market value, vest over four years, and expire no more than ten years from the date of grant. RSUs granted under the Directors' Plan also vest over four years. The Directors' Plan provides for automatic grants of stock awards to each non-employee director upon first becoming a director and thereafter on an annual basis, as well as automatic nondiscretionary grants for chairing or vice chairing certain Board committees. The Board will determine the particular terms of any such stock awards at the time of grant, but the terms will be consistent with those of stock awards granted under the Directors' Plan with respect to vesting or forfeiture schedules and treatment on termination of status as a director. As of May 31, 2015, options to purchase approximately 4 million shares of common stock (of which approximately 2 million were vested) and 64,000 unvested RSUs were outstanding under the 1993 Directors' Plan. As of May 31, 2015, approximately 2 million shares were available for future stock awards under this plan.

In connection with certain of our acquisitions, we assumed certain outstanding stock options and other restricted stock-based awards under each acquired company's respective stock plans. These stock options and other restricted stock-based awards generally retain all of the rights, terms and conditions of the respective plans under which they were originally granted. As of May 31, 2015, stock options to purchase 8 million shares of common stock and 1 million shares of restricted stock-based awards were outstanding under these plans.

The following table summarizes stock option activity and includes awards granted pursuant to Oracle-based stock plans and stock plans assumed from our acquisitions for our last three fiscal years ended May 31, 2015:

(in millions, except exercise price)	Options Outstanding	
	Shares Under Option	Weighted Average Exercise Price
Balance, May 31, 2012	422	\$ 22.66
Granted	119	\$ 29.90
Assumed	9	\$ 32.52
Exercised	(83)	\$ 17.38
Canceled	(20)	\$ 28.94
Balance, May 31, 2013	447	\$ 25.48
Granted	131	\$ 31.02
Assumed	5	\$ 9.02
Exercised	(95)	\$ 21.51
Canceled	(26)	\$ 30.60
Balance, May 31, 2014	462	\$ 27.37
Granted	34	\$ 40.54
Assumed	3	\$ 21.98
Exercised	(70)	\$ 24.49
Canceled	(16)	\$ 33.76
Balance, May 31, 2015	413	\$ 28.64

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Options outstanding that have vested and that are expected to vest as of May 31, 2015 were as follows:

	Outstanding Options (in millions)	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (in years)	In-the-Money Options as of May 31, 2015 (in millions)	Aggregate Intrinsic Value ⁽¹⁾ (in millions)
Vested	223	\$ 25.53	5.07	222	\$ 4,034
Expected to vest ⁽²⁾	175	\$ 32.17	7.77	175	1,986
Total	398	\$ 28.45	6.26	397	\$ 6,020

⁽¹⁾ The aggregate intrinsic value was calculated based on the gross difference between our closing stock price on the last trading day of fiscal 2015 of \$43.49 and the exercise prices for all “in-the-money” options outstanding, excluding tax effects.

⁽²⁾ The unrecognized compensation expense calculated under the fair value method for shares expected to vest (unvested shares net of expected forfeitures) as of May 31, 2015 was approximately \$804 million and is expected to be recognized over a weighted average period of 2.16 years. Approximately 15 million shares outstanding as of May 31, 2015 were not expected to vest.

Restricted stock-based award activity and the number of restricted stock-based awards outstanding were not significant prior to fiscal 2015. The following table summarizes restricted stock-based awards activity, including service-based awards and performance-based awards and including awards granted pursuant to Oracle-based stock plans and stock plans assumed from our acquisitions for our fiscal year ended May 31, 2015:

(in millions, except fair value)	Restricted Stock-Based Awards Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value
Balance, May 31, 2014	1	\$ 35.29
Granted	28	\$ 40.73
Canceled	(1)	\$ 39.52
Balance, May 31, 2015	28	\$ 40.63

The total grant date fair value of restricted stock-based awards that vested in fiscal 2015 was \$28 million. As of May 31, 2015, total unrecognized stock compensation expense related to non-vested restricted stock-based awards was \$774 million and is expected to be recognized over the remaining weighted-average vesting period of 3.22 years.

In fiscal 2015, 3 million PSUs were granted which vest upon the attainment of certain performance metrics and service-based vesting. Based upon actual attainment relative to the “target” performance metric, certain participants have the ability to be issued up to 150% of the target number of PSUs originally granted, or to be issued no PSUs at all. As of May 31, 2015, no PSUs had vested and 3 million remained outstanding.

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Stock-Based Compensation Expense and Valuation of Stock Awards

We estimated the fair values of our stock options using the Black-Scholes-Merton option-pricing model, which was developed for use in estimating the fair values of stock options. Option valuation models, including the Black-Scholes-Merton option-pricing model, require the input of assumptions, including stock price volatility. Changes in the input assumptions can materially affect the fair value estimates and ultimately how much we recognize as stock-based compensation expense. 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 fiscal 2015, 2014 and 2013:

	Year Ended May 31,		
	2015	2014	2013
Expected life (in years)	5.1	4.9	5.0
Risk-free interest rate	1.7%	1.3%	0.7%
Volatility	23%	27%	31%
Dividend yield	1.2%	1.5%	0.8%
Weighted-average fair value per share	\$ 9.62	\$ 7.47	\$ 7.99

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

We estimated the fair values of our restricted stock-based awards that are solely subject to service-based vesting requirements based upon their intrinsic values as of the grant dates.

The fair values of our PSUs were also measured at their intrinsic values as of their respective grant dates. The vesting conditions and related terms of our PSUs were communicated to each participating employee as of their respective grant dates and included attainment metrics that were defined, fixed, and based upon consistent U.S. GAAP metrics or internal metrics that are defined, fixed and consistently determined, and that require the employee to render service. Therefore, these awards meet the performance-based award classification criteria as defined within ASC 718.

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

(in millions)	Year Ended May 31,		
	2015	2014	2013
Sales and marketing	\$ 180	\$ 165	\$ 137
Cloud software as a service and platform as a service	10	8	10
Cloud infrastructure as a service	5	4	8
Software license updates and product support	21	22	20
Hardware systems products	6	5	3
Hardware systems support	6	6	5
Services	30	29	23
Research and development	522	385	352
General and administrative	148	171	164
Acquisition related and other	5	10	33
Total stock-based compensation	933	805	755
Estimated income tax benefit included in provision for income taxes	(294)	(260)	(243)
Total stock-based compensation, net of estimated income tax benefit	\$ 639	\$ 545	\$ 512

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Tax Benefits from Exercise of Stock Options and Vesting of Restricted Stock-Based Awards

Total cash received as a result of option exercises was approximately \$1.7 billion, \$2.0 billion and \$1.4 billion for fiscal 2015, 2014 and 2013, respectively. The aggregate intrinsic value of options exercised and vesting of restricted stock-based awards was \$1.3 billion, \$1.5 billion and \$1.3 billion for fiscal 2015, 2014 and 2013, respectively. In connection with these exercises and vesting of restricted stock-based awards, the tax benefits realized by us were \$396 million, \$480 million and \$410 million for fiscal 2015, 2014 and 2013, respectively. Of the total tax benefits received, we classified excess tax benefits from stock-based compensation of \$244 million, \$250 million and \$241 million as cash flows from financing activities rather than cash flows from operating activities for fiscal 2015, 2014 and 2013, respectively.

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (Purchase Plan) that allows employees to purchase shares of common stock at a price per share that is 95% of the fair market value of Oracle stock as of the end of the semi-annual option period. As of May 31, 2015, 57 million shares were reserved for future issuances under the Purchase Plan. We issued 3 million shares under the Purchase Plan in each of fiscal 2015, fiscal 2014 and fiscal 2013.

Defined Contribution and Other Postretirement Plans

We offer various defined contribution plans for our U.S. and non-U.S. employees. Total defined contribution plan expense was \$362 million, \$357 million and \$353 million for fiscal 2015, 2014 and 2013, respectively. The number of plan participants in our benefit plans has generally increased in recent years primarily as a result of additional eligible employees from our acquisitions.

In the United States, regular employees can participate in the Oracle Corporation 401(k) Savings and Investment Plan (Oracle 401(k) Plan). Participants can generally contribute up to 40% of their eligible compensation on a per-pay-period basis as defined by the Oracle 401(k) Plan document or by the section 402(g) limit as defined by the United States Internal Revenue Service (IRS). We match a portion of employee contributions, currently 50% up to 6% of compensation each pay period, subject to maximum aggregate matching amounts. Our contributions to the Oracle 401(k) Plan, net of forfeitures, were \$144 million, \$134 million and \$129 million in fiscal 2015, 2014 and 2013, respectively.

We also offer non-qualified deferred compensation plans to certain key employees whereby they may defer a portion of their annual base and/or variable compensation until retirement or a date specified by the employee in accordance with the plans. Deferred compensation plan assets and liabilities were each approximately \$408 million as of May 31, 2015 and were each approximately \$367 million as of May 31, 2014 and were presented in other assets and other non-current liabilities in the accompanying consolidated balance sheets.

We sponsor certain defined benefit pension plans that are offered primarily by certain of our foreign subsidiaries. Many of these plans were assumed through our acquisitions or are required by local regulatory requirements. We may deposit funds for these plans with insurance companies, third party trustees, or into government-managed accounts consistent with local regulatory requirements, as applicable. Our total defined benefit plan pension expenses were \$69 million, \$64 million and \$81 million for fiscal 2015, 2014 and 2013, respectively. The aggregate projected benefit obligation and aggregate net liability (funded status) of our defined benefit plans as of May 31, 2015 was \$1.0 billion and \$599 million, respectively, and as of May 31, 2014 was \$853 million and \$436 million, respectively.

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15. INCOME TAXES

The following is a geographical breakdown of income before the provision for income taxes:

(in millions)	Year Ended May 31,		
	2015	2014	2013
Domestic	\$ 5,136	\$ 5,397	\$ 6,614
Foreign	7,698	8,307	7,284
Income before provision for income taxes	<u>\$ 12,834</u>	<u>\$ 13,704</u>	<u>\$ 13,898</u>

The provision for income taxes consisted of the following:

(Dollars in millions)	Year Ended May 31,		
	2015	2014	2013
Current provision:			
Federal	\$ 2,153	\$ 1,613	\$ 1,720
State	310	337	254
Foreign	981	1,047	1,116
Total current provision	<u>\$ 3,444</u>	<u>\$ 2,997</u>	<u>\$ 3,090</u>
Deferred benefit:			
Federal	\$ (408)	\$ (68)	\$ (179)
State	(46)	(100)	82
Foreign	(94)	(80)	(20)
Total deferred benefit	<u>\$ (548)</u>	<u>\$ (248)</u>	<u>\$ (117)</u>
Total provision for income taxes	<u>\$ 2,896</u>	<u>\$ 2,749</u>	<u>\$ 2,973</u>
Effective income tax rate	22.6%	20.1%	21.4%

The provision for income taxes differed from the amount computed by applying the federal statutory rate to our income before provision for income taxes as follows:

(in millions)	Year Ended May 31,		
	2015	2014	2013
Tax provision at statutory rate	\$ 4,492	\$ 4,796	\$ 4,865
Foreign earnings at other than United States rates	(1,627)	(1,790)	(1,637)
State tax expense, net of federal benefit	176	154	299
Settlements and releases from judicial decisions and statute expirations, net	(85)	(168)	(144)
Domestic production activity deduction	(188)	(174)	(155)
Other, net	128	(69)	(255)
Total provision for income taxes	<u>\$ 2,896</u>	<u>\$ 2,749</u>	<u>\$ 2,973</u>

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The components of our deferred tax liabilities and assets were as follows:

(in millions)	May 31,	
	2015	2014
Deferred tax liabilities:		
Unrealized gain on stock	\$ (130)	\$ (130)
Acquired intangible assets	(1,879)	(1,804)
Unremitted earnings	(646)	(510)
Other	(11)	—
Total deferred tax liabilities	<u>\$ (2,666)</u>	<u>\$ (2,444)</u>
Deferred tax assets:		
Accruals and allowances	\$ 421	\$ 440
Employee compensation and benefits	1,123	1,062
Differences in timing of revenue recognition	335	210
Depreciation and amortization	155	243
Tax credit and net operating loss carryforwards	2,649	2,810
Other	—	96
Total deferred tax assets	<u>\$ 4,683</u>	<u>\$ 4,861</u>
Valuation allowance	<u>\$ (1,024)</u>	<u>\$ (1,053)</u>
Net deferred tax assets	<u>\$ 993</u>	<u>\$ 1,364</u>
Recorded as:		
Current deferred tax assets	\$ 663	\$ 914
Non-current deferred tax assets	795	837
Current deferred tax liabilities (in other current liabilities)	(85)	(129)
Non-current deferred tax liabilities (in other non-current liabilities)	<u>(380)</u>	<u>(258)</u>
Net deferred tax assets	<u>\$ 993</u>	<u>\$ 1,364</u>

We provide for United States income taxes on the undistributed earnings and the other outside basis temporary differences of foreign subsidiaries unless they are considered indefinitely reinvested outside the United States. At May 31, 2015, the amount of temporary differences related to undistributed earnings and other outside basis temporary differences of investments in foreign subsidiaries upon which United States income taxes have not been provided was approximately \$38.0 billion and \$8.4 billion, respectively. If these undistributed earnings were repatriated to the United States, or if the other outside basis differences were recognized in a taxable transaction, they would generate foreign tax credits that would reduce the federal tax liability associated with the foreign dividend or the otherwise taxable transaction. At May 31, 2015, assuming a full utilization of the foreign tax credits, the potential net deferred tax liability associated with these temporary differences of undistributed earnings and other outside basis temporary differences would be approximately \$11.8 billion and \$2.7 billion, respectively.

Our net deferred tax assets were \$993 million and \$1.4 billion as of May 31, 2015 and 2014, respectively. 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.

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The valuation allowance was \$1.0 billion and \$1.1 billion at May 31, 2015 and 2014, respectively. Substantially all of the valuation allowances as of May 31, 2015 and 2014 relate to tax assets established in purchase accounting. Any subsequent reduction of that portion of the valuation allowance and the recognition of the associated tax benefits associated with our acquisitions will be recorded to our provision for income taxes subsequent to our final determination of the valuation allowance or the conclusion of the measurement period (as defined above), whichever comes first.

At May 31, 2015, we had federal net operating loss carryforwards of approximately \$958 million. These losses expire in various years between fiscal 2016 and fiscal 2034, and are subject to limitations on their utilization. We had state net operating loss carryforwards of approximately \$2.9 billion at May 31, 2015, which expire between fiscal 2016 and fiscal 2034, and are subject to limitations on their utilization. We had total foreign net operating loss carryforwards of approximately \$1.6 billion at May 31, 2015, which are subject to limitations on their utilization. Approximately \$1.4 billion of these foreign net operating losses are not currently subject to expiration dates. The remainder of the foreign net operating losses, approximately \$216 million, expire between fiscal 2016 and fiscal 2035. We had tax credit carryforwards of approximately \$904 million at May 31, 2015, which are subject to limitations on their utilization. Approximately \$573 million of these tax credit carryforwards are not currently subject to expiration dates. The remainder of the tax credit carryforwards, approximately \$331 million, expire in various years between fiscal 2016 and fiscal 2034.

We classify our unrecognized tax benefits as either current or non-current income taxes payable in the accompanying consolidated balance sheets. The aggregate changes in the balance of our gross unrecognized tax benefits, including acquisitions, were as follows:

(in millions)	Year Ended May 31,		
	2015	2014	2013
Gross unrecognized tax benefits as of June 1	\$ 3,838	\$ 3,601	\$ 3,276
Increases related to tax positions from prior fiscal years	119	94	279
Decreases related to tax positions from prior fiscal years	(17)	(116)	(125)
Increases related to tax positions taken during current fiscal year	316	307	312
Settlements with tax authorities	(30)	(2)	(71)
Lapses of statutes of limitation	(54)	(53)	(71)
Cumulative translation adjustments and other, net	(134)	7	1
Total gross unrecognized tax benefits as of May 31	<u>\$ 4,038</u>	<u>\$ 3,838</u>	<u>\$ 3,601</u>

As of May 31, 2015, 2014 and 2013, \$2.8 billion, \$2.6 billion and \$3.6 billion, respectively, of unrecognized benefits would affect our effective tax rate if recognized. We recognized interest and penalties related to uncertain tax positions in our provision for income taxes line of our consolidated statements of operations of \$102 million, \$24 million and \$31 million during fiscal 2015, 2014 and 2013, respectively. Interest and penalties accrued as of May 31, 2015 and 2014 were \$756 million and \$693 million, respectively.

Domestically, U.S. federal and state taxing authorities are currently examining income tax returns of Oracle and various acquired entities for years through fiscal 2013. Many issues are at an advanced stage in the examination process, the most significant of which include the deductibility of certain royalty payments, transfer pricing, extraterritorial income exemptions, domestic production activity, foreign tax credits, and research and development credits taken. Other issues are related to years with expiring statutes of limitation. With all of these domestic audit issues considered in the aggregate, we believe it was reasonably possible that, as of May 31, 2015, the gross unrecognized tax benefits related to these audits could decrease (whether by payment, release, or a combination of both) in the next 12 months by as much as \$426 million (\$358 million net of offsetting tax benefits). Our U.S. federal and, with some exceptions, our state income tax returns have been examined for all years prior to fiscal 2003 and we are no longer subject to audit for those periods.

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Internationally, tax authorities for numerous non-U.S. jurisdictions are also examining returns affecting our unrecognized tax benefits. We believe it was reasonably possible that, as of May 31, 2015, the gross unrecognized tax benefits, could decrease (whether by payment, release, or a combination of both) by as much as \$172 million (\$86 million net of offsetting tax benefits) in the next 12 months, related primarily to transfer pricing. Other issues are related to years with expiring statutes of limitation. With some exceptions, we are generally no longer subject to tax examinations in non-U.S. jurisdictions for years prior to fiscal 1997.

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

16. SEGMENT INFORMATION

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

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

Our new software licenses and cloud software subscriptions line of business markets, sells and delivers our application and platform technologies, including our SaaS and PaaS offerings (our SaaS and PaaS offerings are collectively referred to as cloud software subscriptions), which provide customers a choice of software applications and platforms that are delivered via a cloud-based IT environment that we host, manage and support, and the licensing of our software products including Oracle Applications, Oracle Database, Oracle Fusion Middleware and Java, among others.

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

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

The hardware systems products line of business provides Oracle Engineered Systems, servers, storage, networking, industry specific hardware, virtualization software, operating systems including the Oracle Solaris Operating System and management software to support diverse IT environments, including cloud computing environments.

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

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

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

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

(in millions)	Year Ended May 31,		
	2015	2014	2013
New software licenses and cloud software subscriptions:			
Revenues ⁽¹⁾	\$ 10,025	\$ 10,542	\$ 10,350
Cloud software as a service and platform as a service expenses	742	437	313
Sales and distribution expenses	5,812	5,666	5,227
Margin ⁽²⁾	\$ 3,471	\$ 4,439	\$ 4,810
Cloud infrastructure as a service:			
Revenues	\$ 608	\$ 456	\$ 457
Cloud infrastructure as a service expenses	329	304	296
Sales and distribution expenses	89	61	61
Margin ⁽²⁾	\$ 190	\$ 91	\$ 100
Software license updates and product support:			
Revenues ⁽¹⁾	\$ 18,858	\$ 18,209	\$ 17,156
Software license updates and product support expenses	1,130	1,111	1,120
Margin ⁽²⁾	\$ 17,728	\$ 17,098	\$ 16,036
Total software and cloud business:			
Revenues ⁽¹⁾	\$ 29,491	\$ 29,207	\$ 27,963
Expenses	8,102	7,579	7,017
Margin ⁽²⁾	\$ 21,389	\$ 21,628	\$ 20,946
Hardware systems products:			
Revenues	\$ 2,825	\$ 2,976	\$ 3,033
Hardware systems products expenses	1,465	1,516	1,498
Sales and distribution expenses	864	940	885
Margin ⁽²⁾	\$ 496	\$ 520	\$ 650
Hardware systems support:			
Revenues ⁽¹⁾	\$ 2,384	\$ 2,407	\$ 2,327
Hardware systems support expenses	783	802	857
Margin ⁽²⁾	\$ 1,601	\$ 1,605	\$ 1,470
Total hardware systems business:			
Revenues ⁽¹⁾	\$ 5,209	\$ 5,383	\$ 5,360
Expenses	3,112	3,258	3,240
Margin ⁽²⁾	\$ 2,097	\$ 2,125	\$ 2,120
Total services business:			
Revenues ⁽¹⁾	\$ 3,553	\$ 3,716	\$ 3,930
Services expenses	2,818	2,822	3,051
Margin ⁽²⁾	\$ 735	\$ 894	\$ 879
Totals:			
Revenues ⁽¹⁾	\$ 38,253	\$ 38,306	\$ 37,253
Expenses	14,032	13,659	13,308
Margin ⁽²⁾	\$ 24,221	\$ 24,647	\$ 23,945

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- (1) New software licenses and cloud software subscriptions revenues for management reporting included revenues related to cloud SaaS and PaaS contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying consolidated statements of operations in the amounts of \$12 million, \$17 million and \$45 million for fiscal 2015, 2014 and 2013, respectively. Software license updates and product support revenues for management reporting included revenues related to software support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in the accompanying consolidated statements of operations in the amounts of \$11 million, \$3 million and \$14 million for fiscal 2015, 2014 and 2013, 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 \$4 million, \$11 million and \$14 million for fiscal 2015, 2014 and 2013, respectively. See Note 10 for an explanation of these adjustments and the table below for a reconciliation of our total operating segment revenues to our total revenues. Our new software license and services revenues for management reporting also differ from amounts reported per our consolidated statements of operations for the periods presented due to certain insignificant reclassifications between these lines for management reporting purposes.
- (2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, marketing and partner programs, and corporate, general and administrative and information technology expenses. Additionally, the margins reported do not reflect amortization of intangible assets, acquisition related and other expenses, restructuring expenses, stock-based compensation, interest expense or certain other income (expense), net.

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

(in millions)	Year Ended May 31,		
	2015	2014	2013
Total revenues for operating segments	\$ 38,253	\$ 38,306	\$ 37,253
Cloud software as a service and platform as a service revenues ⁽¹⁾	(12)	(17)	(45)
Software license updates and product support revenues ⁽¹⁾	(11)	(3)	(14)
Hardware systems support revenues ⁽¹⁾	(4)	(11)	(14)
Total revenues	\$ 38,226	\$ 38,275	\$ 37,180
Total margin for operating segments	\$ 24,221	\$ 24,647	\$ 23,945
Cloud software as a service and platform as a service revenues ⁽¹⁾	(12)	(17)	(45)
Software license updates and product support revenues ⁽¹⁾	(11)	(3)	(14)
Hardware systems support revenues ⁽¹⁾	(4)	(11)	(14)
Product development	(4,812)	(4,590)	(4,321)
Marketing and partner program expenses	(520)	(564)	(591)
Corporate, general and administrative and information technology expenses	(1,496)	(1,384)	(1,421)
Amortization of intangible assets	(2,149)	(2,300)	(2,385)
Acquisition related and other	(211)	(41)	604
Restructuring	(207)	(183)	(352)
Stock-based compensation	(928)	(795)	(722)
Interest expense	(1,143)	(914)	(797)
Non-operating income (expense), net	106	(141)	11
Income before provision for income taxes	\$ 12,834	\$ 13,704	\$ 13,898

- (1) New software licenses and cloud software subscriptions revenues, software license updates and product support revenues and hardware systems support revenues for management reporting included revenues that would have otherwise been recorded by our acquired businesses as independent entities but were not recognized in the accompanying consolidated statements of operations for the periods presented due to business combination accounting requirements. Refer to footnote one to our business and operating segments summary results table above in this Note 16 for additional information.

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Geographic Information

Disclosed in the table below is geographic information for each country that comprised greater than three percent of our total revenues for any of fiscal 2015, 2014 or 2013.

(in millions)	As of and for the Year Ended May 31,					
	2015		2014		2013	
	Revenues	Long Lived Assets ⁽¹⁾	Revenues	Long Lived Assets ⁽¹⁾	Revenues	Long Lived Assets ⁽¹⁾
United States	\$ 17,325	\$ 3,341	\$ 16,809	\$ 2,993	\$ 16,003	\$ 2,921
United Kingdom	2,388	309	2,309	236	2,165	203
Germany	1,466	33	1,483	35	1,308	44
Japan	1,433	338	1,558	414	1,770	428
Canada	1,286	58	1,190	31	1,232	34
France	1,044	33	1,148	28	1,054	17
Other countries	13,284	1,007	13,778	879	13,648	868
Total	<u>\$ 38,226</u>	<u>\$ 5,119</u>	<u>\$ 38,275</u>	<u>\$ 4,616</u>	<u>\$ 37,180</u>	<u>\$ 4,515</u>

⁽¹⁾ Long-lived assets exclude goodwill, intangible assets, equity investments and deferred taxes, which are not allocated to specific geographic locations as it is impracticable to do so.

17. EARNINGS PER SHARE

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

(in millions, except per share data)	Year Ended May 31,		
	2015	2014	2013
Net income	<u>\$ 9,938</u>	<u>\$ 10,955</u>	<u>\$ 10,925</u>
Weighted average common shares outstanding	4,404	4,528	4,769
Dilutive effect of employee stock plans	99	76	75
Dilutive weighted average common shares outstanding	<u>4,503</u>	<u>4,604</u>	<u>4,844</u>
Basic earnings per share	\$ 2.26	\$ 2.42	\$ 2.29
Diluted earnings per share	\$ 2.21	\$ 2.38	\$ 2.26
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation ⁽¹⁾	37	76	208

⁽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. See Note 14 for information regarding the exercise prices of our outstanding, unexercised options.

18. LEGAL PROCEEDINGS

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,

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breach of the covenant of good faith and fair dealing, defamation, intentional interference with prospective economic advantage, and violation of the California Unfair Business Practices Act. The complaint alleged that when Oracle announced on March 22 and 23, 2011 that it would no longer develop future versions of its software to run on HP's Itanium-based servers, it breached a settlement agreement signed on September 20, 2010 between HP and Mark Hurd (the "Hurd Settlement Agreement"), who was both HP's former chief executive officer and chairman of HP's board of directors. HP sought a judicial declaration of the parties' rights and obligations under the Hurd Settlement Agreement, and other equitable and monetary relief.

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

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

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.

After lengthy judicial proceedings, including a jury verdict in Oracle's favor, on August 2, 2012, Oracle and the SAP Defendants stipulated to a judgment of \$306 million against the SAP Defendants. We recorded a \$306 million receivable in our consolidated balance sheet and we recognized a corresponding benefit to our results of operations for the first quarter of fiscal 2013. After further proceedings, including an appeal, on November 14, 2014, final judgment was entered in Oracle's favor in the amount of \$356.7 million plus post-judgment interest of approximately \$2.5 million. During the second quarter of fiscal 2015, Oracle received the total payment of approximately \$359.2 million, of which \$306 million was applied against the receivable recorded in the first quarter of fiscal 2013 and the excess of \$53 million was recorded as a benefit to our results of operations. This action is now concluded.

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.

SCHEDULE II

ORACLE CORPORATION
VALUATION AND QUALIFYING ACCOUNTS

<u>(in millions)</u>	<u>Beginning Balance</u>	<u>Additions Charged to Operations or Other Accounts</u>	<u>Write-offs</u>	<u>Translation Adjustments and Other</u>	<u>Ending Balance</u>
Allowances for Doubtful Trade Receivables					
Year Ended:					
May 31, 2013	\$ 323	\$ 118	\$ (167)	\$ 22	\$ 296
May 31, 2014	\$ 296	\$ 122	\$ (120)	\$ 8	\$ 306
May 31, 2015	\$ 306	\$ 56	\$ (86)	\$ 9	\$ 285