

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:	79
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Statements of Operations for the years ended May 31, 2017, 2016 and 2015	82
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2. Financial Statement Schedules

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

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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, 2017 and 2016, 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, 2017. 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, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2017, 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, 2017, 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 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
June 27, 2017

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, 2017, 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, 2017, 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, 2017 and 2016, 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, 2017 of Oracle Corporation and our report dated June 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
June 27, 2017

ORACLE CORPORATION
CONSOLIDATED BALANCE SHEETS
As of May 31, 2017 and 2016

(in millions, except per share data)		May 31,	
		2017	2016
ASSETS			
Current assets:			
Cash and cash equivalents	\$	21,784	\$ 20,152
Marketable securities		44,294	35,973
Trade receivables, net of allowances for doubtful accounts of \$319 and \$327 as of May 31, 2017 and May 31, 2016, respectively		5,300	5,385
Inventories		300	212
Prepaid expenses and other current assets		2,837	2,591
Total current assets		<u>74,515</u>	<u>64,313</u>
Non-current assets:			
Property, plant and equipment, net		5,315	4,000
Intangible assets, net		7,679	4,943
Goodwill, net		43,045	34,590
Deferred tax assets		1,143	1,291
Other assets		3,294	3,043
Total non-current assets		<u>60,476</u>	<u>47,867</u>
Total assets	\$	<u>134,991</u>	<u>\$ 112,180</u>
LIABILITIES AND EQUITY			
Current liabilities:			
Notes payable and other borrowings, current	\$	9,797	\$ 3,750
Accounts payable		599	504
Accrued compensation and related benefits		1,966	1,966
Deferred revenues		8,233	7,655
Other current liabilities		3,583	3,333
Total current liabilities		<u>24,178</u>	<u>17,208</u>
Non-current liabilities:			
Notes payable and other borrowings, non-current		48,112	40,105
Income taxes payable		5,681	4,908
Other non-current liabilities		2,774	2,169
Total non-current liabilities		<u>56,567</u>	<u>47,182</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: 4,137 shares and 4,131 shares as of May 31, 2017 and May 31, 2016, respectively		27,065	24,217
Retained earnings		27,598	23,888
Accumulated other comprehensive loss		(803)	(816)
Total Oracle Corporation stockholders' equity		<u>53,860</u>	<u>47,289</u>
Noncontrolling interests			
		<u>386</u>	<u>501</u>
Total equity		<u>54,246</u>	<u>47,790</u>
Total liabilities and equity	\$	<u>134,991</u>	<u>\$ 112,180</u>

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended May 31, 2017, 2016 and 2015

(in millions, except per share data)	Year Ended May 31,		
	2017	2016	2015
Revenues:			
Cloud software as a service	\$ 3,211	\$ 2,001	\$ 1,476
Cloud platform as a service and infrastructure as a service	1,360	852	617
Total cloud revenues	4,571	2,853	2,093
New software licenses	6,418	7,276	8,535
Software license updates and product support	19,229	18,861	18,847
Total on-premise software revenues	25,647	26,137	27,382
Total cloud and on-premise software revenues	30,218	28,990	29,475
Hardware revenues	4,152	4,668	5,205
Services revenues	3,358	3,389	3,546
Total revenues	37,728	37,047	38,226
Operating expenses:			
Cloud software as a service ⁽¹⁾	1,285	1,049	742
Cloud platform as a service and infrastructure as a service ⁽¹⁾	678	469	375
Software license updates and product support ⁽¹⁾	1,052	1,146	1,199
Hardware ⁽¹⁾	1,653	2,064	2,287
Services ⁽¹⁾	2,801	2,751	2,929
Sales and marketing ⁽¹⁾	8,197	7,884	7,655
Research and development	6,159	5,787	5,524
General and administrative	1,176	1,155	1,077
Amortization of intangible assets	1,451	1,638	2,149
Acquisition related and other	103	42	211
Restructuring	463	458	207
Total operating expenses	25,018	24,443	24,355
Operating income	12,710	12,604	13,871
Interest expense	(1,798)	(1,467)	(1,143)
Non-operating income, net	605	305	106
Income before provision for income taxes	11,517	11,442	12,834
Provision for income taxes	2,182	2,541	2,896
Net income	\$ 9,335	\$ 8,901	\$ 9,938
Earnings per share:			
Basic	\$ 2.27	\$ 2.11	\$ 2.26
Diluted	\$ 2.21	\$ 2.07	\$ 2.21
Weighted average common shares outstanding:			
Basic	4,115	4,221	4,404
Diluted	4,217	4,305	4,503
Dividends declared per common share	\$ 0.64	\$ 0.60	\$ 0.51

⁽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, 2017, 2016 and 2015

(in millions)	Year Ended May 31,		
	2017	2016	2015
Net income	\$ 9,335	\$ 8,901	\$ 9,938
Other comprehensive income (loss), net of tax:			
Net foreign currency translation gains (losses)	99	73	(770)
Net unrealized (losses) gains on defined benefit plans	(102)	50	(151)
Net unrealized (losses) gains on marketable securities	(9)	72	59
Net unrealized gains (losses) on cash flow hedges	25	(15)	30
Total other comprehensive income (loss), net	13	180	(832)
Comprehensive income	<u>\$ 9,348</u>	<u>\$ 9,081</u>	<u>\$ 9,106</u>

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended May 31, 2017, 2016 and 2015

(in millions)	Common Stock and Additional Paid in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Total Oracle Corporation Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Amount					
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	1,702	—	—	1,702	—	1,702
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)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	—	(14)	—	—	(14)	—	(14)
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
Common stock issued under stock-based compensation plans	60	1,304	—	—	1,304	—	1,304
Common stock issued under stock purchase plans	3	121	—	—	121	—	121
Assumption of stock-based compensation plan awards in connection with acquisitions	—	1	—	—	1	—	1
Stock-based compensation	—	1,037	—	—	1,037	—	1,037
Repurchase of common stock	(272)	(1,464)	(8,975)	—	(10,439)	—	(10,439)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(3)	(89)	—	—	(89)	—	(89)
Cash dividends declared (\$0.60 per share)	—	—	(2,541)	—	(2,541)	—	(2,541)
Tax benefit from stock plans	—	141	—	—	141	—	141
Other, net	—	10	—	—	10	9	19
Distributions to noncontrolling interests	—	—	—	—	—	(85)	(85)
Other comprehensive income, net	—	—	—	180	180	26	206
Net income	—	—	8,901	—	8,901	116	9,017
Balances as of May 31, 2016	4,131	24,217	23,888	(816)	47,289	501	47,790
Common stock issued under stock-based compensation plans	95	2,063	—	—	2,063	—	2,063
Common stock issued under stock purchase plans	3	118	—	—	118	—	118
Assumption of stock-based compensation plan awards in connection with acquisitions	—	90	—	—	90	—	90
Stock-based compensation	—	1,350	—	—	1,350	—	1,350
Repurchase of common stock	(86)	(504)	(2,988)	—	(3,492)	—	(3,492)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(6)	(283)	—	—	(283)	—	(283)
Cash dividends declared (\$0.64 per share)	—	—	(2,631)	—	(2,631)	—	(2,631)
Other, net	—	14	(6)	—	8	11	19
Distributions to noncontrolling interests	—	—	—	—	—	(258)	(258)
Other comprehensive income, net	—	—	—	13	13	14	27
Net income	—	—	9,335	—	9,335	118	9,453
Balances as of May 31, 2017	4,137	\$ 27,065	\$ 27,598	\$ (803)	\$ 53,860	\$ 386	\$ 54,246

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2017, 2016 and 2015

(in millions)	Year Ended May 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 9,335	\$ 8,901	\$ 9,938
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,000	871	712
Amortization of intangible assets	1,451	1,638	2,149
Allowances for doubtful accounts receivable	129	130	56
Deferred income taxes	(486)	(105)	(548)
Stock-based compensation	1,350	1,037	933
Other, net	123	143	327
Changes in operating assets and liabilities, net of effects from acquisitions:			
Decrease in trade receivables, net	18	96	208
(Increase) decrease in inventories	(88)	88	(96)
Decrease (increase) in prepaid expenses and other assets	64	(90)	(387)
(Decrease) increase in accounts payable and other liabilities	(37)	(13)	247
Increase in income taxes payable	732	313	386
Increase in deferred revenues	535	676	655
Net cash provided by operating activities	14,126	13,685	14,580
Cash flows from investing activities:			
Purchases of marketable securities and other investments	(25,867)	(24,562)	(31,421)
Proceeds from maturities and sales of marketable securities and other investments	17,615	21,247	20,004
Acquisitions, net of cash acquired	(11,221)	(650)	(6,239)
Capital expenditures	(2,021)	(1,189)	(1,391)
Net cash used for investing activities	(21,494)	(5,154)	(19,047)
Cash flows from financing activities:			
Payments for repurchases of common stock	(3,561)	(10,440)	(8,087)
Proceeds from issuances of common stock	2,181	1,425	1,816
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(283)	(89)	(14)
Payments of dividends to stockholders	(2,631)	(2,541)	(2,255)
Proceeds from borrowings, net of issuance costs	17,732	3,750	19,842
Repayments of borrowings	(4,094)	(2,000)	(1,500)
Distributions to noncontrolling interests	(258)	(85)	(196)
Net cash provided by (used for) financing activities	9,086	(9,980)	9,606
Effect of exchange rate changes on cash and cash equivalents	(86)	(115)	(1,192)
Net increase (decrease) in cash and cash equivalents	1,632	(1,564)	3,947
Cash and cash equivalents at beginning of period	20,152	21,716	17,769
Cash and cash equivalents at end of period	\$ 21,784	\$ 20,152	\$ 21,716
Non-cash investing and financing transactions:			
Fair values of restricted stock-based awards and stock options assumed in connection with acquisitions	\$ 90	\$ 1	\$ 12
(Decrease) increase in unsettled repurchases of common stock	\$ (69)	\$ (1)	\$ 1
Increase (decrease) in unsettled investment purchases	\$ 73	\$ (112)	\$ 264
Supplemental schedule of cash flow data:			
Cash paid for income taxes	\$ 1,983	\$ 2,331	\$ 3,055
Cash paid for interest	\$ 1,612	\$ 1,616	\$ 1,022

See notes to consolidated financial statements.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2017

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Oracle Corporation develops, manufactures, markets, sells, hosts and supports applications, platform and infrastructure technologies for information technology (IT) environments including applications software, database and middleware software, hardware—including Oracle Engineered Systems, computer server, storage and industry-specific hardware products—and related services that are engineered to work together in cloud-based and on-premise IT environments. We offer our customers the option to deploy our comprehensive set of cloud offerings including Oracle Cloud Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS) or to purchase our software and hardware products and related services to manage their own cloud-based or on-premise IT environments. 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 software 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 support contracts, which provide customers with software updates and can include product repairs, maintenance services, and technical support services. We also offer customers a broad set of services offerings that are designed to improve customer utilization of their investments in Oracle applications, platform and infrastructure technologies.

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, 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.

Included in acquisition related and other expenses as presented in our consolidated statements of operations for fiscal 2016 and 2015 are an acquisition related benefit of \$19 million and a litigation related benefit of \$53 million, respectively. Further, acquisition related and other expenses for fiscal 2015 included \$186 million related to a goodwill impairment loss.

In fiscal 2017, we adopted Accounting Standards Update (ASU) 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). As required by ASU 2016-09, excess tax benefits recognized on stock-based compensation expense are reflected in the consolidated statements of operations as a component of the provision for income taxes on a prospective basis. As required by ASU 2016-09, excess tax benefits recognized on stock-based compensation expense are classified as an operating activity in our consolidated statements of cash flows and we have applied this provision on a retrospective basis. For fiscal 2016 and 2015, net cash provided by operating activities increased by \$124 million and \$244 million, respectively, with a corresponding offset to net cash used for financing activities. Finally, ASU 2016-09 allows for the option to account for forfeitures as they occur, rather than estimating expected forfeitures over the course of a vesting period. We have elected to account for forfeitures as they occur and the net cumulative effect of this change was recognized as a \$9 million increase to additional paid in capital, a \$3 million increase to deferred tax assets and a \$6 million reduction to retained earnings as of June 1, 2016.

In addition, in fiscal 2017, we also adopted the following Accounting Standards Updates, none of which had a material impact to our reported financial position or results of operations and cash flows:

- ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting* ;

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2017

- ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* ;
- ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ;
- ASU 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control* ; and
- ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* .

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. 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 that 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:

- cloud and on-premise software revenues, which include the sale of: cloud SaaS, PaaS and IaaS offerings, which generally grant customers access to a broad range of our applications, platform and infrastructure technologies and related support and services offerings on a subscription basis in a secure, standards-based cloud computing environment; new software licenses, which generally grant to customers a perpetual right to use our database, middleware, applications and industry-specific software products; and software license updates and product support offerings (described further below);
- hardware revenues, which include the sale of: hardware products including Oracle Engineered Systems, computer servers, and storage products, and industry-specific hardware; and hardware support revenues (described further below); and
- services revenues, which are earned from providing cloud, software and hardware related services including consulting, advanced customer support and education services.

Revenues generally are recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

Revenue Recognition for Cloud SaaS, PaaS and IaaS Offerings, Hardware Products, Hardware Support and Related Services (Non-software Elements)

Our revenue recognition policy for non-software deliverables including cloud SaaS, PaaS and IaaS offerings, hardware products, hardware 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 products revenues, hardware support and related services revenues to be recognized in each accounting period.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2017

Revenues from the sales of our non-software 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.

Our cloud SaaS, PaaS and IaaS offerings generally provide customers access to certain of our software and/or infrastructure within a cloud-based IT environment that we manage, host and support and offer to customers on a subscription basis. Our cloud IaaS offerings also include deployment and management services for software and hardware and related IT infrastructure. Revenues for our cloud SaaS, PaaS and 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 products represent amounts earned primarily from the sale of our Oracle Engineered Systems, computer servers, storage, and industry-specific hardware and are recognized upon the delivery of the hardware product to the customer provided all other revenue recognition criteria have been satisfied.

Our hardware 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 support contracts are generally priced as a percentage of the net hardware products fees. Hardware support contracts are entered into at the customer's option and are recognized ratably over the contractual term of the arrangements, which is typically one year, provided all other revenue recognition criteria have been satisfied.

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

We enter into arrangements with customers that purchase non-software related products and services from us at the same time, or within close proximity of one another (referred to as non-software multiple-element arrangements). Each element within a non-software 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 non-software 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 product includes software, we determine whether the tangible hardware product and the software work together to deliver the product's essential functionality and, if so, the

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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entire product is treated as a non-software deliverable. The total arrangement consideration is allocated to each separate unit of accounting for each of the non-software 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.

When possible, we establish VSOE of selling price for deliverables in software and non-software multiple-element arrangements using the price charged for a deliverable when sold separately and for software license updates and product support and hardware 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 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, applications and industry-specific software products and exclude cloud SaaS, PaaS and IaaS 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 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 the related fees are recognized ratably over the

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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 and are generally invoiced in full at the beginning of the support term. Substantially all of our customers renew their software license updates and product support contracts annually.

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

We often enter into arrangements with customers that purchase both software related products, software support 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 above), with any remaining amount allocated to the software license.

Revenue Recognition Policies Applicable to both Software and Non-software Elements

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

We also enter into multiple-element arrangements that may include a combination of our various software related and non-software related products and services offerings including new software licenses, software license updates and product support, cloud SaaS, PaaS and IaaS offerings, hardware products, hardware 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 non-software 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. In addition, we allocate the consideration within the non-software group to each respective element within that group based on a selling price hierarchy at the arrangement's inception as described above. After the arrangement consideration has been allocated to the software group of elements and non-software group of elements, we account for each respective element in the arrangement as described above and below.

Other Revenue Recognition Policies Applicable to Software and Non-software 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

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criteria on the realizability of the software license fee. Revenues for consulting services are generally recognized as the services are performed. If there is 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 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-premise 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 cloud, 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 products revenues, including the costs of hardware products, are generally recognized together with the services based on contract accounting using either the percentage-of-completion or completed-contract method.

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 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. We evaluate non-standard payment terms based on whether we have successful collection history on comparable arrangements (based upon similarity of customers, products, and license economics) and, if so, generally conclude such payment terms are fixed and determinable 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 contract date. Provided all other revenue recognition criteria have been met, we recognize new software licenses

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revenues and hardware 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. We sold \$1.6 billion of our financing receivables to financial institutions during fiscal 2017 and \$1.8 billion during each of fiscal 2016 and 2015, respectively.

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, sales of hardware or sales of services 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 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 any 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.

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: (1) it is probable that an asset existed or a liability had been incurred at the acquisition date and (2) 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.

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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, 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.

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 and any exposure to counterparty credit-related losses in these contracts is

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largely mitigated with collateral security agreements that provide for collateral to be received or posted when the net fair value of these contracts fluctuates from contractually established thresholds. 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 2017, 2016 or 2015.

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 products. Any inability of these third-party manufacturing partners to deliver the contracted services for our hardware products could adversely impact future operating results of our hardware business.

Inventories

Inventories are stated at the lower of cost or net realizable 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 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 \$794 million and \$816 million at May 31, 2017 and 2016, 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 expenses 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 40 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 2017, 2016 or 2015.

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

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amortized over their useful lives, which generally range from one to 10 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. Pursuant 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. We did not recognize any goodwill impairment charges in fiscal 2017 or 2016. During fiscal 2015, we recognized a \$186 million goodwill impairment loss related to our hardware business.

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 2017, 2016 or 2015.

Derivative Financial Instruments

During fiscal 2017, 2016 and 2015, 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, loss or gain attributable to the risk being hedged is recognized in earnings in the period of change with a corresponding 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 of the derivative 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 for 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.

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

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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 products sales are included in hardware 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 dates. 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, net in the accompanying consolidated statements of operations were \$152 million, \$110 million and \$157 million in fiscal 2017, 2016 and 2015, respectively.

Stock-Based Compensation

We account for share-based payments to employees, including grants of service-based restricted stock awards, performance-based restricted stock awards (PSUs), service-based employee stock options, 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. Upon adoption of ASU 2016-09 in fiscal 2017 (see Note 1 above), we account for forfeitures as they occur. 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. The amount of stock-based compensation expense recorded as of the end of each annual reporting period is based on the actual attainment of performance targets. During our interim reporting periods, stock-based compensation expense is recorded based on expected attainment of performance targets. Changes in our estimates of the expected attainment of performance targets are reflected in the amount of stock-based compensation expense that we recognize for each PSU tranche on a cumulative basis during each interim reporting period in which such estimates are altered and may cause the amount of stock-based compensation expense that we record for each interim reporting period to vary. 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.

We record deferred tax assets for stock-based compensation awards that result in deductions on certain of our income tax returns based on the amount of stock-based compensation recognized and the fair values attributable to the vested portion of stock awards assumed in connection with a business combination at the statutory tax rates in the jurisdictions that we are able to recognize such tax deductions. Upon adoption of ASU 2016-09 in fiscal 2017, the impacts of the actual tax deductions for stock-based awards that are realized in these jurisdictions are

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generally recognized in the reporting period that a restricted stock-based award vests or a stock option is exercised with any shortfall/windfall relative to the deferred tax asset established recorded as a discrete detriment/benefit to our provision for income taxes in such period.

Advertising

All advertising costs are expensed as incurred. Advertising expenses, which were included within sales and marketing expenses, were \$95 million, \$68 million and \$55 million in fiscal 2017, 2016 and 2015, 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 2017, 2016 and 2015.

Acquisition Related and Other Expenses

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

(in millions)	Year Ended May 31,		
	2017	2016	2015
Transitional and other employee related costs	\$ 41	\$ 45	\$ 57
Stock-based compensation	35	3	5
Professional fees and other, net	33	10	(35)
Business combination adjustments, net	(6)	(16)	184
Total acquisition related and other expenses	<u>\$ 103</u>	<u>\$ 42</u>	<u>\$ 211</u>

Included in acquisition related and other expenses for fiscal 2016 and 2015 were an acquisition related benefit of \$19 million and a litigation related benefit of \$53 million, respectively. Further, acquisition related and other expenses for fiscal 2015 included a loss of \$186 million related to goodwill impairment to our hardware business.

Non-Operating Income, net

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

(in millions)	Year Ended May 31,		
	2017	2016	2015
Interest income	\$ 802	\$ 538	\$ 349
Foreign currency losses, net	(152)	(110)	(157)
Noncontrolling interests in income	(118)	(116)	(113)
Other income (loss), net	73	(7)	27
Total non-operating income, net	<u>\$ 605</u>	<u>\$ 305</u>	<u>\$ 106</u>

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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

Retirement Benefits: In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07), which provides guidance on the capitalization, presentation and disclosure of net benefit costs. ASU 2017-07 is effective for us in the first quarter of fiscal 2019, and earlier adoption is permitted beginning in the first quarter of fiscal 2018. We are currently evaluating the impact of our pending adoption of ASU 2017-07 on our consolidated financial statements.

Goodwill Impairment: In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under the amendments in ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for us in our first quarter of fiscal 2021 on a prospective basis, and earlier adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of our pending adoption of ASU 2017-04 on our consolidated financial statements.

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

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

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01

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is effective for us in our first quarter of fiscal 2019, and earlier adoption is not permitted except for certain provisions. We currently do not expect that our pending adoption of ASU 2016-01 will have a material effect on our consolidated financial statements.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. ASU 2016-02 is effective for us in our first quarter of fiscal 2020 on a modified retrospective basis, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements, and we currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASU 2016-02, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption.

Revenue Recognition: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606* and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively (ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively, and collectively Topic 606). Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. Topic 606 also provides guidance on the recognition of costs related to obtaining customer contracts. Topic 606 is effective for us as of either our first quarter of fiscal 2018 or our first quarter of fiscal 2019 using either of two methods: (1) retrospective application of Topic 606 to each prior reporting period presented with the option to elect certain practical expedients as defined within Topic 606 or (2) retrospective application of Topic 606 with the cumulative effect of initially applying Topic 606 recognized at the date of initial application and providing certain additional disclosures as defined per Topic 606. The accounting for the recognition of costs related to obtaining customer contracts under Topic 606 is significantly different than our current capitalization policy. The adoption of Topic 606 will result in additional types of costs that will be capitalized. Additionally, all amounts capitalized will be amortized over a period longer than our current policy. Preliminarily, we plan to adopt Topic 606 in the first quarter of fiscal 2019 pursuant to the aforementioned adoption method (1) and we do not believe there will be a material impact to our revenues upon adoption. We are continuing to evaluate the impact to our revenues related to our pending adoption of Topic 606 and our preliminary assessments are subject to change.

2. ACQUISITIONS

Fiscal 2017 Acquisitions

Acquisition of NetSuite Inc., a Related Party

On July 28, 2016, we entered into an Agreement and Plan of Merger (Merger Agreement) with NetSuite Inc. (NetSuite), a provider of cloud-based enterprise resource planning (ERP) software and related applications and, as described further below, a related party to Oracle.

Pursuant to the Merger Agreement, we commenced a tender offer on August 18, 2016 to purchase all of the issued and outstanding shares of NetSuite common stock (NetSuite Shares) at a purchase price of \$109.00 per share, net to the seller in cash, without interest thereon, based upon the terms and subject to the conditions set forth in the Offer to Purchase dated August 18, 2016, and in the related Letter of Transmittal. On November 7,

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2016, pursuant to the terms of the tender offer and applicable Delaware law, we accepted and paid for the substantial majority of outstanding NetSuite Shares and effectuated the merger of NetSuite with and into a wholly-owned subsidiary of Oracle and NetSuite became an indirect, wholly-owned subsidiary of Oracle. Pursuant to the Merger Agreement, NetSuite Shares that remained outstanding and were not acquired by us were converted into, and cancelled in exchange for, the right to receive \$109.00 per share in cash. The unvested equity awards to acquire NetSuite Shares 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 NetSuite to, among other things, expand our cloud software as a service offerings with a complementary set of cloud ERP and related cloud software applications for customers. We have included the financial results of NetSuite in our consolidated financial statements from the date of acquisition.

Lawrence J. Ellison, Oracle's Chairman of the Board and Chief Technology Officer and Oracle's largest stockholder, is an affiliate of NetSuite's largest stockholder, NetSuite Restricted Holdings LLC (a single member LLC investment entity whose interests are beneficially owned by a trust controlled by Mr. Ellison), which owned approximately 40% of the issued and outstanding NetSuite Shares immediately prior to the conclusion of the merger. Oracle's Board of Directors appointed a Special Committee (comprised solely of directors who are independent of the management of Oracle, Mr. Ellison, his family members and any affiliated entities, and NetSuite) to which it delegated the full and exclusive power, authority and discretion of the Board to evaluate, assess, and approve the NetSuite transaction on its behalf. The Special Committee engaged its own independent legal counsel and its own independent financial advisor to advise it on the transaction. The financial advisor provided the Special Committee with a fairness opinion in connection with the transaction. After extensive deliberations, the Special Committee concluded that the transaction terms were fair to Oracle and the transaction was in the best interests of Oracle and its stockholders. The Special Committee unanimously approved the transaction on behalf of Oracle and the Board.

The total preliminary purchase price for NetSuite was approximately \$9.1 billion, which consisted of approximately \$9.0 billion in cash and \$78 million for the fair values of restricted stock-based awards and stock options assumed. 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 on preliminary valuations, and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas that remain preliminary relate to the fair values of intangible assets acquired, certain tangible assets and liabilities acquired, certain legal matters, income and non-income based taxes and residual goodwill. We expect to continue to obtain information to assist us in determining the fair values of the net assets acquired during the measurement period. The following table summarizes the estimated preliminary fair values of net tangible liabilities and intangible assets acquired from NetSuite:

(in millions)	
Cash and cash equivalents	\$ 481
Trade receivables, net	32
Other assets	112
Intangible assets	3,157
Goodwill	6,738
Accounts payable and other liabilities	(133)
Deferred revenues	(162)
Debt	(342)
Deferred tax liabilities, net	(803)
Total	<u>\$ 9,080</u>

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

Other Fiscal 2017 Acquisitions

During fiscal 2017, we acquired certain companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not individually or in the aggregate 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 \$3.0 billion, which consisted of approximately \$3.0 billion in cash and \$12 million for the fair values of restricted stock-based awards and stock options assumed. We preliminarily recorded \$153 million of net tangible assets and \$1.0 billion of identifiable intangible assets, based on their estimated fair values, and \$1.8 billion of residual goodwill.

The preliminary fair value estimates for the assets acquired and liabilities assumed for our acquisitions completed during fiscal 2017 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, income and non-income based taxes and residual goodwill.

Fiscal 2016 Acquisitions

During fiscal 2016, we acquired certain companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate.

Fiscal 2015 Acquisitions

Acquisition of MICROS Systems, Inc.

On September 8, 2014, we completed our acquisition of MICROS Systems, Inc. (MICROS), a provider of integrated software, hardware and services solutions to the hospitality and retail industries, by means of a merger of one of our wholly-owned subsidiaries with and into MICROS such that MICROS became a wholly-owned subsidiary of Oracle. We acquired MICROS to, among other things, expand our cloud and on-premise software, 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.

The total purchase price for MICROS was \$5.2 billion which consisted of \$5.2 billion in cash paid to acquire the outstanding common stock of MICROS and \$6 million for the fair value of restricted stock-based awards and stock options assumed. In allocating the purchase price based on estimated fair values, we recorded approximately \$3.2 billion of goodwill, \$2.0 billion of identifiable intangible assets and \$25 million of net tangible liabilities.

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 purchase price for these acquisitions was approximately \$1.7 billion, which consisted of approximately \$1.7 billion in cash and \$7 million

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for the fair values of restricted stock-based awards and stock options assumed. We recorded \$6 million of net tangible liabilities and \$388 million of identifiable intangible assets, based on their estimated fair values, and \$1.4 billion of residual goodwill.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, NetSuite and certain other companies that we acquired since the beginning of fiscal 2016 that were considered relevant for the purposes of unaudited pro forma financial information disclosure as if the companies were combined as of the beginning of fiscal 2016. The unaudited pro forma financial information for all periods presented included the business combination accounting effects resulting from these acquisitions, including amortization charges from acquired intangible assets (certain of which are preliminary), stock-based compensation charges for unvested restricted stock-based awards and stock options assumed, if any, and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2016. 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 2016.

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

The unaudited pro forma financial information for fiscal 2016 combined the historical results of Oracle for fiscal 2016, the historical results of NetSuite for the twelve month period ended March 31, 2016 (adjusted due to differences in reporting periods) and the historical results of certain other companies that we acquired since the beginning of fiscal 2016 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:

(in millions, except per share data)	Year Ended May 31,	
	2017	2016
Total revenues	\$ 38,279	\$ 38,233
Net income	\$ 9,007	\$ 8,086
Basic earnings per share	\$ 2.19	\$ 1.92
Diluted earnings per share	\$ 2.13	\$ 1.87

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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 consist of Tier-1 commercial paper debt securities, corporate debt securities and certain other securities.

The amortized principal amounts of our cash, cash equivalents and marketable securities approximated their fair values at May 31, 2017 and 2016. 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 2017, 2016 and 2015. 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,	
	2017	2016
Corporate debt securities and other	\$ 41,618	\$ 35,488
Commercial paper debt securities	5,053	2,155
Money market funds	3,302	3,750
Total investments	\$ 49,973	\$ 41,393
Investments classified as cash equivalents	\$ 5,679	\$ 5,420
Investments classified as marketable securities	\$ 44,294	\$ 35,973

As of May 31, 2017 and 2016, approximately 32% and 28%, respectively, of our marketable securities investments mature within one year and 68% and 72%, respectively, mature within one to five 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.

Restricted cash that was included within cash and cash equivalents as presented within our consolidated balance sheets as of May 31, 2017 and May 31, 2016 and our consolidated statements of cash flows for the years ended May 31, 2017, May 31, 2016 and May 31, 2015 was nominal.

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:

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- 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

(in millions)	May 31, 2017			May 31, 2016		
	Fair Value Measurements Using Input Types			Fair Value Measurements Using Input Types		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Corporate debt securities and other	\$ 580	\$ 41,038	\$ 41,618	\$ 393	\$ 35,095	\$ 35,488
Commercial paper debt securities	—	5,053	5,053	—	2,155	2,155
Money market funds	3,302	—	3,302	3,750	—	3,750
Derivative financial instruments	—	40	40	—	122	122
Total assets	<u>\$ 3,882</u>	<u>\$ 46,131</u>	<u>\$ 50,013</u>	<u>\$ 4,143</u>	<u>\$ 37,372</u>	<u>\$ 41,515</u>
Liabilities:						
Derivative financial instruments	<u>\$ —</u>	<u>\$ 191</u>	<u>\$ 191</u>	<u>\$ —</u>	<u>\$ 218</u>	<u>\$ 218</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 that exist. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that were corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others.

Based on the trading prices of the \$54.0 billion and \$40.1 billion of senior notes and the related fair value hedges that we had outstanding as of May 31, 2017 and 2016, respectively, the estimated fair values of the senior notes and the related fair value hedges using Level 2 inputs at May 31, 2017 and 2016 were \$56.5 billion and \$43.2 billion, respectively.

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5. INVENTORIES

Inventories consisted of the following:

(in millions)	May 31,	
	2017	2016
Raw materials	\$ 186	\$ 95
Work-in-process	42	31
Finished goods	72	86
Total inventories	<u>\$ 300</u>	<u>\$ 212</u>

6. PROPERTY, PLANT AND EQUIPMENT

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

(Dollars in millions)	Estimated Useful Life	May 31,	
		2017	2016
Computer, network, machinery and equipment	1-5 years	\$ 5,112	\$ 3,927
Buildings and improvements	1-40 years	3,466	2,754
Furniture, fixtures and other	5-15 years	651	574
Land	—	830	744
Construction in progress	—	235	97
Total property, plant and equipment	1-40 years	10,294	8,096
Accumulated depreciation		(4,979)	(4,096)
Total property, plant and equipment, net		<u>\$ 5,315</u>	<u>\$ 4,000</u>

7. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2017 and the net book value of intangible assets as of May 31, 2017 and 2016 were as follows:

	Intangible Assets, Gross				Accumulated Amortization				Intangible Assets, Net		Weighted Average Useful Life ⁽¹⁾
(Dollars in millions)	May 31, 2016	Additions	Retirements	May 31, 2017	May 31, 2016	Expense	Retirements	May 31, 2017	May 31, 2016	May 31, 2017	
Developed technology	\$ 3,661	\$ 1,977	\$ (241)	\$ 5,397	\$ (1,876)	\$ (660)	\$ 241	\$ (2,295)	\$ 1,785	\$ 3,102	5 years
SaaS, PaaS and IaaS agreements and related relationships	2,034	2,084	(13)	4,105	(704)	(398)	13	(1,089)	1,330	3,016	7 years
Software support agreements and related relationships	2,419	—	(854)	1,565	(1,287)	(126)	854	(559)	1,132	1,006	N.A.
Other	3,452	126	(1,580)	1,998	(2,756)	(267)	1,580	(1,443)	696	555	7 years
Total intangible assets, net	<u>\$ 11,566</u>	<u>\$ 4,187</u>	<u>\$ (2,688)</u>	<u>\$ 13,065</u>	<u>\$ (6,623)</u>	<u>\$ (1,451)</u>	<u>\$ 2,688</u>	<u>\$ (5,386)</u>	<u>\$ 4,943</u>	<u>\$ 7,679</u>	6 years

⁽¹⁾ weighted-average useful lives of intangible assets acquired during fiscal 2017.
Represents

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Total amortization expense related to our intangible assets was \$1.5 billion, \$1.6 billion and \$2.1 billion in fiscal 2017, 2016 and 2015, respectively. As of May 31, 2017, estimated future amortization expenses related to intangible assets were as follows (in millions):

Fiscal 2018	\$ 1,588
Fiscal 2019	1,419
Fiscal 2020	1,219
Fiscal 2021	1,050
Fiscal 2022	947
Thereafter	1,456
Total intangible assets, net	<u>\$ 7,679</u>

The changes in the carrying amounts of goodwill, net, which is generally not deductible for tax purposes, for our operating segments for fiscal 2017 and 2016 were as follows:

(in millions)	Cloud and On-Premise Software	Hardware	Services	Total Goodwill, net
Balances as of May 31, 2015	\$ 29,830	\$ 2,370	\$ 1,887	\$ 34,087
Goodwill from acquisitions	518	—	—	518
Goodwill adjustments, net ⁽¹⁾	(12)	(3)	—	(15)
Balances as of May 31, 2016	30,336	2,367	1,887	34,590
Goodwill from acquisitions	8,543	—	—	8,543
Goodwill adjustments, net ⁽¹⁾	(88)	—	—	(88)
Balances as of May 31, 2017	<u>\$ 38,791</u>	<u>\$ 2,367</u>	<u>\$ 1,887</u>	<u>\$ 43,045</u>

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

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8. NOTES PAYABLE AND OTHER BORROWINGS

Notes payable and other borrowings consisted of the following:

(Dollars in millions)	Date of Issuance	May 31, 2017		May 31, 2016	
		Amount	Effective Interest Rate	Amount	Effective Interest Rate
Fixed-rate senior notes:					
\$2,500, 1.20%, due October 2017	October 2012	\$ 2,500	1.24%	\$ 2,500	1.24%
\$2,500, 5.75%, due April 2018	April 2008	2,500	5.76%	2,500	5.76%
\$1,500, 2.375%, due January 2019 ⁽¹⁾	July 2013	1,500	2.44%	1,500	2.44%
\$1,750, 5.00%, due July 2019	July 2009	1,750	5.05%	1,750	5.05%
\$2,000, 2.25%, due October 2019 ⁽¹⁾	July 2014	2,000	2.27%	2,000	2.27%
\$1,000, 3.875%, due July 2020	July 2010	1,000	3.93%	1,000	3.93%
€1,250, 2.25%, due January 2021 ⁽²⁾⁽³⁾	July 2013	1,395	2.33%	1,394	2.33%
\$1,500, 2.80%, due July 2021 ⁽¹⁾	July 2014	1,500	2.82%	1,500	2.82%
\$4,250, 1.90%, due September 2021 ⁽⁵⁾	July 2016	4,250	1.94%	—	N.A.
\$2,500, 2.50%, due May 2022	May 2015	2,500	2.56%	2,500	2.56%
\$2,500, 2.50%, due October 2022	October 2012	2,500	2.51%	2,500	2.51%
\$1,000, 3.625%, due July 2023	July 2013	1,000	3.73%	1,000	3.73%
\$2,500, 2.40%, due September 2023 ⁽⁵⁾	July 2016	2,500	2.40%	—	N.A.
\$2,000, 3.40%, due July 2024	July 2014	2,000	3.43%	2,000	3.43%
\$2,500, 2.95%, due May 2025	May 2015	2,500	3.00%	2,500	3.00%
€750, 3.125%, due July 2025 ⁽²⁾⁽⁴⁾	July 2013	837	3.17%	836	3.17%
\$3,000, 2.65%, due July 2026 ⁽⁵⁾	July 2016	3,000	2.69%	—	N.A.
\$500, 3.25%, due May 2030	May 2015	500	3.30%	500	3.30%
\$1,750, 4.30%, due July 2034	July 2014	1,750	4.30%	1,750	4.30%
\$1,250, 3.90%, due May 2035	May 2015	1,250	3.95%	1,250	3.95%
\$1,250, 3.85%, due July 2036 ⁽⁵⁾	July 2016	1,250	3.85%	—	N.A.
\$1,250, 6.50%, due April 2038	April 2008	1,250	6.52%	1,250	6.52%
\$1,250, 6.125%, due July 2039	July 2009	1,250	6.19%	1,250	6.19%
\$2,250, 5.375%, due July 2040	July 2010	2,250	5.45%	2,250	5.45%
\$1,000, 4.50%, due July 2044	July 2014	1,000	4.50%	1,000	4.50%
\$2,000, 4.125%, due May 2045	May 2015	2,000	4.15%	2,000	4.15%
\$3,000, 4.00%, due July 2046 ⁽⁵⁾	July 2016	3,000	4.00%	—	N.A.
\$1,250, 4.375%, due May 2055	May 2015	1,250	4.40%	1,250	4.40%
Floating-rate senior notes:					
\$1,000, three-month LIBOR plus 0.20%, due July 2017	July 2014	1,000	1.35%	1,000	0.83%
\$500, three-month LIBOR plus 0.58%, due January 2019	July 2013	500	1.74%	500	1.21%
\$750, three-month LIBOR plus 0.51%, due October 2019	July 2014	750	1.67%	750	1.14%
Revolving credit agreements and other borrowings:					
\$3,800, LIBOR plus 0.50%, due June 2017	May 2017	3,800	1.54%	—	N.A.
\$3,750, LIBOR plus 0.35%, due June 2016	May 2016	—	N.A.	3,750	0.81%
Other borrowings due August 2025	November 2016	113	3.53%	—	N.A.
Total senior notes and other borrowings		\$ 58,145		\$ 43,980	
Unamortized discount/issuance costs		(276)		(247)	
Hedge accounting fair value adjustments ⁽¹⁾		40		122	
Total notes payable and other borrowings		\$ 57,909		\$ 43,855	
Notes payable and other borrowings, current		\$ 9,797		\$ 3,750	
Notes payable and other borrowings, non-current		\$ 48,112		\$ 40,105	

⁽¹⁾ We have entered into certain interest rate swap agreements that have the economic effects of modifying the fixed-interest obligations associated with the 2.375% senior notes due January 2019 (January 2019 Notes), the 2.25% senior notes due October 2019 (October 2019 Notes) and the 2.80% senior notes due July 2021 (July 2021 Notes) so that the interest payable on these notes effectively became variable based on LIBOR. The effective interest rates after consideration of these fixed to variable interest rate swap agreements

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were 1.81% and 1.28% for the January 2019 Notes, 1.64% and 1.11% for the October 2019 Notes, and 1.79% and 1.26% for the July 2021 Notes as of May 31, 2017 and 2016, respectively. Refer to Notes 1 and 11 for a description of our accounting for fair value hedges.

- (2) In July 2013, we issued €2.0 billion of fixed-rate senior notes comprised of €1.25 billion of 2.25% senior notes due January 2021 (January 2021 Notes) and €750 million of 3.125% senior notes due July 2025 (July 2025 Notes, and together with the January 2021 Notes, the Euro Notes). Principal and unamortized discount/issuance costs for the Euro Notes in the table above were calculated using foreign currency exchange rates as of May 31, 2017 and May 31, 2016, respectively. The Euro Notes are registered and trade on the New York Stock Exchange.
- (3) 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).
- (4) 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).
- (5) In July 2016, we issued \$14.0 billion of senior notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock and repayment of indebtedness and future acquisitions. The interest is payable semi-annually. We may redeem some or all of the senior notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances.

Future principal payments (adjusted for the effects of the cross-currency swap agreements associated with the January 2021 Notes) for all of our borrowings at May 31, 2017 were as follows (in millions):

Fiscal 2018	\$ 9,800
Fiscal 2019	2,000
Fiscal 2020	4,500
Fiscal 2021	2,395
Fiscal 2022	8,250
Thereafter	31,200
Total	\$ 58,145

Senior Notes

Interest is payable semi-annually for the senior notes except for the Euro Notes for which interest is payable annually and the floating-rate senior notes for which interest is payable quarterly. 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 except for the floating-rate senior notes which may not be redeemed prior to their maturity.

The senior 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 any future issuances of commercial paper notes. We were in compliance with all debt-related covenants at May 31, 2017.

Revolving Credit Agreements

In May 2017, we entered into four revolving credit agreements with JPMorgan Chase Bank, N.A., as initial lender and administrative agent (the 2017 Credit Agreements) and borrowed \$3.8 billion pursuant to these agreements. The 2017 Credit Agreements provided us with short-term borrowings for working capital and other general corporate purposes. Interest for the 2017 Credit Agreements is based on either (1) a LIBOR-based formula or (2) the Base Rate formula, each as set forth in the 2017 Credit Agreements. The borrowings are due and payable on June 29, 2017, which is the termination date of the 2017 Credit Agreements.

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In May 2016, we borrowed \$3.8 billion pursuant to three revolving credit agreements with JPMorgan Chase Bank, N.A., as initial lender and administrative agent (the 2016 Credit Agreements). In June 2016, we repaid the \$3.8 billion and the 2016 Credit Agreements expired pursuant to their terms.

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 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, 2017 and 2016.

The 2013 Credit Agreement contains certain customary representations and warranties, covenants and events of default. If any of the events of default occur and are not cured within applicable grace periods or waived, any unpaid amounts owed under the agreement to which the default relates may be declared immediately due and payable and the relevant agreement may be terminated. We were in compliance with the 2013 Credit Agreement covenants as of May 31, 2017.

Commercial Paper Program and Commercial Paper Notes

In April 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 (JP Morgan). Effective on December 22, 2014, Deutsche Bank Trust Companies Americas became the Successor Issuing and Paying Agent replacing JP Morgan. Since that time, we have entered into new dealer agreements with additional banks. As of May 31, 2017 and 2016, 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.

Other Borrowings Activities

In connection with our acquisition of NetSuite in the second quarter of fiscal 2017 (see Note 2 above), we assumed \$310 million par value of legacy NetSuite convertible notes (NetSuite Debt), which had a fair value of \$342 million as of the acquisition date. Our acquisition of NetSuite triggered (a) the right of holders of the NetSuite Debt to convert their debt holdings into an amount payable in cash, at any time through December 22, 2016, based upon conversion formulas that are contained within the NetSuite Debt indenture and (b) the obligation of NetSuite to offer to repurchase the NetSuite Debt from each holder at a purchase price equal to par, plus accrued and unpaid interest, which offer expired on December 21, 2016. In December 2016, we repurchased and settled for cash substantially all of the NetSuite Debt.

In the second quarter of fiscal 2017, we assumed \$113 million of debt that bears interest at 3.53% and matures in August 2025 in connection with our acquisition of certain land and buildings.

9. RESTRUCTURING ACTIVITIES

Fiscal 2017 Oracle Restructuring Plan

During the first quarter of fiscal 2017, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations due to our recent acquisitions and certain other operational activities (2017 Restructuring Plan). Our management subsequently supplemented the 2017 Restructuring Plan in the third quarter of fiscal 2017 to reflect additional actions that we expect to take. The total estimated

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restructuring costs associated with the 2017 Restructuring Plan are up to \$889 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are incurred. We recorded \$486 million of restructuring expenses in connection with the 2017 Restructuring Plan in fiscal 2017 and we expect to incur the majority of the estimated remaining \$403 million through the end of fiscal 2018. Any changes to the estimates of executing the 2017 Restructuring Plan will be reflected in our future results of operations.

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). Restructuring costs associated with the 2015 Restructuring Plan were recorded to the restructuring expense line item within our consolidated statements of operations as they were incurred. We recorded \$462 million and \$100 million of restructuring expenses in connection with the 2015 Restructuring Plan in fiscal 2016 and 2015, respectively. Actions pursuant to the 2015 Restructuring Plan were substantially complete as of May 31, 2016.

Summary of All Plans

Fiscal 2017 Activity

(in millions)	Accrued May 31, 2016 ⁽²⁾	Year Ended May 31, 2017				Accrued May 31, 2017 ⁽²⁾	Total Costs Accrued to Date	Total Expected Program Costs
		Initial Costs ⁽³⁾	Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾			
Fiscal 2017 Oracle Restructuring Plan ⁽¹⁾								
Cloud and on-premise software	\$ —	\$ 184	\$ (6)	\$ (100)	\$ 7	\$ 85	\$ 178	\$ 295
Hardware	—	91	(3)	(57)	—	31	88	230
Services	—	59	(1)	(34)	1	25	58	92
Other	—	166	(4)	(118)	—	44	162	272
Total Fiscal 2017 Oracle Restructuring Plan	\$ —	\$ 500	\$ (14)	\$ (309)	\$ 8	\$ 185	\$ 486	\$ 889
Total other restructuring plans ⁽⁶⁾	\$ 283	\$ 8	\$ (31)	\$ (169)	\$ (12)	\$ 79		
Total restructuring plans	\$ 283	\$ 508	\$ (45)	\$ (478)	\$ (4)	\$ 264		

Fiscal 2016 Activity

(in millions)	Accrued May 31, 2015	Year Ended May 31, 2016				Accrued May 31, 2016 ⁽²⁾
		Initial Costs ⁽³⁾	Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾	
Fiscal 2015 Oracle Restructuring Plan ⁽¹⁾						
Cloud and on-premise software	\$ 16	\$ 263	\$ (8)	\$ (129)	\$ 4	\$ 146
Hardware	6	67	(8)	(43)	1	23
Services	9	44	(4)	(35)	—	14
Other	5	108	—	(56)	(2)	55
Total Fiscal 2015 Oracle Restructuring Plan	\$ 36	\$ 482	\$ (20)	\$ (263)	\$ 3	\$ 238
Total other restructuring plans ⁽⁶⁾	\$ 84	\$ 2	\$ (6)	\$ (27)	\$ (8)	\$ 45
Total restructuring plans	\$ 120	\$ 484	\$ (26)	\$ (290)	\$ (5)	\$ 283

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Fiscal 2015 Activity

(in millions)	Accrued May 31, 2014	Initial Costs ⁽³⁾	Year Ended May 31, 2015 Adj. to Cost ⁽⁴⁾	Cash Payments	Others ⁽⁵⁾	Accrued May 31, 2015
Fiscal 2015 Oracle Restructuring Plan ⁽¹⁾						
Cloud and on-premise software	\$ —	\$ 33	\$ 1	\$ (18)	\$ —	\$ 16
Hardware	—	22	(2)	(13)	(1)	6
Services	—	21	—	(12)	—	9
Other	—	27	(2)	(20)	—	5
Total Fiscal 2015 Oracle Restructuring Plan	\$ —	\$ 103	\$ (3)	\$ (63)	\$ (1)	\$ 36
Total other restructuring plans ⁽⁶⁾	\$ 169	\$ 135	\$ (28)	\$ (181)	\$ (11)	\$ 84
Total restructuring plans	\$ 169	\$ 238	\$ (31)	\$ (244)	\$ (12)	\$ 120

- (1) Restructuring costs recorded for individual line items primarily related to employee severance costs.
- (2) The balances at May 31, 2017 and 2016 included \$242 million and \$255 million, respectively, recorded in other current liabilities and \$22 million and \$28 million, respectively, recorded in other non-current liabilities.
- (3) Costs recorded for the respective restructuring plans during the periods 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 certain 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, 2017	2016
Software license updates and product support	\$ 5,952	\$ 5,864
Cloud SaaS, PaaS and IaaS	1,192	705
Hardware	640	675
Services	382	339
New software licenses	67	72
Deferred revenues, current	8,233	7,655
Deferred revenues, non-current (in other non-current liabilities)	602	536
Total deferred revenues	\$ 8,835	\$ 8,191

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

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In connection with our acquisitions, we have estimated the fair values of the cloud SaaS, PaaS and IaaS, software license updates and product support, and hardware 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, PaaS and IaaS, software license updates and product support and hardware 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 October 2019 Notes and our July 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 October 2019 Notes, July 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 October 2019 Notes, July 2021 Notes and the January 2019 Notes are recorded as interest expense and are included as a part of cash flows from operating activities.

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 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.

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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, 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, net. We evaluate the effectiveness of our cross-currency swap agreements on a quarterly basis. We did not record any ineffectiveness for fiscal 2017, 2016 or 2015. 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 in our consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, is recognized in non-operating income, 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 2017, 2016 or 2015.

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.

Neither do we 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 each reporting period to our consolidated balance sheets with changes in fair values recorded to our consolidated statements of operations. The balance sheet classification for the fair values of these forward contracts is prepaid expenses and other current assets for forward contracts in an unrealized gain position and other current liabilities for forward contracts in an unrealized loss position. The statement of operations

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classification for changes in fair values of these forward contracts is non-operating income, net, for both realized and unrealized gains and losses.

As of May 31, 2017 and 2016, respectively, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$3.4 billion and \$2.7 billion, respectively, and the notional amount of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$1.4 billion and \$2.0 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at May 31, 2017 and 2016. The cash flows related to these foreign currency contracts are classified as operating activities. Net gains or losses related to these forward contracts are included in non-operating income, net.

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)	Balance Sheet Location	Fair Value as of May 31,	
		2017	2016
Interest rate swap agreements designated as fair value hedges	Other assets	\$ 40	\$ 122
Cross-currency swap agreements designated as cash flow hedges	Other non-current liabilities	\$ (191)	\$ (218)
Foreign currency borrowings designated as net investment hedge	Notes payable, non-current	\$ (980)	\$ (991)

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

(in millions)	Amount of Gain (Loss) Recognized in Accumulated OCI or OCL (Effective Portion)				Location and Amount of Gain (Loss) Reclassified from Accumulated OCI or OCL into Income (Effective Portion)		
	Year Ended May 31,				Year Ended May 31,		
	2017	2016	2015		2017	2016	2015
Cross-currency swap agreements designated as cash flow hedges	\$ 27	\$ 26	\$ (318)	Non-operating income (expense), net	\$ 2	\$ 41	\$ (348)
Foreign currency borrowings designated as net investment hedge	\$ (1)	\$ (25)	\$ 208	Not applicable	\$ —	\$ —	\$ —

(in millions)		Location and Amount of Gain (Loss) Recognized in Income on Derivative				Location and Amount of Gain (Loss) on Hedged Item Recognized in Income Attributable to Risk Being Hedged		
		Year Ended May 31,				Year Ended May 31,		
		2017	2016	2015		2017	2016	2015
Interest rate swap agreements designated as fair value hedges	Interest expense	\$ (82)	\$ 48	\$ 51	Interest expense	\$ 82	\$ (48)	\$ (51)

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12. COMMITMENTS AND CERTAIN CONTINGENCIES

Lease Commitments

We lease certain facilities, furniture and equipment under operating leases. As of May 31, 2017, future minimum annual operating lease payments and future minimum payments to be received from non-cancelable subleases were as follows:

(in millions)	
Fiscal 2018	\$ 389
Fiscal 2019	330
Fiscal 2020	260
Fiscal 2021	203
Fiscal 2022	146
Thereafter	393
Future minimum operating lease payments	1,721
Less: minimum payments to be received from non-cancelable subleases	(41)
Total future minimum operating lease payments, net	<u>\$ 1,680</u>

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 \$53 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, 2017.

Rent expense was \$273 million, \$283 million and \$290 million for fiscal 2017, 2016 and 2015, respectively, net of sublease income of approximately \$87 million for fiscal 2017 and \$45 million for each of fiscal 2016 and 2015, 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 and 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 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.

As of May 31, 2017, our unconditional purchase and certain other obligations were as follows (in millions):

Fiscal 2018	\$ 955
Fiscal 2019	243
Fiscal 2020	149
Fiscal 2021	85
Fiscal 2022	44
Total	<u>\$ 1,476</u>

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As described in Note 8 and Note 11 above, as of May 31, 2017 we have senior notes and other borrowings of \$58.1 billion that mature at various future dates and derivative financial instruments outstanding that we leverage to manage certain risks and exposures.

Guarantees

Our cloud, software and hardware 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 SaaS, PaaS and IaaS 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. Our software license and hardware 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. 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 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.

In connection with certain litigation, we posted certain court-mandated surety bonds with a court and entered into related indemnification agreements with each of the surety bond issuing companies. Additional information is provided in Note 18 below.

13. STOCKHOLDERS' EQUITY

Common Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. As of May 31, 2017, approximately \$5.3 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 85.6 million shares for \$3.5 billion (including 0.5 million shares for \$23 million that were repurchased but not settled), 271.9 million shares for \$10.4 billion and 193.7 million shares for \$8.1 billion in fiscal 2017, 2016 and 2015, 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 repurchases of our debt, our stock price, and economic and market conditions. Our stock repurchases may be effected from time to time through open market purchases or pursuant to a Rule 10b5-1 plan. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

Dividends on Common Stock

During fiscal 2017, 2016 and 2015, our Board of Directors declared cash dividends of \$0.64, \$0.60 and \$0.51 per share of our outstanding common stock, respectively, which we paid during the same period.

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In June 2017, our Board of Directors declared a quarterly cash dividend of \$0.19 per share of our outstanding common stock. The dividend is payable on August 2, 2017 to stockholders of record as of the close of business on July 19, 2017. 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,	
	2017	2016
Foreign currency translation losses and other, net	\$ (679)	\$ (778)
Unrealized losses on defined benefit plans, net	(356)	(254)
Unrealized gains on marketable securities, net	187	196
Unrealized gains on cash flow hedges, net	45	20
Total accumulated other comprehensive loss	<u>\$ (803)</u>	<u>\$ (816)</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 long-term performance awards, including restricted stock-based awards, non-qualified stock options and incentive stock options, as well as stock purchase rights and stock appreciation rights, 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 10 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, 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 achieving performance targets and providing service over four fiscal years. 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 10 years from the date of grant. 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, 2017, the 2000 Plan had 68 million unvested RSUs outstanding, 6 million unvested PSUs outstanding and stock options to purchase 305 million shares of common stock outstanding of which 232 million shares were vested. As of May 31, 2017, approximately 217 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 RSUs and other stock-based awards, including non-qualified stock options, 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).

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to increase the number of shares of our common stock reserved for issuance by 2 million shares). In prior years, we granted stock options at not less than fair market value, that vest over four years, and expire no more than 10 years from the date of grant. The Directors' Plan was most recently amended on April 29, 2016 and permits the Compensation Committee of the Board to determine the amount and form of 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 certain Board committees, subject to certain stockholder approved limitations set forth in the Directors' Plan. As of May 31, 2017, approximately 110,000 unvested RSUs and stock options to purchase approximately 2 million shares of common stock (of which approximately 1 million were vested) were outstanding under the Directors' Plan. As of May 31, 2017, approximately 2 million shares were available for future stock awards under this plan.

In connection with certain of our acquisitions, we assumed certain outstanding restricted stock-based awards and stock options under each acquired company's respective stock plans. These restricted stock-based awards and stock options generally retain all of the rights, terms and conditions of the respective plans under which they were originally granted. As of May 31, 2017, approximately 9 million shares of restricted stock-based awards and stock options to purchase 5 million shares of common stock were outstanding under these plans.

The following table summarizes restricted stock-based award activity, including service based awards and performance-based awards, granted pursuant to Oracle-based stock plans and stock plans assumed from our acquisitions for our last three fiscal years ended May 31, 2017:

(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
Granted	34	\$ 38.50
Vested and Issued	(7)	\$ 40.39
Canceled	(3)	\$ 39.73
Balance, May 31, 2016	52	\$ 39.29
Granted	42	\$ 39.40
Assumed	14	\$ 37.83
Vested and Issued	(18)	\$ 40.39
Canceled	(7)	\$ 39.73
Balance, May 31, 2017	83	\$ 39.18

The total grant date fair value of restricted stock-based awards that were vested and issued in fiscal 2017, 2016 and 2015 was \$715 million, \$261 million and \$28 million, respectively. As of May 31, 2017, total unrecognized stock-based compensation expense related to non-vested restricted stock-based awards was \$2.2 billion and is expected to be recognized over the remaining weighted-average vesting period of 2.61 years.

In fiscal 2017, 2016 and 2015, 2 million, 2 million and 3 million PSUs were granted, respectively, 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. In fiscal 2017, 1.2 million PSUs vested and 5.5 million PSUs remained outstanding as of May 31, 2017.

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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, 2017:

(in millions, except exercise price)	Options Outstanding	
	Shares Under Option	Weighted-Average Exercise Price
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
Granted ⁽¹⁾	25	\$ 40.34
Assumed	1	\$ 4.97
Exercised	(53)	\$ 25.13
Canceled	(11)	\$ 35.19
Balance, May 31, 2016	375	\$ 29.66
Granted ⁽¹⁾	18	\$ 40.90
Assumed	2	\$ 13.06
Exercised	(77)	\$ 26.65
Canceled	(6)	\$ 36.28
Balance, May 31, 2017	312	\$ 29.02

⁽¹⁾ Approximately 7 million of the 18 million stock options granted during fiscal 2017 and 7 million of the 25 million stock options granted during fiscal 2016 were to our Chief Executive Officers and Chief Technology Officer and have contractual lives of five years versus the 10-year contractual lives for most of the other stock options granted.

Options outstanding that have vested and that are expected to vest as of May 31, 2017 were as follows:

	Outstanding Options (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (in years)	Aggregate Intrinsic Value ⁽¹⁾ (in millions)
Vested	238	\$ 29.02	\$ 4.45	\$ 3,908
Expected to vest ⁽²⁾	68	\$ 36.92	\$ 6.70	632
Total	306	\$ 30.79	\$ 4.95	\$ 4,540

⁽¹⁾ The aggregate intrinsic value was calculated based on the gross difference between our closing stock price on the last trading day of fiscal 2017 of \$45.39 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, 2017 was approximately \$282 million and is expected to be recognized over a weighted-average period of 2.09 years. Approximately 6 million shares outstanding as of May 31, 2017 were not expected to vest.

Stock-Based Compensation Expense and Valuations of Stock Awards

We estimated the fair values of our restricted stock-based awards that are solely subject to service-based vesting requirements based upon their market values as of the grant dates, discounted for the present values of expected dividends.

The fair values of our PSUs were also measured based upon their market values as of their respective grant dates, discounted for the present values of expected dividends. The vesting conditions and related terms of our PSUs

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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 met the performance-based award classification criteria as defined within ASC 718.

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 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 2017, 2016 and 2015:

	Year Ended May 31,		
	2017	2016	2015
Expected life (in years)	4.8	4.8	5.1
Risk-free interest rate	1.0%	1.6%	1.7%
Volatility	23%	24%	23%
Dividend yield	1.5%	1.5%	1.2%
Weighted-average fair value per share	\$ 8.18	\$ 8.49	\$ 9.62

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.

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

(in millions)	Year Ended May 31,		
	2017	2016	2015
Cloud SaaS	\$ 23	\$ 17	\$ 10
Cloud PaaS and IaaS	5	4	5
Software license updates and product support	26	23	21
Hardware	11	12	12
Services	44	29	30
Sales and marketing	306	220	180
Research and development	770	609	522
General and administrative	130	120	148
Acquisition related and other	35	3	5
Total stock-based compensation	1,350	1,037	933
Estimated income tax benefit included in provision for income taxes	(423)	(322)	(294)
Total stock-based compensation, net of estimated income tax benefit	\$ 927	\$ 715	\$ 639

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

Total cash received as a result of option exercises was approximately \$2.1 billion, \$1.3 billion and \$1.7 billion for fiscal 2017, 2016 and 2015, respectively. The total aggregate intrinsic value of restricted stock-based awards that vested and were issued and stock options that were exercised was \$2.0 billion, \$1.0 billion and \$1.3 billion for fiscal 2017, 2016 and 2015, respectively. In connection with the vesting and issuance of restricted stock-

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based awards and stock options that were exercised, the tax benefits realized by us were \$614 million, \$311 million and \$396 million for fiscal 2017, 2016 and 2015, 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, 2017, 51 million shares were reserved for future issuances under the Purchase Plan. We issued 3 million shares in each of fiscal 2017, 2016 and 2015, respectively, under the Purchase Plan.

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 \$366 million, \$387 million and \$362 million for fiscal 2017, 2016 and 2015, respectively. The number of plan participants in our benefit plans has generally increased in recent years as we have hired additional employees and assumed 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 U.S. 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 \$157 million, \$153 million and \$144 million in fiscal 2017, 2016 and 2015, respectively.

We also offer non-qualified deferred compensation plans to certain 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 \$487 million as of May 31, 2017 and were each approximately \$419 million as of May 31, 2016 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 \$85 million, \$95 million and \$69 million for fiscal 2017, 2016 and 2015, respectively. The aggregate projected benefit obligation and aggregate net liability (funded status) of our defined benefit plans as of May 31, 2017 was \$1.1 billion and \$712 million, respectively, and as of May 31, 2016 was \$949 million and \$587 million, respectively.

15. INCOME TAXES

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

(in millions)	Year Ended May 31,		
	2017	2016	2015
Domestic	\$ 3,533	\$ 4,033	\$ 5,136
Foreign	7,984	7,409	7,698
Income before provision for income taxes	<u>\$ 11,517</u>	<u>\$ 11,442</u>	<u>\$ 12,834</u>

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The provision for income taxes consisted of the following:

(Dollars in millions)	Year Ended May 31,		
	2017	2016	2015
Current provision:			
Federal	\$ 936	\$ 1,301	\$ 2,153
State	257	271	310
Foreign	1,475	1,074	981
Total current provision	<u>\$ 2,668</u>	<u>\$ 2,646</u>	<u>\$ 3,444</u>
Deferred benefit:			
Federal	\$ (201)	\$ (123)	\$ (408)
State	(36)	(21)	(46)
Foreign	(249)	39	(94)
Total deferred benefit	<u>\$ (486)</u>	<u>\$ (105)</u>	<u>\$ (548)</u>
Total provision for income taxes	<u>\$ 2,182</u>	<u>\$ 2,541</u>	<u>\$ 2,896</u>
Effective income tax rate	18.9%	22.2%	22.6%

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,		
	2017	2016	2015
Tax provision at statutory rate	\$ 4,031	\$ 4,005	\$ 4,492
Foreign earnings at other than United States rates	(1,299)	(1,284)	(1,627)
State tax expense, net of federal benefit	150	176	176
Settlements and releases from judicial decisions and statute expirations, net	(189)	(150)	(85)
Domestic production activity deduction	(119)	(155)	(188)
Stock-based compensation	(149)	74	63
Other, net	(243)	(125)	65
Total provision for income taxes	<u>\$ 2,182</u>	<u>\$ 2,541</u>	<u>\$ 2,896</u>

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

(in millions)	2017	May 31, 2016
Deferred tax liabilities:		
Unrealized gain on stock	\$ (130)	\$ (130)
Acquired intangible assets	(2,502)	(1,482)
Unremitted earnings	(1,515)	(987)
Depreciation and amortization	(180)	—
Other	(23)	(33)
Total deferred tax liabilities	\$ (4,350)	\$ (2,632)
Deferred tax assets:		
Accruals and allowances	\$ 532	\$ 492
Employee compensation and benefits	1,251	1,149
Differences in timing of revenue recognition	385	351
Depreciation and amortization	—	9
Tax credit and net operating loss carryforwards	4,029	2,935
Total deferred tax assets	\$ 6,197	\$ 4,936
Valuation allowance	\$ (1,164)	\$ (1,173)
Net deferred tax assets	\$ 683	\$ 1,131
Recorded as:		
Non-current deferred tax assets	\$ 1,143	\$ 1,291
Non-current deferred tax liabilities (in other non-current liabilities)	(460)	(160)
Net deferred tax assets	\$ 683	\$ 1,131

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, 2017, 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 \$47.5 billion and \$7.9 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, 2017, 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 \$15.1 billion and \$2.6 billion, respectively.

Our net deferred tax assets were \$683 million and \$1.1 billion as of May 31, 2017 and 2016, respectively. We believe that it is more likely than not that the net deferred tax assets will be realized in the foreseeable future. Realization of our net deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences, net operating loss carryforwards and tax credit carryforwards. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

The valuation allowance was \$1.2 billion and \$1.2 billion at each of May 31, 2017 and 2016, respectively. Substantially all of the valuation allowances as of May 31, 2017 and 2016 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

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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, 2017, we had federal net operating loss carryforwards of approximately \$1.6 billion. These losses expire in various years between fiscal 2018 and fiscal 2036 and are subject to limitations on their utilization. We had state net operating loss carryforwards of approximately \$2.4 billion at May 31, 2017, which expire between fiscal 2018 and fiscal 2037 and are subject to limitations on their utilization. We had total foreign net operating loss carryforwards of approximately \$1.9 billion at May 31, 2017, which are subject to limitations on their utilization. Approximately \$1.7 billion of these foreign net operating losses are not currently subject to expiration dates. The remainder of the foreign net operating losses, approximately \$187 million, expire between fiscal 2018 and fiscal 2037. We had tax credit carryforwards of approximately \$1.8 billion at May 31, 2017, which are subject to limitations on their utilization. Approximately \$696 million of these tax credit carryforwards are not currently subject to expiration dates. The remainder of the tax credit carryforwards, approximately \$1.1 billion, expire in various years between fiscal 2018 and fiscal 2038.

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,		
	2017	2016	2015
Gross unrecognized tax benefits as of June 1	\$ 4,561	\$ 4,038	\$ 3,838
Increases related to tax positions from prior fiscal years	128	350	119
Decreases related to tax positions from prior fiscal years	(218)	(111)	(17)
Increases related to tax positions taken during current fiscal year	595	461	316
Settlements with tax authorities	(85)	(73)	(30)
Lapses of statutes of limitation	(47)	(73)	(54)
Cumulative translation adjustments and other, net	(15)	(31)	(134)
Total gross unrecognized tax benefits as of May 31	<u>\$ 4,919</u>	<u>\$ 4,561</u>	<u>\$ 4,038</u>

As of May 31, 2017, 2016 and 2015, \$3.4 billion, \$3.1 billion and \$2.8 billion, respectively, of unrecognized tax 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 \$125 million, \$26 million and \$102 million during fiscal 2017, 2016 and 2015, respectively. Interest and penalties accrued as of May 31, 2017 and 2016 were \$885 million and \$765 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 2016. 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. With all of these domestic audit issues considered in the aggregate, we believe that it was reasonably possible that, as of May 31, 2017, 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 \$389 million (\$336 million net of offsetting tax benefits). Our U.S. federal income tax returns have been examined for all years prior to fiscal 2007 and we are no longer subject to audit for those periods. Our U.S. state income tax returns, with some exceptions, have been examined for all years prior to fiscal 2004, and we are no longer subject to audit for those periods.

Internationally, tax authorities for numerous non-U.S. jurisdictions are also examining returns affecting our unrecognized tax benefits. We believe that it was reasonably possible that, as of May 31, 2017, the gross unrecognized tax benefits, could decrease (whether by payment, release, or a combination of both) by as much as

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\$152 million (\$78 million net of offsetting tax benefits) in the next 12 months, related primarily to transfer pricing. 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 GAAP for outcomes related to our tax audits. However, there can be no assurances as to the possible outcomes or any related financial statement effect thereof. On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision has yet to be issued by the Tax Court due to other outstanding issues related to the case. At this time, the U.S. Department of the Treasury has not withdrawn the requirement to include stock-based compensation from its regulations. We have reviewed this case and its impact on Oracle and concluded that no adjustment to the consolidated financial statements is appropriate at this time. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements.

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

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 (CODMs) are our Chief Executive Officers and Chief Technology Officer. We are organized by line of business and geographically. While our CODMs evaluate results in a number of different ways, the line of business management structure is the primary basis for which the allocation of resources and financial results are assessed. In recent periods, customer demand has increased at a greater rate for cloud-based IT deployment models relative to on-premise IT deployment models. Our CODMs view the operating results of our three businesses and allocate resources in a manner that is consistent with the changing market dynamics that we have experienced. As a result, during fiscal 2017, we updated our operating segments. The footnote information below presents the financial information provided to our CODMs for their review and assists our CODMs with evaluating the Company's performance and allocating Company resources.

We have three businesses—cloud and on-premise software, hardware and services—each of which are comprised of a single operating segment.

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

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

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

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

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

The following table presents summary results for each of our three businesses for each of fiscal 2017, 2016 and 2015 (fiscal 2016 and 2015 have been recast to conform to the current year's presentation):

(in millions)	Year Ended May 31,		
	2017	2016	2015
Cloud and on-premise software:			
Revenues ⁽¹⁾	\$ 30,389	\$ 28,997	\$ 29,491
Cloud SaaS, PaaS and IaaS expenses	1,901	1,468	1,072
Software license updates and product support expenses	984	1,077	1,130
Sales and marketing expenses	6,886	6,570	6,398
Margin ⁽²⁾	\$ 20,618	\$ 19,882	\$ 20,891
Hardware:			
Revenues ⁽¹⁾	\$ 4,152	\$ 4,669	\$ 5,209
Hardware products and support expenses	1,623	2,031	2,249
Sales and marketing expenses	820	867	885
Margin ⁽²⁾	\$ 1,709	\$ 1,771	\$ 2,075
Services:			
Revenues	\$ 3,358	\$ 3,391	\$ 3,553
Services expenses	2,668	2,634	2,810
Margin ⁽²⁾	\$ 690	\$ 757	\$ 743
Totals:			
Revenues ⁽¹⁾	\$ 37,899	\$ 37,057	\$ 38,253
Expenses	14,882	14,647	14,544
Margin ⁽²⁾	\$ 23,017	\$ 22,410	\$ 23,709

(1) Cloud and on-premise software and hardware revenues for management reporting included revenues related to cloud, software support and hardware support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our consolidated statements of operations for the periods presented due to business combination accounting requirements. 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 as reported in our consolidated statements of operations.

(2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, general and administrative and certain other allocable expenses. Additionally, the margins reported above do not reflect amortization of intangible assets, acquisition related and other expenses, restructuring expenses, stock-based compensation, interest expense or certain other non-operating income, net. Certain fiscal 2016 and fiscal 2015 balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect consolidated revenues or operating income.

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

(in millions)	Year Ended May 31,		
	2017	2016	2015
Total revenues for operating segments	\$ 37,899	\$ 37,057	\$ 38,253
Cloud and on-premise software revenues ⁽¹⁾	(171)	(9)	(23)
Hardware revenues ⁽¹⁾	—	(1)	(4)
Total revenues	\$ 37,728	\$ 37,047	\$ 38,226
Total margin for operating segments	\$ 23,017	\$ 22,410	\$ 23,709
Cloud and on-premise software revenues ⁽¹⁾	(171)	(9)	(23)
Hardware revenues ⁽¹⁾	—	(1)	(4)
Research and development	(6,159)	(5,787)	(5,524)
General and administrative	(1,176)	(1,155)	(1,077)
Amortization of intangible assets	(1,451)	(1,638)	(2,149)
Acquisition related and other	(103)	(42)	(211)
Restructuring	(463)	(458)	(207)
Stock-based compensation for operating segments	(415)	(305)	(258)
Expense allocations and other, net	(369)	(411)	(385)
Interest expense	(1,798)	(1,467)	(1,143)
Non-operating income, net	605	305	106
Income before provision for income taxes	\$ 11,517	\$ 11,442	\$ 12,834

⁽¹⁾ Cloud and on-premise software and hardware revenues for management reporting included revenues related to cloud, software support and hardware support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our consolidated statements of operations for the periods presented due to business combination accounting requirements. See Note 10 for an explanation of these adjustments and this table for a reconciliation of our total operating segment revenues to our total revenues as reported in our consolidated statements of operations.

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 2017, 2016 or 2015.

(in millions)	As of and for the Year Ended May 31,					
	2017		2016		2015	
	Revenues	Long-Lived Assets ⁽¹⁾	Revenues	Long-Lived Assets ⁽¹⁾	Revenues	Long-Lived Assets ⁽¹⁾
United States	\$ 17,770	\$ 4,680	\$ 17,264	\$ 3,646	\$ 17,325	\$ 3,341
United Kingdom	1,999	402	2,349	334	2,388	309
Japan	1,618	380	1,465	375	1,433	338
Germany	1,417	116	1,438	40	1,466	33
Canada	1,102	60	1,096	44	1,286	58
Other countries	13,822	1,090	13,435	989	14,328	1,040
Total	\$ 37,728	\$ 6,728	\$ 37,047	\$ 5,428	\$ 38,226	\$ 5,119

⁽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.

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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 restricted stock-based awards, stock options, and shares issuable under the employee stock purchase plan using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

(in millions, except per share data)	Year Ended May 31,		
	2017	2016	2015
Net income	\$ 9,335	\$ 8,901	\$ 9,938
Weighted average common shares outstanding	4,115	4,221	4,404
Dilutive effect of employee stock plans	102	84	99
Dilutive weighted average common shares outstanding	4,217	4,305	4,503
Basic earnings per share	\$ 2.27	\$ 2.11	\$ 2.26
Diluted earnings per share	\$ 2.21	\$ 2.07	\$ 2.21
Shares subject to anti-dilutive restricted stock-based awards and stock options excluded from calculation ⁽¹⁾	74	63	37

(1) These weighted shares relate to anti-dilutive restricted stock-based awards and stock options 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 stock options.

18. LEGAL PROCEEDINGS

Hewlett-Packard Company Litigation

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

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

The court bifurcated the trial and tried HP's causes of action for declaratory relief and promissory estoppel without a jury in June 2012. The court issued a final statement of decision on August 28, 2012, finding that the Hurd Settlement Agreement required Oracle to continue to develop certain of its software products for use on HP's Itanium-based servers and to port such products at no cost to HP for as long as HP sells those servers (the Phase One Ruling). A jury trial began on May 23, 2016. On June 30, 2016, the jury returned a verdict in favor of HP on its claims for breach of contract and breach of the implied covenant of good faith and fair dealing and

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against Oracle on its claim for violation of the Lanham Act (the Phase Two Jury Verdict). The jury awarded HP damages in the amount of \$3.0 billion, and HP is entitled to post-judgment interest on this award. On August 30, 2016, the court denied HP's motion for pre-judgment interest. Judgment was entered on October 20, 2016. Oracle posted certain court-mandated surety bonds with the court in order to proceed with its motion for a new trial and entered into related indemnification agreements with each of the surety bond issuing companies. Oracle filed a motion for a new trial on November 14, 2016, which was denied.

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

Derivative Litigation

On May 3, 2017, a stockholder derivative lawsuit was filed in the Court of Chancery of the State of Delaware. The derivative suit is brought by an alleged stockholder of Oracle, purportedly on Oracle's behalf, against Oracle, our Chairman of the Board of Directors and Chief Technology Officer in his capacities as a director, officer and an alleged controlling stockholder, one of our Chief Executive Officers (who is also a director), three other directors, and Oracle as a nominal defendant. Plaintiff alleges that the defendants breached their fiduciary duties by causing Oracle to agree to purchase NetSuite Inc. (NetSuite) at an excessive price. Plaintiff seeks declaratory relief, an order rescinding or reforming the NetSuite transaction, unspecified monetary damages (including interest), and disgorgement of various unspecified profits, fees, compensation, and benefits. The defendants are scheduled to respond to this complaint by July 19, 2017. While Oracle continues to evaluate these claims, we do not believe this litigation will have a material impact on our financial position or results of operations.

Other Litigation

We are party to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including proceedings and claims that relate to acquisitions we have completed or to companies we have acquired or are attempting to acquire. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any of these matters, individually or in the aggregate, will result in losses that are materially in excess of amounts already recognized, if any.

SCHEDULE II

ORACLE CORPORATION
VALUATION AND QUALIFYING ACCOUNTS

(in millions)	<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, 2015	\$ 306	\$ 56	\$ (86)	\$ 9	\$ 285
May 31, 2016	\$ 285	\$ 130	\$ (90)	\$ 2	\$ 327
May 31, 2017	\$ 327	\$ 129	\$ (138)	\$ 1	\$ 319