

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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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 is after Item 16 of this Annual Report.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Oracle Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Oracle Corporation (the Company) as of May 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended May 31, 2019, and the related notes and the financial statement schedule listed in the Index at Item 15(a)2 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at May 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of May 31, 2019, 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 21, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for revenue from contracts with customers and for incremental costs to obtain contracts with customers in each period presented, due to the Company's adoption of ASU No. 2014-09, *Revenue from Contracts with Customers*.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

San Jose, California

June 21, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Oracle Corporation

Opinion on Internal Control Over Financial Reporting

We have audited Oracle Corporation's internal control over financial reporting as of May 31, 2019, 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). In our opinion, Oracle Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of May 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Oracle Corporation as of May 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2019, and the related notes and the financial statement schedule listed in the Index at Item 15(a)2 and our report June 21, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

San Jose, California

June 21, 2019

ORACLE CORPORATION
CONSOLIDATED BALANCE SHEETS
As of May 31, 2019 and 2018

(in millions, except per share data)	May 31,	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,514	\$ 21,620
Marketable securities	17,313	45,641
Trade receivables, net of allowances for doubtful accounts of \$371 and \$370 as of May 31, 2019 and May 31, 2018, respectively	5,134	5,136
Prepaid expenses and other current assets	3,425	3,762
Total current assets	46,386	76,159
Non-current assets:		
Property, plant and equipment, net	6,252	5,897
Intangible assets, net	5,279	6,670
Goodwill, net	43,779	43,755
Deferred tax assets	2,696	1,395
Other non-current assets	4,317	3,975
Total non-current assets	62,323	61,692
Total assets	\$ 108,709	\$ 137,851
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and other borrowings, current	\$ 4,494	\$ 4,491
Accounts payable	580	529
Accrued compensation and related benefits	1,628	1,806
Deferred revenues	8,374	8,341
Other current liabilities	3,554	3,957
Total current liabilities	18,630	19,124
Non-current liabilities:		
Notes payable and other borrowings, non-current	51,673	56,128
Income taxes payable	13,295	13,429
Other non-current liabilities	2,748	2,297
Total non-current liabilities	67,716	71,854
Commitments and contingencies		
Oracle Corporation stockholders' equity:		
Preferred stock, \$0.01 par value—authorized: 1.0 shares; outstanding: none	—	—
Common stock, \$0.01 par value and additional paid in capital—authorized: 11,000 shares; outstanding: 3,359 shares and 3,997 shares as of May 31, 2019 and May 31, 2018, respectively	26,909	28,950
(Accumulated deficit) retained earnings	(3,496)	19,111
Accumulated other comprehensive loss	(1,628)	(1,689)
Total Oracle Corporation stockholders' equity	21,785	46,372
Noncontrolling interests	578	501
Total equity	22,363	46,873
Total liabilities and equity	\$ 108,709	\$ 137,851

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended May 31, 2019, 2018 and 2017

(in millions, except per share data)	Year Ended May 31,		
	2019	2018	2017
Revenues:			
Cloud services and license support	\$ 26,707	\$ 26,222	\$ 23,758
Cloud license and on-premise license	5,855	5,772	6,523
Hardware	3,704	3,994	4,152
Services	3,240	3,395	3,359
Total revenues	39,506	39,383	37,792
Operating expenses:			
Cloud services and license support (1)	3,782	3,606	3,011
Hardware (1)	1,360	1,576	1,648
Services (1)	2,853	2,878	2,793
Sales and marketing (1)	8,509	8,433	8,085
Research and development	6,026	6,084	6,153
General and administrative	1,265	1,282	1,172
Amortization of intangible assets	1,689	1,620	1,451
Acquisition related and other	44	52	103
Restructuring	443	588	463
Total operating expenses	25,971	26,119	24,879
Operating income	13,535	13,264	12,913
Interest expense	(2,082)	(2,025)	(1,798)
Non-operating income, net	815	1,185	565
Income before provision for income taxes	12,268	12,424	11,680
Provision for income taxes	1,185	8,837	2,228
Net income	\$ 11,083	\$ 3,587	\$ 9,452
Earnings per share:			
Basic	\$ 3.05	\$ 0.87	\$ 2.30
Diluted	\$ 2.97	\$ 0.85	\$ 2.24
Weighted average common shares outstanding:			
Basic	3,634	4,121	4,115
Diluted	3,732	4,238	4,217

(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, 2019, 2018 and 2017

(in millions)	Year Ended May 31,		
	2019	2018	2017
Net income	\$ 11,083	\$ 3,587	\$ 9,452
Other comprehensive income (loss), net of tax:			
Net foreign currency translation (losses) gains	(149)	(291)	85
Net unrealized (losses) gains on defined benefit plans	(70)	34	(102)
Net unrealized gains (losses) on marketable securities	332	(609)	(9)
Net unrealized (losses) gains on cash flow hedges	(52)	37	25
Total other comprehensive income (loss), net	61	(829)	(1)
Comprehensive income	<u>\$ 11,144</u>	<u>\$ 2,758</u>	<u>\$ 9,451</u>

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended May 31, 2019, 2018 and 2017

(in millions, except per share data)	Common Stock and Additional Paid in Capital		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Oracle Corporation Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Amount					
Balances as of May 31, 2016	4,131	\$ 24,217	\$ 23,888	\$ (816)	\$ 47,289	\$ 501	\$ 47,790
Cumulative-effect of accounting change	—	—	820	(43)	777	4	781
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	(247)	(239)
Other comprehensive (loss) income, net	—	—	—	(1)	(1)	14	13
Net income	—	—	9,452	—	9,452	118	9,570
Balances as of May 31, 2017	4,137	27,065	28,535	(860)	54,740	390	55,130
Common stock issued under stock-based compensation plans	105	2,277	—	—	2,277	—	2,277
Common stock issued under stock purchase plans	3	125	—	—	125	—	125
Assumption of stock-based compensation plan awards in connection with acquisitions	—	3	—	—	3	—	3
Stock-based compensation	—	1,607	—	—	1,607	—	1,607
Repurchase of common stock	(238)	(1,632)	(9,871)	—	(11,503)	—	(11,503)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(10)	(506)	—	—	(506)	—	(506)
Cash dividends declared (\$0.76 per share)	—	—	(3,140)	—	(3,140)	—	(3,140)
Other, net	—	11	—	—	11	(24)	(13)
Other comprehensive loss, net	—	—	—	(829)	(829)	—	(829)
Net income	—	—	3,587	—	3,587	135	3,722
Balances as of May 31, 2018	3,997	28,950	19,111	(1,689)	46,372	501	46,873
Cumulative-effect of accounting change	—	—	(110)	—	(110)	—	(110)
Common stock issued under stock-based compensation plans	103	2,033	—	—	2,033	—	2,033
Common stock issued under stock purchase plans	2	122	—	—	122	—	122
Assumption of stock-based compensation plan awards in connection with acquisitions	—	8	—	—	8	—	8
Stock-based compensation	—	1,653	—	—	1,653	—	1,653
Repurchase of common stock	(734)	(5,354)	(30,646)	—	(36,000)	—	(36,000)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(9)	(503)	—	—	(503)	—	(503)
Cash dividends declared (\$0.81 per share)	—	—	(2,932)	—	(2,932)	—	(2,932)
Other, net	—	—	(2)	—	(2)	(69)	(71)
Other comprehensive income (loss), net	—	—	—	61	61	(6)	55
Net income	—	—	11,083	—	11,083	152	11,235
Balances as of May 31, 2019	3,359	\$ 26,909	\$ (3,496)	\$ (1,628)	\$ 21,785	\$ 578	\$ 22,363

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2019, 2018 and 2017

(in millions)	Year Ended May 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 11,083	\$ 3,587	\$ 9,452
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,230	1,165	1,000
Amortization of intangible assets	1,689	1,620	1,451
Allowances for doubtful accounts receivable	190	146	129
Deferred income taxes	(1,191)	(847)	(440)
Stock-based compensation	1,653	1,607	1,350
Other, net	157	(27)	126
Changes in operating assets and liabilities, net of effects from acquisitions:			
(Increase) decrease in trade receivables, net	(272)	267	(67)
Decrease (increase) in prepaid expenses and other assets	261	(258)	(384)
(Decrease) increase in accounts payable and other liabilities	(102)	(260)	230
(Decrease) increase in income taxes payable	(453)	8,150	732
Increase in deferred revenues	306	236	547
Net cash provided by operating activities	14,551	15,386	14,126
Cash flows from investing activities:			
Purchases of marketable securities and other investments	(1,400)	(25,282)	(25,867)
Proceeds from maturities of marketable securities and other investments	12,681	20,372	15,186
Proceeds from sales of marketable securities	17,299	2,745	2,429
Acquisitions, net of cash acquired	(363)	(1,724)	(11,221)
Capital expenditures	(1,660)	(1,736)	(2,021)
Net cash provided by (used for) investing activities	26,557	(5,625)	(21,494)
Cash flows from financing activities:			
Payments for repurchases of common stock	(36,140)	(11,347)	(3,561)
Proceeds from issuances of common stock	2,155	2,402	2,181
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(503)	(506)	(283)
Payments of dividends to stockholders	(2,932)	(3,140)	(2,631)
Proceeds from borrowings, net of issuance costs	—	12,443	17,732
Repayments of borrowings	(4,500)	(9,800)	(4,094)
Other, net	(136)	(34)	(258)
Net cash (used for) provided by financing activities	(42,056)	(9,982)	9,086
Effect of exchange rate changes on cash and cash equivalents	(158)	57	(86)
Net (decrease) increase in cash and cash equivalents	(1,106)	(164)	1,632
Cash and cash equivalents at beginning of period	21,620	21,784	20,152
Cash and cash equivalents at end of period	\$ 20,514	\$ 21,620	\$ 21,784
Non-cash investing and financing transactions:			
Fair values of restricted stock-based awards and stock options assumed in connection with acquisitions	\$ 8	\$ 3	\$ 90
Change in unsettled repurchases of common stock	\$ (140)	\$ 154	\$ (69)
Change in unsettled investment purchases	\$ —	\$ (303)	\$ 73
Supplemental schedule of cash flow data:			
Cash paid for income taxes	\$ 2,901	\$ 1,562	\$ 1,983
Cash paid for interest	\$ 2,059	\$ 1,910	\$ 1,612

See notes to consolidated financial statements.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2019

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Oracle Corporation provides products and services that substantially address all aspects of enterprise information technology (IT) environments including applications and infrastructure, which are delivered to customers worldwide through a variety of flexible and interoperable IT deployment models, including cloud-based, Cloud at Customer (an instance of Oracle Cloud in the customer's own data center), on premise or hybrid. Oracle Cloud Software-as-a-Service and Infrastructure-as-a-Service (SaaS and IaaS, respectively, and collectively, Oracle Cloud Services) offerings provide a comprehensive and integrated stack of applications and infrastructure services delivered via a cloud-based deployment model. Oracle Cloud Services integrate the software, hardware and services on a customer's behalf in a cloud-based IT environment that Oracle deploys, upgrades, supports and manages for the customer. We offer our customers the option to deploy our comprehensive set of cloud offerings including Oracle Cloud Services 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 license support contracts, which provide our customers with rights to unspecified license 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 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.

In fiscal 2019, we adopted the following Accounting Standards Updates:

- Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* : *Topic 606* and subsequent amendments to the initial guidance: ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, ASU 2016-20, ASU 2017-10, ASU 2017-13 and ASU 2017-14 (collectively, *Topic 606*), utilizing the full retrospective method of transition whereby the results and related disclosures for the comparative fiscal 2018 and 2017 periods presented in this Form 10-K were recast to be presented as if *Topic 606* had been in effect during fiscal 2018 and 2017. Retrospective adjustments applicable prior to June 1, 2016 were recorded as a cumulative-effect adjustment that resulted in a \$43 million increase in accumulated other comprehensive loss (AOCL) and an \$820 million increase in retained earnings. Refer to the "Revenue Recognition" and "Deferred Sales Commissions" sections below for accounting policy updates upon our adoption of *Topic 606*.
- ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12), which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. We early adopted this new standard on June 1, 2018 using the modified retrospective method, which

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(Continued)
May 31, 2019

requires us to account for ASU 201 7-12 as of the date of adoption with any retrospective adjustments applicable to prior periods included as a cumulative-effect adjustment to AOCL and retained earnings. The adoption of ASU 2017-12 did not have a material impact on our consolidated financial statements as of the adoption date or for any of the periods presented. As a result of the adoption of ASU 2017-12, we have elected to modify certain of our hedge documentation to exclude the fair value of certain components of the related hedging instrument in our assessment of hedge effectiveness. See Note 10 for additional explanations of the impact of adoption.

- ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Costs* (ASU 2017-07), which provides guidance on the capitalization, presentation and disclosure of net benefit costs related to postretirement benefit plans. We adopted ASU 2017-07 on a full retrospective basis, which resulted in the retrospective reclassification of \$54 million and \$42 million, respectively, of non-service net periodic pension cost for fiscal 2018 and 2017, respectively, from line items within operating expenses into non-operating income, net.
- ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16), which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. We adopted ASU 2016-16 effective June 1, 2018 on a modified retrospective basis through a cumulative-effect adjustment that resulted in a \$110 million decrease in prepaid assets with the corresponding offset to retained earnings.

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

(in millions, except per share data)	Year Ended May 31,					
	2018			2017		
	As Previously Reported	Adjustments	As Adjusted	As Previously Reported	Adjustments	As Adjusted
Total revenues	\$ 39,831	\$ (448)	\$ 39,383	\$ 37,728	\$ 64	\$ 37,792
Total operating expenses	\$ 26,152	\$ (33)	\$ 26,119	\$ 25,018	\$ (139)	\$ 24,879
Non-operating income, net	\$ 1,237	\$ (52)	\$ 1,185	\$ 605	\$ (40)	\$ 565
Provision for income taxes	\$ 9,066	\$ (229)	\$ 8,837	\$ 2,182	\$ 46	\$ 2,228
Net income	\$ 3,825	\$ (238)	\$ 3,587	\$ 9,335	\$ 117	\$ 9,452
Basic earnings per share	\$ 0.93	\$ (0.06)	\$ 0.87	\$ 2.27	\$ 0.03	\$ 2.30
Diluted earnings per share	\$ 0.90	\$ (0.05)	\$ 0.85	\$ 2.21	\$ 0.03	\$ 2.24

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

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(Continued)
May 31, 2019

In addition, in fiscal 2019, we also adopted the following Accounting Standards Updates, none of which had a material impact upon adoption or for any of the periods presented to our reported financial position, results of operations or cash flows:

- ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15);
- ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* (ASU 2018-14);
- ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13);
- ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02); and
- ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01).

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

The comparability of our operating results in fiscal 2019 compared to the corresponding prior year periods, and of our consolidated balance sheets as of May 31, 2019 relative to May 31, 2018, was impacted by the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act), which was effective for us in our third quarter of fiscal 2018. The Tax Act reduced the U.S. federal corporate tax rate from 35% to 21%; created a quasi-territorial tax system that generally allows companies to repatriate certain foreign source earnings without incurring additional U.S. income tax for such earnings generated after December 31, 2017; generally required companies to pay a one-time transition tax pursuant to a payment schedule that settles the tax over multiple future years on certain foreign subsidiary earnings generated prior to December 31, 2017 that, in substantial part, were previously tax deferred; created new taxes on certain foreign sourced earnings; limited deductibility of certain future compensation arrangements to certain highly compensated employees; and provided tax incentives for the exportation of U.S. products to foreign jurisdictions and for the purchase of qualifying capital equipment, among other provisions. As a result, we recorded a provisional charge to income tax expense of \$6.9 billion in fiscal 2018, which, pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118), included a \$7.8 billion provisional charge related to the one-time transition tax on certain foreign subsidiary earnings and a provisional \$911 million of income tax benefit related to the remeasurement of our net deferred tax assets and liabilities. During fiscal 2019, we completed our analysis of the impacts of the Tax Act and recorded an income tax benefit of \$529 million in accordance with SAB 118 related to adjustments to our estimates of the one-time transition tax on certain foreign subsidiary earnings and an income tax expense of \$140 million in accordance with SAB 118 related to the remeasurement of our net deferred tax assets and liabilities.

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 SEC. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(Continued)
May 31, 2019

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

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

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

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

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

Our services are offered to customers as standalone arrangements or as a part of arrangements to customers buying other products and services. Our consulting services are designed to help our customers to, among others, deploy, architect, integrate, upgrade and secure their investments in Oracle applications and infrastructure technologies. Our advanced customer support services are offered as standalone arrangements or as a part of

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arrangements to customers buying other products and services. We offer these advanced customer support services to Oracle customers to enable increased performance and higher availability of Oracle products and services. Education services include instruct or-led, media-based and internet-based training in the use of our cloud, software and hardware products.

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

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

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

Our revenue arrangements generally include standard warranty or service level provisions that our arrangements will perform and operate in all material respects as defined in the respective agreements, the financial impacts of which have historically been and are expected to continue to be insignificant. Our arrangements generally do not include a general right of return relative to the delivered products or services. We recognize revenues net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

Revenue Recognition for Cloud Services

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

Revenue Recognition for License Support and Hardware Support

Oracle's primary performance obligations with respect to license support contracts and hardware support contracts are to provide customers with technical support as needed and unspecified software product upgrades, maintenance releases and patches during the term of the support period, if and when they are available. Oracle is obligated to make the license and hardware support services available continuously throughout the contract

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period. Therefore, revenues for license support contracts and hardware support contracts are generally recognized ratably over the contractual periods that the support services are provided.

Revenue Recognition for Cloud License and On-Premise License

Revenues from distinct cloud license and on-premise license performance obligations are generally recognized upfront at the point in time when the software is made available to the customer to download and use. Revenues from usage-based royalty arrangements for distinct cloud licenses and on-premise licenses are recognized at the point in time when the software end user usage occurs. For usage-based royalty arrangements with a fixed minimum guarantee amount, the minimum amount is generally recognized upfront when the software is made available to the royalty customer.

Revenue Recognition for Hardware Products

The hardware product and related software, such as an operating system or firmware, are highly interdependent and interrelated and are accounted for as a combined performance obligation. The revenues for this combined performance obligation are generally recognized at the point in time that the hardware product is delivered to the customer and ownership is transferred to the customer.

Revenue Recognition for Services

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

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

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

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

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Remaining Performance Obligations from Customer Contracts

Trade receivables, net of allowance for doubtful accounts, and deferred revenues are reported net of related uncollected deferred revenues in our consolidated balance sheets as of May 31, 2019 and 2018.

The amount of revenues recognized during the year ended May 31, 2019 that were included in the opening deferred revenues balance as of May 31, 2018 was approximately \$8.3 billion. Revenues recognized from performance obligations satisfied in prior periods and impairment losses recognized on our receivables were immaterial during each year ended May 31, 2019, 2018 and 2017.

Remaining performance obligations represent contracted revenues that had not yet been recognized, and include deferred revenues; invoices that have been issued to customers but were uncollected and have not been recognized as revenues; and amounts that will be invoiced and recognized as revenues in future periods. The volumes and amounts of customer contracts that we book and total revenues that we recognize are impacted by a variety of seasonal factors. In each fiscal year, the amounts and volumes of contracting activity and our total revenues are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. These seasonal impacts influence how our remaining performance obligations change over time. As of May 31, 2019, our remaining performance obligations were \$36.2 billion, approximately 62% of which we expect to recognize as revenues over the next twelve months and the remainder thereafter.

Refer to Note 15 for our discussion of revenues disaggregation.

Sales of Financing Receivables

We offer certain of our customers the option to acquire our software products, hardware products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed for our customers on a non-recourse basis to financial institutions within 90 days of the contracts' dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financing receivables because we are considered to have surrendered control of these financing receivables. During fiscal 2019, 2018 and 2017, \$1.8 billion, \$1.7 billion and \$1.6 billion, respectively, of our financing receivables were sold to financial institutions.

Business Combinations

We apply the provisions of ASC 805, *Business Combinations* (ASC 805), in accounting for our acquisitions. ASC 805 requires that we evaluate whether a transaction pertains to an acquisition of assets, or to an acquisition of a business. A business is defined as an integrated set of assets and activities that is capable of being conducted and managed for the purpose of providing a return to investors. Asset acquisitions are accounted for by allocating the cost of the acquisition to the individual assets and liabilities assumed on a relative fair value basis; whereas the acquisition of a business 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

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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 from actual results. This may require us to revise our initial estimates which may 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 non-income tax related pre-acquisition contingency 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.

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 securities as available-for-sale. Marketable debt 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 investments are classified as current based on the nature of the investments and their availability for use in current operations.

Investments in equity securities, other than equity method investments, are recorded at fair value, if fair value is readily determinable. We hold investments in certain non-marketable equity securities with no readily determinable fair values in which we do not have a controlling interest or significant influence. Upon adoption of ASU 2016-01 effective June 1, 2018, we have elected to measure these equity securities at cost, less any impairment, adjusted for observable price changes from orderly transactions for identical or similar investments of the same issuer. Prior to our adoption of ASU 2016-01 these equity securities were recorded at cost, less any impairment. Our non-marketable equity securities are included in other non-current assets in the accompanying consolidated balance sheets and are subject to periodic impairment reviews.

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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 largely mitigated with collateral security agreements that provide for collateral to be received or posted when the net fair values of these contracts fluctuate 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 2019, 2018 or 2017.

We outsource the manufacturing, assembly and delivery of certain of our hardware products to a variety of companies, many of which are located outside the U.S. 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. Inventories are included in prepaid expenses and other current assets in our consolidated balance sheets and totaled \$320 million and \$398 million at May 31, 2019 and 2018, respectively.

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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 \$776 million and \$802 million at May 31, 2019 and 2018, respectively.

Deferred Sales Commissions

We defer sales commissions earned by our sales force that are considered to be incremental and recoverable costs of obtaining a cloud, license support and hardware support contract. Initial sales commissions for the majority of these aforementioned contracts are generally deferred and amortized on a straight-line basis over a period of benefit that we estimate to be four to five years. We determine the period of benefit by taking into consideration the historical and expected durations of our customer contracts, the expected useful lives of our technologies, and other factors. Sales commissions for renewal contracts relating to our cloud-based arrangements are generally deferred and then amortized on a straight-line basis over the related contractual renewal period, which is generally one to three years. Amortization of deferred sales commissions is included as a component of sales and marketing expenses in our 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 2019, 2018 or 2017.

Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which generally range from one to 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. When goodwill is assessed for impairment, we have the option to perform an assessment of qualitative factors of impairment (optional assessment) prior to necessitating a quantitative impairment test. Should the optional assessment be used for any given fiscal year, qualitative factors to consider for a reporting unit include: cost factors; financial performance; legal, regulatory, contractual, political, business, or other factors; entity specific factors; industry and market considerations; macroeconomic conditions; and other relevant events and factors affecting the reporting unit. If we determine in the qualitative assessment that it is more likely than not that the fair value of the reporting unit is less than its carrying value, a quantitative test is then performed. Otherwise, no further testing is required. For those reporting units tested using a quantitative approach, we compare the fair value of each reporting unit with the carrying amount of the reporting unit, including goodwill. To determine the fair value of each reporting unit we utilize estimates, judgments and assumptions including estimated future cash flows the reporting unit is expected to generate on a discounted basis; the discount rate used as a part of the discounted cash flow analysis; future economic and market conditions; and market comparables of peer companies, among others. If, as per the quantitative test, the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, impairment is recognized for the difference, limited to the amount of goodwill recognized for the reporting

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unit. Our most recent goodwill impairment analysis was performed on March 1, 2019 and did not result in a goodwill impairment charge. We did not recognize impairment charges in fiscal 2018 or 2017.

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 2019, 2018 or 2017. At least annually, we assess the useful lives of our finite lived intangible assets and may adjust the period over which these assets are amortized whenever events or changes in circumstances indicate that a shorter amortization period is more reflective of the period in which these assets contribute to our cash flows.

Derivative Financial Instruments

During fiscal 2019, 2018 and 2017, we used derivative financial instruments to manage foreign currency and interest rate risks (see Note 10 below for additional information). We do not use derivative financial instruments for trading purposes. 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 each 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 earnings 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 of the derivative to AOCL in our consolidated balance sheets, and the change is reclassified to earnings when the hedged item affects earnings.

Legal and Other 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. Descriptions of our accounting policies associated with contingencies assumed as a part of a business combination are 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 17 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 U.S. are translated into U.S. Dollars using weighted-average exchange rates while assets and liabilities of operations outside the U.S. 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 AOCL in the accompanying

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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 \$ 111 million, \$ 74 million and \$1 52 million in fiscal 2019, 2018 and 2017 , 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, performance-based stock options (PSOs), 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. We account for forfeitures of stock-based awards as they occur.

For our service-based stock awards, we recognize stock-based compensation expense on a straight-line basis over the service period of the award, which is generally four years.

For our PSUs and PSOs, we recognize stock-based compensation expense on a straight-line basis over the longer of the derived, explicit or implicit service period (which is the period of time expected for the performance condition to be satisfied). During our interim and annual 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 that result in a change in the number of shares that are expected to vest, or changes in our estimates of implicit service periods, may cause the amount of stock-based compensation expense that we record for each interim reporting period to vary. Any changes in estimates that impact our expectation of the number of shares that are expected to vest are reflected in the amount of stock-based compensation expense that we recognize for each PSU or PSO tranche on a cumulative catch up basis during each interim reporting period in which such estimates are altered. Changes in estimates of the implicit service periods are recognized prospectively.

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 in each reporting period 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. The impacts of the actual tax deductions for stock-based awards that are realized in these jurisdictions are 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 \$169 million, \$138 million and \$95 million in fiscal 2019, 2018 and 2017, respectively.

Research and Development Costs and Software Development Costs

All research and development costs are expensed as incurred in accordance with ASC 730, *Research and Development* . 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 2019, 2018 and 2017.

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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,		
	2019	2018	2017
Transitional and other employee related costs	\$ 49	\$ 48	\$ 41
Stock-based compensation	—	1	35
Professional fees and other, net	16	3	33
Business combination adjustments, net	(21)	—	(6)
Total acquisition related and other expenses	<u>\$ 44</u>	<u>\$ 52</u>	<u>\$ 103</u>

Non-Operating Income, net

Non-operating income, net consists primarily of interest income, net foreign currency exchange losses, the noncontrolling interests in the net profits of our majority-owned subsidiaries (primarily Oracle Financial Services Software Limited and Oracle Corporation Japan) and net other income, including net realized gains and losses related to all of our investments, net unrealized gains and losses related to the small portion of our investment portfolio related to our deferred compensation plan, net unrealized gains and losses related to certain equity securities and non-service net periodic pension income (losses).

(in millions)	Year Ended May 31,		
	2019	2018	2017
Interest income	\$ 1,092	\$ 1,203	\$ 804
Foreign currency losses, net	(111)	(74)	(152)
Noncontrolling interests in income	(152)	(135)	(118)
Other income, net	(14)	191	31
Total non-operating income, net	<u>\$ 815</u>	<u>\$ 1,185</u>	<u>\$ 565</u>

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes* (ASC 740). 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.

During fiscal 2019, we completed our analysis of the accounting policy election required with regard to the Tax Act's Global Intangible Low-Taxed Income (GILTI) provision. The FASB allows companies to adopt a policy election to account for GILTI under one of two methods: (i) account for GILTI as a component of tax expense in the period in which a company is subject to the rules (the period cost method), or (ii) account for GILTI in a company's

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measurement of deferred taxes (the deferred method). We elected the deferred method, under which we recorded the income tax expense impact to our consolidated financial statements during fiscal 2019 .

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

Financial Instruments: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) and also issued subsequent amendments to the initial guidance: ASU 2018-19, ASU 2019-04, and ASU 2019-05 (collectively, Topic 326). Topic 326 requires measurement and recognition of expected credit losses for financial assets held. Topic 326 is effective for us in our first quarter of fiscal 2021, and earlier adoption is permitted beginning in the first quarter of fiscal 2020. We are currently evaluating the impact of our pending adoption of Topic 326 on our consolidated financial statements.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and also issued subsequent amendments to the initial guidance: ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, Topic 842). Topic 842 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. We intend to adopt Topic ASC 842 using the effective date of June 1, 2019 as the date of our initial application of the standard. Consequently, financial information for the comparative periods will not be updated. We are currently evaluating the impact of our pending adoption of Topic 842 on our consolidated financial statements. We currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of Topic 842, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption .

2. ACQUISITIONS

Fiscal 2019 and 2018 Acquisitions

Fiscal 2018 Acquisition of Aconex Limited

On March 28, 2018, we completed our acquisition of Aconex Limited (Aconex), a provider of cloud-based collaboration software for construction projects. We have included the financial results of Aconex in our consolidated financial statements from the date of acquisition. These results were not individually material to our consolidated financial statements. The total purchase price for Aconex was approximately \$1.2 billion, which consisted of approximately \$1.2 billion in cash and \$7 million for the fair values of stock options and restricted stock-based awards assumed. In allocating the purchase price based on estimated fair values, we recorded approximately \$873 million of goodwill, \$377 million of identifiable intangible assets, and \$29 million of net liabilities. Goodwill generated from our acquisition of Aconex was primarily attributable to synergies expected to arise after the acquisition and is not expected to be tax deductible.

Other Fiscal 2019 and 2018 Acquisitions

During fiscal 2019 and 2018, we acquired certain other companies and purchased certain technology and development assets primarily to expand our products and services offerings . These acquisitions were not significant individually or in the aggregate to our consolidated financial statements.

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Fiscal 2017 Acquisitions***Acquisition of NetSuite Inc., a Related Party***

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

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

The total purchase price for NetSuite was approximately \$9.1 billion, which consisted of approximately \$9.0 billion in cash and \$78 million for the fair values of restricted stock-based awards and stock options assumed. In allocating the purchase price based on estimated fair values, we recorded approximately \$6.7 billion of goodwill, \$3.2 billion of identifiable intangible assets and \$763 million of net liabilities. Goodwill generated from our acquisition of NetSuite was primarily attributable to synergies expected to arise after the acquisition and was not tax deductible.

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 purchase price for these acquisitions was approximately \$3.0 billion, which consisted of \$3.0 billion in cash and \$13 million for the fair values of restricted stock-based awards and stock options assumed. Based on their estimated fair values, we recorded \$243 million of net tangible assets and \$948 million of identifiable intangible assets and \$1.8 billion of residual goodwill related to these fiscal 2017 acquisitions.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Oracle, Aconex and certain other companies that we acquired since the beginning of fiscal 2018 that were considered relevant for the purposes of unaudited pro forma financial information disclosure as if the companies were combined as of the beginning of fiscal 2018. The unaudited pro forma financial information for all periods presented included the business combination accounting effects resulting from these acquisitions, including amortization charges from acquired intangible assets (certain of which are preliminary), stock-based compensation charges for unvested restricted stock-based awards and stock options assumed, if any, and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal 2018. The unaudited pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2018 or 2019.

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

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

(in millions, except per share data)	Year Ended May 31,	
	2019	2018
Total revenues	\$ 39,512	\$ 39,546
Net income	\$ 11,076	\$ 3,500
Basic earnings per share	\$ 3.05	\$ 0.85
Diluted earnings per share	\$ 2.97	\$ 0.83

3. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

Cash and cash equivalents primarily consist of deposits held at major banks, Tier-1 commercial paper debt securities 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, 2019 and 2018. 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 2019, 2018 and 2017. 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,	
	2019	2018
Corporate debt securities and other	\$ 22,242	\$ 44,302
Commercial paper debt securities	—	1,647
Money market funds	5,700	6,500
Total investments	\$ 27,942	\$ 52,449
Investments classified as cash equivalents	\$ 10,629	\$ 6,808
Investments classified as marketable securities	\$ 17,313	\$ 45,641

As of May 31, 2019 and 2018, approximately 33% and 26%, respectively, of our marketable securities investments mature within one year and 67% and 74%, respectively, mature within one to four 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, 2019 and 2018 and our consolidated statements of cash flows for the years ended May 31, 2019, 2018 and 2017 was nominal.

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4. FAIR VALUE MEASUREMENTS

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

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

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

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, 2019			May 31, 2018		
	Fair Value Measurements Using Input Types		Total	Fair Value Measurements Using Input Types		Total
	Level 1	Level 2		Level 1	Level 2	
Assets:						
Corporate debt securities and other	\$ 4,899	\$ 17,343	\$ 22,242	\$ 223	\$ 44,079	\$ 44,302
Commercial paper debt securities	—	—	—	—	1,647	1,647
Money market funds	5,700	—	5,700	6,500	—	6,500
Derivative financial instruments	—	5	5	—	29	29
Total assets	<u>\$ 10,599</u>	<u>\$ 17,348</u>	<u>\$ 27,947</u>	<u>\$ 6,723</u>	<u>\$ 45,755</u>	<u>\$ 52,478</u>
Liabilities:						
Derivative financial instruments	<u>\$ —</u>	<u>\$ 230</u>	<u>\$ 230</u>	<u>\$ —</u>	<u>\$ 158</u>	<u>\$ 158</u>

Our marketable securities investments consist of Tier 1 commercial paper debt securities, corporate debt securities and certain other securities. Marketable securities as presented per our consolidated balance sheets included securities with original maturities at the time of purchase greater than three months and the remainder of the securities were included in cash and cash equivalents. Our valuation techniques used to measure the fair values of our instruments that were classified as Level 1 in the table above were derived from quoted market prices and active markets for these instruments that exist. Our valuation techniques used to measure the fair values of Level 2 instruments listed in the table above, the counterparties to which have high credit ratings, were derived from the following: non-binding market consensus prices that were corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others.

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Based on the trading prices of the \$ 56 . 1 billion and \$5 8 .0 billion of senior notes and the related fair value hedges (refer to Notes 7 and 10 for additional information) that we had outstanding as of May 31, 201 9 and 201 8 , respectively, the estimated fair values of the senior notes and the related fair value hedges using Level 2 inputs at May 31, 201 9 and 201 8 were \$ 58 . 4 billion and \$5 9 . 0 billion, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

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

(Dollars in millions)	Estimated Useful Life	May 31,	
		2019	2018
Computer, network, machinery and equipment	1-5 years	\$ 7,214	\$ 6,156
Buildings and improvements	1-40 years	4,253	3,893
Furniture, fixtures and other	5-15 years	554	662
Land	—	896	868
Construction in progress	—	158	229
Total property, plant and equipment	1-40 years	13,075	11,808
Accumulated depreciation		(6,823)	(5,911)
Total property, plant and equipment, net		\$ 6,252	\$ 5,897

6. INTANGIBLE ASSETS AND GOODWILL

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

(Dollars in millions)	Intangible Assets, Gross				Accumulated Amortization			Intangible Assets, Net		Weighted Average Useful Life (2)
	May 31, 2018	Additions & Adjustments net (1)	Retirements	May 31, 2019	May 31, 2018	Expense	Retirements	May 31, 2019	May 31, 2018	May 31, 2019
Developed technology	\$ 5,309	\$ 301	\$ (204)	\$ 5,406	\$ (2,814)	\$ (857)	\$ 204	\$ (3,467)	\$ 2,495	\$ 1,939
Cloud services and license support agreements and related relationships	5,999	(20)	(286)	5,693	(2,285)	(712)	286	(2,711)	3,714	2,982
Other	1,622	17	(50)	1,589	(1,161)	(120)	50	(1,231)	461	358
Total intangible assets, net	\$ 12,930	\$ 298	\$ (540)	\$ 12,688	\$ (6,260)	\$ (1,689)	\$ 540	\$ (7,409)	\$ 6,670	\$ 5,279

(1) Amounts also include immaterial changes, if any, in net intangible asset balances for the periods presented that resulted from foreign currency translations.

(2) Represents weighted-average useful lives (in years) of intangible assets acquired during fiscal 2019.

Total amortization expense related to our intangible assets was \$1.7 billion, \$1.6 billion and \$1.5 billion in fiscal 2019, 2018 and 2017, respectively. As of May 31, 2019, estimated future amortization expenses related to intangible assets were as follows (in millions):

Fiscal 2020	\$ 1,583
Fiscal 2021	1,339
Fiscal 2022	1,090
Fiscal 2023	668
Fiscal 2024	440
Thereafter	159
Total intangible assets, net	\$ 5,279

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The changes in the carrying amounts of goodwill, net, which is generally not deductible for tax purposes, for our operating segments for fiscal 2019 and 2018 were as follows:

(in millions)	Cloud and License	Hardware	Services	Total Goodwill, net
Balances as of May 31, 2017	\$ 38,791	\$ 2,367	\$ 1,887	\$ 43,045
Goodwill from acquisitions	1,052	—	—	1,052
Goodwill adjustments, net (1)	(243)	—	(99)	(342)
Balances as of May 31, 2018	39,600	2,367	1,788	43,755
Goodwill from acquisitions	96	—	—	96
Goodwill adjustments, net (1)	(63)	—	(9)	(72)
Balances as of May 31, 2019	\$ 39,633	\$ 2,367	\$ 1,779	\$ 43,779

(1) Pursuant to our business combinations accounting policy, we recorded goodwill adjustments for the effects on goodwill of changes to net assets acquired during the period that such a change is identified, provided that any such change is within the measurement period (up to one year from the date of the acquisition). Amounts also include immaterial changes, if any, in goodwill balances for the periods presented that resulted from net foreign currency translations.

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7. NOTES PAYABLE AND OTHER BORROWINGS

Notes payable and other borrowings consisted of the following:

(Dollars in millions)	Date of Issuance	May 31, 2019		May 31, 2018	
		Amount	Effective Interest Rate	Amount	Effective Interest Rate
Fixed-rate senior notes:					
\$1,500, 2.375%, due January 2019 (1)	July 2013	—	N.A.	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	1,393	2.33%	1,446	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	July 2016	4,250	1.94%	4,250	1.94%
\$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%
\$1,250, 2.625%, due February 2023	November 2017	1,250	2.64%	1,250	2.64%
\$1,000, 3.625%, due July 2023	July 2013	1,000	3.73%	1,000	3.73%
\$2,500, 2.40%, due September 2023	July 2016	2,500	2.40%	2,500	2.40%
\$2,000, 3.40%, due July 2024	July 2014	2,000	3.43%	2,000	3.43%
\$2,000, 2.95%, due November 2024	November 2017	2,000	2.98%	2,000	2.98%
\$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	836	3.17%	868	3.17%
\$3,000, 2.65%, due July 2026	July 2016	3,000	2.69%	3,000	2.69%
\$2,750, 3.25%, due November 2027	November 2017	2,750	3.26%	2,750	3.26%
\$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	July 2016	1,250	3.85%	1,250	3.85%
\$1,750, 3.80%, due November 2037	November 2017	1,750	3.83%	1,750	3.83%
\$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	July 2016	3,000	4.00%	3,000	4.00%
\$2,250, 4.00%, due November 2047	November 2017	2,250	4.03%	2,250	4.03%
\$1,250, 4.375%, due May 2055	May 2015	1,250	4.40%	1,250	4.40%
Floating-rate senior notes:					
\$500, three-month LIBOR plus 0.58%, due January 2019	July 2013	—	N.A.	500	2.93%
\$750, three-month LIBOR plus 0.51%, due October 2019	July 2014	750	3.10%	750	2.84%
Revolving credit agreements and other borrowings:					
\$2,500, LIBOR plus 0.50%, due June 2018	May 2018	—	N.A.	2,500	2.48%
Other borrowings due August 2025	November 2016	113	3.53%	113	3.53%
Total senior notes and other borrowings		\$ 56,342		\$ 60,927	
Unamortized discount/issuance costs		(202)		(282)	
Hedge accounting fair value adjustments (1)(4)		27		(26)	
Total notes payable and other borrowings		\$ 56,167		\$ 60,619	
Notes payable and other borrowings, current		\$ 4,494		\$ 4,491	
Notes payable and other borrowings, non-current		\$ 51,673		\$ 56,128	

(1) We 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 that were due and settled in 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 were 3.00% as of May 31, 2018 for

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the January 2019 Notes; and 3.07% and 2.81%, respectively, for the October 2019 Notes, and 3.22% and 2.96%, respectively, for the July 2021 Notes as of May 31, 2019 and 2018, respectively. Refer to Notes 1 and 10 for a description of our accounting for fair value hedges associated with our October 2019 Notes and July 2021 Notes and to our Annual Report for the year ended May 31, 2018 for a description of our accounting for fair value hedges associated with our January 2019 Notes.

- (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, 2019 and May 31, 2018, 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 10 for additional information).
- (4) In fiscal 2018 we entered into certain cross-currency interest rate 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 variable-rate, U.S. Dollar-denominated debt of \$871 million based on LIBOR. The effective interest rate as of May 31, 2019 and 2018 after consideration of the cross-currency interest rate swap agreements were 5.74% and 5.17%, respectively, for the July 2025 Notes. Refer to Notes 1 and 10 for a description of our accounting for fair value hedges.

Future principal payments (adjusted for the effects of the cross-currency swap agreements associated with the January 2021 Notes and July 2025 Notes) for all of our borrowings at May 31, 2019 were as follows (in millions):

Fiscal 2020	\$	4,500
Fiscal 2021		2,631
Fiscal 2022		8,250
Fiscal 2023		3,750
Fiscal 2024		3,500
Thereafter		33,984
Total	\$	<u>56,615</u>

Senior Notes

Interest is payable semi-annually for the senior notes listed in the above table 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, 2019.

Revolving Credit Agreements

In May 2018, we borrowed \$2.5 billion pursuant to three revolving credit agreements with JPMorgan Chase Bank, N.A., as initial lender and administrative agent (the 2018 Credit Agreements). In June 2018, we repaid the \$2.5 billion and the 2018 Credit Agreements expired pursuant to their terms.

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Commercial Paper Program and Commercial Paper Notes

Our existing \$3.0 billion commercial paper program 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 pursuant to dealer agreements with various banks and an Issuing and Paying Agency Agreement with Deutsche Bank Trust Company Americas. As of May 31, 2019 and 2018, we did not have any outstanding commercial paper notes.

8. RESTRUCTURING ACTIVITIES

Fiscal 2019 Oracle Restructuring Plan

During fiscal 2019, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations due to our acquisitions and certain other operational activities (2019 Restructuring Plan). In the fourth quarter of fiscal 2019, our management supplemented the 2019 Restructuring Plan to reflect additional actions that we expect to take. The total estimated restructuring costs associated with the 2019 Restructuring Plan are up to \$584 million and will be recorded to the restructuring expense line item within our consolidated statements of operations as they are incurred. We recorded \$476 million of restructuring expenses in connection with the 2019 Restructuring Plan in fiscal 2019 and we expect to incur the majority of the estimated \$108 million through the end of fiscal 2020. Any changes to the estimates of executing the 2019 Restructuring Plan will be reflected in our future results of operations.

Fiscal 2017 Oracle Restructuring Plan

During fiscal 2017, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operations due to our acquisitions and certain other operational activities (2017 Restructuring Plan). Restructuring costs associated with the 2017 Restructuring Plan were recorded to the restructuring expense line item within our consolidated statements of operations as they were incurred. We recorded \$601 million and \$486 million of restructuring expenses in connection with the 2017 Restructuring Plan in fiscal 2018 and 2017, respectively. Actions pursuant to the 2017 Restructuring Plan were substantially complete as of May 31, 2018.

Summary of All Plans

Fiscal 2019 Activity

(in millions)	Accrued May 31, 2018 (2)	Year Ended May 31, 2019				Accrued May 31, 2019 (2)	Total Costs Accrued to Date	Total Expected Program Costs
		Initial Costs (3)	Adj. to Cost (4)	Cash Payments	Others (5)			
Fiscal 2019 Oracle Restructuring Plan (1)								
Cloud and license	\$ —	\$ 191	\$ (4)	\$ (113)	\$ (2)	\$ 72	\$ 187	\$ 245
Hardware	—	53	—	(35)	—	18	53	65
Services	—	41	1	(27)	—	15	42	72
Other (6)	—	190	4	(87)	1	108	194	202
Total Fiscal 2019 Oracle Restructuring Plan	\$ —	\$ 475	\$ 1	\$ (262)	\$ (1)	\$ 213	\$ 476	\$ 584
Total other restructuring plans (7)	\$ 282	\$ 5	\$ (58)	\$ (181)	\$ 1	\$ 49		
Total restructuring plans	\$ 282	\$ 480	\$ (57)	\$ (443)	\$ —	\$ 262		

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Fiscal 2018 Activity

	Accrued May 31, 2017	Year Ended May 31, 2018				Accrued May 31, 2018 (2)
(in millions)		Initial Costs (3)	Adj. to Cost (4)	Cash Payments	Others (5)	
Fiscal 2017 Oracle Restructuring Plan (1)						
Cloud and license	\$ 85	\$ 156	\$ (12)	\$ (150)	\$ 3	\$ 82
Hardware	31	167	(15)	(122)	—	61
Services	25	48	(4)	(54)	1	16
Other (6)	44	267	(6)	(208)	(7)	90
Total Fiscal 2017 Oracle Restructuring Plan	<u>\$ 185</u>	<u>\$ 638</u>	<u>\$ (37)</u>	<u>\$ (534)</u>	<u>\$ (3)</u>	<u>\$ 249</u>
Total other restructuring plans (7)	<u>\$ 79</u>	<u>\$ 1</u>	<u>\$ (14)</u>	<u>\$ (37)</u>	<u>\$ 4</u>	<u>\$ 33</u>
Total restructuring plans	\$ 264	\$ 639	\$ (51)	\$ (571)	\$ 1	\$ 282

Fiscal 2017 Activity

	Accrued May 31, 2016	Year Ended May 31, 2017				Accrued May 31, 2017
(in millions)		Initial Costs (3)	Adj. to Cost (4)	Cash Payments	Others (5)	
Fiscal 2017 Oracle Restructuring Plan (1)						
Cloud and license	\$ —	\$ 184	\$ (6)	\$ (100)	\$ 7	\$ 85
Hardware	—	91	(3)	(57)	—	31
Services	—	59	(1)	(34)	1	25
Other (6)	—	166	(4)	(118)	—	44
Total Fiscal 2017 Oracle Restructuring Plan	\$ —	\$ 500	\$ (14)	\$ (309)	\$ 8	\$ 185
Total other restructuring plans (7)	\$ 283	\$ 8	\$ (31)	\$ (169)	\$ (12)	\$ 79
Total restructuring plans	\$ 283	\$ 508	\$ (45)	\$ (478)	\$ (4)	\$ 264

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

(2) The balances at May 31, 2019 and 2018 included \$239 million and \$257 million, respectively, recorded in other current liabilities and \$23 million and \$25 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) Represents employee related severance costs for functions that are not included within our operating segments and certain facilities related restructuring costs.

(7) 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.

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9. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	May 31,	
	2019	2018
Cloud services and license support	\$ 7,340	\$ 7,265
Hardware	635	645
Services	360	404
Cloud license and on-premise license	39	27
Deferred revenues, current	8,374	8,341
Deferred revenues, non-current (in other non-current liabilities)	669	625
Total deferred revenues	\$ 9,043	\$ 8,966

Deferred cloud services and license support revenues and deferred hardware revenues substantially represent customer payments made in advance for cloud or support contracts that are typically billed in advance with corresponding revenues generally being recognized ratably over the contractual periods. Deferred services revenues include prepayments for our services business and revenues for these services are generally recognized as the services are performed. Deferred cloud license and on-premise license revenues typically resulted from customer payments that related to undelivered products and services or specified enhancements.

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value Hedges — Interest Rate Swap Agreements and Cross-Currency Interest Rate Swap Agreements

In May 2018, we entered into certain cross-currency interest rate swap agreements to manage the foreign currency exchange rate risk associated with our July 2025 Notes by effectively converting the fixed-rate, Euro denominated 2025 Notes, including the annual interest payments and the payment of principal at maturity, to variable-rate, U.S. Dollar denominated debt based on LIBOR. 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. The critical terms of the swap agreements match the critical terms of the July 2025 Notes, October 2019 Notes, and July 2021 Notes that the swap agreements pertain to, including the notional amounts and maturity dates.

We have designated the aforementioned swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges pursuant to ASC 815. The changes in fair values of these swap agreements are recognized as interest expense in our consolidated statements of operations with the corresponding amounts included in other current/non-current assets or other current/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, current or notes payable, non-current. As a result of our adoption of ASU 2017-12, we have elected to exclude the portion of the

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change in fair value of cross-currency interest rate swap agreements attributable to the related cross-currency basis spread in our assessment of hedge effectiveness. The change in fair value of these cross-currency interest rate swap agreements attributable to the cross-currency basis spread is included in AOCL. The periodic interest settlements for the swap agreements for the July 20 25 Notes, October 2019 Notes , and July 2021 Notes are recorded as interest expense and are included as a part of cash flows from operating activities .

Cash Flow Hedges — Cross-Currency Swap Agreements

In connection with the issuance of the 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.

We used the hypothetical derivative method to assess the effectiveness of our cross-currency swap agreements. The fair values of these cross-currency swap agreements are recognized as other non-current assets or other non-current liabilities in our consolidated balance sheets. We reflect the gains or losses on the effective portion of these cross-currency swap agreements in AOCL in our consolidated balance sheets and an amount is reclassified out of AOCL into non-operating income, net in the same period that the carrying values of the Euro-denominated January 2021 Notes are remeasured and the interest expense is recognized. 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.

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.

We do not 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 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 classification for changes in fair values of these forward contracts is non-operating income, net for both realized and unrealized gains and losses.

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As of May 31, 2019 and 2018, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$ 3.8 billion and \$3.4 billion, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$ 3.3 billion and \$1.4 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at May 31, 2019 and 2018. The cash flows related to these foreign currency contracts are classified as operating activities. Net gains or losses related to these forward contracts are included in non-operating income, net.

The effects of 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 Instruments Designated as Hedges in Consolidated Balance Sheets

(in millions)	Balance Sheet Location	Fair Value as of May 31,	
		2019	2018
Derivative assets:			
Interest rate swap agreements designated as fair value hedges	Other non-current assets	\$ 5	\$ 24
Cross-currency interest rate swap agreements designated as fair value hedges	Other non-current assets	—	5
Total derivative assets		<u>\$ 5</u>	<u>\$ 29</u>
Derivative liabilities:			
Interest rate swap agreements designated as fair value hedges	Other current liabilities	\$ 5	\$ 7
Interest rate swap agreements designated as fair value hedges	Other non-current liabilities	—	48
Cross-currency interest rate swap agreements designated as fair value hedges	Other non-current liabilities	17	—
Cross-currency swap agreements designated as cash flow hedges	Other non-current liabilities	208	103
Total derivative liabilities		<u>\$ 230</u>	<u>\$ 158</u>

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

(in millions)	May 31,	
	2019	2018
Notes payable and other borrowings, current:		
Carrying amount of hedged item	\$ 1,994	\$ 1,492
Cumulative hedging adjustments included in the carrying amount	(5)	(7)
Notes payable and other borrowings, non-current:		
Carrying amounts of hedged items	3,652	5,584
Cumulative hedging adjustments included in the carrying amount	44	(19)

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May 31, 2019

Effects of Derivative Instruments Designated as Hedges on Income

(in millions)	Year Ended May 31,					
	2019		2018		2017	
	Non-operating income, net	Interest expense	Non-operating income, net	Interest expense	Non-operating income, net	Interest expense
Consolidated statements of income line amounts in which the hedge effects were recorded	\$ 815	\$ (2,082)	\$ 1,185	\$ (2,025)	\$ 565	\$ (1,798)
Gain (loss) on hedges recognized in income:						
Interest rate swaps designated as fair value hedges:						
Derivative instruments	\$ —	\$ 31	\$ —	\$ (66)	\$ —	\$ (82)
Hedged items	—	(31)	—	66	—	82
Cross-currency interest rate swaps designated as fair value hedges:						
Derivative instruments	(38)	27	—	—	—	—
Hedged items	38	(27)	—	—	—	—
Cross-currency swap agreements designated as cash flow hedges:						
Amount of gain (loss) reclassified from accumulated OCI or OCL	(53)	—	51	—	2	—
Total gain (loss) on hedges recognized in income	\$ (53)	\$ —	\$ 51	\$ —	\$ 2	\$ —

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

(in millions)	Year Ended May 31,		
	2019	2018	2017
Cross-currency swap agreements designated as cash flow hedges	\$ (105)	\$ 88	\$ 27

11. COMMITMENTS AND CERTAIN CONTINGENCIES
Lease Commitments

We have operating leases primarily for facilities, land, data centers and vehicles. As of May 31, 2019, future minimum annual operating lease payments and future minimum payments to be received from non-cancelable subleases were as follows:

(in millions)	
Fiscal 2020	\$ 658
Fiscal 2021	538
Fiscal 2022	425
Fiscal 2023	262
Fiscal 2024	165
Thereafter	333
Future minimum operating lease payments	2,381
Less: minimum payments to be received from non-cancelable subleases	(33)
Total future minimum operating lease payments, net	\$ 2,348

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May 31, 2019

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 8. We have approximately \$ 58 million in facility obligations, net of estimated sublease income and other costs, in accrued restructuring f or these locations in our consolidated balance sheet at May 31, 201 9 .

Rent expense was \$665 million, \$618 million and \$501 million for fiscal 2019, 2018 and 2017, respectively, net of sublease income of approximately \$16 million, \$20 million and \$24 million for fiscal 2019, 2018 and 2017, 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, 2019, our unconditional purchase and certain other obligations were as follows (in millions):

Fiscal 2020	\$	661
Fiscal 2021		57
Fiscal 2022		22
Fiscal 2023		23
Fiscal 2024		23
Thereafter		259
Total	\$	<u>1,045</u>

As described in Notes 7 and 10 above, as of May 31, 2019 we have senior notes and other borrowings of \$56.3 billion that mature at various future dates and derivative financial instruments outstanding that we leverage to manage certain risks and exposures.

Guarantees

Our cloud, license and hardware 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 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.

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Our Oracle Cloud Services 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 license and hardware 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 17 below.

12. STOCKHOLDERS' EQUITY

Common Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 17, 2018 and February 15, 2019, we announced that our Board of Directors approved expansions of our stock repurchase program collectively totaling \$24.0 billion. As of May 31, 2019, approximately \$5.8 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 733.8 million shares for \$36.0 billion (including 0.8 million shares for \$40 million that were repurchased but not settled), 238.0 million shares for \$11.5 billion, and 85.6 million shares for \$3.5 billion in fiscal 2019, 2018 and 2017, 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 and 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 2019, 2018 and 2017, our Board of Directors declared cash dividends of \$0.81, \$0.76 and \$0.64 per share of our outstanding common stock, respectively, which we paid during the same period.

In June 2019, our Board of Directors declared a quarterly cash dividend of \$0.24 per share of our outstanding common stock. The dividend is payable on July 31, 2019 to stockholders of record as of the close of business on July 17, 2019. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

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Accumulated Other Comprehensive Loss

The following table summarizes, as of each balance sheet date, the components of our AOCL, net of income taxes:

(in millions)	May 31,	
	2019	2018
Foreign currency translation losses and other, net	\$ (1,176)	\$ (1,027)
Unrealized losses on defined benefit plans, net	(392)	(322)
Unrealized losses on marketable securities, net	(90)	(422)
Unrealized gains on cash flow hedges, net	30	82
Total accumulated other comprehensive loss	<u>\$ (1,628)</u>	<u>\$ (1,689)</u>

13. 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 the 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-based restricted stock awards (PSUs). 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.
- In fiscal 2018, our stockholders, upon the recommendation of the Board, approved a further increase in the number of authorized shares of stock that may be issued under the 2000 Plan by 330,000,000 shares, and approved material terms of the performance goals under which PSUs and performance-based stock options (PSOs) could be granted.

As of May 31, 2019, the 2000 Plan had 93 million unvested RSUs outstanding, 1 million unvested PSUs outstanding, 55 million PSOs outstanding and service-based stock options (SOs) to purchase 164 million shares of common stock outstanding of which 143 million shares were vested. As of May 31, 2019, approximately 301 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.

The vesting schedule for all awards granted under the 2000 Plan is established by the Compensation Committee of the Board of Directors. RSUs generally require service-based vesting of 25% annually over four years. The vesting schedule for PSUs currently requires achieving performance targets and providing service over four fiscal years. SOs are granted at not less than fair market value, become exercisable generally 25% annually over four years of service, and generally expire 10 years from the date of grant. PSOs granted to three of our current executive officers in fiscal 2018 consist of seven numerically equivalent vesting tranches that potentially may vest. One tranche vests solely on the attainment of a market-based metric. The remaining six tranches require the attainment of both a performance metric and a market capitalization metric. In each case, the market-based

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metric, performance metrics and market capitalization metrics may be achieved at any time during a five year performance period, assuming continued employment and service through the date the Compensation Committee of the Board of Directors certifies that performance has been achieved. The PSOs have contractual lives of eight years in comparison to the typical ten year contractual lives for SOs. For the six tranches of the PSOs with both performance and market conditions, stock-based compensation expense is to be recognized once each vesting tranche becomes probable of achievement over the longer of the estimated implicit service period or derived service. We have preliminarily estimated service periods for those tranches that have been deemed probable of achievement to be up to five years. Stock-based compensation for the market-based tranche will be recognized using the derived service period for the market-based metric achievement, which we have initially estimated to be approximately three years.

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 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. We currently grant RSUs only that vest fully on the one-year anniversary of 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 grants for chairing certain Board committees, subject to certain stockholder approved limitations set forth in the Directors' Plan. As of May 31, 2019, approximately 90,000 unvested RSUs and stock options to purchase approximately 1 million shares of common stock (all of which were vested) were outstanding under the Directors' Plan. As of May 31, 2019, approximately 1 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, or we substituted substantially similar awards under the 2000 Plan. These restricted stock-based awards and stock options assumed or substituted generally retain all of the rights, terms and conditions of the respective plans under which they were originally granted. As of May 31, 2019, approximately 1 million shares of restricted stock-based awards and stock options to purchase 2 million shares of common stock were outstanding under acquired company stock plans that Oracle assumed.

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May 31, 2019

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, 2019 :

(in millions, except fair value)	Restricted Stock-Based Awards Outstanding	
	Number of Shares	Weighted-Average Grant Date Fair Value
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
Granted	44	\$ 47.42
Vested and Issued	(27)	\$ 39.10
Canceled	(11)	\$ 41.97
Balance, May 31, 2018	89	\$ 42.93
Granted	53	\$ 42.47
Vested and Issued	(31)	\$ 41.85
Canceled	(12)	\$ 42.97
Balance, May 31, 2019	99	\$ 43.01

The total grant date fair value of restricted stock-based awards that were vested and issued in fiscal 2019, 2018 and 2017 was \$1.3 billion, \$1.0 billion and \$715 million, respectively. As of May 31, 2019, total unrecognized stock-based compensation expense related to non-vested restricted stock-based awards was \$2.8 billion and is expected to be recognized over the remaining weighted-average vesting period of 2.68 years.

No PSUs were granted in each of fiscal 2019 and 2018. In fiscal 2017, 1.7 million PSUs were granted which vest upon the attainment of certain performance metrics and service-based vesting. Based upon actual attainment relative to the “target” performance metric, certain participants have the ability to be issued up to 150% of the target number of PSUs originally granted, or to be issued no PSUs at all. In fiscal 2019, 2.4 million PSUs vested and 1.3 million PSUs remained outstanding as of May 31, 2019.

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The following table summarizes stock option activity, including SOs and PSOs, and includes awards granted pursuant to the 2000 Plan and stock plans assumed from our acquisitions for our last three fiscal years ended May 31, 2019 :

(in millions, except exercise price)	Options Outstanding	
	Shares Under Stock Option	Weighted-Average Exercise Price
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
Granted (2)	77	\$ 50.95
Exercised	(78)	\$ 28.78
Canceled	(7)	\$ 45.70
Balance, May 31, 2018	304	\$ 36.11
Granted	7	\$ 43.47
Exercised	(72)	\$ 28.32
Canceled	(17)	\$ 49.28
Balance, May 31, 2019	222	\$ 37.78

(1) 6.75 million SOs were granted in total during fiscal 2017 to our Chief Executive Officers and Chief Technology Officer and have contractual lives of five years versus the ten-year contractual lives for most of the other SOs granted.

(2) Awards granted in fiscal 2018 included 66.5 million PSOs granted in total to our Chief Executive Officers, Chief Technology Officer, and former President, Product Development, the contractual terms of which are described in greater detail above.

Stock options outstanding that have vested and that are expected to vest as of May 31, 2019 were as follows:

	Outstanding Stock Options (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (in years)	Aggregate Intrinsic Value (1) (in millions)
Vested	146	\$ 32.13	3.32	\$ 2,698
Expected to vest (2)	42	\$ 46.95	6.47	181
Total	188	\$ 35.45	4.02	\$ 2,879

(1) The aggregate intrinsic value was calculated based on the gross difference between our closing stock price on the last trading day of fiscal 2019 of \$50.60 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, 2019 was approximately \$254 million and is expected to be recognized over a weighted-average period of 2.74 years. Approximately 34 million shares outstanding as of May 31, 2019 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 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.

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We estimated the fair values of our stock options that were solely subject to service-based vesting requirements 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 service-based stock options were as follows for fiscal 2019, 2018 and 2017:

	Year Ended May 31,		
	2019	2018	2017
Expected life (in years)	4.6	4.7	4.8
Risk-free interest rate	2.7%	2.0%	1.0%
Volatility	24%	22%	23%
Dividend yield	1.7%	1.5%	1.5%
Weighted-average fair value per share	\$ 10.77	\$ 9.34	\$ 8.18

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 the Board, and the volatility input is calculated based on the implied volatility of our publicly traded options.

We estimated the fair values of the PSOs granted during fiscal 2018 at approximately \$10 per share using a Monte Carlo simulation approach as of the grant date with the following assumptions: risk-free interest rate of 2.14%, expected term of seven years, expected volatility of 22.44% and dividend yield of 1.49%.

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,		
	2019	2018	2017
Cloud services and license support	\$ 99	\$ 82	\$ 54
Hardware	10	10	11
Services	49	52	44
Sales and marketing	360	361	306
Research and development	963	921	770
General and administrative	172	180	130
Acquisition related and other	—	1	35
Total stock-based compensation	1,653	1,607	1,350
Estimated income tax benefit included in provision for income taxes	(358)	(451)	(423)
Total stock-based compensation, net of estimated income tax benefit	\$ 1,295	\$ 1,156	\$ 927

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 \$2.0 billion, \$2.3 billion and \$2.1 billion for fiscal 2019, 2018 and 2017, respectively. The total aggregate intrinsic value of restricted stock-based awards that vested and were issued and stock options that were exercised was \$3.1 billion, \$3.0 billion and \$2.0 billion for fiscal 2019, 2018 and 2017, respectively. In connection with the vesting and issuance of restricted stock-based awards and stock options that were exercised, the tax benefits realized by us were \$692 million, \$860 million and \$614 million for fiscal 2019, 2018 and 2017, respectively.

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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, 2019, 46 million shares were reserved for future issuances under the Purchase Plan. We issued 2 million shares in fiscal 2019 and 3 million shares in each of fiscal 2018 and 2017, 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 \$380 million, \$384 million and \$366 million for fiscal 2019, 2018 and 2017, respectively.

In the U.S., 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 \$154 million, \$151 million and \$157 million in fiscal 2019, 2018 and 2017, 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 \$566 million and approximately \$555 million as of May 31, 2019 and 2018, respectively, and were presented in other non-current 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 \$90 million, \$102 million and \$85 million for fiscal 2019, 2018 and 2017, respectively. The aggregate projected benefit obligation and aggregate net liability (funded status) of our defined benefit plans as of May 31, 2019 were \$1.2 billion and \$821 million, respectively, and as of May 31, 2018 were \$1.1 billion and \$711 million, respectively.

14. INCOME TAXES

Our effective tax rates for each of the periods presented are the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The more significant provisions of the Tax Act as applicable to us are described in Note 1 above under "Impacts of the U.S. Tax Cuts and Jobs Act of 2017." During fiscal 2019, we recorded a net benefit of \$389 million in accordance with SAB 118 related to adjustments in our estimates of the one-time transition tax on certain foreign subsidiary earnings, and the remeasurement of our net deferred tax assets and liabilities affected by the Tax Act. Our provision for income taxes for fiscal 2019 varied from the 21% U.S. statutory rate imposed by the Tax Act primarily due to earnings in foreign operations, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based compensation, the Foreign Derived Intangible Income deduction, the tax effect of GILTI, and a reduction to our transition tax recorded consistent with the provision of SAB 118. Our provision for income taxes for fiscal 2018 varied from the 21% U.S. statutory rate imposed by the Tax Act primarily due to the impacts of the Tax Act upon adoption, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based compensation and the U.S. domestic production activity deduction. Prior to the January 1, 2018 effective date of the Tax Act, our provision for income taxes historically differed from the tax computed at

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the previous U.S. federal statutory income tax rate due primarily to certain earnings considered as indefinitely reinvested in foreign operations, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based compensation and the U.S. domestic production activity deduction.

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

(in millions)	Year Ended May 31,		
	2019	2018	2017
Domestic	\$ 3,774	\$ 3,366	\$ 3,674
Foreign	8,494	9,058	8,006
Income before provision for income taxes	<u>\$ 12,268</u>	<u>\$ 12,424</u>	<u>\$ 11,680</u>

The provision for income taxes consisted of the following:

(Dollars in millions)	Year Ended May 31,		
	2019	2018	2017
Current provision:			
Federal	\$ 979	\$ 8,320	\$ 936
State	300	264	257
Foreign	1,097	1,100	1,475
Total current provision	<u>\$ 2,376</u>	<u>\$ 9,684</u>	<u>\$ 2,668</u>
Deferred benefit:			
Federal	\$ 483	\$ (827)	\$ (158)
State	(28)	(26)	(29)
Foreign	(1,646)	6	(253)
Total deferred benefit	<u>\$ (1,191)</u>	<u>\$ (847)</u>	<u>\$ (440)</u>
Total provision for income taxes	<u>\$ 1,185</u>	<u>\$ 8,837</u>	<u>\$ 2,228</u>
Effective income tax rate	9.7%	71.1%	19.1%

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:

(Dollars in millions)	Year Ended May 31,		
	2019	2018	2017
U.S. federal statutory tax rate	21.0%	29.2%	35.0%
Tax provision at statutory rate	\$ 2,576	\$ 3,629	\$ 4,088
Impact of the Tax Act of 2017:			
One-time transition tax	(529)	7,781	—
Deferred tax effects	140	(911)	—
Foreign earnings at other than United States rates	(789)	(995)	(1,312)
State tax expense, net of federal benefit	197	142	150
Settlements and releases from judicial decisions and statute expirations, net	(132)	(252)	(189)
Domestic production activity deduction	—	(87)	(119)
Federal research and development credit	(158)	(174)	(127)
Stock-based compensation	(201)	(302)	(149)
Other, net	81	6	(114)
Total provision for income taxes	<u>\$ 1,185</u>	<u>\$ 8,837</u>	<u>\$ 2,228</u>

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

(in millions)	May 31,	
	2019	2018
Deferred tax assets:		
Accruals and allowances	\$ 541	\$ 567
Employee compensation and benefits	646	664
Differences in timing of revenue recognition	322	338
Basis of property, plant and equipment and intangible assets	1,238	—
Tax credit and net operating loss carryforwards	3,717	2,614
Total deferred tax assets	6,464	4,183
Valuation allowance	(1,266)	(1,308)
Total deferred tax assets, net	5,198	2,875
Deferred tax liabilities:		
Unrealized gain on stock	(78)	(78)
Acquired intangible assets	(973)	(1,254)
GILTI deferred	(1,515)	—
Basis of property, plant and equipment and intangible assets	—	(158)
Other	(200)	(48)
Total deferred tax liabilities	(2,766)	(1,538)
Net deferred tax assets	\$ 2,432	\$ 1,337
Recorded as:		
Non-current deferred tax assets	\$ 2,696	\$ 1,395
Non-current deferred tax liabilities (in other non-current liabilities)	(264)	(58)
Net deferred tax assets	\$ 2,432	\$ 1,337

We provide for taxes on the undistributed earnings of foreign subsidiaries. We do not provide for taxes on other outside basis temporary differences of foreign subsidiaries as they are considered indefinitely reinvested outside the U.S. At May 31, 2019, the amount of temporary differences related to other outside basis temporary differences of investments in foreign subsidiaries upon which U.S. income taxes have not been provided was approximately \$7.9 billion. 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, 2019, assuming a full utilization of the foreign tax credits, the potential net deferred tax liability associated with these other outside basis temporary differences would be approximately \$1.5 billion.

Our net deferred tax assets were \$2.4 billion and \$1.3 billion as of May 31, 2019 and 2018, respectively. We believe that it is more likely than not that the net deferred tax assets will be realized in the foreseeable future. Realization of our net deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences, net operating loss carryforwards and tax credit carryforwards. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

The valuation allowance was \$1.3 billion at each of May 31, 2019 and 2018. Substantially all of the valuation allowances as of May 31, 2019 and 2018 related to tax assets established in purchase accounting and other tax credits. Any subsequent reduction of that portion of the valuation allowance and the recognition of the associated tax benefits associated with our acquisitions will be recorded to our provision for income taxes subsequent to our final determination of the valuation allowance or the conclusion of the measurement period (as defined above), whichever comes first.

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At May 31, 2019, we had federal net operating loss carryforwards of approximately \$ 732 million, which are subject to limitation on their utilization. Approximately \$ 690 million of these federal net operating losses expire in various years between fiscal 2020 and fiscal 2038. Approximately \$42 million of these federal net operating losses are not currently subject to expiration dates. We had state net operating loss carryforwards of approximately \$ 2.2 billion at May 31, 2019, which expire between fiscal 2020 and fiscal 2038 and are subject to limitations on their utilization. We had total foreign net operating loss carryforwards of approximately \$ 2.0 billion at May 31, 2019, which are subject to limitations on their utilization. Approximately \$ 1.9 billion of these foreign net operating losses are not currently subject to expiration dates. The remainder of the foreign net operating losses, approximately \$ 100 million, expire between fiscal 2020 and fiscal 2039. We had tax credit carryforwards of approximately \$ 1.1 billion at May 31, 2019, which are subject to limitations on their utilization. Approximately \$ 734 million of these tax credit carryforwards are not currently subject to expiration dates. The remainder of the tax credit carryforwards, approximately \$ 387 million, expire in various years between fiscal 2020 and fiscal 2039.

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,		
	2019	2018	2017
Gross unrecognized tax benefits as of June 1	\$ 5,592	\$ 4,919	\$ 4,561
Increases related to tax positions from prior fiscal years	772	200	128
Decreases related to tax positions from prior fiscal years	(135)	(65)	(218)
Increases related to tax positions taken during current fiscal year	540	840	595
Settlements with tax authorities	(153)	(42)	(85)
Lapses of statutes of limitation	(202)	(273)	(47)
Cumulative translation adjustments and other, net	(66)	13	(15)
Total gross unrecognized tax benefits as of May 31	<u>\$ 6,348</u>	<u>\$ 5,592</u>	<u>\$ 4,919</u>

As of May 31, 2019, 2018 and 2017, \$4.2 billion, \$4.2 billion and \$3.4 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 \$312 million, \$127 million and \$125 million during fiscal 2019, 2018 and 2017, respectively. Interest and penalties accrued as of May 31, 2019 and 2018 were \$1.3 billion and \$992 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 2017. 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, 2019, 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 \$516 million (\$357 million net of offsetting tax benefits). Our U.S. federal income tax returns have been examined for all years prior to fiscal 2010 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 2007 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, 2019, the gross unrecognized tax benefits could decrease (whether by payment, release, or a combination of both) by as much as \$186 million (\$87 million net of offsetting tax benefits) in the next 12 months related primarily to transfer pricing.

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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 June 7, 2019, the Ninth Circuit Court of Appeals, reversing a previous decision of the U.S. Tax Court, held that the U.S. Treasury Department's regulations requiring the inclusion of stock-based compensation expense in a taxpayer's cost-sharing calculations were valid. Our financial statements have been prepared consistent with this outcome, but we will continue to monitor any ongoing developments, including the possibility of rehearing or appeal to the U.S. Supreme Court, to determine if future changes are required.

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, Canada, India, Indonesia, South Korea, Mexico, Pakistan and Spain, 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.

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15. SEGMENT INFORMATION

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision makers (CODMs) are our Chief Executive Officers and Chief Technology Officer. We are organized by line of business and geographically. While our CODMs evaluate results in a number of different ways, the line of business management structure is the primary basis for which the allocation of resources and financial results are assessed. The footnote information below presents the financial information provided to our CODMs for their review and assists our CODMs with evaluating the company's performance and allocating company resources.

We have three businesses—cloud and license, hardware and services—each of which is comprised of a single operating segment. All three of our businesses market and sell our offerings globally to businesses of many sizes, government agencies, educational institutions and resellers with a worldwide sales force positioned to offer the combinations that best meet customer needs.

Our cloud and license business engages in the sale, marketing and delivery of our applications and infrastructure technologies through cloud and on-premise deployment models including our cloud services and license support offerings; and our cloud license and on-premise license offerings. Cloud services and license support revenues are generated from offerings that are typically contracted with customers directly, billed to customers in advance, delivered to customers over time with our revenue recognition occurring over the contractual terms, and renewed by customers upon completion of the contractual terms. Cloud services and license support contracts provide customers with access to the latest updates to the applications and infrastructure technologies as they become available and for which the customer contracted and also include related technical support services over the contractual term. Cloud license and on-premise license revenues represent fees earned from granting customers licenses, generally on a perpetual basis, to use our database and middleware and our applications software products within cloud and on-premise IT environments. We generally recognize revenues at the point in time the software is made available to the customer to download and use, which typically is immediately upon signature of the license contract. In each fiscal year, our cloud and license business' contractual activities are typically highest in our fourth fiscal quarter and the related cash flows are typically highest in the following quarter (i.e., in the first fiscal quarter of the next fiscal year) as we receive payments from these contracts.

Our hardware business provides Oracle Engineered Systems, servers, storage, industry-specific hardware, operating systems, virtualization, management and other hardware-related software to support diverse IT environments. Our hardware business also 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 and infrastructure technologies.

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

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The following table presents summary results for each of our three businesses for each of fiscal 2019, 2018 and 2017:

(in millions)	Year Ended May 31,		
	2019	2018	2017
Cloud and license:			
Revenues (1)	\$ 32,582	\$ 32,041	\$ 30,452
Cloud services and license support expenses	3,597	3,441	2,881
Sales and marketing expenses	7,398	7,213	6,770
Margin (2)	\$ 21,587	\$ 21,387	\$ 20,801
Hardware:			
Revenues	\$ 3,704	\$ 3,994	\$ 4,152
Hardware products and support expenses	1,327	1,547	1,618
Sales and marketing expenses	520	643	825
Margin (2)	\$ 1,857	\$ 1,804	\$ 1,709
Services:			
Revenues	\$ 3,240	\$ 3,395	\$ 3,359
Services expenses	2,703	2,729	2,661
Margin (2)	\$ 537	\$ 666	\$ 698
Totals:			
Revenues (1)	\$ 39,526	\$ 39,430	\$ 37,963
Expenses	15,545	15,573	14,755
Margin (2)	\$ 23,981	\$ 23,857	\$ 23,208

(1) Cloud and license revenues presented for management reporting included revenues related to cloud and license obligations that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our consolidated statements of operations for the periods presented due to business combination accounting requirements. See Note 9 for an explanation of these adjustments and the table below for a reconciliation of our total operating segment revenues to our total consolidated revenues as reported in our consolidated statements of operations.

(2) The margins reported reflect only the direct controllable costs of each line of business and do not include allocations of product development, general and administrative and certain other allocable expenses, net. Additionally, the margins reported above do not reflect amortization of intangible assets, acquisition related and other expenses, restructuring expenses, stock-based compensation, interest expense or non-operating income, net. Refer to the table below for a reconciliation of our total margin for operating segments to our income before provision for income taxes as reported per our consolidated statements of operations.

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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,		
	2019	2018	2017
Total revenues for operating segments	\$ 39,526	\$ 39,430	\$ 37,963
Cloud and license revenues (1)	(20)	(47)	(171)
Total revenues	<u>\$ 39,506</u>	<u>\$ 39,383</u>	<u>\$ 37,792</u>
Total margin for operating segments	\$ 23,981	\$ 23,857	\$ 23,208
Cloud and license revenues (1)	(20)	(47)	(171)
Research and development	(6,026)	(6,084)	(6,153)
General and administrative	(1,265)	(1,282)	(1,172)
Amortization of intangible assets	(1,689)	(1,620)	(1,451)
Acquisition related and other	(44)	(52)	(103)
Restructuring	(443)	(588)	(463)
Stock-based compensation for operating segments	(518)	(505)	(415)
Expense allocations and other, net	(441)	(415)	(367)
Interest expense	(2,082)	(2,025)	(1,798)
Non-operating income, net	815	1,185	565
Income before provision for income taxes	<u>\$ 12,268</u>	<u>\$ 12,424</u>	<u>\$ 11,680</u>

(1) Cloud and license revenues presented for management reporting included revenues related to cloud and license obligations that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our consolidated statements of operations for the periods presented due to business combination accounting requirements. See Note 9 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.

Disaggregation of Revenues

We have considered information that is regularly reviewed by our CODMs in evaluating financial performance, and disclosures presented outside of our financial statements in our earnings releases and used in investor presentations to disaggregate revenues to depict how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors. The principal category we use to disaggregate revenues is the nature of our products and services as presented in our consolidated statements of operations.

The following table is a summary of our total revenues by geographic region. The relative proportion of our total revenues between each geographic region as presented in the table below was materially consistent across each of our operating segments' revenues for each of fiscal 2019, 2018 and 2017:

(in millions)	Year Ended May 31,		
	2019	2018	2017
Americas	\$ 21,856	\$ 21,648	\$ 21,121
EMEA (1)	11,270	11,409	10,614
Asia Pacific	6,380	6,326	6,057
Total revenues	<u>\$ 39,506</u>	<u>\$ 39,383</u>	<u>\$ 37,792</u>

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

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The following table presents a summary of our cloud and license business revenues by ecosystem. Applications ecosystem revenues represent the sum of applications related cloud services and license support revenues; and applications related license revenues. Infrastructure ecosystem revenues represent the sum of infrastructure related cloud services and license support revenues; and infrastructure related license revenues.

(in millions)	Year Ended May 31,		
	2019	2018	2017
Applications revenues	\$ 11,491	\$ 11,023	\$ 9,933
Infrastructure revenues	21,071	20,971	20,348
Total cloud and license revenues	<u>\$ 32,562</u>	<u>\$ 31,994</u>	<u>\$ 30,281</u>

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 2019, 2018 or 2017.

(in millions)	As of and for the Year Ended May 31,					
	2019		2018		2017	
	Revenues	Long-Lived Assets (1)	Revenues	Long-Lived Assets (1)	Revenues	Long-Lived Assets (1)
United States	\$ 18,596	\$ 5,318	\$ 18,330	\$ 4,976	\$ 17,856	\$ 4,680
United Kingdom	2,054	423	2,093	510	1,988	402
Japan	1,848	422	1,716	388	1,619	380
Germany	1,583	263	1,526	179	1,415	116
Canada	1,166	87	1,200	78	1,102	60
Other countries	14,259	1,356	14,518	1,223	13,812	1,090
Total	<u>\$ 39,506</u>	<u>\$ 7,869</u>	<u>\$ 39,383</u>	<u>\$ 7,354</u>	<u>\$ 37,792</u>	<u>\$ 6,728</u>

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

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16. 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,		
	2019	2018	2017
Net income	\$ 11,083	\$ 3,587	\$ 9,452
Weighted average common shares outstanding	3,634	4,121	4,115
Dilutive effect of employee stock plans	98	117	102
Dilutive weighted average common shares outstanding	3,732	4,238	4,217
Basic earnings per share	\$ 3.05	\$ 0.87	\$ 2.30
Diluted earnings per share	\$ 2.97	\$ 0.85	\$ 2.24
Shares subject to anti-dilutive restricted stock-based awards and stock options excluded from calculation (1)	71	64	74

(1) These weighted shares relate to anti-dilutive restricted stock-based awards and stock options as calculated using the treasury stock method and contingently issuable shares under PSO and PSU agreements. Such shares could be dilutive in the future. See Note 13 for information regarding the exercise prices of our outstanding, unexercised stock options.

17. 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 cross-claims.

After a bench trial on the meaning of the Hurd Settlement Agreement, the court found that the Hurd Settlement Agreement required Oracle to continue to develop certain of its software products for use on HP's Itanium-based servers at no cost to HP. The case proceeded to a jury trial in May 2016. On June 30, 2016, the jury returned a verdict in favor of HP on its claims for breach of contract and breach of the implied covenant of good faith and fair dealing and against Oracle on its cross-claims. The jury awarded HP \$3.0 billion in damages. Under the court's rulings, HP is entitled to post-judgment interest, but not pre-judgment interest, on this award.

After the trial court denied Oracle's motion for a new trial, Oracle filed a notice of appeal on January 17, 2017. On February 2, 2017, HP filed a notice of appeal of the trial court's denial of pre-judgment interest.

Oracle has posted a bond for the amounts owing. No amounts have been paid or recorded to our results of operations. We continue to believe that we have meritorious defenses against HP's claims, and we intend to present these defenses to the appellate court. Oracle filed its opening brief on March 7, 2019. Briefing on the appeal is scheduled to be completed by October 2019, and the appellate court has not scheduled a date for oral

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argument. 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 on our future cash flows and results of operations.

Derivative Litigation Concerning Oracle's NetSuite Acquisition

On May 3, 2017, a stockholder derivative lawsuit was filed in the Court of Chancery of the State of Delaware, and on July 18, 2017, a second stockholder derivative lawsuit was filed in the same court. The second case was brought by an alleged stockholder of Oracle, purportedly on Oracle's behalf. The suit was brought against all the then-current members and one former member of our Board of Directors, and Oracle as a nominal defendant. Plaintiff alleges that the defendants breached their fiduciary duties by causing Oracle to agree to purchase NetSuite Inc. at an excessive price. Plaintiff seeks declaratory relief, unspecified monetary damages (including interest), and attorneys' fees and costs.

On August 9, 2017, the court consolidated the two derivative cases. In a September 7, 2017 order, the court appointed plaintiff's counsel in the second case as lead plaintiffs' counsel and designated the July 18, 2017 complaint as the operative complaint. The defendants filed a motion to dismiss on October 27, 2017, and after briefing and argument, the court denied this motion on March 19, 2018. The parties stipulated that all of the individual defendants, except for our Chief Technology Officer and one of our Chief Executive Officers, should be dismissed from this case without prejudice, and on March 28, 2018, the court approved this stipulation. On May 4, 2018, the remaining defendants answered plaintiff's complaint.

On May 4, 2018, the Board of Directors established a Special Litigation Committee (the SLC) to investigate the allegations in this derivative action. Three outside directors serve on the SLC. On July 24, 2018, the court entered an order granting the SLC's motion to stay this case for six months. The stay has been extended twice and is due to expire on August 15, 2019. The SLC and the two individual defendants are scheduled to participate in a mediation on July 2, 2019.

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.

Securities Class Action and Derivative Litigation Concerning Oracle's Cloud Business

On August 10, 2018, a putative class action, brought by an alleged stockholder of Oracle, was filed in the U.S. District Court for the Northern District of California against us, our Chief Technology Officer, our two Chief Executive Officers, two other Oracle executives, and one former Oracle executive. On December 21, 2018, the court granted plaintiff's motion that it be appointed lead plaintiff and approving its selection of lead plaintiff's counsel. On March 8, 2019, plaintiff filed an amended complaint. Plaintiff alleges that the defendants made or are responsible for false and misleading statements regarding Oracle's cloud business. Plaintiff further alleges that the former Oracle executive engaged in insider trading. Plaintiff seeks a ruling that this case may proceed as a class action, and seeks damages, attorneys' fees and costs, and unspecified declaratory/injunctive relief. On April 19, 2019, defendants moved to dismiss plaintiff's amended complaint, and on May 31, 2019, plaintiff filed an opposition. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

On February 12, 2019, a stockholder derivative lawsuit was filed in the U.S. District Court for the Northern District of California. The derivative suit is brought by two alleged stockholders of Oracle, purportedly on Oracle's behalf, against all members of our Board of Directors, and Oracle as a nominal defendant. Plaintiffs claim that the alleged actions described in the August 10, 2018 class action discussed above caused harm to Oracle, and that Oracle's Board members violated their fiduciary duties of care, loyalty, reasonable inquiry, and good faith by failing to prevent this alleged harm. Plaintiffs also allege that defendants' actions constitute gross mismanagement, waste,

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and securities fraud. Plaintiffs seek a ruling that this case may proceed as a derivative action, a finding that defendants are liable for breaching their fiduciary duties, an order directing defendants to enact corporate reforms, attorneys' fees and costs, and unspecified equitable relief. On April 26, 2019, the court approved a stay of this action, which will be lifted if the class action discussed above is dismissed, if the motion to dismiss the class action is denied, or if either party voluntarily chooses to lift the stay.

On May 8, 2019, a second derivative action was filed in the U.S. District Court for the Northern District of California. The derivative suit is brought by an alleged stockholder of Oracle, purportedly on Oracle's behalf, against our Chief Technology Officer, our two Chief Executive Officers, one former Oracle executive, and Oracle as a nominal defendant. Plaintiff claims that the alleged actions described in the August 10, 2018 class action discussed above caused harm to Oracle, and plaintiff raises further allegations of impropriety relating to Oracle's stock buybacks and acquisition of NetSuite Inc. Plaintiff asserts claims for violation of securities laws, violation of fiduciary duties, contribution and indemnification. Plaintiff seeks a ruling that the case may proceed as a derivative action, and seeks damages, declaratory and other equitable relief, attorneys' and expert fees and costs. On June 4, 2019, the court issued an order finding that this case was related to the derivative case above and staying the case under the court's prior stay order.

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)	Beginning Balance	Additions Charged to Operations or Other Accounts	Write-offs	Translation Adjustments and Other	Ending Balance
Allowances for Doubtful Trade Receivables					
Year Ended:					
May 31, 2017	\$ 327	\$ 129	\$ (138)	\$ 1	\$ 319
May 31, 2018	\$ 319	\$ 146	\$ (98)	\$ 3	\$ 370
May 31, 2019	\$ 370	\$ 190	\$ (188)	\$ (1)	\$ 371

Item 16. Form 10-K Summary

None.