

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, 2021 and 2020, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2021, 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 financial position of the Company at May 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2021, 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, 2021, 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, 2021 expressed an unqualified opinion thereon.

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.

Critical Audit Matter

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Legal Contingencies

Description of the matter

As discussed in Note 17 of the financial statements, the Company is involved in various claims and legal proceedings. The Company accrues 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. For purposes of disclosure, the Company also performs an assessment of the materiality of legal contingencies where a loss is either reasonably possible or it is reasonably possible that an exposure to loss exists in excess of the amount accrued.

The audit of the Company's accounting for and disclosure of legal contingencies was highly subjective and required significant judgment in assessing the Company's evaluation of the probability of a loss, and the estimated amount or range of loss. These judgments were impacted by uncertainties related to the ultimate outcome of the legal contingencies, the status of the litigation or the appeals processes, and the status of any settlement discussions associated with the legal contingencies.

How we addressed the matter in our audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls over the identification and evaluation of these matters, including controls over management's assessment of the probability of incurrence of a loss and whether the loss or range of loss was reasonably estimable.

Our substantive audit procedures, among others, included gaining an understanding of the status of ongoing lawsuits, reviewing letters addressing the matters from internal and external legal counsel, meetings with internal legal counsel to discuss the allegations, and obtaining a representation letter from management on these matters. We also evaluated the Company's disclosures in relation to these matters.

Income Tax – Uncertain tax positions

Description of the matter

As discussed in Note 14 of the financial statements, the Company recognizes uncertain tax positions and measures unrecognized tax benefits related to various domestic and foreign matters. As of May 31, 2021, the total amount of unrecognized tax benefits was \$6.9 billion, of which \$4.4 billion, if recognized would impact the Company's effective tax rate. The Company uses significant judgment in the accounting for uncertain tax positions including the interpretation and application of tax laws and legal rulings in various jurisdictions.

Auditing management's evaluation of whether an uncertain tax position is more likely than not to be sustained and the measurement of the benefit of various tax positions was complex, involved significant judgment, and was based on interpretations of tax laws and legal rulings.

How we addressed the matter in our audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls over management's process for interpretation of tax laws and legal rulings, as well as development of the assumptions and estimates used in the measurement of uncertain tax positions.

To test management's assessment of which uncertain tax positions are more likely than not to be sustained, we performed audit procedures that included, among others reading and evaluating management's assumptions and analysis, including any communications with taxing authorities that detailed the basis and technical merits of the uncertain tax positions. We involved our tax subject matter professionals in assessing the technical merits of certain tax positions based on our knowledge of relevant tax laws and experience with related taxing authorities.

In addition, we also evaluated the Company's disclosures in relation to these matters included in Note 14 of the financial statements.

/s/ Ernst & Young LLP

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

San Jose, California

June 21, 2021

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, 2021, 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, 2021, 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, 2021 and 2020, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2021, the related notes, and the financial statement schedule listed in the Index at Item 15(a) 2 and our report dated June 21, 2021 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, 2021

ORACLE CORPORATION
CONSOLIDATED BALANCE SHEETS
As of May 31, 2021 and 2020

(in millions, except per share data)	May 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,098	\$ 37,239
Marketable securities	16,456	5,818
Trade receivables, net of allowances for doubtful accounts of \$373 and \$409 as of May 31, 2021 and May 31, 2020, respectively	5,409	5,551
Prepaid expenses and other current assets	3,604	3,532
Total current assets	55,567	52,140
Non-current assets:		
Property, plant and equipment, net	7,049	6,244
Intangible assets, net	2,430	3,738
Goodwill, net	43,935	43,769
Deferred tax assets	13,636	3,252
Other non-current assets	8,490	6,295
Total non-current assets	75,540	63,298
Total assets	\$ 131,107	\$ 115,438
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable, current	\$ 8,250	\$ 2,371
Accounts payable	745	637
Accrued compensation and related benefits	2,017	1,453
Deferred revenues	8,775	8,002
Other current liabilities	4,377	4,737
Total current liabilities	24,164	17,200
Non-current liabilities:		
Notes payable and other borrowings, non-current	75,995	69,226
Income taxes payable	12,345	12,463
Deferred tax liabilities	7,864	41
Other non-current liabilities	4,787	3,791
Total non-current liabilities	100,991	85,521
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: 2,814 shares and 3,067 shares as of May 31, 2021 and 2020, respectively	26,533	26,486
Accumulated deficit	(20,120)	(12,696)
Accumulated other comprehensive loss	(1,175)	(1,716)
Total Oracle Corporation stockholders' equity	5,238	12,074
Noncontrolling interests	714	643
Total equity	5,952	12,717
Total liabilities and equity	\$ 131,107	\$ 115,438

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended May 31, 2021, 2020 and 2019

(in millions, except per share data)	Year Ended May 31,		
	2021	2020	2019
Revenues:			
Cloud services and license support	\$ 28,700	\$ 27,392	\$ 26,707
Cloud license and on-premise license	5,399	5,127	5,855
Hardware	3,359	3,443	3,704
Services	3,021	3,106	3,240
Total revenues	40,479	39,068	39,506
Operating expenses:			
Cloud services and license support(1)	4,353	4,006	3,782
Hardware(1)	972	1,116	1,360
Services	2,530	2,816	2,853
Sales and marketing(1)	7,682	8,094	8,509
Research and development	6,527	6,067	6,026
General and administrative	1,254	1,181	1,265
Amortization of intangible assets	1,379	1,586	1,689
Acquisition related and other	138	56	44
Restructuring	431	250	443
Total operating expenses	25,266	25,172	25,971
Operating income	15,213	13,896	13,535
Interest expense	(2,496)	(1,995)	(2,082)
Non-operating income, net	282	162	815
Income before benefit from (provision for) income taxes	12,999	12,063	12,268
Benefit from (provision for) income taxes	747	(1,928)	(1,185)
Net income	\$ 13,746	\$ 10,135	\$ 11,083
Earnings per share:			
Basic	\$ 4.67	\$ 3.16	\$ 3.05
Diluted	\$ 4.55	\$ 3.08	\$ 2.97
Weighted average common shares outstanding:			
Basic	2,945	3,211	3,634
Diluted	3,022	3,294	3,732

(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, 2021, 2020 and 2019

(in millions)	Year Ended May 31,		
	2021	2020	2019
Net income	\$ 13,746	\$ 10,135	\$ 11,083
Other comprehensive income (loss), net of tax:			
Net foreign currency translation gains (losses)	479	(78)	(149)
Net unrealized gains (losses) on defined benefit plans	71	(79)	(70)
Net unrealized (losses) gains on marketable securities	(1)	91	332
Net unrealized losses on cash flow hedges	(8)	(22)	(52)
Total other comprehensive income (loss), net	541	(88)	61
Comprehensive income	<u>\$ 14,287</u>	<u>\$ 10,047</u>	<u>\$ 11,144</u>

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended May 31, 2021, 2020 and 2019

(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, 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
Repurchases 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
Common stock issued under stock-based compensation plans	78	1,470	—	—	1,470	—	1,470
Common stock issued under stock purchase plans	2	118	—	—	118	—	118
Stock-based compensation	—	1,590	—	—	1,590	—	1,590
Repurchases of common stock	(361)	(2,932)	(16,268)	—	(19,200)	—	(19,200)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(11)	(665)	—	—	(665)	—	(665)
Cash dividends declared (\$0.96 per share)	—	—	(3,070)	—	(3,070)	—	(3,070)
Other, net	—	(4)	3	—	(1)	(94)	(95)
Other comprehensive loss, net	—	—	—	(88)	(88)	(5)	(93)
Net income	—	—	10,135	—	10,135	164	10,299
Balances as of May 31, 2020	3,067	26,486	(12,696)	(1,716)	12,074	643	12,717
Common stock issued under stock-based compensation plans	86	1,658	—	—	1,658	—	1,658
Common stock issued under stock purchase plans	2	128	—	—	128	—	128
Stock-based compensation	—	1,837	—	—	1,837	—	1,837
Repurchases of common stock	(329)	(2,893)	(18,107)	—	(21,000)	—	(21,000)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(12)	(666)	—	—	(666)	—	(666)
Cash dividends declared (\$1.04 per share)	—	—	(3,063)	—	(3,063)	—	(3,063)
Other, net	—	(17)	—	—	(17)	(111)	(128)
Other comprehensive income, net	—	—	—	541	541	2	543
Net income	—	—	13,746	—	13,746	180	13,926
Balances as of May 31, 2021	2,814	\$ 26,533	\$ (20,120)	\$ (1,175)	\$ 5,238	\$ 714	\$ 5,952

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2021, 2020 and 2019

(in millions)	Year Ended May 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 13,746	\$ 10,135	\$ 11,083
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,537	1,382	1,230
Amortization of intangible assets	1,379	1,586	1,689
Allowances for doubtful accounts receivable	192	245	190
Deferred income taxes	(2,425)	(851)	(1,191)
Stock-based compensation	1,837	1,590	1,653
Other, net	(39)	239	157
Changes in operating assets and liabilities, net of effects from acquisitions:			
Decrease (increase) in trade receivables, net	141	(690)	(272)
Decrease in prepaid expenses and other assets	622	665	261
Decrease in accounts payable and other liabilities	(23)	(496)	(102)
Decrease in income taxes payable	(1,485)	(444)	(453)
Increase (decrease) in deferred revenues	405	(222)	306
Net cash provided by operating activities	<u>15,887</u>	<u>13,139</u>	<u>14,551</u>
Cash flows from investing activities:			
Purchases of marketable securities and other investments	(37,982)	(5,731)	(1,400)
Proceeds from maturities of marketable securities	26,024	4,687	12,681
Proceeds from sales of marketable securities and other investments	1,036	12,575	17,299
Acquisitions, net of cash acquired	(41)	(124)	(363)
Capital expenditures	(2,135)	(1,564)	(1,660)
Net cash (used for) provided by investing activities	<u>(13,098)</u>	<u>9,843</u>	<u>26,557</u>
Cash flows from financing activities:			
Payments for repurchases of common stock	(20,934)	(19,240)	(36,140)
Proceeds from issuances of common stock	1,786	1,588	2,155
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(666)	(665)	(503)
Payments of dividends to stockholders	(3,063)	(3,070)	(2,932)
Proceeds from borrowings, net of issuance costs	14,934	19,888	—
Repayments of borrowings	(2,631)	(4,500)	(4,500)
Other, net	196	(133)	(136)
Net cash used for financing activities	<u>(10,378)</u>	<u>(6,132)</u>	<u>(42,056)</u>
Effect of exchange rate changes on cash and cash equivalents	448	(125)	(158)
Net (decrease) increase in cash and cash equivalents	(7,141)	16,725	(1,106)
Cash and cash equivalents at beginning of period	37,239	20,514	21,620
Cash and cash equivalents at end of period	<u>\$ 30,098</u>	<u>\$ 37,239</u>	<u>\$ 20,514</u>
Non-cash investing and financing activities:			
Fair values of stock awards assumed in connection with acquisitions	\$ —	\$ —	\$ 8
Change in unsettled repurchases of common stock	\$ 66	\$ (40)	\$ (140)
Supplemental schedule of cash flow data:			
Cash paid for income taxes	\$ 3,189	\$ 3,218	\$ 2,901
Cash paid for interest	\$ 2,408	\$ 1,972	\$ 2,059

See notes to consolidated financial statements.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2021

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 technologies. We deliver our products and services to customers worldwide through a variety of flexible and interoperable IT deployment models, including cloud-based, Cloud@Customer (an instance of Oracle Cloud in the customer's own data center), on premise and hybrid models. 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 cloud-based deployment models that Oracle develops, deploys, hosts, upgrades, supports and manages for the customer. Customers may also elect to purchase Oracle software licenses and hardware products and related services to manage their own cloud-based or on-premise IT environments. Customers that purchase our software licenses 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 not been presented separately and instead are included as a component of non-operating income, net in our consolidated statements of operations. Intercompany transactions and balances have been eliminated. Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect total revenues, operating income or net income.

The comparability of our operating results during fiscal 2021 compared to the corresponding prior year periods, and of our consolidated balance sheets as of May 31, 2021 and 2020, was impacted by the income tax related effects of a partial realignment of our legal entity structure that resulted in the intra-group transfer of certain intellectual property rights. During fiscal 2021, we recognized a benefit from income taxes primarily due to the result of a total net tax benefit of \$2.3 billion that was recorded as a deferred tax asset of \$11.3 billion and a non-current deferred tax liability of \$9.1 billion. The deferred tax asset was recognized as a result of the book and tax basis difference on the intra-group transfer of certain intellectual property and the realignment of certain legal entities, partially offset by a Global Intangible Low-Taxed Income (GILTI) non-current deferred tax liability. The tax amortization related to the intellectual property deferred tax asset will be recognized in future periods and any unused amortization in a particular year will carry forward indefinitely. The \$11.3 billion deferred tax asset was measured based on the tax rate at which it is expected to reverse in the future. We expect to realize the net deferred tax asset recorded as a result of the intangible property transfer and will periodically assess the realizability of the net deferred tax asset. Refer to Note 14 below for additional information regarding our income taxes.

In fiscal 2021, we adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and subsequent amendments to the initial guidance; and ASU 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint*

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2021

Ventures (Topic 323), and Derivatives and Hedging (Topic 815); neither of which had a material impact to our consolidated financial statements for the year ended May 31, 2021.

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. 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 and advanced customer 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 purchase and renew their license support contracts annually.

Cloud services revenues include revenues from Oracle Cloud Services offerings, which deliver applications and infrastructure technologies via cloud-based deployment models that we develop functionality for, provide unspecified updates and enhancements for, deploy, host, manage, upgrade and support and that customers access by entering into a subscription agreement with us for a stated period.

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2021

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 services are designed to provide supplemental support services, performance and higher availability for Oracle products and services.

We apply the provisions of ASC 606, *Revenue From Contracts with Customers* (ASC 606) as a single standard for revenue recognition that applies to all of our cloud, license, hardware and services arrangements and generally require 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 ASC 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.

Our customers that contract with us for the provision of cloud services, software, hardware or other services include businesses of many sizes, government agencies, educational institutions and our channel partners, which include resellers and system integrators.

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 to be 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 Oracle financing division. The transaction price for a contract that is financed through our Oracle 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.

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Revenue Recognition for Cloud Services

Revenues from cloud services provided on a subscription basis are generally recognized ratably over the contractual period that the cloud services are delivered, beginning on the date our service is made available to a customer. We recognize revenue ratably because the customer receives and consumes the benefits of the cloud services throughout the contract period. Revenues from cloud services that are 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, and hardware product repairs, as applicable. Oracle is obligated to make the license and hardware support services available continuously throughout the contract 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 Licenses and On-Premise Licenses

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 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

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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 generally 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.

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, 2021 and 2020. The amount of revenues recognized during the year ended May 31, 2021 and 2020, respectively, that were included in the opening deferred revenues balance as of May 31, 2020 and 2019, respectively, was approximately \$8.0 billion and \$8.4 billion, respectively. Revenues recognized from performance obligations satisfied in prior periods and impairment losses recognized on our receivables were immaterial during each year ended May 31, 2021, 2020 and 2019.

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 and, combined with foreign exchange rate fluctuations and other factors, influence the amount of remaining performance obligations that we report at a point in time. As of May 31, 2021, our remaining performance obligations were \$41.3 billion, approximately 60% of which we expect to recognize as revenues over the next twelve months, 29% over the subsequent month 13 to month 36 and the remainder thereafter.

Sales of Financing Receivables

We offer certain of our customers the option to acquire certain of our cloud and license, hardware 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 2021, 2020 and 2019, \$1.7 billion, \$1.5 billion and \$1.8 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

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assumed at the acquisition date fair values. Goodwill as of the business 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 business 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 business acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of a business acquisition's 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* (ASC 420), and are accounted for separately from the business combination. A liability for costs associated with an exit or disposal activity is recognized and measured at its fair value in our consolidated statement of operations in the period in which the liability is incurred. Prior to June 1, 2019, we accounted for operating lease abandonment pursuant to the provisions of ASC 420. Effective June 1, 2019, abandoned operating leases related to an acquired company or our internal operations are accounted for as Right-of-Use (ROU) asset impairment charges pursuant to ASC 842, *Leases* (ASC 842) and are accounted for separately from the business combination. In all periods presented, when estimating the asset impairment charges, assumptions were 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 business 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 business acquisition date and (2) the amount of the asset or liability can be reasonably estimated. Subsequent to the measurement period or final determination of the net asset values for the business combination, whichever comes first, 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 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 business 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 Securities*, and based on our intentions regarding these instruments, we classify substantially all of our marketable debt securities as available-for-sale. We carry these securities at fair value, and report the unrealized gains and losses, net of taxes, as a component of stockholders' equity, except for any unrealized losses determined to be related to credit losses, which we record within 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 securities

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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 any equity method investments, are generally recorded at their fair values, if the fair values are readily determinable. Non-marketable equity securities where we do not have control of, nor significant influence in, the investee are recorded at cost, less any impairment, adjusted for observable price changes from orderly transactions for identical or similar investments of the same issuer with any gains or losses recorded as a component of non-operating income, net as of and for each reporting period. For investments through which we have significant influence in, but not control of, the investee, we account for such investments pursuant to the equity method of accounting whereby we record our proportionate share of the investee's earnings or losses, amortization of differences between our investment basis and the proportional book equity of the investee, and impairment, if any, as a component of non-operating income, net for each reporting period. Our non-marketable equity securities and related instruments totaled \$971 million and \$219 million as of May 31, 2021 and 2020, respectively, and are included either in other current assets or in other non-current assets in the accompanying consolidated balance sheets and are subject to periodic impairment reviews and adjustments for observable price changes from orderly transactions. Certain of the non-marketable equity securities held as of May 31, 2021 and 2020 were with a related party entity for which we follow the equity method of accounting. We are also a counterparty to certain options to acquire additional equity interests in that entity at various times through December 2023 and we could obtain control of that entity should such options be exercised.

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 and expected future economic conditions. We write-off a receivable and charge it against its recorded allowance when we have exhausted our collection efforts without success.

Concentrations of Credit 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 2021, 2020 or 2019.

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We outsource the manufacturing, assembly and delivery of the substantial majority 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 cloud and license and hardware businesses.

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 \$142 million and \$211 million at May 31, 2021 and 2020, respectively.

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 \$798 million and \$778 million at May 31, 2021 and 2020, 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 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 certain of 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 and asset balances for deferred sales commissions are included in other current assets and other non-current assets in our consolidated balance sheets.

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 2021, 2020 or 2019.

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Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which generally range from one to 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 unit. Our most recent goodwill impairment analysis was performed on March 1, 2021 and did not result in a goodwill impairment charge. We did not recognize impairment charges in fiscal 2020 or 2019.

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 2021, 2020 or 2019. 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 2021, 2020 and 2019, 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.

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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 in the period the hedged item affects earnings.

Leases

Our accounting policy for leases pursuant to ASC 842, Leases, was prospectively effective for us as of June 1, 2019. We determine if an arrangement is a lease at its inception. Operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. We generally use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future payments, because the implicit rate of the lease is generally not known. ROU assets related to our operating lease liabilities are measured at lease inception based on the initial measurement of the lease liability, plus any prepaid lease payments and less any lease incentives. Our lease terms that are used in determining our operating lease liabilities at lease inception may include options to extend or terminate the leases when it is reasonably certain that we will exercise such options. We amortize our ROU assets as operating lease expense generally on a straight-line basis over the lease term and classify both the lease amortization and imputed interest as operating expenses. We have lease agreements with lease and non-lease components, and in such cases, we generally account for the components as a single lease component. We do not recognize lease assets and lease liabilities for any lease with an original lease term of less than one year.

ROU assets related to our operating leases are included in other non-current assets, short-term operating lease liabilities are included in other current liabilities, and long-term operating lease liabilities are included in other non-current liabilities in our consolidated balance sheets. Cash flow movements related to our lease activities are included in prepaid expenses and other assets and accounts payable and other liabilities as presented in net cash provided by operating activities in our consolidated statements of cash flows for the years ended May 31, 2021 and 2020. Note 11 below provides additional information regarding our leases.

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.

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 substantially included in stockholders’ equity as a component of Accumulated Other Comprehensive Loss (AOCL) in the accompanying consolidated balance sheets and related periodic movements are summarized as a line item in our consolidated statements of comprehensive income. Net foreign exchange transaction losses included in non-operating income, net in the accompanying consolidated statements of operations were \$112 million, \$185 million and \$111 million in fiscal 2021, 2020 and 2019, respectively.

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Stock-Based Compensation

We account for share-based payments to employees, including grants of service-based restricted stock unit awards, 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 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 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. Note 13 below provides additional information regarding our stock-based compensation plans.

Advertising

Substantially all advertising costs are expensed as incurred. Advertising expenses, which were included within sales and marketing expenses, were \$202 million, \$178 million and \$169 million in fiscal 2021, 2020 and 2019, 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 2021, 2020 and 2019.

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Acquisition Related and Other Expenses

Acquisition related and other expenses primarily consist of personnel related costs for transitional and certain other employees, certain business combination adjustments including adjustments after the measurement period has ended, and certain other operating items, net.

(in millions)	Year Ended May 31,		
	2021	2020	2019
Transitional and other employee related costs	\$ 5	\$ 12	\$ 49
Business combination adjustments, net	4	(7)	(21)
Other, net	129	51	16
Total acquisition related and other expenses	<u>\$ 138</u>	<u>\$ 56</u>	<u>\$ 44</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 and expenses, 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 equity securities and non-service net periodic pension income and losses.

(in millions)	Year Ended May 31,		
	2021	2020	2019
Interest income	\$ 101	\$ 527	\$ 1,092
Foreign currency losses, net	(112)	(185)	(111)
Noncontrolling interests in income	(180)	(164)	(152)
Other, net	473	(16)	(14)
Total non-operating income, net	<u>\$ 282</u>	<u>\$ 162</u>	<u>\$ 815</u>

Non-operating income, net in fiscal 2021 included a \$299 million unrealized investment gain for certain non-marketable securities due to an observable price change and a \$193 million unrealized investment gain associated with certain marketable equity securities that we held for certain employee benefit plans and classified as trading, and for which an equal and offsetting amount was recorded to our operating expenses during the same period.

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.

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.

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Recent Accounting Pronouncements

Financial Instruments: In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (ASU 2020-04) and also issued subsequent amendments to the initial guidance (collectively, Topic 848). Topic 848 provides optional guidance for contract modifications and certain hedging relationships associated with the transition from reference rates that are expected to be discontinued. We will adopt Topic 848 when our relevant contracts are modified upon transition to alternative reference rates. We do not expect our adoption of Topic 848 will have a material impact on our consolidated financial statements.

Income Taxes: In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12), which is intended to simplify various areas related to the accounting for income taxes and improve consistent application of Topic 740. ASU 2019-12 is effective for us beginning in fiscal 2022, and earlier adoption is permitted. We do not expect our adoption of ASU 2019-12 will have a material impact on our consolidated financial statements.

2. ACQUISITIONS

Fiscal 2021, 2020 and 2019 Acquisitions

During fiscal 2021, 2020 and 2019, we acquired certain companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate to our consolidated financial statements.

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, money market funds 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, 2021 and 2020. 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 2021, 2020 and 2019. 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,	
	2021	2020
Money market funds	\$ 12,263	\$ 18,587
Corporate debt securities and other	9,470	6,625
Commercial paper debt securities	11,712	5,640
Total investments	\$ 33,445	\$ 30,852
Investments classified as cash equivalents	\$ 16,989	\$ 25,034
Investments classified as marketable securities	\$ 16,456	\$ 5,818

As of May 31, 2021 and 2020, substantially all of our marketable securities investments mature within one year. 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.

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Restricted cash that was included within cash and cash equivalents as presented within our consolidated balance sheets as of May 31, 2021 and 2020 and our consolidated statements of cash flows for the years ended May 31, 2021, 2020 and 2019 was nominal.

4. FAIR VALUE MEASUREMENTS

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

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

- 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 consisted of the following (Level 1 and Level 2 inputs are defined above):

(in millions)	May 31, 2021			May 31, 2020		
	Fair Value Measurements Using Input Types			Fair Value Measurements Using Input Types		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds	\$ 12,263	\$ —	\$ 12,263	\$ 18,587	\$ —	\$ 18,587
Corporate debt securities and other	1,250	8,220	9,470	4,036	2,589	6,625
Commercial paper debt securities	—	11,712	11,712	—	5,640	5,640
Derivative financial instruments	—	73	73	—	29	29
Total assets	<u>\$ 13,513</u>	<u>\$ 20,005</u>	<u>\$ 33,518</u>	<u>\$ 22,623</u>	<u>\$ 8,258</u>	<u>\$ 30,881</u>
Liabilities:						
Derivative financial instruments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 268</u>	<u>\$ 268</u>

Our marketable securities investments consist of money market funds, 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 were derived from the following: non-

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binding market consensus prices that were corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data including LIBOR-based yield curves, among others.

Based on the trading prices of the \$84.2 billion and \$71.6 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, 2021 and 2020, respectively, the estimated fair values of the senior notes and the related fair value hedges using Level 2 inputs at May 31, 2021 and 2020 were \$89.6 billion and \$80.9 billion, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

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

(Dollars in millions)	Estimated Useful Life	May 31,	
		2021	2020
Computer, network, machinery and equipment	1-5 years	\$ 9,508	\$ 7,757
Buildings and improvements	1-40 years	4,734	4,394
Furniture, fixtures and other	5-15 years	454	509
Land	—	871	885
Construction in progress	—	233	280
Total property, plant and equipment	1-40 years	15,800	13,825
Accumulated depreciation		(8,751)	(7,581)
Total property, plant and equipment, net		\$ 7,049	\$ 6,244

6. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2021 and the net book value of intangible assets as of May 31, 2021 and 2020 were as follows:

(Dollars in millions)	Intangible Assets, Gross				Accumulated Amortization			Intangible Assets, Net			Weighted Average Useful Life(2)
	May 31, 2020	Additions & Adjustments, net(1)	Retirements	May 31, 2021	May 31, 2020	Expense	Retirements	May 31, 2021	May 31, 2020	May 31, 2021	
Developed technology	\$ 4,471	\$ 56	\$ (290)	\$ 4,237	\$ (3,290)	\$ (621)	\$ 290	\$ (3,621)	\$ 1,181	\$ 616	3
Cloud services and license support agreements and related relationships	5,589	14	(106)	5,497	(3,271)	(669)	106	(3,834)	2,318	1,663	N.A.
Other	1,341	1	(73)	1,269	(1,102)	(89)	73	(1,118)	239	151	N.A.
Total intangible assets, net	\$ 11,401	\$ 71	\$ (469)	\$ 11,003	\$ (7,663)	\$ (1,379)	\$ 469	\$ (8,573)	\$ 3,738	\$ 2,430	

(1) Amounts also include any net changes in 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 2021.

As of May 31, 2021, estimated future amortization expenses related to intangible assets were as follows (in millions):

Fiscal 2022	\$ 1,122
Fiscal 2023	698
Fiscal 2024	453
Fiscal 2025	123
Fiscal 2026	24
Thereafter	10
Total intangible assets, net	\$ 2,430

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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 2021 and 2020 were as follows:

(in millions)	Cloud and License	Hardware	Services	Total Goodwill, net
Balances as of May 31, 2019	\$ 39,633	\$ 2,367	\$ 1,779	\$ 43,779
Goodwill from acquisitions	74	—	—	74
Goodwill adjustments, net ⁽¹⁾	(70)	—	(14)	(84)
Balances as of May 31, 2020	39,637	2,367	1,765	43,769
Goodwill adjustments, net ⁽¹⁾	149	—	17	166
Balances as of May 31, 2021	\$ 39,786	\$ 2,367	\$ 1,782	\$ 43,935

(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 any changes in goodwill balances for the period presented that resulted from 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,			
		2021	Effective Interest Rate	2020	Effective Interest Rate
		Amount		Amount	
Fixed-rate senior notes:					
\$1,000, 3.875%, due July 2020	July 2010	\$ —	N.A.	\$ 1,000	3.93%
€1,250, 2.25%, due January 2021(1)(2)	July 2013	\$ —	N.A.	\$ 1,371	2.33%
\$1,500, 2.80%, due July 2021(3)	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%
\$3,500, 2.50%, due April 2025	April 2020	\$ 3,500	2.51%	\$ 3,500	2.51%
\$2,500, 2.95%, due May 2025	May 2015	\$ 2,500	3.00%	\$ 2,500	3.00%
€750, 3.125%, due July 2025(1)(4)	July 2013	\$ 916	3.17%	\$ 823	3.17%
\$2,750, 1.65%, due March 2026(5)	March 2021	\$ 2,750	1.66%	\$ —	N.A.
\$3,000, 2.65%, due July 2026	July 2016	\$ 3,000	2.69%	\$ 3,000	2.69%
\$2,250, 2.80%, due April 2027	April 2020	\$ 2,250	2.83%	\$ 2,250	2.83%
\$2,750, 3.25%, due November 2027	November 2017	\$ 2,750	3.26%	\$ 2,750	3.26%
\$2,000, 2.30%, due March 2028(5)	March 2021	\$ 2,000	2.34%	\$ —	N.A.
\$3,250, 2.95%, due April 2030	April 2020	\$ 3,250	2.96%	\$ 3,250	2.96%
\$500, 3.25%, due May 2030	May 2015	\$ 500	3.30%	\$ 500	3.30%
\$3,250, 2.875%, due March 2031(5)	March 2021	\$ 3,250	2.89%	\$ —	N.A.
\$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%
\$3,000, 3.60%, due April 2040	April 2020	\$ 3,000	3.62%	\$ 3,000	3.62%
\$2,250, 5.375%, due July 2040	July 2010	\$ 2,250	5.45%	\$ 2,250	5.45%
\$2,250, 3.65%, due March 2041(5)	March 2021	\$ 2,250	3.70%	\$ —	N.A.
\$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%
\$4,500, 3.60%, due April 2050	April 2020	\$ 4,500	3.62%	\$ 4,500	3.62%
\$3,250, 3.95%, due March 2051(5)	March 2021	\$ 3,250	3.96%	\$ —	N.A.
\$1,250, 4.375%, due May 2055	May 2015	\$ 1,250	4.40%	\$ 1,250	4.40%
\$3,500, 3.85%, due April 2060	April 2020	\$ 3,500	3.87%	\$ 3,500	3.87%
\$1,500, 4.10%, due March 2061(5)	March 2021	\$ 1,500	4.11%	\$ —	N.A.
Other borrowings:					
Other borrowings due August 2025	November 2016	\$ 113	3.53%	\$ 113	3.53%
Total senior notes and other borrowings		\$ 84,529		\$ 71,807	
Unamortized discount/issuance costs		\$ (315)		\$ (285)	
Hedge accounting fair value adjustments(3)(4)		\$ 31		\$ 75	
Total notes payable and other borrowings		\$ 84,245		\$ 71,597	
Notes payable, current		\$ 8,250		\$ 2,371	
Notes payable and other borrowings, non-current		\$ 75,995		\$ 69,226	

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- (1) In July 2013, we issued €2.0 billion of fixed-rate senior notes comprised of €1.25 billion of 2.25% senior notes that were due and were settled in 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 applicable, as of May 31, 2021 and May 31, 2020, respectively. The July 2025 Notes are registered and trade on the New York Stock Exchange.
- (2) In connection with the issuance of the January 2021 Notes, we entered into certain cross-currency swap agreements, all of which were cash settled upon their maturity during fiscal 2021 (see Note 10 for additional information).
- (3) We entered into certain interest rate swap agreements that have the economic effects of modifying the fixed-interest obligations associated with 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 0.87% and 1.99%, respectively, for the July 2021 Notes as of May 31, 2021 and 2020, respectively. Refer to Notes 1 and 10 for a description of our accounting for fair value hedges associated with our July 2021 Notes.
- (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 rates as of May 31, 2021 and 2020 after consideration of the cross-currency interest rate swap agreements were 3.15% and 4.46%, respectively, for the July 2025 Notes. Refer to Notes 1 and 10 for a description of our accounting for fair value hedges.
- (5) In March 2021, we issued \$15.0 billion of senior notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock and repayment of indebtedness and future acquisitions. The interest is payable semi-annually. We may redeem some or all of the senior notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances.

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

Fiscal 2022	\$ 8,250
Fiscal 2023	3,750
Fiscal 2024	3,500
Fiscal 2025	10,000
Fiscal 2026	3,734
Thereafter	55,250
Total	<u>\$ 84,484</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. We may redeem some or all of the senior notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances.

The senior notes rank pari passu with any other 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, 2021.

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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, 2021 and 2020, 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 fiscal 2021, our management supplemented the 2019 Restructuring Plan to reflect additional actions that we expected to take. Restructuring costs associated with the 2019 Restructuring Plan were recorded to the restructuring expense line item within our consolidated statements of operations as they were incurred. We recorded \$430 million and \$261 million of restructuring expenses in connection with the 2019 Restructuring Plan in fiscal 2021 and 2020, respectively. The total costs recorded to date in our consolidated statements of operations in connection with the 2019 Restructuring Plan were \$1.2 billion. Actions pursuant to the 2019 Restructuring Plan were substantially complete as of May 31, 2021.

Summary of All Plans

Fiscal 2021 Activity

(in millions)	Accrued May 31, 2020(2)	Year Ended May 31, 2021				Accrued May 31, 2021(2)
		Initial Costs(3)	Adj. to Cost(4)	Cash Payments	Others(5)	
Fiscal 2019 Oracle Restructuring Plan(1)						
Cloud and license	\$ 75	\$ 225	\$ (22)	\$ (171)	\$ 12	\$ 119
Hardware	14	39	(2)	(34)	(1)	16
Services	27	54	(4)	(56)	3	24
Other(6)	22	137	3	(110)	5	57
Total Fiscal 2019 Oracle Restructuring Plan	\$ 138	\$ 455	\$ (25)	\$ (371)	\$ 19	\$ 216
Total other restructuring plans(7)	\$ 13	\$ 2	\$ (1)	\$ (5)	\$ —	\$ 9
Total restructuring plans	\$ 151	\$ 457	\$ (26)	\$ (376)	\$ 19	\$ 225

Fiscal 2020 Activity

(in millions)	Accrued May 31, 2019	Year Ended May 31, 2020				Accrued May 31, 2020(2)
		Initial Costs(3)	Adj. to Cost(4)	Cash Payments	Others(5)	
Fiscal 2019 Oracle Restructuring Plan(1)						
Cloud and license	\$ 72	\$ 140	\$ (24)	\$ (112)	\$ (1)	\$ 75
Hardware	18	28	(1)	(31)	—	14
Services	15	51	(2)	(37)	—	27
Other(6)	108	59	10	(111)	(44)	22
Total Fiscal 2019 Oracle Restructuring Plan	\$ 213	\$ 278	\$ (17)	\$ (291)	\$ (45)	\$ 138
Total other restructuring plans(7)	\$ 49	\$ —	\$ (11)	\$ (8)	\$ (17)	\$ 13
Total restructuring plans	\$ 262	\$ 278	\$ (28)	\$ (299)	\$ (62)	\$ 151

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Fiscal 2019 Activity

	Accrued May 31, 2018	Year Ended May 31, 2019				Accrued May 31, 2019
(in millions)		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
Hardware	—	53	—	(35)	—	18
Services	—	41	1	(27)	—	15
Other(6)	—	190	4	(87)	1	108
Total Fiscal 2019 Oracle Restructuring Plan	\$ —	\$ 475	\$ 1	\$ (262)	\$ (1)	\$ 213
Total other restructuring plans(7)	\$ 282	\$ 5	\$ (58)	\$ (181)	\$ 1	\$ 49
Total restructuring plans	\$ 282	\$ 480	\$ (57)	\$ (443)	\$ —	\$ 262

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

(2) As of May 31, 2021 and 2020, substantially all restructuring liabilities have been recorded in other current liabilities within our consolidated balance sheets.

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

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

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

(6) Represents employee related severance costs for functions that are not included within our operating segments and certain other 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 condensed consolidated statements of operations was not significant.

9. DEFERRED REVENUES

Deferred revenues consisted of the following:

(in millions)	May 31,	
	2021	2020
Cloud services and license support	\$ 7,728	\$ 6,996
Hardware	618	613
Services	399	365
Cloud license and on-premise license	30	28
Deferred revenues, current	8,775	8,002
Deferred revenues, non-current (in other non-current liabilities)	679	597
Total deferred revenues	\$ 9,454	\$ 8,599

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.

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

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swap agreements that have the economic effect of modifying the fixed-interest obligations associated with 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 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 the cross-currency interest rate swap agreements associated with our July 2025 Notes are recognized as interest expense and non-operating income, net in our consolidated statements of operations with the corresponding amounts included in non-current assets or non-current liabilities in our consolidated balance sheets.

The changes in fair values of our interest rate swap agreements associated with our July 2021 Notes are recognized as interest expense in our consolidated statements of operations with the corresponding amounts included in other current assets or other current liabilities in our consolidated balance sheets. The amount of net gain (loss) attributable to the interest rate risk being hedged is recognized as interest expense and amount of net gain (loss) attributable to the foreign exchange risk being hedged, as applicable, is recognized as non-operating income, net in our consolidated statements of operations with the corresponding amount included in notes payable, current or notes payable, non-current. We exclude the portion of the 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 2025 Notes and July 2021 Notes are recorded as interest expense and are included as a part of cash flows from operating activities and cash flows that pertain to the principal balance are classified as financing 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 a fixed-rate of 3.53% and U.S. Dollar-denominated principal amount of \$1.6 billion. We had designated these cross-currency swap agreements as qualifying hedging instruments and accounted for these as cash flow hedges pursuant to ASC 815. In fiscal 2021, the cross-currency swap agreements and the January 2021 Notes matured and were settled in cash. The cash flows related to the cross-currency swap agreements that pertained to the periodic interest settlements were classified as operating activities and the cash flows that pertained to the principal balance were 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.

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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.

As of May 31, 2021 and 2020, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$4.3 billion and \$4.2 billion, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$4.5 billion and \$3.9 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at May 31, 2021 and 2020. The cash flows related to these foreign currency contracts are classified as operating activities.

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	May 31,	
		2021	2020
Derivative assets:			
Interest rate swap agreements designated as fair value hedges	Other current assets	\$ 3	\$ —
Interest rate swap agreements designated as fair value hedges	Other non-current assets	—	29
Cross-currency interest rate swap agreements designated as fair value hedges	Other non-current assets	70	—
Total derivative assets		<u>\$ 73</u>	<u>\$ 29</u>
Derivative liabilities:			
Cross-currency swap agreements designated as cash flow hedges	Other current liabilities	\$ —	\$ 251
Cross-currency interest rate swap agreements designated as fair value hedges	Other non-current liabilities	—	17
Total derivative liabilities		<u>\$ —</u>	<u>\$ 268</u>

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

(in millions)	May 31,	
	2021	2020
Notes payable, current:		
Carrying amount of hedged item	\$ 1,503	\$ —
Cumulative hedging adjustment included in the carrying amount	\$ 3	\$ —
Notes payable and other borrowings, non-current:		
Carrying amounts of hedged items	\$ 2,229	\$ 3,680
Cumulative hedging adjustments included in the carrying amount	\$ 118	\$ 75

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Effects of Derivative Instruments Designated as Hedges on Income

(in millions)	Year Ended May 31,					
	2021		2020		2019	
	Non-operating income, net	Interest expense	Non-operating income, net	Interest expense	Non-operating income, net	Interest expense
Consolidated statements of operations line amounts in which the hedge effects were recorded	\$ 282	\$ (2,496)	\$ 162	\$ (1,995)	\$ 815	\$ (2,082)
Gain (loss) on hedges recognized in income:						
Interest rate swap agreements designated as fair value hedges:						
Derivative instruments	\$ —	\$ (26)	\$ —	\$ 29	\$ —	\$ 31
Hedged items	—	26	—	(29)	—	(31)
Cross-currency interest rate swap agreements designated as fair value hedges:						
Derivative instruments	101	(6)	(7)	7	(38)	27
Hedged items	(85)	6	3	(7)	38	(27)
Cross-currency swap agreements designated as cash flow hedges:						
Amount of gain (loss) reclassified from accumulated OCI or OCL	137	—	(21)	—	(53)	—
Total gain (loss) on hedges recognized in income	\$ 153	\$ —	\$ (25)	\$ —	\$ (53)	\$ —

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

(in millions)	Year Ended May 31,		
	2021	2020	2019
Cross-currency swap agreements designated as cash flow hedges	\$ 129	\$ (43)	\$ (105)

11. LEASES, OTHER COMMITMENTS AND CERTAIN CONTINGENCIES
Leases

We have operating leases that primarily relate to certain of our facilities, data centers and vehicles. As of May 31, 2021, our operating leases substantially have remaining terms of one year to eleven years, some of which include options to extend and/or terminate the leases.

Operating lease expenses totaled \$654 million, net of sublease income of \$13 million in fiscal 2021 and \$599 million, net of sublease income of \$16 million in fiscal 2020. At May 31, 2021, ROU assets, current lease liabilities and non-current lease liabilities for our operating leases were \$2.6 billion, \$664 million and \$2.1 billion, respectively. We recorded ROU assets of \$1.7 billion in exchange for operating lease obligations during the year ended May 31, 2021. Cash paid for amounts included in the measurement of operating lease liabilities was \$696 million for year ended May 31, 2021. As of May 31, 2021, the weighted average remaining lease term for operating leases was approximately seven years and the weighted average discount rate used for calculating operating lease obligations was 2.8%. As of May 31, 2021, we have \$653 million of additional operating lease commitments, primarily for data centers, that commence in fiscal 2022 for terms of one to eleven years that were not reflected on our consolidated balance sheet as of May 31, 2021 or in the maturities table below.

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Maturities of operating lease liabilities were as follows as of May 31, 2021 (in millions):

Fiscal 2022	\$	694
Fiscal 2023		544
Fiscal 2024		427
Fiscal 2025		367
Fiscal 2026		320
Thereafter		710
Total operating lease payments		<u>3,062</u>
Less: imputed interest		<u>(280)</u>
Total operating lease liability	\$	<u>2,782</u>

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, perform final assemblies and perform testing of our 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 disclosed below. Certain 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, 2021, our unconditional purchase and certain other obligations were as follows (in millions):

Fiscal 2022	\$	1,484
Fiscal 2023		143
Fiscal 2024		89
Fiscal 2025		61
Fiscal 2026		28
Thereafter		212
Total	\$	<u>2,017</u>

As described in Notes 7 and 10 above, as of May 31, 2021 we have senior notes and other borrowings 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

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limited and infrequent history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

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 March 10, 2021, we announced that our Board of Directors approved an expansion of our stock repurchase program by an additional \$20.0 billion. As of May 31, 2021, approximately \$15.6 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 329.2 million shares for \$21.0 billion (including 0.8 million shares for \$66 million that were repurchased but not settled), 361.0 million shares for \$19.2 billion, and 733.8 million shares for \$36.0 billion in fiscal 2021, 2020 and 2019, respectively, under the stock repurchase program.

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

Dividends on Common Stock

During fiscal 2021, 2020 and 2019, our Board of Directors declared cash dividends of \$1.04, \$0.96 and \$0.81 per share of our outstanding common stock, respectively, which we paid during the same period.

In June 2021, our Board of Directors declared a quarterly cash dividend of \$0.32 per share of our outstanding common stock. The dividend is payable on July 29, 2021 to stockholders of record as of the close of business on July 15, 2021. 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,	
	2021	2020
Foreign currency translation losses	\$ (775)	\$ (1,254)
Unrealized losses on defined benefit plans, net	(400)	(471)
Unrealized gains on marketable securities, net	—	1
Unrealized gains on cash flow hedges, net	—	8
Total accumulated other comprehensive loss	<u>\$ (1,175)</u>	<u>\$ (1,716)</u>

13. EMPLOYEE BENEFIT PLANS
Stock-Based Compensation Plans
Stock Plans

In fiscal 2021, we adopted the 2020 Equity Incentive Plan (the 2020 Plan) to replace the Amended and Restated 2000 Long-Term Equity Incentive Plan (the 2000 Plan and, together with the 2020 Plan, the Plans) 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.

The total number of shares authorized under the 2020 Plan is (i) 90 million shares, plus (ii) the number of shares that remained unissued and were available for grant under the 2000 Plan as of the date of adoption of the 2020 Plan, plus (iii) the number of shares granted and outstanding as of the date of adoption of the 2020 Plan which would have been available again for issuance under the terms of the 2000 Plan had the 2020 Plan not been adopted. Under the Plans, for each share granted as a full value award in the form of a restricted stock unit (RSU) or a performance-based restricted stock award (PSU), an equivalent of 2.5 shares is deducted from our pool of shares available for grant.

As of May 31, 2021, 107 million unvested restricted stock units (RSUs), 36 million performance-based stock options (PSOs), and service-based stock options (SOs) to purchase 69 million shares of common stock, of which 66 million shares were vested, were outstanding under the Plans. Approximately 210 million shares of common stock were available for future awards under the 2020 Plan as of May 31, 2021. To date, we have not issued any stock options under the 2020 Plan or any stock purchase rights or stock appreciation rights under either of the Plans.

The vesting schedule for all awards granted under the Plans is established by the Compensation Committee of the Board of Directors. RSUs generally require service-based vesting of 25% annually over four years. SOs were previously granted under the 2000 Plan 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 under the 2000 Plan to our Chief Executive Officer and Chief Technology Officer in fiscal 2018 consisted 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 metric, performance metrics and market capitalization metrics for the PSOs may be achieved at any time during the required 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 starting at the time each vesting tranche becomes probable of achievement over the longer of the estimated implicit service period or derived service period. Stock-based compensation associated with a vesting tranche where vesting is no longer

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May 31, 2021

determined to be probable is reversed on a cumulative basis and is no longer prospectively recognized in the period when such a determination is made. Stock-based compensation for the market-based tranche was recognized using the derived service period for the market-based metric achievement, which we estimated to be approximately three years.

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 Plans. These restricted stock-based awards and stock options assumed or substituted generally retained all of the rights, terms and conditions of the respective plans under which they were originally granted. As of May 31, 2021, stock options to purchase approximately 1 million shares of common stock were outstanding under acquired company stock plans that Oracle assumed.

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. Currently, we only grant RSUs 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, if any, 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. In April 2020, the Compensation Committee reduced the maximum value of the annual automatic RSU grants to each non-employee director from \$400,000 to \$350,000 and eliminated all equity grants for chairing board committees. As of May 31, 2021, approximately 49,000 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, 2021, approximately 1 million shares were available for future stock awards under this plan.

The following table summarizes restricted stock-based award activity granted pursuant to Oracle-based stock plans and stock plans assumed from our acquisitions for our last three fiscal years ended May 31, 2021:

(in millions, except fair value)	Restricted Stock-Based Awards Outstanding	
	Number of Shares	Weighted-Average Grant Date Fair Value
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
Granted	50	\$ 53.38
Vested and Issued	(34)	\$ 42.67
Canceled	(14)	\$ 46.81
Balance, May 31, 2020	101	\$ 48.36
Granted	54	\$ 54.95
Vested and Issued	(34)	\$ 46.88
Canceled	(11)	\$ 50.40
Balance, May 31, 2021	110	\$ 51.87

The total grant date fair values of restricted stock-based awards that were vested and issued in fiscal 2021, 2020 and 2019 were \$1.6 billion, \$1.5 billion and \$1.3 billion, respectively. As of May 31, 2021, total unrecognized stock-

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based compensation expense related to non-vested restricted stock-based awards was \$3.7 billion and is expected to be recognized over the remaining weighted-average vesting period of 2.76 years.

The following table summarizes stock option activity, including SOs and PSOs, and includes awards granted pursuant to the Plans and stock plans assumed from our acquisitions for our last three fiscal years ended May 31, 2021:

(in millions, except exercise price)	Options Outstanding	
	Shares Under Stock Option	Weighted-Average Exercise Price
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
Granted	—	\$ —
Exercised	(44)	\$ 33.18
Canceled	(2)	\$ 44.76
Balance, May 31, 2020	176	\$ 38.86
Granted	—	\$ —
Exercised	(52)	\$ 32.05
Canceled	(17)	\$ 51.02
Balance, May 31, 2021	107	\$ 40.14

Stock options outstanding that have vested and that are expected to vest as of May 31, 2021 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	67	\$ 34.05	2.54	\$ 3,000
Expected to vest(2)	9	\$ 48.70	5.76	266
Total	76	\$ 35.76	2.91	\$ 3,266

(1) The aggregate intrinsic value was calculated based on the gross difference between our closing stock price on the last trading day of fiscal 2021 of \$78.74 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, 2021 was approximately \$17 million and is expected to be recognized over a weighted-average period of 1.44 years. Approximately 31 million shares outstanding as of May 31, 2021 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.

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

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(in millions)	Year Ended May 31,		
	2021	2020	2019
Cloud services and license support	\$ 134	\$ 110	\$ 99
Hardware	11	11	10
Services	55	54	49
Sales and marketing	313	261	360
Research and development	1,188	1,035	963
General and administrative	136	119	172
Total stock-based compensation	1,837	1,590	1,653
Estimated income tax benefit included in provision for income taxes	(413)	(343)	(358)
Total stock-based compensation, net of estimated income tax benefit	<u>\$ 1,424</u>	<u>\$ 1,247</u>	<u>\$ 1,295</u>

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

Total cash received as a result of stock option exercises was approximately \$1.7 billion, \$1.5 billion and \$2.0 billion for fiscal 2021, 2020 and 2019, respectively. The total aggregate intrinsic value of restricted stock-based awards that vested and were issued and stock options that were exercised was \$3.7 billion, \$2.9 billion and \$3.1 billion for fiscal 2021, 2020 and 2019, 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 \$842 million, \$638 million and \$692 million for fiscal 2021, 2020 and 2019, respectively.

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (Purchase Plan) that allows employees to purchase shares of common stock at a price per share that is 95% of the fair market value of Oracle stock as of the end of the semi-annual option period. As of May 31, 2021, 42 million shares were reserved for future issuances under the Purchase Plan. We issued 2 million shares in each of fiscal 2021, 2020 and 2019, 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, \$376 million and \$380 million for fiscal 2021, 2020 and 2019, 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 \$150 million, \$152 million and \$154 million in fiscal 2021, 2020 and 2019, 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 \$813 million and approximately \$636 million as of May 31, 2021 and 2020, respectively, and were presented in other non-current assets and other non-current liabilities in the accompanying consolidated balance sheets.

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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 \$105 million, \$97 million and \$90 million for fiscal 2021, 2020 and 2019, respectively. The aggregate projected benefit obligation and aggregate net liability (funded status) of our defined benefit plans as of May 31, 2021 were \$1.4 billion and \$889 million, respectively, and as of May 31, 2020 were \$1.3 billion and \$884 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. Our provision for income taxes for fiscal 2021 varied from the tax computed at the U.S. federal statutory income tax rate primarily due to a net deferred tax benefit that totaled \$2.3 billion that we recognized as a result of a partial realignment of our legal entity structure that resulted in the intra-group transfer of certain intellectual property (IP) rights, 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 and the tax effect of GILTI. Our provision for income taxes for fiscal 2020 varied from the tax computed at the U.S. federal statutory income tax rate 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 and the tax effect of GILTI. Our provision for income taxes for fiscal 2019 varied from the 21% U.S. statutory rate imposed by the U.S. Tax Cuts and Jobs Act of 2017 (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, GILTI, and a \$389 million net reduction to our transition tax recorded in connection with the Tax Act pursuant to SEC Staff Accounting Bulletin No. 118.

The following is a geographical breakdown of income before benefit from (provision for) income taxes:

(in millions)	Year Ended May 31,		
	2021	2020	2019
Domestic	\$ 4,375	\$ 3,890	\$ 3,774
Foreign	8,624	8,173	8,494
Income before benefit from (provision for) income taxes	<u>\$ 12,999</u>	<u>\$ 12,063</u>	<u>\$ 12,268</u>

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The benefit from (provision for) income taxes consisted of the following:

(Dollars in millions)	Year Ended May 31,		
	2021	2020	2019
Current provision:			
Federal	\$ (516)	\$ (1,616)	\$ (979)
State	(233)	(19)	(300)
Foreign	(929)	(1,144)	(1,097)
Total current provision	<u>\$ (1,678)</u>	<u>\$ (2,779)</u>	<u>\$ (2,376)</u>
Deferred benefit:			
Federal	\$ (8,631)	\$ 983	\$ (483)
State	77	(50)	28
Foreign	10,979	(82)	1,646
Total deferred benefit	<u>\$ 2,425</u>	<u>\$ 851</u>	<u>\$ 1,191</u>
Total benefit from (provision for) income taxes	<u>\$ 747</u>	<u>\$ (1,928)</u>	<u>\$ (1,185)</u>
Effective income tax (benefit) expense rate	(5.7%)	16.0%	9.7%

The benefit from (provision for) income taxes differed from the amount computed by applying the federal statutory rate to our income before benefit from (provision for) income taxes as follows (certain prior year amounts have been reclassified to conform to the current year's presentation):

(Dollars in millions)	Year Ended May 31,		
	2021	2020	2019
U.S. federal statutory tax rate	21.0%	21.0%	21.0%
Tax provision at statutory rate	\$ (2,730)	\$ (2,533)	\$ (2,576)
Impact of the Tax Act of 2017:			
One-time transition tax	—	—	529
Deferred tax effects	—	—	(140)
Foreign earnings at other than United States rates	580	496	1,053
Net impact of intra-entity IP transfer	2,266	—	—
State tax expense, net of federal benefit	(206)	(172)	(163)
Settlements and releases from judicial decisions and statute expirations, net	582	137	132
Tax contingency interest accrual, net	(55)	(163)	(245)
Domestic tax contingency, net	(282)	(58)	(183)
Federal research and development credit	169	151	159
Stock-based compensation	300	166	201
Other, net	123	48	48
Total benefit from (provision for) income taxes	<u>\$ 747</u>	<u>\$ (1,928)</u>	<u>\$ (1,185)</u>

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

(in millions)	May 31,	
	2021	2020
Deferred tax assets:		
Accruals and allowances	\$ 452	\$ 469
Employee compensation and benefits	755	638
Differences in timing of revenue recognition	547	524
Lease liabilities	524	253
Basis of property, plant and equipment and intangible assets	12,161	1,115
Tax credit and net operating loss carryforwards	3,934	3,871
Total deferred tax assets	18,373	6,870
Valuation allowance	(1,526)	(1,359)
Total deferred tax assets, net	16,847	5,511
Deferred tax liabilities:		
Unrealized gain on stock	(78)	(78)
Acquired intangible assets	(266)	(561)
GILTI deferred	(9,883)	(1,108)
ROU assets	(488)	(241)
Withholding taxes on foreign earnings	(195)	(171)
Other	(165)	(141)
Total deferred tax liabilities	(11,075)	(2,300)
Net deferred tax assets	\$ 5,772	\$ 3,211
Recorded as:		
Non-current deferred tax assets	\$ 13,636	\$ 3,252
Non-current deferred tax liabilities	(7,864)	(41)
Net deferred tax assets	\$ 5,772	\$ 3,211

We provide for United States income taxes on the undistributed earnings and the other outside basis temporary differences of foreign subsidiaries unless they are considered indefinitely reinvested outside the United States. At May 31, 2021, the amount of temporary differences related to undistributed earnings and 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 undistributed earnings and 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, 2021, 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 \$1.4 billion.

Our net deferred tax assets were \$5.8 billion and \$3.2 billion as of May 31, 2021 and 2020, 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 \$1.5 billion and \$1.4 billion as of May 31, 2021 and 2020, respectively. A majority of the valuation allowances as of May 31, 2021 and 2020 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

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subsequent to our final determination of the valuation allowance or the conclusion of the measurement period (as defined above), whichever comes first.

At May 31, 2021, we had federal net operating loss carryforwards of approximately \$502 million, which are subject to limitation on their utilization. Approximately \$447 million of these federal net operating losses expire in various years between fiscal 2022 and fiscal 2038. Approximately \$55 million of these federal net operating losses are not currently subject to expiration dates. We had state net operating loss carryforwards of approximately \$2.0 billion at May 31, 2021, which expire between fiscal 2022 and fiscal 2040 and are subject to limitations on their utilization. We had total foreign net operating loss carryforwards of approximately \$1.8 billion at May 31, 2021, which are subject to limitations on their utilization. Approximately \$1.7 billion of these foreign net operating losses are not currently subject to expiration dates. The remainder of the foreign net operating losses, approximately \$86 million, expire between fiscal 2022 and fiscal 2041. At May 31, 2021, we had federal capital loss carryforwards of approximately \$501 million, which expire in fiscal 2026. We had state capital loss carryforwards of approximately \$661 million, which expire between fiscal 2025 and fiscal 2026. We had tax credit carryforwards of approximately \$1.1 billion at May 31, 2021, which are subject to limitations on their utilization. Approximately \$765 million of these tax credit carryforwards are not currently subject to expiration dates. The remainder of the tax credit carryforwards, approximately \$378 million, expire in various years between fiscal 2022 and fiscal 2041.

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,		
	2021	2020	2019
Gross unrecognized tax benefits as of June 1	\$ 6,972	\$ 6,348	\$ 5,592
Increases related to tax positions from prior fiscal years	225	624	772
Decreases related to tax positions from prior fiscal years	(836)	(298)	(135)
Increases related to tax positions taken during current fiscal year	531	628	540
Settlements with tax authorities	(51)	(177)	(153)
Lapses of statutes of limitation	(66)	(116)	(202)
Cumulative translation adjustments and other, net	137	(37)	(66)
Total gross unrecognized tax benefits as of May 31	<u>\$ 6,912</u>	<u>\$ 6,972</u>	<u>\$ 6,348</u>

As of May 31, 2021, 2020 and 2019, \$4.4 billion, \$4.3 billion and \$4.2 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 \$166 million, \$202 million and \$312 million during fiscal 2021, 2020 and 2019, respectively. Interest and penalties accrued as of May 31, 2021 and 2020 were \$1.6 billion and \$1.4 billion, 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 2019. Many issues are at an advanced stage in the examination process, the most significant of which include transfer pricing, domestic production activity, foreign tax credits, research and development credits, state economic nexus, and qualification as a state manufacturer. With all of these domestic audit issues considered in the aggregate, we believe that it was reasonably possible that, as of May 31, 2021, 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 \$798 million (\$671 million net of offsetting tax benefits). Our U.S. federal income tax returns have been examined for all years prior to fiscal 2010 and, with some exceptions, 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.

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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, 2021, the gross unrecognized tax benefits could decrease (whether by payment, release, or a combination of both) by as much as \$197 million (\$89 million net of offsetting tax benefits) in the next 12 months related primarily to transfer pricing. With some exceptions, we are generally no longer subject to tax examinations in non-U.S. jurisdictions for years prior to fiscal 2001.

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, Israel, Mexico, New Zealand, Pakistan, Saudi Arabia, South Korea 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.

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.

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 Officer 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 tabular 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 enterprise 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 immediate upon signature of the license contract. In each fiscal year, our cloud and license

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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 offers hardware support, which provides customers with software updates for the software components that are essential to the functionality of their hardware products, such as Oracle Solaris and certain other software, and can also 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.

The following table presents summary results for each of our three businesses for each of fiscal 2021, 2020 and 2019:

(in millions)	Year Ended May 31,		
	2021	2020	2019
Cloud and license:			
Revenues(1)	\$ 34,101	\$ 32,523	\$ 32,582
Cloud services and license support expenses	4,133	3,803	3,597
Sales and marketing expenses	6,799	7,159	7,398
Margin(2)	<u>\$ 23,169</u>	<u>\$ 21,561</u>	<u>\$ 21,587</u>
Hardware:			
Revenues	\$ 3,359	\$ 3,443	\$ 3,704
Hardware products and support expenses	945	1,084	1,327
Sales and marketing expenses	388	456	520
Margin(2)	<u>\$ 2,026</u>	<u>\$ 1,903</u>	<u>\$ 1,857</u>
Services:			
Revenues	\$ 3,021	\$ 3,106	\$ 3,240
Services expenses	2,393	2,656	2,703
Margin(2)	<u>\$ 628</u>	<u>\$ 450</u>	<u>\$ 537</u>
Totals:			
Revenues(1)	\$ 40,481	\$ 39,072	\$ 39,526
Expenses	14,658	15,158	15,545
Margin(2)	<u>\$ 25,823</u>	<u>\$ 23,914</u>	<u>\$ 23,981</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. The table below provides 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 benefit from (provision for) income taxes:

(in millions)	Year Ended May 31,		
	2021	2020	2019
Total revenues for operating segments	\$ 40,481	\$ 39,072	\$ 39,526
Cloud and license revenues(1)	(2)	(4)	(20)
Total revenues	<u>\$ 40,479</u>	<u>\$ 39,068</u>	<u>\$ 39,506</u>
Total margin for operating segments	\$ 25,823	\$ 23,914	\$ 23,981
Cloud and license revenues(1)	(2)	(4)	(20)
Research and development	(6,527)	(6,067)	(6,026)
General and administrative	(1,254)	(1,181)	(1,265)
Amortization of intangible assets	(1,379)	(1,586)	(1,689)
Acquisition related and other	(138)	(56)	(44)
Restructuring	(431)	(250)	(443)
Stock-based compensation for operating segments	(513)	(436)	(518)
Expense allocations and other, net	(366)	(438)	(441)
Interest expense	(2,496)	(1,995)	(2,082)
Non-operating income, net	282	162	815
Income before benefit from (provision for) income taxes	<u>\$ 12,999</u>	<u>\$ 12,063</u>	<u>\$ 12,268</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. This table provides 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 total of which is reconciled to revenues from our reportable segments as per the preceding tables of this footnote.

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 2021, 2020 and 2019:

(in millions)	Year Ended May 31,		
	2021	2020	2019
Americas	\$ 21,828	\$ 21,563	\$ 21,856
EMEA(1)	11,894	11,035	11,270
Asia Pacific	6,757	6,470	6,380
Total revenues	<u>\$ 40,479</u>	<u>\$ 39,068</u>	<u>\$ 39,506</u>

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The following table presents our cloud services and license support revenues by applications and infrastructure ecosystems.

(in millions)	Year Ended May 31,		
	2021	2020	2019
Applications cloud services and license support	\$ 11,712	\$ 11,015	\$ 10,553
Infrastructure cloud services and license support	16,988	16,377	16,154
Total cloud services and license support revenues	<u>\$ 28,700</u>	<u>\$ 27,392</u>	<u>\$ 26,707</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 2021, 2020 or 2019.

(in millions)	As of and for the Year Ended May 31,					
	2021		2020		2019	
	Revenues	Long-Lived Assets ⁽¹⁾	Revenues	Long-Lived Assets ⁽¹⁾	Revenues	Long-Lived Assets ⁽¹⁾
United States	\$ 18,734	\$ 6,826	\$ 18,428	\$ 6,012	\$ 18,596	\$ 5,318
United Kingdom	2,110	685	1,904	472	2,054	423
Japan	1,988	650	1,977	655	1,848	422
Germany	1,744	561	1,510	418	1,583	263
Canada	1,281	199	1,162	169	1,166	87
Other countries	14,622	2,464	14,087	1,977	14,259	1,356
Total	<u>\$ 40,479</u>	<u>\$ 11,385</u>	<u>\$ 39,068</u>	<u>\$ 9,703</u>	<u>\$ 39,506</u>	<u>\$ 7,869</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.

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 as applicable pursuant to 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,		
	2021	2020	2019
Net income	\$ 13,746	\$ 10,135	\$ 11,083
Weighted average common shares outstanding	2,945	3,211	3,634
Dilutive effect of employee stock plans	77	83	98
Dilutive weighted average common shares outstanding	<u>3,022</u>	<u>3,294</u>	<u>3,732</u>
Basic earnings per share	\$ 4.67	\$ 3.16	\$ 3.05
Diluted earnings per share	\$ 4.55	\$ 3.08	\$ 2.97
Shares subject to anti-dilutive restricted stock-based awards and stock options excluded from calculation ⁽¹⁾	36	56	71

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

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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 (the HP Settlement Agreement), resolving litigation between HP and one of Oracle's former CEOs who had previously acted as HP's chief executive officer and chairman of HP's board of directors. HP sought a judicial declaration of the parties' rights and obligations under the HP 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 HP Settlement Agreement, the court found that the HP 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. Oral argument was held on May 27, 2021. On June 14, 2021, the Court of Appeal affirmed both the judgment against Oracle noted above, and the denial of pre-judgment interest. Oracle has posted a mandated surety bond with the trial court for the amounts owing. No amounts have been paid or recorded to our results of operations. If the Court of Appeal's judgment is ultimately affirmed, we would be liable for the amount of the jury award that is described above plus post-judgment interest.

We continue to believe that we have meritorious defenses against HP's claims and intend to vigorously defend against them including our intention to petition for review by the California Supreme Court.

We cannot currently estimate a reasonably possible range of loss for this action due to the complexities and uncertainty surrounding this process and the nature of the claims. Litigation is inherently unpredictable, and the outcome of the 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 and July 18, 2017, two alleged stockholders filed separate derivative lawsuits in the Court of Chancery of the State of Delaware, purportedly on Oracle's behalf. Thereafter, the court consolidated the two derivative cases and designated the July 18, 2017 complaint as the operative complaint. The consolidated lawsuit was brought against all the then-current members and one former member of our Board of Directors, and Oracle as a nominal defendant. Plaintiff alleged that the defendants breached their fiduciary duties by causing Oracle to agree to purchase NetSuite Inc. (NetSuite) at an excessive price. The complaint sought (and the operative complaint continues to seek) declaratory relief, unspecified monetary damages (including interest), and attorneys' fees and costs. The defendants filed a motion to dismiss, which the court denied on March 19, 2018.

On May 4, 2018, our Board of Directors established a Special Litigation Committee (the SLC) to investigate the allegations in this derivative action. Three non-employee directors served on the SLC. On August 15, 2019, the SLC filed a letter with the court, stating that the SLC believed that plaintiff should be allowed to proceed with the derivative litigation on behalf of Oracle. After the SLC advised the Board that it had fulfilled its duties and

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obligations, the Board withdrew the SLC's authority, except that the SLC maintained certain authority to respond to discovery requests in the litigation.

After plaintiff filed the July 18, 2017 complaint, an additional plaintiff joined the case. Plaintiffs filed several amended complaints, and filed their most recent amended complaint on December 11, 2020. The operative complaint asserts claims for breach of fiduciary duty against our Chief Executive Officer, our Chief Technology Officer, the estate of Mark Hurd (our former Chief Executive Officer who passed away on October 18, 2019), and two other members of our Board of Directors. Oracle is named as a nominal defendant. On December 11, 2020, the estate of Mark Hurd and the two other members of our Board of Directors moved to dismiss this complaint, and a hearing on this motion was held on February 16, 2021. The court has not yet ruled on this motion. On December 28, 2020, our Chief Executive Officer, our Chief Technology Officer, and Oracle as a nominal defendant filed answers to the operative complaint.

The parties are conducting discovery. Trial is scheduled to commence on July 18, 2022.

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 then-two Chief Executive Officers, two other Oracle executives, and one former Oracle executive. As noted above, Mr. Hurd, one of our then-two Chief Executive Officers, passed away on October 18, 2019. 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. On December 17, 2019, the court granted this motion, giving plaintiffs an opportunity to file an amended complaint, which plaintiff filed on February 17, 2020. On April 23, 2020, defendants filed a motion to dismiss, and the court held a hearing on this motion on September 24, 2020. On March 22, 2021, the court granted in part and denied in part this motion. The court dismissed the action as to one Oracle executive and the former Oracle executive. The court permitted plaintiff to proceed with only a narrow omissions theory against the remaining defendants. On April 21, 2021, defendants filed an answer to the complaint. Trial is scheduled to commence on November 6, 2023. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

On February 12 and May 8, 2019, two stockholder derivative lawsuits were filed in the United States District Court for the Northern District of California. The cases were consolidated, and on July 8, 2019, a single plaintiff filed a consolidated complaint. The consolidated complaint brought various claims relating to the 10b-5 class action described immediately above. The parties agreed to stay the derivative case pending resolution of defendants' motion to dismiss the securities case, which the court granted in part and denied in part on March 22, 2021.

Plaintiff filed an amended complaint on June 4, 2021. The derivative suit is brought by an alleged stockholder of Oracle, purportedly on Oracle's behalf, against our Chief Technology Officer, our Chief Executive Officer, and the estate of Mark Hurd. Plaintiff claims that the alleged actions described in the class action discussed above caused harm to Oracle, and that defendants violated their fiduciary duties of candor, good faith, loyalty, and due care by failing to prevent this alleged harm. Plaintiff also brings derivative claims for violations of federal securities laws. Plaintiffs seek a ruling that this case may proceed as a derivative action, a finding that defendants are liable for breaching their fiduciary duties, damages, an order directing defendants to enact corporate reforms, attorneys' fees and costs, and unspecified relief. On June 14, 2021, the court "so ordered" a stipulation from the parties, staying this case pending resolution of the 10b-5 action.

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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.

Derivative Litigation Concerning Oracle’s Board Composition and Hiring Practices

On July 2 and 10, 2020, two alleged stockholders filed derivative lawsuits in the U.S. District Court for the Northern District of California, purportedly on Oracle’s behalf, and thereafter, filed a consolidated complaint on August 21, 2020. On July 30, 2020, a third alleged stockholder filed a derivative lawsuit in the same court. On October 16, 2020, defendants moved to consolidate all these actions, and the court granted this motion on November 30, 2020.

On December 7, 2020, plaintiffs filed a consolidated derivative complaint against all members of our Board of Directors, and Oracle as a nominal defendant, seeking declaratory and injunctive relief, monetary damages, interest, corporate governance changes, disgorgement, restitution, punitive damages, and an award of attorneys’ fees, expert fees, and costs. Plaintiffs allege that: (a) defendants breached their fiduciary duties by permitting Oracle to violate anti-discrimination laws and Oracle’s own policies, failing to ensure sufficient diversity on the board, failing to ensure an independent board chairman, rehiring Ernst & Young LLP as Oracle’s auditors, and by breaching the HP Settlement Agreement (discussed above); (b) defendants made false and misleading statements in Oracle’s proxy statements; (c) defendants received unjust compensation and were unjustly enriched; (d) defendants aided and abetted this conduct; and (e) our Chief Technology Officer and our Chief Executive Officer are liable for abuse of control. On January 6, 2021, defendants moved to dismiss the complaint. On May 24, 2021, the court granted defendants’ motion. Regarding the claims concerning Oracle’s proxy statements, the court granted plaintiffs leave to file an amended complaint within 30 days. Regarding the remaining claims, the court granted plaintiffs leave to re-file those claims in Delaware Chancery Court.

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, 2019	\$ 370	\$ 190	\$ (188)	\$ (1)	\$ 371
May 31, 2020	\$ 371	\$ 245	\$ (195)	\$ (12)	\$ 409
May 31, 2021	\$ 409	\$ 192	\$ (243)	\$ 15	\$ 373

Item 16. Form 10-K Summary

None.