

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___ to ___
Commission File Number: 001-35992

Oracle Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
500 Oracle Parkway
Redwood City, California
(Address of principal executive offices)

54-2185193
(I.R.S. Employer
Identification No.)

94065
(Zip Code)

(650) 506-7000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, par value \$0.01 per share | ORCL | New York Stock Exchange |
| 2.25% senior notes due January 2021 | — | New York Stock Exchange |
| 3.125% senior notes due July 2025 | — | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$107,880,125,000 based on the number of shares held by non-affiliates of the registrant as of May 31, 2020, and based on the closing sale price of common stock as reported by the New York Stock Exchange on November 29, 2019, which is the last business day of the registrant's most recently completed second fiscal quarter. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Number of shares of common stock outstanding as of June 16, 2020: 3,068,682,000.

Documents Incorporated by Reference:

Portions of the registrant's definitive proxy statement relating to its 2020 annual stockholders' meeting are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

ORACLE CORPORATION
FISCAL YEAR 2020
FORM 10-K
ANNUAL REPORT

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Cautionary Note on Forward-Looking Statements

For purposes of this Annual Report, the terms “Oracle,” “we,” “us” and “our” refer to Oracle Corporation and its consolidated subsidiaries. This Annual Report on Form 10-K contains statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or otherwise contain forward-looking statements within the meaning of Section 21 of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These include, among other things, statements regarding:

- our expectations regarding the impacts on our business as a result of the global COVID-19 pandemic;
- our expectation that we may acquire companies, products, services and technologies to further our corporate strategy as compelling opportunities become available;
- our belief that our acquisitions enhance the products and services that we can offer to customers, expand our customer base, provide greater scale to accelerate innovation, grow our revenues and earnings, and increase stockholder value;
- our expectation that, on a constant currency basis, our total cloud and license revenues generally will continue to increase due to expected growth in our cloud services and our license support offerings, and continued demand for our cloud license and on-premise license offerings;
- our belief that our Oracle Cloud Software-as-a-Service and Infrastructure-as-a-Service (SaaS and IaaS, respectively, and collectively, Oracle Cloud Services) offerings are opportunities for us to expand our cloud and license business, and that demand for our Oracle Cloud Services will continue to increase;
- our belief that we can market and sell our SaaS and IaaS offerings together to help customers migrate their extensive installed base of on-premise applications and infrastructure technologies to the Oracle Cloud while at the same time reaching a broader ecosystem of developers and partners;
- our belief that we can market our SaaS and IaaS services to small and medium-sized businesses and non-IT lines of business purchasers;
- our expectation that substantially all of our customers will renew their license support contracts annually;
- our belief that Oracle ERP Cloud is a strategic suite of applications that is foundational to facilitate and extract more business value out of the adoption of other Oracle SaaS offerings as our customers realize value of a common data model that spans across core business applications;
- our expectations regarding the performance of our Oracle Autonomous Database, including its ability to reduce customer downtime and cost;
- our expectation that our hardware business will have lower operating margins as a percentage of revenues than our cloud and license business;
- our expectation that we will continue to make significant investments in research and development, and our belief that research and development efforts are essential to maintaining our competitive position;
- our expectation that our international operations will continue to provide a significant portion of our total revenues and expenses;
- the sufficiency of our sources of funding for working capital, capital expenditures, contractual obligations, acquisitions, dividends, stock repurchases, debt repayments and other matters;
- our belief that we have adequately provided under U.S. generally accepted accounting principles for outcomes related to our tax audits and that the final outcome of our tax related examinations,

agreements or judicial proceedings will not have a material effect on our results of operations, and our belief that our net deferred tax assets will be realized in the foreseeable future;

- our belief that the outcome of certain legal proceedings and claims to which we are a party will not, individually or in the aggregate, result in losses that are materially in excess of amounts already recognized, if any;
- the possibility that certain legal proceedings to which we are a party could have a material impact on our future cash flows and results of operations;
- the timing and amount of expenses we expect to incur and the cost savings we expect to realize pursuant to our Fiscal 2019 Oracle Restructuring Plan;
- the timing and amount of future cash dividend payments and stock repurchases, including our expectation that the levels of our future stock repurchase activity may be modified in comparison to past periods in order to use available cash for other purposes;
- our expectations regarding the impact of recent accounting pronouncements on our consolidated financial statements;
- our expectation that, to the extent customers renew support contracts or cloud SaaS and IaaS contracts from companies that we have acquired, we will recognize revenues for the full contracts' values over the respective renewal periods;
- our ability to predict quarterly hardware revenues;
- the percentage of remaining performance obligations that we expect to recognize as revenues over the next twelve months;
- our expectations regarding our ability to collect delayed customer payments;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may be preceded by, followed by or include the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "strives," "endeavors," "estimates," "will," "should," "is designed to" and similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors" included elsewhere in this Annual Report and as may be updated in filings we make from time to time with the U.S. Securities and Exchange Commission (the SEC), including our Quarterly Reports on Form 10-Q to be filed by us in our fiscal year 2021, which runs from June 1, 2020 to May 31, 2021.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this Annual Report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this Annual Report.

PART I

Item 1. Business

Oracle provides products and services that address enterprise information technology (IT) environments. Our products and services include applications and infrastructure offerings that are delivered worldwide through a variety of flexible and interoperable IT deployment models. These models include on-premise deployments, cloud-based deployments, and hybrid deployments (an approach that combines both on-premise and cloud-based deployment) such as our Oracle Cloud at Customer offering (an instance of Oracle Cloud in a customer's own data center). Accordingly, we offer choice and flexibility to our customers and facilitate the product, service and deployment combinations that best suit our customers' needs. Our customers include businesses of many sizes, government agencies, educational institutions and resellers that we market and sell to directly through our worldwide sales force and indirectly through the Oracle Partner Network.

Oracle Cloud Software-as-a-Service and Infrastructure-as-a-Service (SaaS and IaaS, respectively, and collectively, Oracle Cloud Services) offerings provide a comprehensive and integrated stack of applications and infrastructure services delivered via a cloud-based deployment model. Oracle Cloud Services integrate the software, hardware and services on a customer's behalf in a cloud-based IT environment that Oracle deploys, upgrades, supports and manages for the customer. Oracle Cloud Services are designed to be rapidly deployable to enable customers shorter time to innovation; intuitive for casual and experienced users; easily maintainable to reduce upgrade, integration and testing work; connectable among differing deployment models to enable interchangeability and extendibility between IT environments; compatible to easily move workloads between the Oracle Cloud and other IT environments; cost-effective by requiring lower upfront customer investment; and secure, standards-based and reliable.

Oracle cloud license and on-premise license deployment offerings include Oracle Applications, Oracle Database and Oracle Middleware software offerings, among others, which customers deploy using IT infrastructure from the Oracle Cloud or their own cloud-based or on-premise IT environments. Substantially all customers, at their option, purchase license support contracts when they purchase an Oracle license.

Oracle hardware product offerings include Oracle Engineered Systems, servers, storage and industry-specific products, among others. Customers generally opt to purchase hardware support contracts when they purchase Oracle hardware.

Oracle also offers services to assist our customers and partners to maximize the performance of their Oracle purchases.

Providing choice and flexibility to Oracle customers as to when and how they deploy Oracle applications and infrastructure technologies is an important element of our corporate strategy. We believe that offering customers broad, comprehensive, flexible and interoperable deployment models for Oracle applications and infrastructure technologies is important to our growth strategy and better addresses customer needs relative to our competitors, many of whom provide fewer offerings, more restrictive deployment models and less flexibility for a customer's transition to cloud-based IT environments.

Our investments in, and innovation with respect to, Oracle products and services that we offer through our cloud and license, hardware and services businesses (described further below) are another important element of our corporate strategy. In fiscal 2020, 2019 and 2018, we invested \$6.1 billion, \$6.0 billion and \$6.1 billion, respectively, in research and development to enhance our existing portfolio of offerings and products and to develop new technologies and services. We have a deep understanding as to how applications and infrastructure technologies interact and function with one another. We focus our development efforts on improving the performance, security, operation, integration and cost-effectiveness of our offerings relative to our competitors; making it easier for organizations to deploy, use, manage and maintain our offerings; and incorporating emerging technologies within our offerings to enable leaner business processes, automation and innovation. For example, the Oracle Autonomous Database is designed to deliver transformational infrastructure through an Oracle Cloud IaaS offering that utilizes Oracle's Generation 2 Cloud Infrastructure's machine learning capabilities. After an initial purchase of Oracle products and services, our customers can continue to benefit from our research and development efforts and deep IT expertise by electing to purchase and renew Oracle support offerings for their

license and hardware deployments, which may include product enhancements that we periodically deliver to our products, and by renewing their Oracle Cloud Services contracts with us.

Our selective and active acquisition program is another important element of our corporate strategy. We believe that our acquisitions enhance the products and services that we can offer to customers, expand our customer base, provide greater scale to accelerate innovation, grow our revenues and earnings, and increase stockholder value. We have invested billions of dollars over time to acquire a number of companies, products, services and technologies that add to, are complementary to, or have otherwise enhanced our existing offerings. We expect to continue to acquire companies, products, services and technologies to further our corporate strategy.

We have three businesses:

- our cloud and license business, which is comprised of a single operating segment and includes our Oracle Cloud Services offerings, cloud license and on-premise license offerings, and license support offerings, represented 83% of our total revenues in each of fiscal 2020 and 2019, and 81% of our total revenues in fiscal 2018;
- our hardware business, which is comprised of a single operating segment and includes our hardware products and related hardware support services offerings, represented 9% of our total revenues in each of fiscal 2020 and 2019, and 10% of our total revenues in fiscal 2018; and
- our services business, which is comprised of a single operating segment, represented 8% of our total revenues in each of fiscal 2020 and 2019, and 9% of our total revenues in fiscal 2018.

Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 15 of Notes to Consolidated Financial Statements, both included elsewhere in this Annual Report, provide additional information related to our businesses and operating segments.

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

Impacts of the COVID-19 Pandemic on Oracle's Business

Oracle is committed to the health, safety and welfare of our employees, customers, suppliers, communities, stockholders and other stakeholders. While the world continues to navigate the risks and uncertainties associated with the COVID-19 pandemic, we are committed to providing critical technologies, programs and support to individuals and organizations to navigate, adjust and continue their operations in light of the unique demands and constraints imposed by the pandemic. For decades, we have developed, delivered and supported products and services that enable telecommunication companies to keep people connected; retailers to provide food and other necessities; researchers to identify solutions; hospitals to provide care; airlines to ensure travel; banks to help people access funds; insurers to provide benefits; governments to keep people safe and informed; utilities to supply power and water; and many other critical functions.

We have proactively sought, supported, donated to, partnered and engaged with organizations globally that provide critical medicines, research, goods and services to combat the COVID-19 pandemic, including:

- medical research organizations, which power COVID-19 simulation and modeling projects using Oracle Cloud IaaS;
- the U.S. federal government, which received an Oracle system to collect and distribute information as to how COVID-19 patients respond to potential therapies;
- hospitals, which have utilized Oracle infrastructure technologies to rapidly develop and deploy applications that collect, analyze and manage characteristics of COVID-19 patients;
- enterprises, which have the ability to complementarily access Oracle Human Capital Management (HCM) Cloud options for employee health and safety programs in order to proactively manage and respond to COVID-19 implications on their workforces;

- state and local government agencies, which have utilized Oracle Cloud SaaS solutions to develop and target constituent outreach related to COVID-19, and to assess, research and respond to COVID-19 incident management on a unified platform; and
- pharmaceutical companies, which power their research and clinical trials using Oracle Health Sciences solutions;

among dozens of other specific use cases, programs and partnerships that Oracle has donated to, partnered with, developed and supported in response to the COVID-19 pandemic.

Oracle applications and infrastructure technologies are critical to the business operations of our customers, which number in the hundreds of thousands across a broad geographic and industry base. We are profitable and generate a large amount of positive cash flow from our operations and we do not believe the COVID-19 pandemic will jeopardize either of these characteristics of our business. Other impacts due to COVID-19 on our business are currently unknown.

For additional details regarding the impacts and risks to our business from the COVID-19 pandemic, refer to Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K.

Applications and Infrastructure Technologies

Oracle's comprehensive portfolio of applications and infrastructure technologies is designed to address an organization's IT environment needs including business process, infrastructure and applications development requirements, among others. Oracle technologies are based upon industry standards and are designed to be enterprise-grade, reliable, scalable and secure. Oracle applications and infrastructure technologies including database and middleware software as well as enterprise applications, virtualization, clustering, large-scale systems management and related infrastructure products and services are the building blocks of Oracle Cloud Services, our partners' cloud services, and our customers' cloud IT environments. Oracle applications and infrastructure offerings are marketed and sold through our cloud and license, hardware, and services businesses and are delivered through the Oracle Cloud, or through other IT deployment models including cloud-based, hybrid and on-premise deployments. We believe Oracle applications and infrastructure offerings enable flexibility, interoperability and choice to best meet customer IT needs.

We believe that our Oracle Cloud Services offerings are opportunities for us to expand our cloud and license business. We believe that our customers increasingly recognize the value of access to cloud-based applications and infrastructure capabilities via a lower cost, rapidly deployable, flexible and interoperable services model that Oracle manages, upgrades and maintains on the customer's behalf. We believe that we can market and sell our SaaS and IaaS offerings together to help customers migrate their extensive installed base of on-premise applications and infrastructure technologies to the Oracle Cloud while at the same time reaching a broader ecosystem of developers and partners. We also believe we can market our SaaS and IaaS services to small and medium-sized businesses and non-IT lines of business purchasers due to the highly available, intuitive design, low touch and low cost characteristics of the Oracle Cloud.

In recent periods, customer demand for our applications and infrastructure technologies delivered through our Oracle Cloud Services deployment models has increased. To address customer demand and enable customer choice, we have introduced certain programs for customers to pivot their applications and infrastructure licenses and license support contracts to the Oracle Cloud for new deployments and to migrate to and expand with the Oracle Cloud for their existing workloads. We expect these trends to continue.

Applications Technologies

Oracle applications technologies are marketed, sold, delivered and supported through our cloud and license business. Our applications cloud services and license support revenues represented 40%, 40% and 38% of our total cloud services and license support revenues during fiscal 2020, 2019 and 2018, respectively. Oracle applications technologies include our Oracle Cloud SaaS offerings, which are available for customers as a subscription, and

Oracle Applications license offerings, which are available for customers to purchase for use within the Oracle Cloud, and other cloud-based and on-premise IT environments, with the option to purchase related license support. Regardless of the deployment model selected, our applications technologies are designed to reduce the risk, cost and complexity of our customers' IT infrastructures, while supporting customer choice with flexible deployment models that readily enable performance, agility, compatibility and extendibility. Our applications technologies are generally designed using industry standard architectures to manage and automate core business functions across the enterprise, as well as to help customers differentiate and innovate in those processes unique to their industries or organizations. We offer applications that are deployable to meet a number of business automation requirements across a broad range of industries. We also offer industry-specific applications, which provide solutions to customers in the communications, construction and engineering, financial services, health sciences, hospitality, manufacturing, public sector, retail and utilities industries, among others.

Oracle Cloud Software as a Service (SaaS)

Oracle's broad spectrum of Oracle Cloud SaaS offerings provides customers a choice of software applications that are delivered via a cloud-based IT environment that we host, manage, upgrade and support, and that customers purchase by entering into a subscription agreement with us for a stated period. Customers access Oracle Cloud SaaS offerings utilizing common web browsers via a broad spectrum of devices. Our SaaS offerings are built upon open industry standards such as SQL, Java and HTML5 for easier application accessibility, integration and development. Our SaaS offerings represent an industry leading business innovation platform, leveraging our Generation 2 Cloud Infrastructure, and include a broad suite of modular, next generation cloud software applications spanning all core business functions including, among others:

- Oracle Enterprise Resource Planning (ERP) Cloud, which is designed to be a complete, global and integrated ERP solution to help organizations improve decision making and workforce productivity, and to optimize back-office operations by utilizing a single data and security model with a common user interface;
- Oracle Enterprise and Performance Management (EPM) Cloud, which is designed to analyze financial performance, drive accurate and agile financial plans, optimize the financial close and consolidation process, streamline account reconciliation and satisfy an organization's reporting requirements;
- Oracle Supply Chain Management (SCM) Cloud, which is designed to help organizations create, optimize and digitize their supply chains and innovate products quickly;
- Oracle Human Capital Management (HCM) Cloud, which is designed to help organizations find, develop and retain their talent, enable collaboration, provide complete workforce insights, improve business process efficiency, and enable users to connect to an integrated suite of HCM applications from any device;
- Oracle Customer Experience Cloud including Sales, Service, Marketing and Data Cloud, which is designed to be a complete and integrated solution to help organizations deliver consistent and personalized customer experiences across their customer channels, touch points and interactions. It also enables organizations to leverage their own data and consumer data to inform and measure marketing strategies and programs; and
- NetSuite Application Suite, which is a cloud-based ERP solution that is generally marketed to small to medium-sized organizations and is designed to run back-office operations and financial processes, and includes financial management, revenue management and billing, inventory, supply chain and warehouse management capabilities, among others.

We also offer a number of cloud-based industry solutions to address specific customer needs within certain industries.

We believe that the comprehensiveness and breadth of our SaaS offerings as a business innovation platform differentiate us from many of our competitors that offer more limited or specialized applications. Our SaaS

offerings are designed to support connected business processes in the cloud and are centered on an intuitive interface, a responsive and flexible business core, and a common data model. We believe Oracle ERP Cloud is a strategic suite of applications that is foundational to facilitate and extract more business value out of the adoption of other Oracle SaaS offerings, such as Oracle HCM Cloud and Oracle EPM Cloud, as customers realize the value of a common data model that spans across core business applications. Our SaaS offerings are designed to deliver a secure data isolation architecture and flexible upgrades; self-service access controls for users; a Service-Oriented Architecture (SOA); built-in social, mobile and business insight capabilities (analytics); and a high performance, high availability infrastructure based on our infrastructure technologies, including Oracle's Generation 2 Cloud Infrastructure. These SaaS capabilities are designed to simplify IT environments, reduce time to implementation and risk, provide an intuitive user experience for casual and experienced users, and enable customers to focus resources on business growth opportunities. Our SaaS offerings are also designed to natively incorporate emerging technologies such as Internet-of-Things (IoT), artificial intelligence, machine learning, blockchain, digital assistants and advances in the "human interface" and how users interact with Oracle Cloud SaaS offerings within a business context or to augment human capabilities to enhance productivity.

Oracle Applications Licenses

Customers have the ability to license Oracle Applications for use within the Oracle Cloud or within their own cloud-based or on-premise IT environments. Oracle Applications are designed to manage and automate core business functions across the enterprise, including HCM; ERP; financial management and governance, risk and compliance; procurement; project portfolio management; SCM; business analytics and enterprise performance management; Oracle Customer Experience Cloud and customer relationship management; and industry-specific applications, among others.

As described below, we provide customers the option to purchase license support contracts in connection with the purchase of Oracle Applications licenses.

Oracle License Support

Oracle license support offerings are marketed and sold as a part of our cloud and license business. Substantially all of our customers opt to purchase license support contracts when they purchase Oracle applications and infrastructure licenses to run within the Oracle Cloud or other cloud-based and on-premise IT environments. We believe our license support offerings protect and enhance our customers' investments in Oracle applications and infrastructure technologies because they provide proactive and personalized support services including Oracle Lifetime Support and unspecified license enhancements and upgrades during the term of the support period. Substantially all license support customers renew their support contracts with us upon expiration in order to continue to benefit from technical support services and the periodic issuance of unspecified updates and enhancements, which current license support customers are entitled to receive. Our license support contracts are generally priced as a percentage of the net fees paid by the customer to access the license and are typically one year in duration.

Infrastructure Technologies

Oracle infrastructure technologies are marketed, sold and delivered through our cloud and license business and through our hardware business. Our infrastructure technologies are designed to be flexible, cost-effective, standards-based and high-performance in order to facilitate the development, running, integration, management and extension across an organization's cloud-based, on-premise and hybrid IT environments.

Our cloud and license business' infrastructure technologies include the Oracle Database, which is the world's most popular enterprise database; Java, which is the computer industry's most widely-used software development language; and middleware including development tools, among others. These technologies are available through a subscription to our Oracle Cloud IaaS offerings or through the purchase of a license and related license support, at the customer's option, to run within the Oracle Cloud or other IT environments. Our cloud and license business' infrastructure technologies also include cloud-based compute, storage and networking capabilities through our

Oracle Cloud IaaS offerings. Our infrastructure offerings also include new and innovative services such as the Oracle Autonomous Data Warehouse Cloud Service, Oracle Autonomous Transaction Processing Cloud Service and emerging technologies such as IoT, digital assistant, and Blockchain.

Our hardware business' infrastructure technologies consist of hardware products and certain unique hardware-related software offerings including Oracle Engineered Systems, enterprise servers, storage solutions, industry-specific hardware, virtualization software, operating systems, management software, and related hardware services, including hardware support at the customer's option.

We design our infrastructure technologies to work in customer environments that may include other Oracle or non-Oracle hardware or software components. Our flexible and open approach provides Oracle customers a choice as to how they can utilize and deploy Oracle infrastructure technologies: through the use of Oracle Cloud offerings; on-premise in our customers' data centers; or a hybrid combination of these two deployment models, such as in the Oracle Cloud at Customer deployment model (described further below). We focus on the operation and integration of Oracle infrastructure technologies to make them easier to deploy, extend, interconnect, manage and maintain for our customers and to improve computing performance relative to our competitors' offerings. For example, the Oracle Exadata Database Machine integrates multiple Oracle technology components to work together to deliver improved performance, availability, security and operational efficiency of Oracle Database workloads relative to our competitors' products.

Oracle Infrastructure Technologies – Cloud and License Business Offerings

Oracle infrastructure technologies are marketed, sold and delivered through our cloud and license business. Our infrastructure cloud services and license support revenues represented 60% of our total cloud services and license support revenues during each of fiscal 2020 and 2019 and 62% in fiscal 2018.

Oracle Cloud Infrastructure as a Service (IaaS)

Oracle Cloud IaaS is based upon Oracle's Generation 2 Cloud Infrastructure technology and is designed to deliver platform, compute, storage and networking services, among others, that Oracle runs, manages, upgrades and supports on behalf of the customer for a fee for a stated time period, or for certain of our IaaS services, on a "pay-as-you-go" basis at a specified rate for services consumed. By utilizing Oracle Cloud IaaS, customers leverage the Oracle Cloud for enterprise-grade, scalable, cost-effective and secure infrastructure technologies that are designed to be rapidly deployable while reducing the amount of time and resources normally consumed by IT processes within on-premise environments. Oracle Generation 2 Cloud infrastructure technology is designed to be differentiated from other cloud vendors to provide better security by separating control code from customer data on separate computers with a different architecture. Customers use Oracle Cloud IaaS offerings to build and operate new cloud-native applications, to run new workloads and to move their existing Oracle or non-Oracle workloads to the Oracle Cloud from their on-premise data centers or from other cloud-based IT environments, among other uses. We continue to invest in Oracle Cloud IaaS to improve features and performance; to expand the catalog of cloud-based infrastructure tools and services we provide; to simplify the processes for migrating workloads to the Oracle Cloud; and to provide customers with the ability to run workloads across different IT environments and the Oracle Cloud in a hybrid deployment model.

Oracle customers and partners utilize Oracle's open, standards-based IaaS offerings for platform related services that are based upon the Oracle Database, Java and Oracle Middleware including open source and other tools for a variety of use cases across data management, applications development, integration, content and experience, business analytics, IT operations management, security, and emerging technologies.

Oracle customers and partners also utilize Oracle Cloud IaaS for enterprise-grade compute, storage and networking services. Our Oracle Cloud IaaS offerings' cloud-based compute services range from virtual machines to graphics processing unit-based offerings to bare metal servers and include options for dense I/O workloads and high performance computing. Oracle Cloud IaaS also includes a range of cloud-based storage offerings including block, object and archive storage services. In addition, Oracle Cloud IaaS offers networking, connectivity, and edge

services that help connect customer datacenters and third-party clouds such as Microsoft Azure with Oracle Cloud Services.

Oracle Cloud at Customer offerings are a direct response to restrictions imposed upon cloud-based IT environment adoption by businesses that operate within certain regulated industries or jurisdictions and enable customer choice in deployment models. Oracle Cloud at Customer enables customers to access certain IaaS capabilities of the Oracle Cloud in their own data centers behind their firewalls while having the services managed by Oracle. Oracle Cloud at Customer offerings allow customers to take advantage of the agility, innovation and subscription-based pricing of Oracle Cloud Services while meeting data sovereignty, data residency, data protection and regulatory business policy requirements.

Oracle also offers Oracle Managed Cloud Services, which are designed to provide comprehensive software and hardware hosting, management, maintenance and security services for an organization's cloud-based, hybrid or other infrastructure for a fee for a stated term.

Oracle Database Licenses

The Oracle Database is the world's most popular enterprise database and is designed to enable reliable and secure storage, retrieval and manipulation of all forms of data. The Oracle Database is licensed throughout the world by businesses and organizations of different sizes for a multitude of purposes, including, among others: for use within the Oracle Cloud to deliver our Cloud SaaS and Cloud IaaS offerings; for use by a number of cloud-based vendors in offering their cloud services; for packaged and custom applications for transaction processing; and for data warehousing and business intelligence. The Oracle Database may be deployed in various IT environments including Oracle Cloud and Oracle Cloud at Customer environments, other cloud-based IT environments, and on-premise data centers, among others. As described above, customers may elect to purchase license support for Oracle Database licenses.

Oracle Database Enterprise Edition is available with a number of optional add-on products to address specific customer requirements. In addition to the Oracle Database, we offer a portfolio of specialized database products to address particular customer requirements including MySQL, Oracle TimesTen In-Memory Database, Oracle Berkeley DB and Oracle NoSQL Database.

Oracle Autonomous Database

Oracle Autonomous Database offerings are designed to deliver performance and scale with automated database operations and policy-driven optimization by combining certain Oracle infrastructure technologies including the Oracle Database, Oracle's Generation 2 Cloud infrastructure, and native machine learning capabilities, among others. Oracle Autonomous Database offerings are designed to lower labor costs and reduce human error for routine database administration tasks including maintenance, tuning, patching, security and backup. Oracle Autonomous Database offerings use self-driving diagnostics for fault prediction and error handling. We believe the Oracle Autonomous Database offerings deliver rapid insights and innovation by enabling organizations to quickly provision a data warehouse that automatically and elastically scales to millions of transactions per second while enabling a flexible payment model for only the capacity used. Oracle Autonomous Database offerings include:

- Oracle Autonomous Data Warehouse Cloud Service (ADW), which is designed to be a fully managed, high-performance and elastic service optimized for data warehouse workloads. ADW's self-patching and self-tuning capabilities are designed to enable upgrades while the database is running, eliminating human error. Oracle ADW automates manual IT tasks such as storing, securing, scaling and backing-up data. In addition, the machine learning based technology of ADW is designed to enable customers to deploy new or move existing data marts and data warehouses to the cloud; and
- Oracle Autonomous Transaction Processing Cloud Service (ATP), which is designed to enable businesses to safely run a complex mix of high-performance transactions, reporting and batch processing using instant, elastic compute and storage through an Oracle Database running on an Oracle Exadata cloud-based instance. Oracle ATP is designed to enable organizations to conduct real-time transactional data analysis

for faster results and lower administration costs, and to eliminate cyber-attacks on unpatched or unencrypted databases. Oracle ATP is designed to be simple and agile to develop and deploy new applications because complex management and tuning is not required. The integration of Oracle ATP with other Oracle Cloud Services, such as Java Cloud and Oracle APEX, and the open interfaces and integrations of Oracle ATP provide developers with a modern, open platform to develop new and innovative applications.

Oracle ADW and Oracle ATP both offer the following options, among others:

- Shared Exadata Infrastructure, which is a simple and elastic deployment choice Oracle autonomously operates all aspects of the database lifecycle, including database placement, backup and updates; and
- Dedicated Exadata Infrastructure, which is designed to provide the characteristics of a private cloud in a public cloud deployment, including dedicated compute, storage, network and database service for a single tenant. Dedicated Exadata Infrastructure deployment is also designed to provide high levels of security isolation and governance with customizable operational policies for autonomous operations for workload placement, workload optimization, schedule updating, availability, over-provisioning and peak usage.

Oracle Big Data and Analytics

Big data generally refers to a massive amount of unstructured, streaming and structured data that is so large that it is difficult to process using traditional IT techniques. We offer big data and analytics solutions to complement and extend our applications and infrastructure technologies. We believe that most businesses view big data as a potentially high-value source of analytics that can be used to gain new insights into their customers' behaviors, to anticipate future demand more accurately, to align workforce deployment with business activity forecasts and to accelerate the pace of operations, among other benefits. We offer a broad portfolio of offerings to address an organization's big data requirements including, among others, cloud-based services for data integration, data management, data science, analytics and integrated machine learning.

Oracle Middleware Licenses

We license our Oracle Middleware, which is a broad family of integrated application infrastructure software, for use in the Oracle Cloud, other cloud-based environments, on-premise data centers and related IT environments. Oracle Middleware is designed to enable customers to design and integrate Oracle and non-Oracle business applications, automate business processes, scale applications to meet customer demand, simplify security and compliance, manage lifecycles of documents and get actionable, targeted business intelligence. Built with Oracle's Java technology platform, Oracle Middleware products are designed to be flexible across different deployment environments—cloud, on-premise or hybrid—as a foundation for custom, packaged and composite applications, thereby simplifying and reducing time to deployment. Oracle Middleware is designed to protect customers' IT investments and work with both Oracle and non-Oracle database, middleware and applications software through an open architecture and adherence to industry standards. In addition, Oracle Middleware supports multiple development languages and tools, which enables developers to flexibly build and deploy web services, websites, portals and web-based applications globally across different IT environments.

Among our other middleware license offerings, we license a wide range of development tools, such as Oracle WebLogic Server for Java application development and Oracle Mobile Hub, which is designed to address the needs of businesses that are increasingly focused on delivering mobile device applications to their customers. Customers may elect to purchase license support, as described above, for Oracle Middleware licenses at their option. We also offer certain of our middleware capabilities as a cloud service.

Java Licenses

Java is the computer industry's most widely-used software development language and is viewed as a global standard. We believe the Java programming language and platform together represent one of the most popular and powerful development environments in the world, one that is used by millions of developers globally to develop embedded applications, web content, enterprise software and games. Oracle Middleware software

products and certain of our Oracle Applications are built using the Oracle Java technology platform, which we believe is a key advantage for our business. Customers may license the use of Java or access Java Enterprise Edition through Oracle WebLogic Cloud.

Java is designed to enable developers to write software on a single platform and run it on many other different platforms, independent of operating system and hardware architecture. Java has been adopted by both independent software vendors (ISVs) that have built their products on Java and by enterprise organizations building custom applications or consuming Java-based ISV products.

Oracle Infrastructure Technologies – Hardware Business Offerings

Oracle infrastructure technologies are also marketed, sold and delivered through our hardware business, including a broad selection of hardware products and related hardware support services for cloud-based IT environments, data centers and related IT environments.

Oracle Engineered Systems

Oracle Engineered Systems are core to our cloud-based and on-premise data center infrastructure offerings. Oracle Engineered Systems are pre-integrated products, combining multiple unique Oracle technology components, including database, storage, operating system or middleware software with server, storage and networking hardware and other technologies. Oracle Engineered Systems are designed to work together to deliver improved performance, scalability, availability, security and operational efficiency relative to our competitors' products; to be upgraded effectively and efficiently; and to simplify maintenance cycles by providing a single solution for software patching. For example, Oracle Exadata Database Machine is a computing platform that is designed to be optimized for running Oracle Database to achieve higher performance and availability at a lower cost by combining Oracle Database, storage and operating system software with Oracle server, storage and networking hardware. We offer certain of our Oracle Engineered Systems, including the Oracle Exadata Database Machine, among others, through flexible deployment options, including on-premise, as an infrastructure cloud service, and as a cloud at customer service.

Servers

We offer a wide range of server products that are designed for mission-critical enterprise environments and that are key components of our engineered systems offerings and cloud offerings. We have two families of server products: those based on the Oracle SPARC microprocessor, which are designed to be differentiated by their reliability, security and scalability for UNIX environments; and those using microprocessors from Intel Corporation. By offering a range of server sizes and microprocessors, customers are offered the flexibility to choose the types of servers that they believe will be most appropriate and valuable for their particular IT environments. We believe the combination of Oracle server systems with Oracle software enhances our customers' ability to shift data and workloads between data center and cloud deployments based on an organization's business requirements.

Storage

Oracle storage products are engineered for the cloud and designed to securely store, manage, protect and archive customers' mission-critical data assets generated by any database or application. Oracle storage products combine flash, disk, tape and server technologies with optimized software and unique integrations with the Oracle Database and are designed to offer greater performance and efficiency, and lower total cost relative to our competitors' storage products. Certain of our storage products are also offered as Oracle Cloud Services for backup and archiving. Our storage offerings include, among others, Oracle's Zero Data Loss Recovery Appliance that provides unique, recovery-focused data protection for the Oracle Database; Oracle ZFS Storage Appliance, a unified storage system that combines network attached storage, storage area network and object storage capabilities; and Oracle's StorageTek tape storage and automation product line, which includes tape drives, tape libraries, media and software packages that provide lifecycle data management and security for enterprise backup and archive requirements.

Industry-Specific Hardware Offerings

We offer hardware products and services designed for certain specific industries including, among others, our point-of-sale terminals and related hardware that are designed for managing businesses within the food and beverage, hotel and retail industries; and hardware products and services for communications networks including network signaling, policy control and subscriber data management solutions, and session border control technology.

Operating Systems, Virtualization, Management and Other Hardware-Related Software

We offer a portfolio of operating systems, including Oracle Linux and Oracle Solaris, virtualization software including Oracle VM, and other hardware-related software including development, management and file systems tools that are designed to optimize the performance, efficiency, and security of hardware products while providing customers with high levels of flexibility, reliability and availability. We also offer a range of management technologies and products, including Oracle Enterprise Manager, designed to help customers efficiently operate complex IT environments, including both end users' and service providers' cloud environments.

Hardware Support

Our hardware support offerings provide customers with unspecified software updates for software components that are essential to the functionality of our hardware products and associated software products such as Oracle Solaris. These offerings can also include product repairs, maintenance services and technical support services. We continue to evolve hardware support processes that are intended to proactively identify and solve quality issues and to increase the amount of new and renewed hardware support contracts sold in connection with the sales of our hardware products. Hardware support contracts are generally priced as a percentage of the net hardware products fees.

Services

We offer services to help customers and partners maximize the performance of their investments in Oracle applications and infrastructure technologies. We believe that our services are differentiated based on our focus on Oracle technologies, extensive experience and broad sets of intellectual property and best practices. Our services offerings include, among others:

- consulting services, which are designed to help our customers and global system integrator partners more successfully architect and deploy our cloud and license offerings, including IT strategy alignment, enterprise architecture planning and design, implementation, integration, application development, security assessments and ongoing software enhancements and upgrades. We utilize a global, blended delivery model to optimize value for our customers and partners, consisting of consultants from local geographies, industry specialists and consultants from our global delivery and solution centers;
- advanced customer services, which are support services provided by Oracle to a customer on-site or remote to enable increased performance and higher availability of a customer's Oracle products and services; and
- education services for Oracle's cloud and license offerings, including training and certification programs that are offered to customers, partners and employees through a variety of formats including instructor-led classes, live virtual training, in-application guided learning, video-based training on demand, online learning subscriptions, private events and custom training.

Oracle Cloud Operations

Oracle Cloud Operations deliver our Oracle Cloud Services to customers through a secure, reliable, scalable, enterprise grade cloud infrastructure platform managed by Oracle employees within a global network of data centers, which we refer to as the Oracle Cloud. The Oracle Cloud enables secure and isolated cloud-based instances for each of our customers to access the functionality of Oracle Cloud Services via a broad spectrum of

devices. Oracle Cloud Operations leverage automated software tools to enable the rapid delivery of the latest cloud technology capabilities to the Oracle Cloud as they become available, providing Oracle customers access to the latest Oracle technologies generally on a quarterly cadence.

Manufacturing

To produce our hardware products that we market and sell to third-party customers and that Oracle Cloud Operations utilize internally to deliver Oracle Cloud Services, we rely on both our internal manufacturing operations as well as third-party manufacturing partners. Our internal manufacturing operations consist primarily of materials procurement, assembly, testing and quality control of our Oracle Engineered Systems and certain of our enterprise and data center servers and storage products. For all other manufacturing, we generally rely on third-party manufacturing partners to produce our hardware-related components and hardware products and we may involve our internal manufacturing operations in the final assembly, testing and quality control processes for these components and products. We distribute most of our hardware products from either our facilities or partner facilities. Our manufacturing processes are substantially based on standardization of components across product types, centralization of assembly and distribution centers and a “build-to-order” methodology in which products generally are built only after customers have placed firm orders. Production of our hardware products requires that we purchase materials, supplies, product subassemblies and full assemblies from a number of vendors. For most of our hardware products, we have existing alternate sources of supply or such sources are readily available. However, we do rely on sole sources for certain of our hardware products. As a result, we monitor and evaluate potential risks of disruption to our supply chain operations. Refer to “Risk Factors” included in Item 1A within this Annual Report for additional discussion of the challenges we encounter with respect to the sources and availability of supplies for our products and the related risks to our business.

Sales and Marketing

We directly market and sell our cloud, license, hardware, support and services offerings to businesses of many sizes and in many industries, government agencies and educational institutions. We also market and sell our offerings through indirect channels. No single customer accounted for 10% or more of our total revenues in fiscal 2020, 2019 or 2018.

In the United States (U.S.), our sales and services employees are based in our headquarters and in field offices throughout the country. Outside the U.S., our international subsidiaries sell, support and service our offerings in their local countries as well as within other foreign countries where we do not operate through a direct sales subsidiary. Our geographic coverage allows us to draw on business and technical expertise from a global workforce, provides stability to our operations and revenue streams to offset geography specific economic trends, and offers us an opportunity to take advantage of new markets for our offerings. Our international operations subject us to certain risks, which are more fully described in “Risk Factors” included in Item 1A of this Annual Report. A summary of our domestic and international revenues and long-lived assets is set forth in Note 15 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

We also market our product offerings worldwide through indirect channels. The companies that comprise our indirect channel network are members of the Oracle Partner Network. The Oracle Partner Network is a global program that manages our business relationships with a large, broad-based network of companies, including independent software and hardware vendors, system integrators and resellers that deliver innovative solutions and services based upon our product offerings. By offering our partners access to our product offerings, educational information, technical services, marketing and sales support, the Oracle Partner Network program extends our market reach by providing our partners with the resources they need to be successful in delivering solutions to customers globally. The majority of our hardware products are sold through indirect channels including independent distributors and value-added resellers.

Research and Development

We develop the substantial majority of our product offerings internally. In addition, we have extended our product offerings and intellectual property through acquisitions of businesses and technologies. We also purchase or license intellectual property rights in certain circumstances. Internal development allows us to maintain technical control over the design and development of our products. We have a number of U.S. and foreign patents and pending applications that relate to various aspects of our products and technology. While we believe that our patents have value, no single patent is essential to us or to any of our principal businesses. Rapid technological advances in cloud, software and hardware development, evolving standards in computer hardware and software technology, changing customer needs and frequent new product introductions, offerings and enhancements characterize the markets in which we compete. We plan to continue to dedicate a significant amount of resources to research and development efforts to maintain and improve our current products and services offerings.

Employees

As of May 31, 2020, we employed approximately 135,000 full-time employees, including approximately 36,000 in sales and marketing, approximately 19,000 in our cloud services and license support operations, approximately 3,000 in hardware, approximately 25,000 in services, approximately 39,000 in research and development and approximately 13,000 in general and administrative positions. Of these employees, approximately 47,000 were employed in the U.S. and approximately 88,000 were employed internationally. None of our employees in the U.S. is represented by a labor union; however, in certain foreign subsidiaries, labor unions or workers' councils represent some of our employees.

Seasonality and Cyclicity

Our quarterly revenues have historically been affected by a variety of seasonal factors, including the structure of our sales force incentive compensation plans, which are common in the technology industry. In each fiscal year, our total revenues and operating margins are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. The operating margins of our businesses (in particular, our cloud and license business and hardware business) are generally affected by seasonal factors in a similar manner as our revenues because certain expenses within our cost structure are relatively fixed in the short term. See "Cloud and License Business" and "Selected Quarterly Financial Data" in Item 7 of this Annual Report for more information regarding the seasonality and cyclicity of our revenues, expenses and margins.

Competition

We face intense competition in all aspects of our business. The nature of the IT industry creates a competitive landscape that is constantly evolving as firms emerge, expand or are acquired, as technology evolves and as customer demands and competitive pressures otherwise change.

Our customers are demanding less complexity and lower total cost in the implementation, sourcing, integration and ongoing maintenance of their IT environments. Our enterprise cloud, license and hardware offerings compete directly with certain offerings from some of the largest and most competitive companies in the world, including Amazon.com, Inc., Microsoft Corporation, International Business Machines Corporation (IBM), Intel Corporation, Cisco Systems, Inc., Adobe Systems Incorporated, Alphabet Inc. and SAP SE, as well as other companies like Hewlett-Packard Enterprise, salesforce.com, inc. and Workday, Inc. In addition, due to the low barriers to entry in many of our market segments, new technologies and new and growing competitors frequently emerge to challenge our offerings. Our competitors range from companies offering broad IT solutions across many of our lines of business to vendors providing point solutions, or offerings focused on a specific functionality, product area or industry. In addition, as we expand into new market segments, we face increased competition as we compete with existing competitors, as well as firms that may be partners in other areas of our business and other firms with whom we have not previously competed. Moreover, we or our competitors may take certain strategic actions—including acquisitions, partnerships and joint ventures, or repositioning of product lines—which invite even greater competition in one or more product offering categories.

Key competitive factors in each of the segments in which we currently compete and may compete in the future include: total cost of ownership, performance, scalability, reliability, security, functionality, efficiency, ease of use, speed to production and quality of technical support. Our product and service sales (and the relative strength of our products and services versus those of our competitors) are also directly and indirectly affected by the following, among other factors:

- market adoption of cloud-based IT offerings including SaaS and IaaS offerings;
- the ease of deployment, use, transacting for and maintenance of our products and services offerings;
- compatibility between Oracle products and services deployed within local IT environments and public cloud IT environments, including our Oracle Cloud environments;
- the adoption of commodity servers and microprocessors;
- the broader “platform” competition between our industry standard Java technology platform and the .NET programming environment of Microsoft;
- operating system competition among our Oracle Solaris and Linux operating systems, with alternatives including Microsoft’s Windows Server, and other UNIX and Linux operating systems;
- the adoption of open source alternatives to commercial software by enterprise software customers;
- products, features and functionality developed internally by customers and their IT staff;
- products, features and functionality customized and implemented for customers by consultants, systems integrators or other third parties; and
- the attractiveness of offerings from business processing outsourcers.

For more information about the competitive risks we face, refer to Item 1A “Risk Factors” included elsewhere in this Annual Report.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, on the SEC’s website at www.sec.gov and our Investor Relations website at www.oracle.com/investor as soon as reasonably practicable after we electronically file such materials with, or furnish it to, the SEC. We use our Investor Relations website as a means of disclosing material non-public information. Accordingly, investors should monitor our Investor Relations website, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, information regarding our environmental policy and global sustainability initiatives and solutions are also available on our website www.oracle.com/corporate/citizenship. The information posted on or accessible through our website is not incorporated into this Annual Report.

Information about our Executive Officers

Our executive officers are listed below.

| Name | Office(s) |
|---------------------|---|
| Lawrence J. Ellison | Chairman of the Board of Directors and Chief Technology Officer |
| Safra A. Catz | Chief Executive Officer and Director |
| Jeffrey O. Henley | Vice Chairman of the Board of Directors |
| Edward Screven | Executive Vice President, Chief Corporate Architect |
| Dorian E. Daley | Executive Vice President and General Counsel |
| William Corey West | Executive Vice President, Corporate Controller and Chief Accounting Officer |

Mr. Ellison, 75, has been our Chairman of the Board and Chief Technology Officer since September 2014. He served as our Chief Executive Officer from June 1977, when he founded Oracle, until September 2014. He has served as a Director since June 1977. He previously served as our Chairman of the Board from May 1995 to January 2004. He currently serves as a director of Tesla, Inc.

Ms. Catz, 58, has been our Chief Executive Officer since September 2014. She served as our President from January 2004 to September 2014, our Chief Financial Officer most recently from April 2011 until September 2014 and a Director since October 2001. She was previously our Chief Financial Officer from November 2005 until September 2008 and our Interim Chief Financial Officer from April 2005 until July 2005. Prior to being named our President, she held various other positions with us since joining Oracle in 1999. She currently serves as a director of The Walt Disney Company and she previously served as a director of HSBC Holdings plc.

Mr. Henley, 75, has served as our Vice Chairman of the Board since September 2014. He previously served as our Chairman of the Board from January 2004 to September 2014 and has served as a Director since June 1995. He served as our Executive Vice President and Chief Financial Officer from March 1991 to July 2004.

Mr. Screven, 55, has been Executive Vice President, Chief Corporate Architect since May 2015. He served as our Senior Vice President, Chief Corporate Architect from November 2006 to April 2015 and as Vice President, Chief Corporate Architect from January 2003 to November 2006. He held various other positions with us since joining Oracle in 1986.

Ms. Daley, 61, has been our Executive Vice President and General Counsel since April 2015. She served as our Secretary from October 2007 until October 2017 and she was our Senior Vice President, General Counsel from October 2007 to April 2015. She served as our Vice President, Legal, Associate General Counsel and Assistant Secretary from June 2004 to October 2007, as Associate General Counsel and Assistant Secretary from October 2001 to June 2004 and as Associate General Counsel from February 2001 to October 2001. She held various other positions with us since joining Oracle's Legal Department in 1992.

Mr. West, 58, has been our Executive Vice President, Corporate Controller and Chief Accounting Officer since April 2015. He served as our Senior Vice President, Corporate Controller and Chief Accounting Officer from February 2008 to April 2015 and served as our Vice President, Corporate Controller and Chief Accounting Officer from April 2007 to February 2008. His previous experience includes 14 years with Arthur Andersen LLP, most recently as a partner.

Item 1A. Risk Factors

We operate in rapidly changing economic and technological environments that present numerous risks, many of which are driven by factors that we cannot control or predict. The following discussion, as well as our “Critical Accounting Policies and Estimates” discussion in Management’s Discussion and Analysis of Financial Condition and Results of Operations (Item 7), highlights some of these risks. The risks described below are not exhaustive and you should carefully consider these risks and uncertainties before investing in our securities.

The COVID-19 pandemic has affected how we and our customers are operating our respective businesses, and the duration and extent to which this will impact our future results of operations and our overall financial performance remains uncertain. A novel strain of coronavirus (COVID-19) was first identified in late calendar year 2019 and subsequently declared a pandemic by the World Health Organization in March 2020. The long-term impacts, if any, of the global COVID-19 pandemic on our business are currently unknown. We are conducting business as usual with modifications to employee travel, employee work locations, and cancellation of certain marketing events, among other modifications. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, partners, suppliers and stockholders. It is not clear what the potential long-term effects of any such alterations or modifications may have on our business, including the effects on our customers and prospects.

We have observed other companies, including customers and partners, taking precautionary and preemptive actions to address the COVID-19 pandemic. Such companies may take further actions that alter their normal business operations if there are future spikes of COVID-19 infections resulting in additional government mandated shutdowns. The conditions caused by the COVID-19 pandemic have adversely affected our customers’ willingness to purchase our products and delayed prospective customers’ purchasing decisions. The impacts of the global COVID-19 pandemic on the broader global economy have been swift, dramatic and unpredictable. The latency and duration of these impacts are diverse across geographies and jurisdictions in which we market, sell and develop our offerings. The depth and duration of the current economic declines attributable to the COVID-19 pandemic, and any potential economic recoveries, are not currently known. In the fourth quarter of fiscal 2020 we experienced revenue declines compared to the fourth quarter of fiscal 2019 and delayed payments from customers. The effect of the pandemic for fiscal 2021 and future periods is unknown. If we are not able to respond to and manage the impact of the COVID-19 pandemic effectively, our business will be harmed.

Our success depends upon our ability to develop new products and services, integrate acquired products and services and enhance our existing products and services. Rapid technological advances, intense competition, changing delivery models and evolving standards in computer hardware and software development and communications infrastructure, changing and increasingly sophisticated customer needs and frequent new product introductions and enhancements characterize the industries in which we compete. If we are unable to develop new or sufficiently differentiated products and services, enhance and improve our product offerings and support services in a timely manner or position and price our products and services to meet demand, customers may not purchase or subscribe to our license, hardware or cloud offerings or renew license support, hardware support or cloud subscriptions contracts. Renewals of these contracts are important to the growth of our business. In addition, we cannot provide any assurance that the standards on which we choose to develop new products will allow us to compete effectively for business opportunities in emerging areas.

We have continued to refresh and release new offerings of our cloud products and services. Machine learning and artificial intelligence are increasingly driving innovations in technology but if they fail to operate as anticipated or our other products do not perform as promised, our business and reputation may be harmed.

In addition, our business may be adversely affected if:

- we do not continue to develop and release new or enhanced products and services within the anticipated time frames;
- infrastructure costs to deliver new or enhanced products and services take longer or result in greater costs than anticipated;
- there is a delay in market acceptance of and difficulty in transitioning new and existing customers to new, enhanced or acquired product lines or services;
- there are changes in information technology (IT) trends that we do not adequately anticipate or address with our product development efforts;
- we do not optimize complementary product lines and services in a timely manner; or
- we fail to adequately integrate, support or enhance acquired product lines or services.

Our Oracle Cloud strategy, including our Oracle Cloud Software-as-a-Service and Infrastructure-as-a-Service (SaaS and IaaS, respectively, and collectively, Oracle Cloud Services) offerings, may adversely affect our revenues and profitability. We provide our cloud and other offerings to customers worldwide via deployment models that best suit their needs, including via our cloud-based SaaS and IaaS offerings. As these business models continue to evolve, we may not be able to compete effectively, generate significant revenues or maintain the profitability of our cloud offerings. Additionally, the increasing prevalence of cloud and SaaS delivery models offered by us and our competitors may unfavorably impact the pricing of our cloud and license offerings. If we do not successfully execute our cloud computing strategy or anticipate the cloud computing needs of our customers, our reputation as a cloud services provider could be harmed and our revenues and profitability could decline.

As customer demand for our cloud offerings increases, we experience volatility in our reported revenues and operating results due to the differences in timing of revenue recognition between our cloud license and on-premise license, and hardware product arrangements relative to our cloud offering arrangements. Customers generally purchase our cloud offerings on a subscription basis and revenues from these offerings are generally recognized ratably over the terms of the subscriptions. Consequently, any deterioration in sales activity associated with our cloud offerings may not be immediately observable in our consolidated statement of operations. This is in contrast to revenues associated with our license and hardware product arrangements, which are generally recognized in full at the time of delivery of the related licenses and hardware products. In addition, we may not be able to accurately anticipate customer transition from or be able to sufficiently backfill reduced customer demand for our license, hardware and support offerings relative to the expected increase in customer adoption of and demand for our Oracle Cloud Services, which could adversely affect our revenues and profitability.

We might experience significant coding, manufacturing or configuration errors in our cloud, license and hardware offerings. Despite testing prior to the release and throughout the lifecycle of a product or service, our cloud, license and hardware offerings sometimes contain coding, manufacturing or configuration errors that can impact their function, performance and security, and result in other negative consequences. The detection and correction of any errors in released cloud, license or hardware offerings can be time consuming and costly. Errors in our cloud, license or hardware offerings could affect their ability to properly function, integrate or operate with other cloud, license or hardware offerings, could delay the development or release of new products or services or new versions of products or services, could create security vulnerabilities in our products or services, and could adversely affect market acceptance of our products or services. This includes third-party software products or services incorporated into our own. If we experience errors or delays in releasing our cloud, license or hardware offerings or new versions of these offerings, our sales could be affected and revenues could decline. In addition, we run Oracle's business operations as well as cloud and other services that we offer to our customers on our products and networks. Therefore, any flaws could affect our and our customers' abilities to conduct business operations and to ensure accuracy in financial processes and reporting, and may result in unanticipated costs. Enterprise customers rely on our cloud, license and hardware offerings and related services to run their businesses and errors in our cloud, license and hardware offerings and related services could expose us to product liability,

performance and warranty claims as well as significant harm to our brand and reputation, which could impact our future sales.

If our security measures for our products and services are compromised and as a result, our data, our customers' data or our IT systems are accessed improperly, made unavailable, or improperly modified, our products and services may be perceived as vulnerable, our brand and reputation could be damaged, the IT services we provide to our customers could be disrupted, and customers may stop using our products and services, all of which could reduce our revenue and earnings, increase our expenses and expose us to legal claims and regulatory actions. We are in the IT business, and our products and

services, including our Oracle Cloud Services, store, retrieve, manipulate and manage our customers' information and data, external data, as well as our own data. We have a reputation for secure and reliable product offerings and related services, and we have invested a great deal of time and resources in protecting the integrity and security of our products, services and the internal and external data that we manage. At times, we encounter attempts by third parties (which may include individuals or groups of hackers and sophisticated organizations, such as state-sponsored organizations, nation states and individuals sponsored by them) to identify and exploit product and service vulnerabilities, penetrate or bypass our security measures, and gain unauthorized access to our or our customers', partners' and suppliers' software, hardware and cloud offerings, networks and systems, any of which could lead to the compromise of personal information or the confidential information or data of Oracle or our customers. Computer hackers and others may be able to develop and deploy IT related viruses, worms, and other malicious software programs that could attack our networks, systems, products and services, exploit potential security vulnerabilities of our networks, systems, products and services, create system disruptions and cause shutdowns or denials of service. This is also true for third-party data, products or services incorporated into our own. Our products and services, including our Oracle Cloud Services, may also be accessed or modified improperly as a result of customer, partner, employee or supplier error or malfeasance and third parties may attempt to fraudulently induce customers, partners, employees or suppliers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data, our customers', suppliers' or partners' data or the IT systems of Oracle, our customers, suppliers or partners.

Security industry experts and government officials have warned about the risks of hackers and cyber-attacks targeting IT products and businesses. Although this is an industry-wide problem that affects software and hardware companies generally, it affects Oracle in particular because computer hackers tend to focus their efforts on the most prominent IT companies, and they may focus on Oracle because of our reputation for, and marketing efforts associated with, having secure products and services. These risks will increase as we continue to grow our cloud offerings and store and process increasingly large amounts of data, including personal information and our customers' confidential information and data, and host or manage parts of our customers' businesses in cloud-based IT environments, especially in customer sectors involving particularly sensitive data such as health sciences, financial services, retail, hospitality and the government. We also have an active acquisition program and have acquired a number of companies, products, services and technologies over the years. While we make significant efforts to address any IT security issues with respect to our acquired companies, we may still inherit such risks when we integrate these companies within Oracle.

Because the techniques used to obtain unauthorized access to, or sabotage IT systems change frequently, grow more complex over time, and often are not recognized until launched against a target, we may be unable to anticipate or implement adequate measures to prevent such techniques. Our internal IT systems continue to evolve and we are often early adopters of new technologies. However, our business policies and internal security controls may not keep pace with these changes as new threats emerge. In addition, we often experience increased activity of this nature during times of instability, including during the COVID-19 pandemic, when our operations may be more susceptible to malfeasance due to operational changes instituted to comply with safety, health and regulatory requirements, among others. We may not discover any security breach and loss of information for a significant period of time after the security breach.

We could suffer significant damage to our brand and reputation if a cyber-attack or other security incident were to allow unauthorized access to or modification of our customers' or suppliers' data, other external data, or our own data or our IT systems or if the services we provide to our customers were disrupted, or if our products or services are reported to have or are perceived as having security vulnerabilities. Customers could lose confidence in the security and reliability of our products and services, including our cloud offerings, and perceive them to not be

secure. This could lead to fewer customers using our products and services and result in reduced revenues and earnings. The costs we would incur to address and fix these security incidents would increase our expenses. These types of security incidents could also lead to loss or destruction of information, inappropriate use of proprietary and sensitive data, lawsuits, indemnity obligations, regulatory investigations and financial penalties, and claims and increased legal liability, including in some cases contractual costs related to customer notification and fraud monitoring.

Our products operate in conjunction with and are dependent on products and components across a broad ecosystem. If there is a security vulnerability in one of these components, and if there is a security exploit targeting it, we could face increased costs, liability claims, customer dissatisfaction, reduced revenue, or harm to our reputation or competitive position.

Our business practices with respect to data could give rise to operational interruption, liabilities or reputational harm as a result of governmental regulation, legal requirements or industry standards relating to privacy and data protection. As regulatory focus on privacy issues continues to increase and worldwide laws and regulations concerning the handling of personal information expand and become more complex, potential risks related to data collection and use within our business will intensify. In addition, U.S. and foreign governments have enacted or are considering enacting legislation or regulations, or may in the near future interpret existing legislation or regulations, in a manner that could significantly impact our ability, as well as the ability of our customers, partners and data providers, to collect, augment, analyze, use, transfer and share personal and other information that is integral to certain services we provide.

In the wake of the European Union General Data Protection Regulation (GDPR), the rate of global consideration and adoption of privacy laws has increased, giving rise to more global jurisdictions in which regulatory inquiries and audits may be requested of Oracle, and if we are not deemed to be in compliance, could result in enforcement actions and/or fines. This is true in the U.S., where the California Consumer Privacy Act (CCPA) became effective in January 2020, the U.S. Congress is considering several privacy bills at the federal level, and other state legislatures are considering privacy laws. Regulators globally are also imposing greater monetary fines for privacy violations. The GDPR, which became effective in May 2018, provides for monetary penalties of up to 4% of an organization's worldwide revenue. These penalties can be significant. For example, one European data protection regulator has fined a major U.S. technology company EUR 50 million for its data handling practices. The U.S. Federal Trade Commission continues to fine companies on a regular basis for unfair and deceptive data protection practices, and these fines may increase in size. The CCPA provides for statutory damages on a per violation basis that could be very large in the event of a significant data security breach or other CCPA violation. Taken together, the changes in laws or regulations associated with the enhanced protection of personal and other types of data could greatly increase the size of potential fines related to data protection, and our cost of providing our products and services could result in changes to our business practices or even prevent us from offering certain services in jurisdictions in which we operate. Although we have implemented contracts, policies and procedures designed to ensure compliance with applicable laws and regulations, there can be no assurance that our employees, contractors, partners, data providers or agents will not violate such laws and regulations or our contracts, policies and procedures. Additionally, public perception and standards related to the privacy of personal information can shift rapidly, in ways that may affect our reputation or influence regulators to enact regulations and laws that may limit our ability to provide certain products and services.

We make statements about our use and disclosure of personal information through our privacy policy, information provided on our website and press statements. Any failure, or perceived failure, by us to comply with these public statements or with U.S. federal, state, or foreign laws and regulations, including laws and regulations regulating privacy, data security, or consumer protection, public perception, standards, self-regulatory requirements or legal obligations, could result in lost or restricted business, proceedings, actions or fines brought against us or levied by governmental entities or others, or could adversely affect our business and harm our reputation.

Economic, political and market conditions can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price. Our business is influenced by a range of factors that are beyond our control and that we have no comparative advantage in forecasting. These include:

- general economic and business conditions;
- overall demand for enterprise cloud, license and hardware products and services;
- governmental budgetary constraints or shifts in government spending priorities; and
- general legal, regulatory and political developments.

Macroeconomic developments like the United Kingdom leaving the EU (Brexit), evolving trade policies between the U.S. and international trade partners, or the occurrence of similar events in other countries that lead to uncertainty or instability in economic, political or market conditions could negatively affect our business, operating results, financial condition and outlook, which, in turn, could adversely affect our stock price. Any general weakening of, and related declining corporate confidence in, the global economy or the curtailment of government or corporate spending could cause current or potential customers to reduce or eliminate their IT budgets and spending, which could cause customers to delay, decrease or cancel purchases of our products and services or cause customers not to pay us or to delay paying us for previously purchased products and services.

In addition, international, regional or domestic political unrest and the related potential impact on global stability, terrorist attacks and the potential for other hostilities in various parts of the world, public health crises such as the outbreak of the novel coronavirus COVID-19, and natural disasters continue to contribute to a climate of economic and political uncertainty that could adversely affect our results of operations and financial condition, including our revenue growth and profitability. These factors generally have the strongest effect on our sales of cloud license and on-premise license, hardware and related services and, to a lesser extent, also may affect our renewal rates for license support and our subscription-based cloud offerings.

If we are unable to compete effectively, the results of operations and prospects for our business could be harmed. We face intense competition in all aspects of our business. The nature of the IT industry creates a competitive landscape that is constantly evolving as firms emerge, expand or are acquired, as technology evolves and as delivery models change. Many vendors spend amounts in excess of what Oracle spends to develop and market applications and infrastructure technologies including databases, middleware products, application development tools, business applications, collaboration products and business intelligence, compute, storage and networking products, among others, which compete with Oracle applications and infrastructure offerings. Use of our competitors' technologies influences a customer's purchasing decision or creates an environment that makes it less efficient to utilize or migrate to Oracle products and services. Our competitors may also adopt business practices that provide customers access to competing products and services at a risk profile that we may not generally find acceptable, which may convince customers to purchase competitor products and services. We could lose customers if our competitors introduce new competitive products, add new functionality, acquire competitive products, reduce prices, better execute on their sales and marketing strategies, offer more flexible business practices or form strategic alliances with other companies. We may also face increasing competition from open source software initiatives in which competitors may provide software and intellectual property for free. Existing or new competitors could gain sales opportunities or customers at our expense.

We may need to change our pricing models to compete successfully. The intense competition we face in the sales of our products and services and general economic and business conditions can put pressure on us to change our prices. If our competitors offer deep discounts on certain products or services or develop products that the marketplace considers more valuable, we may need to lower prices, introduce pricing models and offerings that are less favorable to us, or offer other favorable terms in order to compete successfully. Any such changes may reduce revenues and margins and could adversely affect operating results. Additionally, the increasing prevalence of cloud delivery models offered by us and our competitors may unfavorably impact the pricing of our other cloud and license, hardware and services offerings, and we may also incur increased cloud delivery expenses as we expand our cloud operations and update our infrastructure, all of which could reduce our revenues and/or profitability. Our license support fees and hardware support fees are generally priced as a percentage of our net license fees and net new hardware products fees, respectively. Our competitors may offer lower pricing on their support offerings, which could put pressure on us to further discount our offerings.

We introduced Oracle Bring Your Own License (BYOL) and Universal Credit Pricing to simplify the way customers purchase and consume our cloud services. Oracle BYOL enables customers to maintain their existing software licenses for Oracle Infrastructure while expanding their IaaS footprint at a discounted price. Oracle Universal Credit Pricing provides a flexible model for customers to access Oracle Infrastructure services on demand via a single contract. Any future changes to our prices and pricing policies could cause our revenues to decline or be delayed as our sales force implements and our customers adjust to the new pricing policies. Some of our competitors may bundle products for promotional purposes or as a long-term pricing strategy, commit to large customer deployments at prices that are unprofitable, or provide guarantees of prices and product implementations. These practices could, over time, significantly constrain the prices that we can charge for certain of our products. If we do not adapt our pricing models to reflect changes in customer use of our products or changes in customer demand, our revenues could decrease. The increase in open source software distribution may also cause us to change our pricing models.

Our international sales and operations subject us to additional risks that can adversely affect our operating results. We derive a substantial portion of our revenues from, and have significant operations, outside of the U.S. Our international operations include cloud operations, cloud, software and hardware development, manufacturing, assembly, sales, customer support, consulting and other services and shared administrative service centers.

Compliance with international and U.S. laws and regulations that apply to our international operations increases our cost of doing business in foreign jurisdictions. These laws and regulations include U.S. laws and local laws which include data privacy requirements, labor relations laws, tax laws, foreign currency-related regulations, anti-competition regulations, anti-bribery laws and other laws prohibiting payments to governmental officials such as the U.S. Foreign Corrupt Practices Act (FCPA), market access regulations, tariffs, and import, export and general trade regulations, including but not limited to economic sanctions and embargos. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business, including the loss of trade privileges. Any such violations could result in prohibitions on our ability to offer our products and services in one or more countries, could delay or prevent potential acquisitions and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Compliance with these laws requires a significant amount of management attention and effort, which may divert management's attention from running our business operations and could harm our ability to grow our business, or may increase our expenses as we engage specialized or other additional resources to assist us with our compliance efforts. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties. We monitor our operations and investigate allegations of improprieties relating to transactions and the way in which such transactions are recorded. Where circumstances warrant, we provide information and report our findings to government authorities, and in some circumstances such authorities conduct their own investigations and we respond to their requests or demands for information. No assurance can be given that action will not be taken by such authorities or that our compliance program will prove effective.

We are also subject to a variety of other risks and challenges in managing an organization operating globally, including those related to:

- general economic conditions, including the latency in economic impacts and associated economic recoveries, if any, in each country or region;
- public health risks, social risks and supporting infrastructure stability risks, particularly in areas in which we have significant operations;
- fluctuations in currency exchange rates and related impacts on customer demand and our operating results;
- difficulties in transferring funds from or converting currencies in certain countries that could lead to a devaluation of our net assets, in particular our cash assets, in that country's currency;

- regulatory changes, including government austerity measures in certain countries that we may not be able to sufficiently plan for or avoid that may unexpectedly impair bank deposits or other cash assets that we hold in these countries or that impose additional taxes that we may be required to pay in these countries;
- political unrest, terrorism and the potential for other hostilities;
- common local business behaviors that are in direct conflict with our business ethics, practices and conduct policies;
- natural disasters;
- the effects of climate change (such as sea level rise, drought, flooding, wildfires and increased storm sensitivity);
- longer payment cycles and difficulties in collecting accounts receivable;
- overlapping tax regimes; and
- reduced protection for intellectual property rights in some countries.

The variety of risks and challenges listed above could also disrupt or otherwise negatively impact the supply chain operations for our hardware business and the sales of our products and services in affected countries or regions.

As the majority shareholder of Oracle Financial Services Software Limited, a publicly traded company in India, and Oracle Corporation Japan, a publicly traded company in Japan, we are faced with several additional risks, including being subject to local securities regulations and being unable to exert full control that we would otherwise have if these entities were wholly-owned subsidiaries.

Any failure to offer high-quality technical support services may adversely affect our relationships with our customers and our financial results. Our customers depend on our support organization to resolve technical issues relating to our applications and infrastructure offerings. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services or may be inefficient in our resolution of customer support issues. Increased customer demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality technical support, could adversely affect our reputation, our ability to sell our applications and infrastructure offerings to existing and prospective customers, and our business, operating results, and financial position.

We may fail to achieve our financial forecasts due to inaccurate sales forecasts or other factors. Our revenues, particularly certain of our cloud license and on-premise license revenues and hardware revenues, can be difficult to forecast. As a result, our quarterly operating results can fluctuate.

For our Oracle Cloud Services, our actual conversion or renewal rates may differ from those used in our forecasts because this business is continuing to evolve and such rates may be unpredictable which could have an adverse effect on our long-term results. For our license business, we use a “pipeline” system, a common industry practice, to forecast sales and trends in that business. Our sales personnel monitor the status of all proposals and estimate when a customer will make a purchase decision and the dollar amount of the sale. These estimates are aggregated periodically to generate a sales pipeline. Our pipeline estimates can be unreliable both in a particular quarter and over a longer period of time, in part because the conversion rate or closure rate of the pipeline into contracts can be very difficult to estimate. A reduction in the conversion rates, renewal rates, or in the pipeline itself, could adversely affect our business or results of operations. In particular, sudden shifts in regional or global economic activity such as those being experienced with the COVID-19 pandemic, a slowdown in IT spending or economic conditions generally can unexpectedly reduce the conversion rates and renewal rates in particular periods as purchasing decisions are delayed, reduced in amount or cancelled. The conversion rates can also be affected by the tendency of some of our customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms, which can also impede our ability to negotiate, execute and deliver upon these contracts in a timely manner. In addition, for newly acquired companies, we have limited ability to predict how their pipelines

will convert into sales or revenues for a number of quarters following the acquisition. Conversion rates and renewal rates post-acquisition may be quite different from the acquired companies' historical conversion rates. Differences in conversion rates and renewal rates can also be affected by changes in business practices that we implement in our newly acquired companies. These changes may negatively affect customer behavior.

A substantial portion of the revenue value of our cloud license and on-premise license, and hardware contracts is completed in the latter part of a quarter and a significant percentage of these are larger value orders. Because a significant portion of our cost structure is largely fixed in the short term, sales and revenue shortfalls tend to have a disproportionately negative impact on our profitability. The number of large license transactions and, to a lesser extent, hardware products transactions increases the risk of fluctuations in our quarterly results because a delay in even a small number of these transactions could cause our quarterly sales, revenues and profitability to fall significantly short of our predictions.

We may experience foreign currency gains and losses. Changes in currency exchange rates can adversely affect customer demand and our revenue and profitability. We conduct a significant number of transactions and hold cash in currencies other than the U.S. Dollar. Changes in the values of major foreign currencies, particularly the Euro, Japanese Yen and British Pound, relative to the U.S. Dollar can significantly affect our total assets, revenues, operating results and cash flows, which are reported in U.S. Dollars. In particular, the economic uncertainties relating to Brexit, and European sovereign and other debt obligations may cause the value of the British Pound and Euro to fluctuate relative to the U.S. Dollar. Fluctuations in foreign currency rates, including the strengthening of the U.S. Dollar against the Euro and most other major international currencies, adversely affects our revenue growth in terms of the amounts that we report in U.S. Dollars after converting our foreign currency results into U.S. Dollars and in terms of actual demand for our products and services as certain of these products may become relatively more expensive for foreign currency-based enterprises to purchase. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the U.S. Generally, our reported revenues and operating results are adversely affected when the dollar strengthens relative to other currencies and are positively affected when the dollar weakens. In addition, our reported assets generally are adversely affected when the dollar strengthens relative to other currencies as a portion of our consolidated cash and bank deposits, among other assets, are held in foreign currencies and reported in U.S. Dollars.

In addition, we incur foreign currency transaction gains and losses, primarily related to sublicense fees and other intercompany agreements among us and our subsidiaries that we expect to cash settle in the near term, which are charged to earnings in the period incurred. We have a program which primarily utilizes foreign currency forward contracts designed to offset the risks associated with certain foreign currency exposures. We may suspend the program from time to time. As part of this program, we enter into foreign currency forward contracts so that increases or decreases in our foreign currency exposures are offset at least in part by gains or losses on the foreign currency forward contracts in an effort to mitigate the risks and volatility associated with our foreign currency transaction gains or losses. A large portion of our consolidated operations are international, and we expect that we will continue to realize gains or losses with respect to our foreign currency exposures, net of gains or losses from our foreign currency forward contracts. For example, we will experience foreign currency gains and losses in certain instances if it is not possible or cost-effective to hedge our foreign currency exposures, if our hedging efforts are ineffective, or should we suspend our foreign currency forward contract program. Our ultimate realized loss or gain 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, whether we have entered into foreign currency forward contracts to offset these exposures and other factors. All of these factors could materially impact our results of operations, financial position and cash flows.

We have incurred foreign currency losses associated with the devaluation of currencies in certain highly inflationary economies relative to the U.S. Dollar. We could incur future losses in emerging market countries where we do business should their currencies become designated as highly inflationary.

Our periodic workforce restructurings and reorganizations can be disruptive. We are currently restructuring our workforce and in the past we have restructured or made other adjustments to our workforce in response to management changes, product changes, performance issues, change in strategies, acquisitions and other internal

and external considerations. These types of restructurings have resulted in increased restructuring costs and temporary reduced productivity while the employees adjusted to their new roles and responsibilities. In addition, we may not achieve or sustain the expected growth, resource redeployment or cost savings benefits of these restructurings, or may not do so within the expected timeframe. These effects could recur in connection with future acquisitions and other restructurings and our revenues and other results of operations could be negatively affected.

We may lose key employees or may be unable to hire enough qualified employees. We rely on hiring qualified employees and the continued service of our senior management, including our Chairman of the Board of Directors, Chief Technology Officer and founder; our Chief Executive Officer; other members of our executive team; and other key employees. In the technology industry, there is substantial and continuous competition for highly skilled business, product development, technical and other personnel. We may also experience increased compensation costs that are not offset by either improved productivity or higher sales. We may not be successful in recruiting new personnel and in retaining and motivating existing personnel. With rare exceptions, we do not have long-term employment or non-competition agreements with our employees. Members of our senior management team have left Oracle over the years for a variety of reasons, and we cannot guarantee that there will not be additional departures, which may be disruptive to our operations.

We continually focus on improving our cost structure by hiring personnel in countries where advanced technical expertise and other expertise are available at lower costs. When we make adjustments to our workforce, we may incur expenses associated with workforce reductions that delay the benefit of a more efficient workforce structure. We may also experience increased competition for employees in these countries as the trend toward globalization continues, which may affect our employee retention efforts and increase our expenses in an effort to offer a competitive compensation program. In addition, changes to immigration and labor law policies may adversely impact our access to technical and professional talent.

Our general compensation program includes restricted stock units and performance-based equity, which are important tools in attracting and retaining employees in our industry. If our stock price performs poorly, it may adversely affect our ability to retain or attract employees. We continually evaluate our compensation practices and consider changes from time to time, such as reducing the number of employees granted equity awards or the number of equity awards granted per employee and granting alternative forms of stock-based compensation, which may have an impact on our ability to retain employees and the amount of stock-based compensation expense that we record. Any changes in our compensation practices or those of our competitors could affect our ability to retain and motivate existing personnel and recruit new personnel.

Our sales to government clients expose us to business volatility and risks, including government budgeting cycles and appropriations, procurement regulations, governmental policy shifts, early termination of contracts, audits, investigations, sanctions and penalties. We derive revenues from contracts with the U.S. government, state and local governments, and foreign governments and are subject to procurement laws and regulations relating to the award, administration and performance of those contracts.

Governmental entities are variously pursuing policies that affect our ability to sell our products and services. Changes in government procurement policy, priorities, regulations, technology initiatives and requirements, and/or contract award criteria may negatively impact our potential for growth in the government sector. For example, the U.S. Department of Defense (DoD) has issued cybersecurity requirements for contractors' internal systems through a mandatory cybersecurity contract clause referred to as "DFARS 7012" and will be implementing a new third-party accreditation program known as the Cybersecurity Maturity Model Certification (CMMC). The DFARS 7012 and CMMC requirements may impact our lines of business in the U.S. federal government market. Compliance with these cybersecurity requirements is complex and costly, and failure to meet the required security controls could limit our ability to sell products and services, directly or indirectly, to the DoD and other federal government entities that implement similar cybersecurity requirements.

We are also subject to early termination of our contracts. Many governmental entities have the right to terminate contracts at any time, without cause. For example, the U.S. federal government may terminate any of our government contracts and subcontracts at its convenience, or for default based on our performance.

U.S. federal contracts are subject to the congressional approval of appropriations to fund the expenditures under these contracts. Similarly, our contracts with U.S. state and local governments, foreign governments and their agencies are generally subject to government funding authorizations. Contracts may be terminated based upon a lack of appropriated funds.

There is increased pressure on governments and their agencies, both domestically and internationally, to reduce spending as governments continue to face significant deficit reduction pressures. This may adversely impact spending on government programs.

Government contracts laws and regulations impose certain risks, and contracts are generally subject to audits and investigations. If violations of law are found, they could result in civil and criminal penalties and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

Acquisitions present many risks and we may not achieve the financial and strategic goals that were contemplated at the time of a transaction. We continue to review and consider strategic acquisitions of companies, products, services and technologies. We have a selective and active acquisition program and we expect to continue to make acquisitions in the future because acquisitions are an important element of our overall corporate strategy. Risks we may face in connection with our acquisition program include:

- our ongoing business may be disrupted and our management's attention may be diverted by acquisition, transition or integration activities;
- we may have difficulties (1) managing an acquired company's technologies or lines of business; (2) entering new markets where we have no, or limited, direct prior experience or where competitors may have stronger market positions; or (3) retaining key personnel from the acquired companies;
- an acquisition may not further our business strategy as we expected, we may not integrate an acquired company or technology as successfully as we expected, we may impose our business practices or alter go-to-market strategies that adversely impact the acquired business or we may overpay for, or otherwise not realize the expected return on our investments, which could adversely affect our business or operating results and potentially cause impairment to assets that we recorded as a part of an acquisition including intangible assets and goodwill;
- our operating results or financial condition may be adversely impacted by (1) claims or liabilities that we assume from an acquired company or technology or that are otherwise related to an acquisition, including, among others, claims from government agencies, terminated employees, current or former customers, former stockholders or other third parties; (2) pre-existing contractual relationships that we assume from an acquired company that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business; (3) unfavorable revenue recognition or other accounting treatment as a result of an acquired company's practices; and (4) intellectual property claims or disputes;
- we may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in (1) unexpected litigation or regulatory exposure, (2) unfavorable accounting treatment, (3) unexpected increases in taxes due or the loss of anticipated tax benefits or (4) other adverse effects on our business, operating results or financial condition;
- we may not realize any anticipated increase in our revenues from an acquisition for a number of reasons, including (1) if a larger than predicted number of customers decline to renew cloud-based subscription contracts or license support or hardware support contracts, (2) if we are unable to sell the acquired products or service offerings to our customer base, (3) if acquired customers do not elect to purchase our technologies due to differing business practices or (4) if contract models utilized by an acquired company do not allow us to recognize revenues on a timely basis;

- we may have difficulty incorporating acquired technologies, products, services and their related supply chain operations with our existing lines of business and supply chain infrastructure and maintaining uniform standards, architecture, controls, procedures and policies;
- we may have multiple product lines or services offerings as a result of our acquisitions that are offered, priced, delivered and supported differently, which could cause customer confusion and delays;
- we may incur higher than anticipated costs (1) to support, develop and deliver acquired products or services, (2) for general and administrative functions that support new business models, or (3) to comply with regulations applicable to an acquired business that are more complicated than we had anticipated;
- we may be unable to obtain timely approvals from, or may otherwise have certain limitations, restrictions, penalties or other sanctions imposed on us by worker councils or similar bodies under applicable employment laws as a result of an acquisition, which could adversely affect our integration plans in certain jurisdictions and potentially increase our integration and restructuring expenses;
- we may be unable to obtain required approvals from governmental authorities under competition and antitrust laws on a timely basis, if at all, which could, among other things, (1) delay or prevent us from completing a transaction, (2) adversely affect our integration plans in certain jurisdictions, (3) restrict our ability to realize the expected financial or strategic goals of an acquisition, or (4) have other adverse effects on our current business and operations;
- our use of cash to pay for acquisitions may limit other potential uses of our cash, including (1) stock repurchases, (2) dividend payments and (3) retirement of outstanding indebtedness, among others;
- we may significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition and we may have to delay or not proceed with a substantial acquisition if we cannot obtain the necessary funding to complete the acquisition in a timely manner or on favorable terms;
- to the extent that we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease; and
- we may experience additional or unexpected changes in how we are required to account for our acquisitions pursuant to U.S. generally accepted accounting principles, including arrangements that we may assume in an acquisition.

The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions.

Our hardware revenues and profitability have declined and could continue to decline. Our hardware business may adversely affect our total revenues and overall profitability and related growth rates. We may not achieve our estimated revenue, profit or other financial projections with respect to our hardware business in a timely manner or at all due to a number of factors, including:

- our changes in hardware offerings, technologies and strategies, including shifting factory locations, which could adversely affect supply and demand for our hardware products;
- our hardware business has higher expenses as a percentage of revenues, and thus has been less profitable, than our cloud and license business;
- our focus on certain of our more profitable Oracle Engineered Systems and certain other hardware products we consider strategic and the de-emphasis of certain of our lower profit margin commodity hardware products could adversely affect our hardware revenues;
- changes in strategies and frequency for the development and introduction of new versions or next generations of our hardware products could adversely affect our hardware revenues;

- general supply chain material shortages worldwide prior to the outbreak of COVID-19, which we expect will be further exacerbated globally as a result of the virus pandemic;
- a greater risk of material charges that could adversely affect our operating results, such as potential write-downs and impairments of our inventories; higher warranty expenses than what we experience in our cloud and license and services businesses; and amortization and potential impairment of intangible assets associated with our hardware business;
- decreased customer demand for related hardware support as hardware products approach the end of their useful lives, which could adversely affect our hardware revenues; and
- we may acquire hardware companies that are strategically important to us but (1) operate in hardware businesses with historically lower operating margins than our own; (2) have different legacy business practices and go-to-market strategies than our own that we may alter as a part of our integration efforts, which may significantly impact our estimated revenues and profits from the acquired company; (3) leverage different platforms or competing technologies that we may encounter difficulties in integrating; or (4) utilize unique manufacturing processes that affect our ability to scale these acquired products within our own manufacturing operations.

Our hardware offerings are complex products, and if we cannot successfully manage this complexity, the results of our hardware business will suffer. We depend on suppliers to develop, manufacture and deliver on a timely basis the necessary technologies and components for our hardware products, and there are some technologies and components that can only be purchased from a single vendor due to price, quality, technology, availability or other business constraints. As a result, our supply chain operations could be disrupted or negatively impacted by industry consolidation and component constraints or shortages, natural disasters, political unrest, public health crises such as the outbreak of the novel coronavirus COVID-19, changes to trade policies, port stoppages or other transportation disruptions or slowdowns, or other factors affecting the countries or regions where these single source component vendors are located or where the products are being shipped. We may be unable to purchase these items from the respective single vendors on acceptable terms or may experience significant shortages, delays or quality issues in the delivery of necessary technologies, parts or components from a particular vendor. If one or more of the risks described above occurs, our hardware business and related operating results could be materially and adversely affected.

We are susceptible to third-party manufacturing and logistics delays, which could result in the loss of sales and customers. We outsource the manufacturing, assembly, delivery and technology or component design of certain of our hardware products to a variety of companies, many of which are located outside the U.S. From time to time, these partners experience production problems or delays or cannot meet our demand for products. To reduce this risk, we continue to explore additional third-party manufacturing partners to drive supply chain continuity, but finding additional manufacturing sources in a timely and cost-effective manner is difficult. Third-party manufacturing and logistics delays attributable to the effects of COVID-19 caused a loss of sales during our fourth quarter of fiscal 2020. Ongoing or future delays in manufacturing could cause the loss of additional sales, delayed revenue recognition or an increase in our hardware products expenses, all of which could adversely affect the margins of our hardware business. These challenges and risks also exist when we acquire companies with hardware products and related supply chain operations and could arise if we alter our manufacturing strategies, suppliers or locations. In some cases, we may be dependent, at least initially, on these acquired companies' supply chain operations or other manufacturing operations that we are less familiar with and thus we may be slower to adjust or react to these challenges and risks.

Our cloud and license, and hardware indirect sales channels could affect our future operating results. Our cloud and license, and hardware indirect channel network is comprised primarily of resellers, system integrators/implementers, consultants, education providers, internet service providers, network integrators and independent software vendors. Our relationships with these channel participants are important elements of our cloud, software and hardware marketing and sales efforts. Our financial results could be adversely affected if our contracts with channel participants were terminated, if our relationships with channel participants were to deteriorate, if any of our competitors enter into strategic relationships with or acquire a significant channel

participant, if the financial condition or operations of our channel participants were to weaken or if the level of demand for our channel participants' products and services were to decrease. There can be no assurance that we will be successful in maintaining, expanding or developing our relationships with channel participants. If we are not successful, we may lose sales opportunities, customers and revenues.

We may not be able to protect our intellectual property rights. We rely on copyright, trademark, patent and trade secret laws, confidentiality procedures, controls and contractual commitments to protect our intellectual property rights. Despite our efforts, these protections may be limited. Unauthorized third parties may try to copy or reverse engineer portions of our products or otherwise obtain and use our intellectual property. Any patents owned by us may be invalidated, circumvented or challenged. Any of our pending or future patent applications, whether or not being currently challenged, may not be issued with the scope of the claims we seek, if at all. In addition, the laws of some countries do not provide the same level of protection of our intellectual property rights as do the laws and courts of the U.S. If we cannot protect our intellectual property rights against unauthorized copying or use, or other misappropriation, we may not remain competitive.

Third parties have claimed, and in the future may claim, infringement or misuse of intellectual property rights and/or breach of license agreement provisions.

We periodically receive notices from, or have lawsuits filed against us by, others claiming infringement or other misuse of their intellectual property rights and/or breach of our agreements with them. These third parties include entities that do not have the capabilities to design, manufacture, or distribute products or services or that acquire intellectual property like patents for the sole purpose of monetizing their acquired intellectual property through asserting claims of infringement and misuse. We expect to continue to receive such claims as:

- we continue to expand into new businesses and acquire companies;
- the number of products and competitors in our industry segments grows;
- the use and support of third-party code (including open source code) becomes more prevalent in the industry;
- the volume of issued patents continues to increase; and
- non-practicing entities continue to assert intellectual property infringement in our industry segments.

Responding to any such claim, regardless of its validity, could:

- be time consuming, costly and result in litigation;
- divert management's time and attention from developing our business;
- require us to pay monetary damages or enter into royalty and licensing agreements that we would not normally find acceptable;
- require us to stop selling or to redesign certain of our products;
- require us to release source code to third parties, possibly under open source license terms;
- require us to satisfy indemnification obligations to our customers; or
- otherwise adversely affect our business, results of operations, financial condition or cash flows.

We may not receive significant revenues from our current research and development efforts for several years, if at all. Developing our various product offerings is expensive and the investment in the development of these offerings often involves a long return on investment cycle. An important element of our corporate strategy is to continue to dedicate a significant amount of resources to research and development and related product and service opportunities both through internal investments and the acquisition of intellectual property from companies that we have acquired. Accelerated product and service introductions and short lifecycles require high levels of expenditures for research and development that could adversely affect our operating results if not offset by revenue increases. We believe that we must continue to dedicate a significant amount of resources to our

research and development efforts to maintain our competitive position. However, we do not expect to receive significant revenues from these investments for several years, if at all.

Business disruptions could adversely affect our operating results. A significant portion of our critical business operations are concentrated in a few geographic areas, some of which include emerging market international locations that may be less stable relative to running such business operations solely within the U.S. We are a highly automated business and a disruption or failure of our systems, supply chains and processes could cause delays in completing sales, providing services, including some of our cloud offerings, and enabling a seamless customer experience with respect to our customer facing back office processes. A major earthquake or fire, political, social or other disruption to infrastructure that supports our operations or other catastrophic event or the effects of climate change (such as increased storm severity, drought and pandemics) that results in the destruction or disruption of any of our critical business, supply chains or IT systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be materially and adversely affected.

Adverse litigation results could affect our business. We are subject to various legal proceedings. Litigation can be lengthy, expensive and disruptive to our operations, and can divert our management's attention away from running our core business. The results of our litigation also cannot be predicted with certainty. An adverse decision could result in monetary damages or injunctive relief that could affect our business, operating results or financial condition. Additional information regarding certain of the lawsuits we are involved in is discussed under Note 17 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

We may have exposure to additional tax liabilities. As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the U.S. and various foreign jurisdictions. Significant uncertainties exist with respect to the amount of our tax liabilities, including those arising from potential changes in laws in the countries in which we do business and the possibility of adverse determinations with respect to the application of existing laws. Many judgments are required in determining our worldwide provision for income taxes and other tax liabilities, and we are regularly under audit by tax authorities, which often do not agree with positions taken by us on our tax returns. Any unfavorable resolution of these uncertainties may have a significant adverse impact on our tax rate.

Increasingly, countries around the world are actively considering or have enacted changes in relevant tax, accounting and other laws, regulations and interpretations. In particular, the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act) significantly changed how corporations are taxed in the U.S., which has an ongoing impact on our provision for income taxes. The U.S. Treasury Department and the Internal Revenue Service (IRS), and other standards-setting bodies are continuing to issue guidance on how the provisions of the Tax Act will be applied and it is possible that the guidance may differ from our interpretation of the legislation. The Tax Act requires complex computations not previously required or produced, and necessitates that we make significant judgments and assumptions in the interpretation of the law where there is a lack of guidance.

Such uncertainty in the application of the Tax Act to our ongoing operations as well as possible adverse future law changes attributable to changes in the U.S. political landscape create the potential for added volatility in our quarterly provision for income taxes and could have an adverse impact on our future tax rate. Various Democratic proposals would partially or wholly reverse beneficial features of the Tax Act, such as by raising the U.S. corporate tax rate and increasing the tax on non-U.S. income. A change in party control of the White House and U.S. Senate thus could lead to dramatic changes in the tax law and result in an increase in our provision for income taxes. Increased federal and state fiscal spending to fund COVID-19 relief measures, coupled with a drop in tax revenue from pandemic-related reductions in economic activity, will add to the pressure to raise more tax revenue from federal and state corporate income and other taxes or to enact new types of taxes on businesses and their customers.

Other countries also continue to consider enacting changes to their tax laws that could adversely affect us by increasing taxes imposed on our revenue streams and foreign subsidiaries, including changes in withholding tax regimes and the imposition of taxes targeted at certain technology businesses. More fundamentally, longstanding international tax principles that determine each country's right to tax cross-border transactions are being

reconsidered, creating significant uncertainty as to the future level of corporate income tax on our international operations. This re-examination is driven by a perceived need to provide greater taxing rights to market jurisdictions where customers or users are located. Various measures are being discussed, including adjustments to transfer pricing rules, limitations on deductions, and imposition of additional withholding taxes. The foregoing changes brought about by the Tax Act in combination with the uncertain international tax environment have upended expectations and the predictability and reliability of the global tax system, leading to the ongoing re-evaluation of our global legal and tax operating structure. The resulting potential modifications to our structure could adversely impact our provision for income taxes.

Inherent in our global business operations and legal entity structure are many intercompany transactions and calculations made in the ordinary course of business where the ultimate tax determination is uncertain. Our intercompany transfer pricing has been and is currently being reviewed by the IRS and by foreign tax jurisdictions and will likely be subject to additional audits in the future. Although we have negotiated a number of agreements with certain taxing jurisdictions, these agreements do not cover substantial elements of our transfer pricing. In recent periods, transfer pricing audits in many foreign jurisdictions have become increasingly contentious. Similarly, certain jurisdictions are increasingly raising concerns about certain withholding tax matters under current law. In addition, our provision for income taxes could be adversely affected by shifts of earnings from jurisdictions or regimes that have relatively lower statutory tax rates to those in which the rates are relatively higher.

We are also subject to non-income based taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the U.S. and various foreign jurisdictions that have uncertain applicability to the businesses in which we are engaged. Although we believe that our income and non-income based tax estimates are reasonable, there is no assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals.

There are risks associated with our outstanding and future indebtedness. As of May 31, 2020, we had an aggregate of \$71.6 billion of outstanding indebtedness that will mature between calendar year 2020 and calendar year 2060, and we may incur additional indebtedness in the future. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

We may also need to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of our existing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase.

Should we incur future increases in interest expense, our ability to utilize certain of our foreign tax credits to reduce our U.S. federal income tax could be limited, which could unfavorably affect our provision for income taxes and effective tax rate. In addition, changes by any rating agency to our outlook or credit rating could negatively affect the value of both our debt and equity securities and increase the interest amounts we pay on certain outstanding or future debt. These risks could adversely affect our financial condition and results of operations.

Environmental and other related laws and regulations subject us to a number of risks and could result in significant liabilities and costs. Some of our cloud and hardware operations are subject to state, federal and international laws governing protection of the environment, proper handling and disposal of materials used for these products, human health and safety, the use of certain chemical substances and the labor practices of suppliers, as well as local testing and labelling requirements. Compliance with these ever-changing environmental and other laws in a timely manner could increase our product design, development, procurement, manufacturing, delivery, cloud operations and administration costs, limit our ability to manage excess and obsolete non-compliant inventory, change our sales activities, or otherwise impact future financial results of our cloud and hardware businesses. Any violation of these laws can subject us to significant liability, including fines, penalties and possible prohibition of sales of our products and services into one or more states or countries and result in a material adverse effect on the financial condition or results of operations of our cloud and hardware businesses.

Regulatory, market, and competitive pressures regarding the greenhouse gas emissions and energy mix for our data center operations may also grow.

The SEC has adopted disclosure requirements for companies that use certain “conflict minerals” (tantalum, tin, tungsten and gold) in their products. Our supply chain is multi-tiered, global and highly complex. As a provider of hardware end-products, we are several steps removed from the mining and smelting or refining of any conflict minerals in our supply chain. Accordingly, our ability to determine with certainty the origin and chain of custody of conflict minerals is limited. Our relationships with customers and suppliers could suffer if we are unable to describe our products as “conflict-free.” We may also face increased costs in complying with conflict minerals disclosure requirements.

A significant portion of our hardware revenues come from international sales. Environmental legislation, such as the EU Directive on Restriction of Hazardous Substances (RoHS), the EU Waste Electrical and Electronic Equipment Directive (WEEE Directive) and China’s regulation on Management Methods for Controlling Pollution Caused by Electronic Information Products, may increase our cost of doing business internationally and impact our hardware revenues from the EU, China and other countries with similar environmental legislation as we endeavor to comply with and implement these requirements. The UK Government has announced a procurement policy that includes environmental, social and economic sustainability measures.

Our stock price could become more volatile and your investment could lose value. All of the factors discussed in this section could affect our stock price. The timing of announcements in the public market by us or by our competitors regarding new products, product enhancements, technological advances, acquisitions or major transactions could also affect our stock price. Changes in the amounts and frequency of share repurchases or dividends could affect our stock price. Our stock price could also be affected by factors, some of which are beyond our control, including, among others: speculation in the press and the analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors’ or analysts’ valuation measures for our stock, negative analyst surveys or channel check surveys, earnings announcements where our financial results differ from our guidance or investors’ expectations, our credit ratings and market trends unrelated to our performance. A significant drop in our stock price could also expose us to the risk of securities class action lawsuits, which could result in substantial costs and divert management’s attention and resources, which could adversely affect our business.

We cannot guarantee that our stock repurchase program will be fully implemented or that it will enhance long-term stockholder value. In fiscal 2020, our Board of Directors approved expansions of our stock repurchase program totaling \$30.0 billion. The repurchase program does not have an expiration date and we are not obligated to repurchase a specified number or dollar value of shares. Our repurchase program may be suspended or terminated at any time and, even if fully implemented, may not enhance long-term stockholder value.

Charges to earnings resulting from acquisitions may adversely affect our operating results. Under business combination accounting standards pursuant to Accounting Standards Codification (ASC) 805, *Business Combinations*, we recognize the identifiable assets acquired, the liabilities assumed and any non-controlling interests in acquired companies generally at their acquisition date fair values and, in each case, separately from goodwill. Goodwill as of the acquisition date is measured as the excess amount of consideration transferred, which is also generally measured at fair value, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Our estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain. After we complete an acquisition, the following factors could result in material charges and adversely affect our operating results and may adversely affect our cash flows:

- costs incurred to combine the operations of companies we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;
- impairment of goodwill or impairment of intangible assets;
- amortization of intangible assets acquired;
- a reduction in the useful lives of intangible assets acquired;

- identification of, or changes to, assumed contingent liabilities, both income tax and non-income tax related, after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;
- charges to our operating results to maintain certain duplicative pre-merger activities for an extended period of time or to maintain these activities for a period of time that is longer than we had anticipated, charges to eliminate certain duplicative pre-merger activities, and charges to restructure our operations or to reduce our cost structure;
- charges to our operating results due to expenses incurred to effect the acquisition; and
- charges to our operating results due to the expensing of certain stock awards assumed in an acquisition.

Substantially all of these costs will be accounted for as expenses that will adversely impact our operating results for the periods in which those costs are incurred. Charges to our operating results in any given period could differ substantially from other periods based on the timing and size of our future acquisitions and the extent of integration activities. A more detailed discussion of our accounting for business combinations and other items is presented in the “Critical Accounting Policies and Estimates” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations (Item 7) included elsewhere in this Annual Report.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our properties consist of owned and leased office facilities for sales, support, research and development, services, manufacturing, cloud operations and administrative and other functions. Our headquarters facility consists of approximately 2.1 million square feet in Redwood City, California, substantially all of which we own. We also own or lease other facilities for current use consisting of approximately 25.4 million square feet in various other locations in the U.S. and abroad. Approximately 2.8 million square feet, or 10%, of our total owned and leased space is sublet or is being actively marketed for sublease or disposition. We lease our principal internal manufacturing facility for our hardware products in Hillsboro, Oregon. Our cloud operations deliver our Oracle Cloud Services through the use of global data centers including those that we own and operate and those that we utilize through colocation suppliers. We believe that our facilities are in good condition and suitable for the conduct of our business.

Item 3. Legal Proceedings

The material set forth in Note 14 (pertaining to information regarding contingencies related to our income taxes) and Note 17 (pertaining to information regarding legal contingencies) of Notes to Consolidated Financial Statements in Item 15 of this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is traded on the New York Stock Exchange under the symbol “ORCL.” According to the records of our transfer agent, we had 8,511 stockholders of record as of May 31, 2020.

For equity compensation plan information, please refer to Item 12 in Part III of this Annual Report.

Stock Repurchase Program

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 11, 2019 and March 12, 2020, we announced that our Board of Directors approved expansions of our stock repurchase program totaling \$30.0 billion. As of May 31, 2020, approximately \$16.6 billion remained available for stock repurchases pursuant to our stock repurchase program.

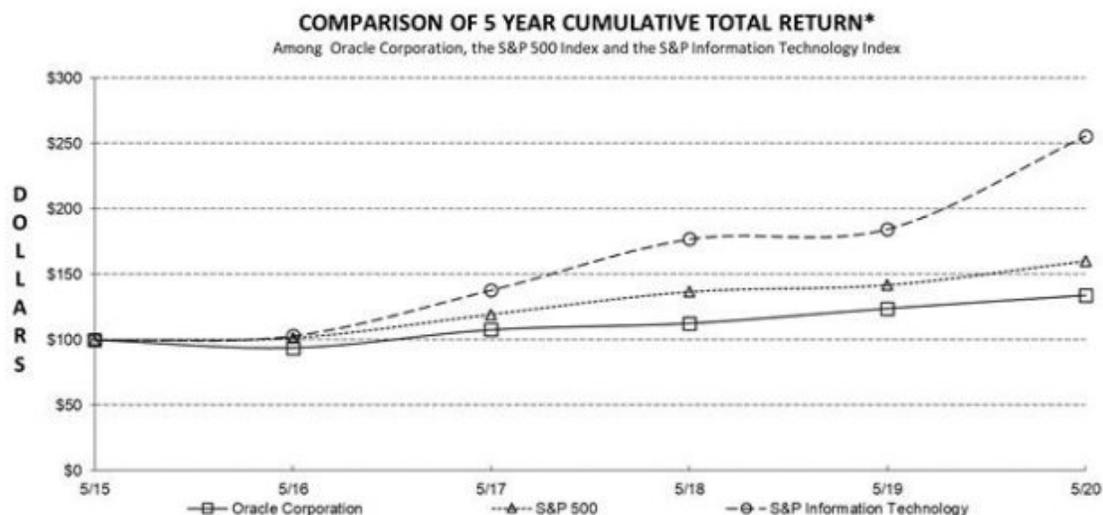
Our stock repurchase authorization does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our cash requirements for acquisitions and dividend payments, our debt repayment obligations or repurchases of our debt, our stock price,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

The following table summarizes the stock repurchase activity for the three months ended May 31, 2020 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

| <u>(in millions, except per share amounts)</u> | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Program</u> | <u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</u> |
|--|---|---|---|---|
| March 1, 2020—March 31, 2020 | 67.9 | \$ 47.15 | 67.9 | \$ 18,648.4 |
| April 1, 2020—April 30, 2020 | 38.7 | \$ 51.68 | 38.7 | \$ 16,648.4 |
| May 1, 2020—May 31, 2020 | — | \$ — | — | \$ 16,648.4 |
| Total | 106.6 | \$ 48.80 | 106.6 | |

Stock Performance Graph and Cumulative Total Return

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return of the S&P 500 Index and the S&P Information Technology Index for each of the last five fiscal years ended May 31, 2020, assuming an investment of \$100 at the beginning of such period and the reinvestment of any dividends. The comparisons in the graphs below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



*\$100 INVESTED ON MAY 31, 2015 IN STOCK OR
INDEX-INCLUDING REINVESTMENT OF DIVIDENDS

| | 5/15 | 5/16 | 5/17 | 5/18 | 5/19 | 5/20 |
|----------------------------------|-------|-------|-------|-------|-------|-------|
| Oracle Corporation | 100.0 | 93.9 | 107.7 | 112.6 | 123.9 | 134.0 |
| S&P 500 Index | 100.0 | 101.7 | 119.5 | 136.7 | 141.8 | 160.1 |
| S&P Information Technology Index | 100.0 | 103.1 | 138.0 | 176.9 | 184.7 | 255.6 |

Item 6. Selected Financial Data

The following table sets forth selected financial data as of and for our last five fiscal years. This selected financial data should be read in conjunction with the consolidated financial statements and related notes included in Item 15 of this Annual Report. Over our last five fiscal years, we have acquired a number of companies, including NetSuite Inc. (NetSuite) in fiscal 2017. The results of our acquired companies have been included in our consolidated financial statements since their respective dates of acquisition and have contributed to our revenues, income, earnings per share and total assets.

| (in millions, except per share amounts) | As of and for the Year Ended May 31, | | | | |
|--|--------------------------------------|------------|------------|------------|------------|
| | 2020 | 2019 | 2018 | 2017 | 2016(4) |
| Consolidated Statements of Operations Data: | | | | | |
| Total revenues | \$ 39,068 | \$ 39,506 | \$ 39,383 | \$ 37,792 | \$ 37,047 |
| Operating income | \$ 13,896 | \$ 13,535 | \$ 13,264 | \$ 12,913 | \$ 12,604 |
| Net income(1) | \$ 10,135 | \$ 11,083 | \$ 3,587 | \$ 9,452 | \$ 8,901 |
| Earnings per share—diluted(1) | \$ 3.08 | \$ 2.97 | \$ 0.85 | \$ 2.24 | \$ 2.07 |
| Diluted weighted average common shares outstanding | 3,294 | 3,732 | 4,238 | 4,217 | 4,305 |
| Cash dividends declared per common share | \$ 0.96 | \$ 0.81 | \$ 0.76 | \$ 0.64 | \$ 0.60 |
| Consolidated Balance Sheets Data: | | | | | |
| Working capital(2) | \$ 34,940 | \$ 27,756 | \$ 57,035 | \$ 50,995 | \$ 47,105 |
| Total assets(2) | \$ 115,438 | \$ 108,709 | \$ 137,851 | \$ 136,003 | \$ 112,180 |
| Notes payable and other borrowings(3) | \$ 71,597 | \$ 56,167 | \$ 60,619 | \$ 57,909 | \$ 43,855 |

- (1) Our net income and diluted earnings per share were impacted in fiscal 2019 and 2018 by the effects of our adoption of the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act). The more significant provisions of the Tax Act as applicable to us are described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019.
- (2) Working capital and total assets increased in fiscal 2020 primarily due to the favorable impacts to our net current assets resulting from our fiscal 2020 net income and the issuance of \$20.0 billion of long-term senior notes in fiscal 2020, partially offset by cash used for repurchases of our common stock and dividend payments in fiscal 2020. Working capital and total assets decreased in fiscal 2019 primarily due to \$36.1 billion of cash used for repurchases of our common stock during fiscal 2019 and also due to dividend payments, partially offset by the favorable impacts to our net current assets resulting from our fiscal 2019 net income. Working capital and total assets sequentially increased in the fiscal 2016 to 2018 periods presented primarily due to the favorable impacts to our net current assets resulting from our net income generated during the periods presented and the issuance of long-term senior notes of \$10.0 billion in fiscal 2018 and \$14.0 billion in fiscal 2017. These working capital and total assets increases were partially offset by cash used for acquisitions, repurchases of our common stock and dividend payments in the fiscal 2016 to 2018 periods presented. In addition, our total assets were also affected in all periods presented by the repayments of notes payable and other borrowings as discussed further below.
- (3) Our notes payable and other borrowings, which represented the summation of our notes payable, current, and notes payable and other borrowings, non-current, as reported per our consolidated balance sheets as of the dates listed in the table above, increased during fiscal 2020 primarily due to the issuance of \$20.0 billion of long-term senior notes. Notes payable and other borrowings decreased during fiscal 2019 primarily due to repayments of certain short-term borrowings and senior notes. Notes payable and other borrowings increased between fiscal 2016 and 2018 primarily due to the fiscal 2018 issuance of long-term senior notes of \$10.0 billion and short-term borrowings of \$2.5 billion, the fiscal 2017 issuance of long-term senior notes of \$14.0 billion and short-term borrowings of \$3.8 billion, and fiscal 2016 short-term borrowings of \$3.8 billion. See Note 7 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report for additional information regarding our notes payable and other borrowings.
- (4) The summary consolidated financial data for the fiscal year ended and as of May 31, 2016 have not been updated to reflect the adoption of ASC 606, *Revenue from Contracts with Customers* (ASC 606) or ASU 2017-07, *Improving the Presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Costs* (ASU 2017-07). Refer to our Annual Report on Form 10-K for the fiscal year ended May 31, 2019 for additional discussion regarding Oracle's adoption of these accounting pronouncements.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

We begin Management’s Discussion and Analysis of Financial Condition and Results of Operations with an overview of our businesses and significant trends. This overview is followed by a summary of our critical accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then provide a more detailed analysis of our results of operations and financial condition.

Business Overview

Oracle provides products and services that address enterprise information technology (IT) environments. Our products and services include applications and infrastructure offerings that are delivered worldwide through a variety of flexible and interoperable IT deployment models. These models include on-premise deployments, cloud-based deployments, and hybrid deployments (an approach that combines both on-premise and cloud-based deployment) such as our Oracle Cloud at Customer offering (an instance of Oracle Cloud in a customer’s own data center). Accordingly, we offer choice and flexibility to our customers and facilitate the product, service and deployment combinations that best suit our customers’ needs. Through our worldwide sales force and Oracle Partner Network, we sell to customers all over the world including businesses of many sizes, government agencies, educational institutions and resellers.

We have three businesses: cloud and license; hardware; and services; each of which comprises a single operating segment. The descriptions set forth below as a part of Management’s Discussion and Analysis of Financial Condition and Results of Operations and the information contained within Note 15 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report provide additional information related to our businesses and operating segments and align to how our chief operating decision makers (CODMs), which include our Chief Executive Officer and Chief Technology Officer, view our operating results and allocate resources.

Impacts of the COVID-19 Pandemic on Oracle’s Business

For a discussion of the impacts on and risks to our business from COVID-19, please refer to “Impacts of the COVID-19 Pandemic on Oracle’s Business” included in Item 1 Business in this Annual Report, the risks included in Item 1A Risk Factors in this Annual Report and the information presented below in Results of Operations in this Item 7.

Cloud and License Business

Our cloud and license line of business, which represented 83% of our total revenues in each of fiscal 2020 and 2019, markets, sells and delivers a broad spectrum of applications and infrastructure technologies through our cloud and license offerings.

Cloud services and license support revenues include:

- license support revenues, which are earned by providing Oracle license support services to customers that have elected to purchase support services in connection with the purchase of Oracle applications and infrastructure software licenses for use in cloud, on-premise and other IT environments. Substantially all license support customers renew their support contracts with us upon expiration in order to continue to benefit from technical support services and the periodic issuance of unspecified updates and enhancements, which current license support customers are entitled to receive. License support contracts are generally priced as a percentage of the net fees paid by the customer to purchase a cloud license and/or on-premise license; are generally billed in advance of the support services being performed; are generally renewed at the customer’s option; and are generally recognized as revenues ratably over the contractual period that the support services are provided, which is generally one year; and
- cloud services revenues, which provide customers access to Oracle Cloud applications and infrastructure technologies via cloud-based deployment models that Oracle develops, provides unspecified updates and enhancements for, hosts, manages and supports and that customers access by entering into a subscription agreement with us for a stated period. The majority of our Oracle Cloud Services

arrangements are generally billed in advance of the cloud services being performed; have durations of one to three years; are generally renewed at the customer's option; and are generally recognized as revenues ratably over the contractual period of the cloud contract or, in the case of usage model contracts, as the cloud services are consumed over time.

Cloud license and on-premise license revenues include revenues from the licensing of our software products including Oracle Applications, Oracle Database,

Oracle Middleware and Java, among others, which our customers deploy within cloud-based, on-premise and other IT environments. Our cloud license and

on-premise license transactions are generally perpetual in nature and are generally recognized up front 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. The timing of a few large license transactions can substantially affect our quarterly license revenues due to the point in time nature of revenue recognition for license transactions, which is different than the typical revenue recognition pattern for our cloud services and license support revenues in which revenues are generally recognized ratably over the contractual terms. Cloud license and on-premise license customers have the option to purchase and renew license support contracts as described above.

Providing choice and flexibility to our customers as to when and how they deploy our applications and infrastructure technologies are important elements of our corporate strategy. In recent periods, customer demand for our applications and infrastructure technologies delivered through our Oracle Cloud Services has increased. To address customer demand and enable customer choice, we have introduced certain programs for customers to pivot their applications and infrastructure licenses and the related license support to the Oracle Cloud for new deployments and to migrate to and expand with the Oracle Cloud for their existing workloads. We expect these trends to continue.

Our cloud and license business' revenue growth is affected by many factors, including the strength of general economic and business conditions; governmental budgetary constraints; the strategy for and competitive position of our offerings; the continued renewal of our cloud services and license support customer contracts by the customer contract base; substantially all customers continuing to purchase license support contracts in connection with their license purchases; the pricing of license support contracts sold in connection with the sales of licenses; the pricing, amounts and volumes of licenses and cloud services sold; and foreign currency rate fluctuations.

On a constant currency basis, we expect that our total cloud and license revenues generally will continue to increase due to:

- expected growth in our cloud services and license support offerings; and
- continued demand for our cloud license and on-premise license offerings.

We believe these factors should contribute to future growth in our cloud and license business' revenues, which should enable us to continue to make investments in research and development to develop and improve our cloud and license products and services.

Our cloud and license business' margin has historically trended upward over the course of the four quarters within a particular fiscal year due to the historical upward trend of our cloud and license business' revenues over those quarterly periods and because the majority of our costs for this business are generally fixed in the short term. The historical upward trend of our cloud and license business' revenues over the course of the four quarters within a particular fiscal year is primarily due to the addition of new cloud services and license support contracts to the customer contract base that we generally recognize as revenues ratably; the renewal of existing customers' cloud services and license support contracts over the course of each fiscal year that we generally recognize as revenues ratably; and the historical upward trend of our cloud license and on-premise license revenues, which we generally recognize at a point in time upon delivery; in each case over those four quarterly periods.

Hardware Business

Our hardware business, which represented 9% of our total revenues in each of fiscal 2020 and 2019, provides a broad selection of hardware products and hardware-related software products including Oracle Engineered Systems, servers, storage, industry-specific hardware offerings, operating systems, virtualization, management and other hardware-related software, and related hardware support. Each hardware product and its 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 and its related software are delivered to the customer and ownership is transferred to the customer. We expect to make investments in research and development to improve existing hardware products and services and to develop new hardware products and services. The majority of our hardware products are sold through indirect channels, including independent distributors and value-added resellers. Our hardware support offerings provide customers with unspecified software updates for software components that are essential to the functionality of our hardware products and associated software products such as Oracle Solaris. Our hardware support offerings can also include product repairs, maintenance services and technical support services. Hardware support contracts are entered into and renewed at the option of the customer, are generally priced as a percentage of the net hardware products fees and are generally recognized as revenues ratably as the hardware support services are delivered over the contractual terms.

We generally expect our hardware business to have lower operating margins as a percentage of revenues than our cloud and license business due to the incremental costs we incur to produce and distribute these products and to provide support services, including direct materials and labor costs.

Our quarterly hardware revenues are difficult to predict. Our hardware revenues, cost of hardware and hardware operating margins that we report are affected by many factors, including our ability to timely manufacture or deliver a few large hardware transactions; our strategy for and the position of our hardware products relative to competitor offerings; customer demand for competing offerings, including cloud infrastructure offerings; the strength of general economic and business conditions; governmental budgetary constraints; whether customers decide to purchase hardware support contracts at or in close proximity to the time of hardware product sale; the percentage of our hardware support contract customer base that renews its support contracts and the close association between hardware products, which have a finite life, and customer demand for related hardware support as hardware products age; customer decisions to either maintain or upgrade their existing hardware infrastructure to newly developed technologies that are available; and foreign currency rate fluctuations.

Services Business

Our services business, which represented 8% of our total revenues in each of fiscal 2020 and 2019, helps customers and partners maximize the performance of their investments in Oracle applications and infrastructure technologies. We believe that our services are differentiated based on our focus on Oracle technologies, extensive experience, broad sets of intellectual property and best practices. Our services offerings include consulting services, advanced customer services and education services. Our services business has lower margins than our cloud and license and hardware businesses. Our services revenues are affected by many factors including, our strategy for, and the competitive position of, our services; customer demand for our cloud and license and hardware offerings and the associated services for these offerings; general economic conditions; governmental budgetary constraints; personnel reductions in our customers' IT departments; and tighter controls over customer discretionary spending.

Acquisitions

Our selective and active acquisition program is another important element of our corporate strategy. Historically, we have invested billions of dollars to acquire a number of complementary companies, products, services and technologies. The pace of our acquisitions has slowed recently, but as compelling opportunities become available, we may acquire companies, products, services and technologies in furtherance of our corporate strategy. Note 2 of

Notes to Consolidated Financial Statements included elsewhere in this Annual Report provides additional information related to our recent acquisitions.

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

Critical Accounting Policies and Estimates

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

- Revenue Recognition;
- Business Combinations;
- Goodwill and Intangible Assets—Impairment Assessments;
- Accounting for Income Taxes; and
- Legal and Other Contingencies.

Our senior management has reviewed our critical accounting policies and related disclosures with the Finance and Audit Committee of the Board of Directors. Note 1 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report includes additional information about our critical and other accounting policies.

Revenue Recognition

The most critical judgments required in applying Topic 606 and our revenue recognition policy relate to the determination of distinct performance obligations and the evaluation of the standalone selling price (SSP) for each performance obligation.

Many of our customer contracts include multiple performance obligations. Judgment is required in determining whether each performance obligation within a customer contract is distinct. Oracle products and services generally do not require a significant amount of integration or interdependency. Therefore, multiple products and services contained within a customer contract are generally considered to be distinct and are not combined for revenue recognition purposes. We allocate the transaction price for each customer contract to each performance obligation based on the relative SSP (the determination of SSP is discussed below) for each performance obligation within each contract. We recognize the amount of transaction price allocated to each performance obligation within a customer contract as revenue as each performance obligation is delivered.

We use historical sales transaction data and judgment, among other factors, 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. SSP for our products and services can

evolve over time due to changes in our pricing practices that are influenced by intense competition, changes in demand for our products and services, and economic factors, among others. Our cloud licenses and on-premise licenses have not historically been sold on a standalone basis, as substantially all customers elect to purchase license support contracts at the time of a license purchase. License support contracts are generally priced as a percentage of the net fees paid by the customer to access the license. We are unable to establish the SSP for our cloud licenses and on-premise licenses based on observable prices given the same products are sold for a broad range of amounts (that is, the selling price is highly variable) and a representative SSP is not discernible from past transactions or other observable evidence. As a result, the SSP for a cloud license and an on-premise license included in a contract with multiple performance obligations is determined by applying a residual approach whereby all other performance obligations within a contract are first allocated a portion of the transaction price based upon their respective SSPs, with any residual amount of transaction price allocated to cloud license and on-premise license revenues.

Business Combinations

We apply the provisions of ASC 805, *Business Combinations*, in accounting for our acquisitions. ASC 805 requires that we evaluate whether a transaction pertains to an acquisition of assets, or to an acquisition of a business. A business is defined as an integrated set of assets and activities that is capable of being conducted and managed for the purpose of providing a return to investors. Asset acquisitions are accounted for by allocating the cost of the acquisition to the individual assets and liabilities assumed on a relative fair value basis; whereas the acquisition of a business requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at the acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as any contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the 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.

Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date, including our estimates for intangible assets, contractual obligations assumed, pre-acquisition contingencies and any contingent consideration, where applicable. Although we believe that the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

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 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, 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 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.

Goodwill and Intangible Assets—Impairment Assessments

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable. We make certain judgments and assumptions to determine our reporting units and in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

Judgment in the assessment of qualitative factors of impairment include cost factors; financial performance; legal, regulatory, contractual, political, business, and other factors; entity specific factors; industry and market considerations, macroeconomic conditions, and other relevant events and factors affecting the reporting unit. To the extent we determine 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.

Performing a quantitative goodwill impairment test includes the determination of the fair value of a reporting unit and involves significant estimates and assumptions. These estimates and assumptions include, among others, revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and the determination of appropriate market comparables.

We make judgments about the recoverability of purchased finite lived intangible assets whenever events or changes in circumstances indicate that impairment may exist. In such situations, we are required to evaluate whether the net book values of our finite lived intangible assets are recoverable. We determine whether finite lived intangible assets are recoverable based upon the forecasted future cash flows that are expected to be generated by the lowest level associated asset grouping. Assumptions and estimates about future values and remaining useful lives of our intangible assets are complex and subjective and include, among others, forecasted undiscounted cash flows to be generated by certain asset groupings. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy and our internal forecasts.

Accounting for Income Taxes

Judgment is required in determining our worldwide income tax provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and cost reimbursement arrangements among related entities, the process of identifying items of revenues and expenses that qualify for preferential tax treatment, and the segregation of foreign and domestic earnings and expenses to avoid double taxation. Although we believe that our estimates are reasonable, the final tax outcome of these matters could be different from that which is reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision and net income in the period in which such determination is made.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income in those jurisdictions where the deferred tax assets are located. We consider future growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, historical earnings, taxable income in prior years, if carryback is permitted under the law, and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets valuation allowance would be charged to earnings in the period in which we make such a determination, or goodwill would be adjusted at our final determination of the valuation allowance related to an acquisition within the measurement period. If we later determine that it is more likely than not that the net deferred tax assets would be

realized, we would reverse the applicable portion of the previously provided valuation allowance as an adjustment to our provision for income taxes at such time.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the global tax implications are known, which can materially impact our effective tax rate.

The amount of income tax we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Our estimate of the potential outcome for any uncertain tax issue may require certain judgments. A description of our accounting policies associated with tax related contingencies assumed as a part of a business combination is provided under “Business Combinations” above.

For those tax related contingencies that are not a part of a business combination, we account for these uncertain tax issues pursuant to ASC 740, *Income Taxes*, which contains a two-step approach to recognizing and measuring 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. Although we believe that we have adequately reserved for our uncertain tax positions, no assurance can be given with respect to the final outcome of these matters. We adjust reserves for our uncertain tax positions due to changing facts and circumstances, such as the closing of a tax audit, judicial rulings, and refinement of estimates or realization of earnings or deductions that differ from our estimates. To the extent that the final outcome of these matters is different than the amounts recorded, such differences generally will impact our provision for income taxes in the period in which such a determination is made. Our provisions for income taxes include the impact of reserve provisions and changes to reserves that are considered appropriate and also include the related interest and penalties.

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. A description of our accounting policies associated with contingencies assumed as a part of a business combination is provided under “Business Combinations” above. For legal and other contingencies that are not a part of a business combination, 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. Significant judgment is required in both the determination of probability and the determination as to whether the amount of an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time the accruals are made. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Results of Operations

Presentation of Operating Segment Results and Other Financial Information

In our fiscal 2020 compared to fiscal 2019 results of operations discussion below, we provide an overview of our total consolidated revenues, total consolidated expenses and total consolidated operating margin, all of which are presented on a GAAP basis. We also present a GAAP-based discussion below for substantially all of the other expense items as presented in our consolidated statements of operations that are not directly attributable to our three businesses.

In addition, we discuss below the fiscal 2020 compared to fiscal 2019 results of each our three businesses—cloud and license, hardware and services—which are our operating segments as defined pursuant to ASC 280, *Segment Reporting*. The financial reporting for our three businesses that is presented below is presented in a manner that is

consistent with that used by our CODMs. Our operating segment presentation below reflects revenues, direct costs and sales and marketing expenses that correspond to and are directly attributable to each of our three businesses. We also utilize these inputs to calculate and present a segment margin for each business in the discussion below.

Consistent with our internal management reporting processes, the below operating segment presentation is noted to include any revenues adjustments related to cloud services and license support contracts that would have otherwise been recorded by the acquired businesses as independent entities but were not recognized in our consolidated statements of operations for the periods presented due to business combination accounting requirements. Refer to “Supplemental Disclosure Related to Certain Charges” below for additional discussion of these items and Note 15 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report for a reconciliation of the summations of our total operating segment revenues as presented in the discussion below to total revenues as presented per our consolidated statements of operations for all periods presented.

In addition, research and development expenses, general and administrative expenses, stock-based compensation expenses, amortization of intangible assets, certain other expense allocations, acquisition related and other expenses, restructuring expenses, interest expense, non-operating income, net and provision for income taxes are not attributed to our three operating segments because our management does not view the performance of our three businesses including such items and/or it is impractical to do so. Refer to “Supplemental Disclosure Related to Certain Charges” below for additional discussion of certain of these items and Note 15 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report for a reconciliation of the summations of total segment margin as presented in the discussion below to total income before provision of income taxes as presented per our consolidated statements of operations for all periods presented.

A discussion regarding our financial condition and results of operations for fiscal 2019 compared to fiscal 2018 can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2019, as filed with the SEC on June 21, 2019, which is available free of charge on the SEC’s website at www.sec.gov and on our Investor Relations website at www.oracle.com/investor.

Constant Currency Presentation

Our international operations have provided and are expected to continue to provide a significant portion of each of our businesses’ revenues and expenses. As a result, each businesses’ revenues and expenses and our total revenues and expenses will continue to be affected by changes in the U.S. Dollar against major international currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effects of foreign currency rate fluctuations, we compare the percent change in the results from one period to another period in this Annual Report using constant currency disclosure. To present this information, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e., the rates in effect on May 31, 2019, which was the last day of our prior fiscal year) rather than the actual exchange rates in effect during the respective periods. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on May 31, 2020 and 2019, our financial statements would reflect reported revenues of \$1.10 million in fiscal 2020 (using 1.10 as the month-end average exchange rate for the period) and \$1.11 million in fiscal 2019 (using 1.11 as the month-end average exchange rate for the period). The constant currency presentation, however, would translate the fiscal 2020 results using the fiscal 2019 exchange rate and indicate, in this example, no change in revenues during either period. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

Total Revenues and Operating Expenses

| (Dollars in millions) | Year Ended May 31, | | | |
|-------------------------------------|--------------------|----------------|----------|-----------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Total Revenues by Geography: | | | | |
| Americas | \$ 21,563 | -1% | -1% | \$ 21,856 |
| EMEA ⁽¹⁾ | 11,035 | -2% | 1% | 11,270 |
| Asia Pacific | 6,470 | 1% | 3% | 6,380 |
| Total revenues | 39,068 | -1% | 0% | 39,506 |
| Total Operating Expenses | 25,172 | -3% | -2% | 25,971 |
| Total Operating Margin | \$ 13,896 | 3% | 4% | \$ 13,535 |
| Total Operating Margin % | 36% | | | 34% |
| % Revenues by Geography: | | | | |
| Americas | 55% | | | 55% |
| EMEA | 28% | | | 29% |
| Asia Pacific | 17% | | | 16% |
| Total Revenues by Business: | | | | |
| Cloud and license | \$ 32,519 | 0% | 1% | \$ 32,562 |
| Hardware | 3,443 | -7% | -6% | 3,704 |
| Services | 3,106 | -4% | -3% | 3,240 |
| Total revenues | \$ 39,068 | -1% | 0% | \$ 39,506 |
| % Revenues by Business: | | | | |
| Cloud and license | 83% | | | 83% |
| Hardware | 9% | | | 9% |
| Services | 8% | | | 8% |

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

Excluding the effects of currency rate fluctuations, our total revenues were flat in fiscal 2020. The constant currency increase in our cloud and license business' revenues during fiscal 2020 was offset by decreases in our hardware business' revenues and services business' revenues. The constant currency increase in our cloud and license business' revenues during fiscal 2020 relative to fiscal 2019 was attributable to growth in our cloud services and license support revenues as customers purchased our applications and infrastructure technologies via cloud deployment models and license deployment models and renewed their related cloud contracts and license support contracts to continue to gain access to our latest technologies and support services. The constant currency decrease in our hardware business' revenues during fiscal 2020 relative to fiscal 2019 was due to reductions in our hardware products revenues and hardware support revenues primarily due to the emphasis we placed on the marketing and sale of our cloud-based infrastructure technologies, which resulted in reduced sales volumes of certain of our hardware product lines and also impacted the volume of customers that purchased hardware support contracts. The constant currency decrease in our services business' revenues during fiscal 2020 relative to fiscal 2019 was attributable to declines in our consulting revenues and education revenues. Due to the effects of the COVID-19 pandemic, all three of our businesses' revenues were adversely impacted during the fourth quarter of fiscal 2020 and some of these effects may continue into fiscal 2021. While we expect these effects to be temporary, the impacts of COVID-19 for fiscal 2021 and future periods are unknown. On a constant currency basis, fiscal 2020 total revenues growth in the EMEA and Asia Pacific regions were partially offset by a decline in the Americas region.

Excluding the effects of currency rate fluctuations, our total operating expenses decreased during fiscal 2020 relative to fiscal 2019 primarily due to lower expenses for substantially all of our operating expense categories other than cloud services and license support expenses, which increased primarily due to headcount and infrastructure investments that were made to support the increase in our cloud and license business' revenues; and research and development expenses, which increased primarily due to higher stock-based compensation expenses. We curtailed a number of variable expenditures in our fourth quarter of fiscal 2020 including marketing

expenses and employee travel expenses in response to COVID-19. We expect certain of these expenses to normalize in future periods provided global economic conditions improve.

In constant currency, our total operating margin and total operating margin as a percentage of total revenues increased in fiscal 2020 due to the decline in our total expenses.

Supplemental Disclosure Related to Certain Charges

To supplement our consolidated financial information, we believe that the following information is helpful to an overall understanding of our past financial performance and prospects for the future.

Our operating results reported pursuant to GAAP included the following business combination accounting adjustments and expenses related to acquisitions and certain other expense and income items that affected our GAAP net income:

| (in millions) | Year Ended May 31, | |
|---|--------------------|-----------------|
| | 2020 | 2019 |
| Cloud services and license support deferred revenues ⁽¹⁾ | \$ 4 | \$ 20 |
| Amortization of intangible assets ⁽²⁾ | 1,586 | 1,689 |
| Acquisition related and other ⁽³⁾⁽⁵⁾ | 56 | 44 |
| Restructuring ⁽⁴⁾ | 250 | 443 |
| Stock-based compensation, operating segments ⁽⁵⁾ | 436 | 518 |
| Stock-based compensation, R&D and G&A ⁽⁵⁾ | 1,154 | 1,135 |
| Income tax effects ⁽⁶⁾ | (939) | (1,406) |
| Income tax reform ⁽⁷⁾ | — | (389) |
| | <u>\$ 2,547</u> | <u>\$ 2,054</u> |

(1) In connection with our acquisitions, we have estimated the fair values of the cloud services and license support contracts assumed. Due to our application of business combination accounting rules, we did not recognize the cloud services and license support revenue amounts as presented in the above table that would have otherwise been recorded by the acquired businesses as independent entities upon delivery of the contractual obligations. To the extent customers for which these contractual obligations pertain renew these contracts with us, we expect to recognize revenues for the full contracts' values over the respective contracts' renewal periods.

(2) Represents the amortization of intangible assets, substantially all of which were acquired in connection with our acquisitions. As of May 31, 2020, estimated future amortization related to intangible assets was as follows (in millions):

| | |
|------------------------------|-----------------|
| Fiscal 2021 | \$ 1,351 |
| Fiscal 2022 | 1,102 |
| Fiscal 2023 | 679 |
| Fiscal 2024 | 445 |
| Fiscal 2025 | 126 |
| Thereafter | 35 |
| Total intangible assets, net | <u>\$ 3,738</u> |

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

(4) Restructuring expenses during fiscal 2020 and 2019 primarily related to employee severance in connection with our Fiscal 2019 Oracle Restructuring Plan (2019 Restructuring Plan). Additional information regarding certain of our restructuring plans is provided in the discussion below under "Restructuring Expenses" and in Note 8 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

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

| | Year Ended May 31, | |
|--|--------------------|----------|
| | 2020 | 2019 |
| Cloud services and license support | \$ 110 | \$ 99 |
| Hardware | 11 | 10 |
| Services | 54 | 49 |
| Sales and marketing | 261 | 360 |
| Stock-based compensation, operating segments | 436 | 518 |
| Research and development | 1,035 | 963 |
| General and administrative | 119 | 172 |
| Total stock-based compensation | \$ 1,590 | \$ 1,653 |

- (6) For fiscal 2020 and 2019, the applicable jurisdictional tax rates applied to our income before provision for income taxes after excluding the tax effects of items within the table above such as for stock-based compensation, amortization of intangible assets, restructuring, and certain other acquisition related items; and, for fiscal 2019, after excluding a tax benefit arising from the increase of a deferred tax asset associated with a partial realignment of our legal structure and a tax benefit as described in footnote (7) below, resulted in effective tax rates of 18.4% and 18.5% in fiscal 2020 and 2019, respectively, instead of 16.0% and 9.7%, respectively, which represented our effective tax rates as derived per our consolidated statements of operations.
- (7) The fiscal 2019 income tax reform adjustment presented in the table above was due to an adjustment made pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118) related to the enactment of the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act). The more significant provisions of the Tax Act as applicable to us are described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

Cloud and License Business

Our cloud and license business engages in the sale and marketing of our applications and infrastructure technologies that are delivered through various deployment models and include: Oracle license support offerings; Oracle Cloud Services offerings; and Oracle cloud license and on-premise license offerings. License support revenues are typically generated through the sale of license support contracts related to cloud licenses and on-premise licenses; are purchased by our customers at their option; and are generally recognized as revenues ratably over the contractual term, which is generally one year. Our cloud services deliver applications and infrastructure technologies on a subscription basis via cloud-based deployment models that we develop, provide unspecified updates and enhancements for, host, manage and support. Revenues for our cloud services are generally recognized over the contractual term, which is generally one to three years, or in the case of usage model contracts, as the cloud services are consumed. 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 and are generally recognized up front at the point in time when the software is made available to the customer to download and use. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market certain of our offerings through indirect channels. Costs associated with our cloud and license business are included in cloud services and license support expenses, and sales and marketing expenses. These costs are largely personnel and infrastructure related including the cost of providing our cloud services and license support offerings, salaries and commissions earned by our sales force for the sale of our cloud and license offerings, and marketing program costs.

| (Dollars in millions) | Year Ended May 31, | | | |
|--|--------------------|----------------|----------|-----------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Cloud and License Revenues: | | | | |
| Americas(1) | \$ 18,314 | -1% | 0% | \$ 18,410 |
| EMEA(1) | 9,058 | -1% | 1% | 9,168 |
| Asia Pacific(1) | 5,151 | 3% | 4% | 5,004 |
| Total revenues(1) | 32,523 | 0% | 1% | 32,582 |
| Expenses: | | | | |
| Cloud services and license support(2) | 3,803 | 6% | 7% | 3,597 |
| Sales and marketing(2) | 7,159 | -3% | -2% | 7,398 |
| Total expenses(2) | 10,962 | 0% | 1% | 10,995 |
| Total Margin | \$ 21,561 | 0% | 1% | \$ 21,587 |
| Total Margin % | 66% | | | 66% |
| % Revenues by Geography: | | | | |
| Americas | 56% | | | 57% |
| EMEA | 28% | | | 28% |
| Asia Pacific | 16% | | | 15% |
| Revenues by Offerings: | | | | |
| Cloud services and license support(1) | \$ 27,396 | 3% | 4% | \$ 26,727 |
| Cloud license and on-premise license | 5,127 | -12% | -11% | 5,855 |
| Total revenues(1) | \$ 32,523 | 0% | 1% | \$ 32,582 |
| Cloud Services and License Support Revenues by Ecosystem: | | | | |
| Applications cloud services and license support(1) | \$ 11,019 | 4% | 5% | \$ 10,572 |
| Infrastructure cloud services and license support(1) | 16,377 | 1% | 3% | 16,155 |
| Total cloud services and license support revenues(1) | \$ 27,396 | 3% | 4% | \$ 26,727 |

(1) Includes cloud services and license support revenue adjustments related to certain cloud services and license support contracts that would have otherwise been recorded as revenues by the acquired businesses as independent entities but were not recognized in our GAAP-based consolidated statements of operations for the periods presented due to business combination accounting requirements. Such revenue adjustments were included in our operating segment results for purposes of reporting to and review by our CODMs. See "Presentation of Operating Segment Results and Other Financial Information" above for additional information.

(2) Excludes stock-based compensation and certain expense allocations. Also excludes amortization of intangible assets and certain other GAAP-based expenses, which were not allocated to our operating segment results for purposes of reporting to and review by our CODMs, as further described under "Presentation of Operating Segment Results and Other Financial Information" above.

Excluding the effects of currency rate fluctuations, our cloud and license business' total revenues increased in fiscal 2020 relative to fiscal 2019 due to growth in our cloud services and license support revenues, which was primarily due to increased customer purchases and renewals of cloud-based services and license support contracts in recent periods for which we delivered such services during fiscal 2020. Our cloud and license business' revenues were adversely impacted during the fourth quarter of fiscal 2020 due to the COVID-19 pandemic, in particular our cloud license and on-premise license revenues. In constant currency, the Americas, EMEA and Asia Pacific regions contributed 8%, 34% and 58%, respectively, of the constant currency revenue growth for this business in fiscal 2020.

In constant currency, our total cloud and license business' expenses increased in fiscal 2020 compared to fiscal 2019 due to higher cloud services and license support expenses during fiscal 2020, which were primarily attributable to higher employee related expenses and higher technology infrastructure expenses to support the increase in our cloud and license business' revenues. These constant currency expense increases were partially offset by lower sales and marketing expenses, which were primarily due to our curtailment of variable expenditures in our fourth quarter of fiscal 2020, including reduced marketing expenses and employee travel expenses, in response to COVID-19.

Excluding the effects of currency rate fluctuations, our cloud and license business' total margin increased in fiscal 2020 compared to fiscal 2019 due to the fiscal 2020 increases in revenues for this business, while total fiscal 2020 margins as a percentage of revenues remained flat.

Hardware Business

Our hardware business' revenues are generated from the sales of our Oracle Engineered Systems, server, storage, and industry-specific hardware offerings. The hardware product and related software, such as an operating system or firmware, are highly interdependent and interrelated and are accounted for as a combined performance obligation. The revenues for this combined performance obligation are generally recognized at the point in time that the hardware product is delivered to the customer and ownership is transferred to the customer. Our hardware business also earns revenues from the sale of hardware support contracts purchased by our customers at their option and are generally recognized as revenues ratably as the hardware support services are delivered over the contractual term, which is generally one year. The majority of our hardware products are sold through indirect channels such as independent distributors and value-added resellers and we also market and sell our hardware products through our direct sales force. Operating expenses associated with our hardware business include the cost of hardware products, which consists of expenses for materials and labor used to produce these products by our internal manufacturing operations or by third-party manufacturers, warranty expenses and the impact of periodic changes in inventory valuation, including the impact of inventory determined to be excess and obsolete; the cost of materials used to repair customer products; the cost of labor and infrastructure to provide support services; and sales and marketing expenses, which are largely personnel related and include variable compensation earned by our sales force for the sales of our hardware offerings.

| (Dollars in millions) | Year Ended May 31, | | | 2019 |
|--|--------------------|----------------|----------|----------|
| | 2020 | Percent Change | | |
| | | Actual | Constant | |
| Hardware Revenues: | | | | |
| Americas | \$ 1,758 | -7% | -6% | \$ 1,889 |
| EMEA | 998 | -8% | -5% | 1,082 |
| Asia Pacific | 687 | -6% | -5% | 733 |
| Total revenues | 3,443 | -7% | -6% | 3,704 |
| Expenses: | | | | |
| Hardware products and support ⁽¹⁾ | 1,084 | -18% | -17% | 1,327 |
| Sales and marketing ⁽¹⁾ | 456 | -12% | -11% | 520 |
| Total expenses ⁽¹⁾ | 1,540 | -17% | -15% | 1,847 |
| Total Margin | \$ 1,903 | 2% | 4% | \$ 1,857 |
| Total Margin % | 55% | | | 50% |
| % Revenues by Geography: | | | | |
| Americas | 51% | | | 51% |
| EMEA | 29% | | | 29% |
| Asia Pacific | 20% | | | 20% |

(1) Excludes stock-based compensation and certain expense allocations. Also excludes amortization of intangible assets and certain other GAAP-based expenses, which were not allocated to our operating segment results for purposes of reporting to and review by our CODMs, as further described under "Presentation of Operating Segments and Other Financial Information" above.

Excluding the effects of currency rate fluctuations, total hardware revenues decreased in fiscal 2020 relative to fiscal 2019 due to lower hardware products revenues and lower hardware support revenues. The decreases in hardware products and hardware support revenues in fiscal 2020 relative to fiscal 2019 were primarily attributable to our continued emphasis on the marketing and sale of our cloud-based infrastructure technologies, which resulted in reduced sales volumes of certain of our hardware product lines and also impacted the volume of hardware support contracts sold in recent periods. Our hardware business' revenues were also adversely impacted during the fourth quarter of fiscal 2020 due to the economic effects caused by COVID-19. These unfavorable

impacts to our fiscal 2020 hardware revenues were partially offset by increased hardware revenues related to certain of our strategic hardware offerings, namely our Oracle Exadata offerings.

Excluding the effects of currency rate fluctuations, total hardware expenses decreased in fiscal 2020 compared to fiscal 2019 primarily due to lower hardware products expenses, lower hardware support costs, and lower sales and marketing expenses, all of which aligned to lower hardware revenues.

In constant currency, total margin and total margin as a percentage of revenues for our hardware business increased in fiscal 2020 compared to fiscal 2019 primarily due to lower hardware expenses.

Services Business

We offer services to customers and partners to help maximize the performance of their investments in Oracle applications and infrastructure technologies. Services revenues are generally recognized over time as the services are performed. The cost of providing our services consists primarily of personnel related expenses, technology infrastructure expenditures, facilities expenses and external contractor expenses.

| (Dollars in millions) | Year Ended May 31, | | | 2019 |
|-------------------------------------|--------------------|----------------|----------|----------|
| | 2020 | Percent Change | | |
| | | Actual | Constant | |
| Services Revenues: | | | | |
| Americas | \$ 1,496 | -5% | -4% | \$ 1,576 |
| EMEA | 979 | -4% | -1% | 1,021 |
| Asia Pacific | 631 | -2% | -1% | 643 |
| Total revenues | 3,106 | -4% | -3% | 3,240 |
| Total Expenses⁽¹⁾ | 2,656 | -2% | 0% | 2,703 |
| Total Margin | \$ 450 | -16% | -15% | \$ 537 |
| Total Margin % | 14% | | | 17% |
| % Revenues by Geography: | | | | |
| Americas | 48% | | | 49% |
| EMEA | 32% | | | 31% |
| Asia Pacific | 20% | | | 20% |

(1) Excludes stock-based compensation and certain allocations. Also excludes certain other GAAP-based expenses, which were not allocated to our operating segment results for purposes of reporting to and review by our CODMs, as further described under "Presentation of Operating Segments and Other Financial Information" above.

Excluding the effects of currency rate fluctuations, our total services revenues decreased in fiscal 2020 relative to fiscal 2019 primarily due to declines in our consulting services and education services revenues. Our services business revenues were also adversely impacted during the fourth quarter of fiscal 2020 due to the impacts of COVID-19, including the impacts of consulting project delays due to customer resource constraints and jurisdictional restrictions imposed with respect to in-person meetings. In addition, we incurred lower billable travel expenses and lower billable sub-contractor expenses for which we were to be reimbursed by our customers, which reduced the amount of revenues and expenses we reported for this business during fiscal 2020.

In constant currency, total services expenses were flat in fiscal 2020 compared to fiscal 2019 as lower expenses incurred for travel and sub-contractors as described above and lower expenses related to the delivery of our education services were offset by higher employee related expenses associated with our consulting offerings during fiscal 2020.

In constant currency, total margin and total margin as a percentage of total services revenues decreased during fiscal 2020 relative to fiscal 2019 due to the decrease in total revenues for this business.

Research and Development Expenses: Research and development expenses consist primarily of personnel related expenditures. We intend to continue to invest significantly in our research and development efforts because, in our judgment, they are essential to maintaining our competitive position.

| (Dollars in millions) | Year Ended May 31, | | | |
|---|--------------------|----------------|----------|----------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Research and development ⁽¹⁾ | \$ 5,032 | -1% | 0% | \$ 5,063 |
| Stock-based compensation | 1,035 | 7% | 7% | 963 |
| Total expenses | \$ 6,067 | 1% | 1% | \$ 6,026 |
| % of Total Revenues | 15% | | | 15% |

(1) Excluding stock-based compensation

On a constant currency basis, total research and development expenses increased in fiscal 2020 compared to fiscal 2019 primarily due to an increase in stock-based compensation expenses, modestly higher employee salary expenses, and higher infrastructure expenses during fiscal 2020 that were partially offset by lower variable compensation expenses and lower travel expenses due to the impacts of COVID-19.

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

| (Dollars in millions) | Year Ended May 31, | | | |
|---|--------------------|----------------|----------|----------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| General and administrative ⁽¹⁾ | \$ 1,062 | -3% | -1% | \$ 1,093 |
| Stock-based compensation | 119 | -31% | -31% | 172 |
| Total expenses | \$ 1,181 | -7% | -6% | \$ 1,265 |
| % of Total Revenues | 3% | | | 3% |

(1) Excluding stock-based compensation

Excluding the effects of currency rate fluctuations, total general and administrative expenses decreased in fiscal 2020 compared to fiscal 2019 primarily due to lower stock-based compensation expenses, lower professional services fees, lower variable compensation expenses, and lower travel expenses due to the impacts of COVID-19. These decreases were partially offset by modestly higher fiscal 2020 employee salary expenses in constant currency.

Amortization of Intangible Assets: Substantially all of our intangible assets were acquired through our business combinations. We amortize our intangible assets over, and monitor the appropriateness of, the estimated useful lives of these assets. We also periodically review these intangible assets for potential impairment based upon relevant facts and circumstances. Note 6 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report has additional information regarding our intangible assets and related amortization.

| (Dollars in millions) | Year Ended May 31, | | | |
|---|--------------------|----------------|----------|----------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Developed technology | \$ 789 | -8% | -8% | \$ 857 |
| Cloud services and license support agreements and related relationships | 676 | -5% | -5% | 712 |
| Other | 121 | 2% | 2% | 120 |
| Total amortization of intangible assets | \$ 1,586 | -6% | -6% | \$ 1,689 |

Amortization of intangible assets decreased in fiscal 2020 due to a reduction in expenses associated with certain of our intangible assets that became fully amortized, partially offset by additional amortization from intangible assets that we acquired in connection with our recent acquisitions.

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.

| (Dollars in millions) | Year Ended May 31, | | | |
|---|--------------------|----------------|----------|-------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Transitional and other employee related costs | \$ 12 | -77% | -77% | \$ 49 |
| Business combination adjustments, net | (7) | -67% | -71% | (21) |
| Other, net | 51 | 227% | 228% | 16 |
| Total acquisition related and other expenses | \$ 56 | 27% | 29% | \$ 44 |

On a constant currency basis, acquisition related and other expenses increased during fiscal 2020 due to higher other expenses, net including asset impairment costs related to certain right of use assets and other assets that were abandoned in connection with plans to improve our cost structure and operations prospectively. In addition, during fiscal 2019 we recorded certain business combination related adjustments that benefited our expenses during this period. These increases to our fiscal 2020 expenses growth were partially offset by lower fiscal 2020 transitional employee related costs.

Restructuring Expenses: Restructuring expenses resulted from the execution of management approved restructuring plans that were generally developed to improve our cost structure and/or operations, often in conjunction with our acquisition integration strategies. Restructuring expenses consist of employee severance costs and other contract termination costs to improve our cost structure prospectively. Prior to fiscal 2020, restructuring expenses also included charges for duplicate facilities. For additional information regarding our restructuring plans, see Note 8 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

| (Dollars in millions) | Year Ended May 31, | | | |
|------------------------|--------------------|----------------|----------|--------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Restructuring expenses | \$ 250 | -44% | -42% | \$ 443 |

Restructuring expenses in fiscal 2020 and 2019 primarily related to our 2019 Restructuring Plan. Our management approved, committed to and initiated the 2019 Restructuring Plan in order to restructure and further improve efficiencies in our operations. We may incur additional restructuring expenses in future periods due to the initiation of new restructuring plans or from changes in estimated costs associated with existing restructuring plans.

The majority of the initiatives undertaken by our 2019 Restructuring Plan were effected to implement our continued emphasis in developing, marketing and selling our cloud-based offerings. These initiatives impacted certain of our sales and marketing and research and development operations. Cost savings that are expected to be realized pursuant to our 2019 Restructuring Plan initiatives may be offset by investments in resources and geographies that best address the

development, marketing and sale of our cloud-based offerings including investments in our second-generation cloud infrastructure.

Interest Expense:

| (Dollars in millions) | Year Ended May 31, | | | |
|-----------------------|--------------------|----------------|----------|----------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Interest expense | \$ 1,995 | -4% | -4% | \$ 2,082 |

Interest expense decreased in fiscal 2020 compared to fiscal 2019 primarily due to the maturities and repayments of \$4.5 billion of senior notes during fiscal 2020 and \$2.0 billion of senior notes during fiscal 2019. This decrease in interest expense during fiscal 2020 was partially offset by additional interest expense incurred related to our issuance of \$20.0 billion of senior notes in April 2020.

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

| (Dollars in millions) | Year Ended May 31, | | | |
|------------------------------------|--------------------|----------------|-------------|---------------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Interest income | \$ 527 | -52% | -51% | \$ 1,092 |
| Foreign currency losses, net | (185) | 67% | 69% | (111) |
| Noncontrolling interests in income | (164) | 8% | 8% | (152) |
| Other, net | (16) | 13% | 25% | (14) |
| Total non-operating income, net | <u>\$ 162</u> | <u>-80%</u> | <u>-80%</u> | <u>\$ 815</u> |

On a constant currency basis, our non-operating income, net decreased in fiscal 2020 compared to fiscal 2019 primarily due to lower interest income in fiscal 2020, which was primarily attributable to lower average cash, cash equivalent and marketable securities balances and, to a lesser extent, lower interest rates on these balances during fiscal 2020, and also due to higher fiscal 2020 foreign currency losses.

Provision for Income Taxes: Our effective income tax rates for each of the periods presented were the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Refer to Note 14 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report for a discussion regarding the differences between the effective income tax rates as presented for the periods below and the U.S. federal statutory income tax rates that were in effect during these periods. Future effective tax rates could be adversely affected by an unfavorable shift of earnings weighted to jurisdictions with higher tax rates, by unfavorable changes in tax laws and regulations, by adverse rulings in tax related litigation, or by shortfalls in stock-based compensation realized by employees relative to stock-based compensation that was recorded for book purposes, among others.

| (Dollars in millions) | Year Ended May 31, | | | |
|----------------------------|--------------------|----------------|----------|----------|
| | 2020 | Percent Change | | 2019 |
| | | Actual | Constant | |
| Provision for income taxes | \$ 1,928 | 63% | 66% | \$ 1,185 |
| <i>Effective tax rate</i> | 16.0% | | | 9.7% |

Provision for income taxes increased in fiscal 2020 relative to fiscal 2019 primarily due to the absence in fiscal 2020 of tax benefits we recorded in fiscal 2019 attributable to changes in estimates related to our adoption of the Tax Act, as recorded pursuant to SAB 118, and the increase of a deferred tax asset associated with the partial realignment of our legal structure.

Liquidity and Capital Resources

| (Dollars in millions) | As of May 31, | | |
|--|---------------|--------|-----------|
| | 2020 | Change | 2019 |
| Working capital | \$ 34,940 | 26% | \$ 27,756 |
| Cash, cash equivalents and marketable securities | \$ 43,057 | 14% | \$ 37,827 |

Working capital: The increase in working capital as of May 31, 2020 in comparison to May 31, 2019 was primarily due to our issuance of \$20.0 billion of long-term senior notes in April 2020 (refer to Recent Financing Activities below for additional information), the favorable impacts to our net current assets resulting from our net income during fiscal 2020 and cash proceeds from stock option exercises. These favorable working capital movements were partially offset by cash used for repurchases of our common stock, the reclassification of \$1.0 billion and €1.25 billion of long-term senior notes as current liabilities, cash used to pay dividends to our stockholders during fiscal 2020, and the prospective recognition of current operating lease liabilities associated with our adoption of Topic 842 as of June 1, 2019. Our working capital may be impacted by some or all of the aforementioned factors in future periods, the amounts and timing of which are variable.

Cash, cash equivalents and marketable securities: Cash and cash equivalents primarily consist of deposits held at major banks, Tier-1 commercial paper and other securities with original maturities of 90 days or less. Marketable securities consist of corporate debt securities and certain other securities. The increase in cash, cash equivalents and marketable securities at May 31, 2020 in comparison to May 31, 2019 was primarily due to our issuance of \$20.0 billion of long-term senior notes in April 2020, cash inflows generated by our operations and cash inflows from stock option exercises during fiscal 2020. These cash inflows were partially offset by certain cash outflows, primarily \$19.2 billion used for repurchases of our common stock, the repayment of \$4.5 billion of borrowings, payments of cash dividends to our stockholders and cash used for capital expenditures.

The amount of cash, cash equivalents and marketable securities that we report in U.S. Dollars for a significant portion of the cash, cash equivalents and marketable securities balances held by our foreign subsidiaries is subject to translation adjustments caused by changes in foreign currency exchange rates as of the end of each respective reporting period (the offset to which is substantially recorded to accumulated other comprehensive loss (AOCL) in our consolidated balance sheets and is also presented as a line item in our consolidated statements of comprehensive income included elsewhere in this Annual Report). As the U.S. Dollar generally strengthened against certain major international currencies during fiscal 2020, the amount of cash, cash equivalents and marketable securities that we reported in U.S. Dollars for these subsidiaries decreased on a net basis as of May 31, 2020 relative to what we would have reported using constant currency rates from the May 31, 2019 balance sheet date.

| (Dollars in millions) | Year Ended May 31, | | |
|---|--------------------|--------|-------------|
| | 2020 | Change | 2019 |
| Net cash provided by operating activities | \$ 13,139 | -10% | \$ 14,551 |
| Net cash provided by investing activities | \$ 9,843 | -63% | \$ 26,557 |
| Net cash used for financing activities | \$ (6,132) | -85% | \$ (42,056) |

Cash flows from operating activities: Our largest source of operating cash flows is cash collections from our customers following the purchase and renewal of their license support agreements. Payments from customers for these support agreements are generally received near the beginning of the contracts' terms, which are generally one year in length. Over the course of a fiscal year, we also have historically generated cash from the sales of new licenses, cloud services, hardware offerings and other services. Our primary uses of cash from operating activities are for employee related expenditures, material and manufacturing costs related to the production of our hardware products, taxes, interest payments and leased facilities.

Net cash provided by operating activities decreased during fiscal 2020 compared to fiscal 2019 primarily due to lower net income and certain cash unfavorable changes in the timing of payments received from customers during the fourth quarter of fiscal 2020, which we believe were attributable to the unfavorable global economic effects that resulted from COVID-19. We expect to collect substantially all of these delayed customer payments in future periods.

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

Net cash provided by investing activities decreased during fiscal 2020 primarily due to a fiscal 2020 decrease in proceeds from the maturities and sales of marketable securities and other investments and a fiscal 2020 increase in the purchase of marketable securities and other investments, in each case relative to fiscal 2019.

Cash flows from financing activities: The changes in cash flows from financing activities primarily relate to borrowings and repayments related to our debt instruments, stock repurchases, dividend payments and net proceeds related to employee stock programs.

Net cash used for financing activities during fiscal 2020 decreased compared to fiscal 2019 primarily due to a decrease in our stock repurchases for which we used \$19.2 billion in fiscal 2020 in comparison to \$36.1 billion in fiscal 2019; and our fiscal 2020 issuance of \$20.0 billion of senior notes (none in fiscal 2019).

Free cash flow: To supplement our statements of cash flows presented on a GAAP basis, we use non-GAAP measures of cash flows on a trailing 4-quarter basis to analyze cash flows generated from our operations. We believe that free cash flow is also useful as one of the bases for comparing our performance with our competitors. The presentation of non-GAAP free cash flow is not meant to be considered in isolation or as an alternative to net income as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity. We calculate free cash flow as follows:

| (Dollars in millions) | Year Ended May 31, | | |
|---|--------------------|--------|-----------|
| | 2020 | Change | 2019 |
| Net cash provided by operating activities | \$ 13,139 | -10% | \$ 14,551 |
| Capital expenditures | (1,564) | -6% | (1,660) |
| Free cash flow | \$ 11,575 | -10% | \$ 12,891 |
| Net income | \$ 10,135 | | \$ 11,083 |
| Free cash flow as percent of net income | 114% | | 116% |

Long-Term Customer Financing: We offer certain of our customers the option to acquire licenses, cloud services, 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 generally 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. We financed \$1.0 billion in each of fiscal 2020 and 2019 and \$1.5 billion in fiscal 2018 or approximately 19%, 17% and 25%, respectively, of our cloud license and on-premise license revenues in fiscal 2020, 2019 and 2018, respectively.

Recent Financing Activities:

Cash Dividends: In fiscal 2020, we declared and paid cash dividends of \$0.96 per share that totaled \$3.1 billion. In June 2020, our Board of Directors declared a quarterly cash dividend of \$0.24 per share of our outstanding common stock payable on July 28, 2020 to stockholders of record as of the close of business on July 15, 2020. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Senior Notes: In April 2020, we issued \$20.0 billion of senior notes comprised of the following:

- \$3.50 billion of 2.50% senior notes due April 2025;
- \$2.25 billion of 2.80% senior notes due April 2027;
- \$3.25 billion of 2.95% senior notes due April 2030;
- \$3.00 billion of 3.60% senior notes due April 2040;
- \$4.50 billion of 3.60% senior notes due April 2050; and

- \$3.50 billion of 3.85% senior notes due April 2060.

We issued the senior notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock, repayment of indebtedness and future acquisitions. Additionally, in fiscal 2020, we repaid \$4.5 billion of senior notes pursuant to their terms. Additional details regarding our senior notes are included in Note 7 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Common Stock Repurchase Program: Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 11, 2019 and March 12, 2020, we announced that our Board of Directors approved expansions of our stock repurchase program collectively totaling \$30.0 billion. As of May 31, 2020, approximately \$16.6 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 361.0 million shares for \$19.2 billion, 733.8 million shares for \$36.0 billion, and 238.0 million shares for \$11.5 billion in fiscal 2020, 2019 and 2018, respectively. Our stock repurchase authorization does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our cash requirements for acquisitions and dividend payments, our debt repayment obligations or repurchases of our debt, our stock price, and economic and market conditions. Our stock repurchases may be effected from time to time through open market purchases and pursuant to a Rule 10b5-1 plan. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

Contractual Obligations: The contractual obligations presented in the table below represent our estimates of future payments under our fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions, changing interest rates and other factors may result in actual payments differing from these estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in preparing this information within the context of our consolidated financial position, results of operations and cash flows. The following is a summary of our material contractual obligations as of May 31, 2020:

| (in millions) | Total | Year Ending May 31, | | | | | Thereafter |
|--------------------------------------|-------------------|---------------------|------------------|-----------------|-----------------|------------------|------------------|
| | | 2021 | 2022 | 2023 | 2024 | 2025 | |
| Principal payments on borrowings(1) | \$ 72,115 | \$ 2,631 | \$ 8,250 | \$ 3,750 | \$ 3,500 | \$ 10,000 | \$ 43,984 |
| Interest payments on borrowings(1) | 37,664 | 2,431 | 2,291 | 2,150 | 2,038 | 1,926 | 26,828 |
| Operating leases(2) | 2,315 | 616 | 519 | 350 | 252 | 192 | 386 |
| Tax obligations(3) | 6,046 | 576 | 576 | 576 | 1,080 | 1,440 | 1,798 |
| Purchase obligations and other(4) | 1,263 | 881 | 66 | 30 | 27 | 23 | 236 |
| Total contractual obligations | \$ 119,403 | \$ 7,135 | \$ 11,702 | \$ 6,856 | \$ 6,897 | \$ 13,581 | \$ 73,232 |

(1) Represents the principal balances and interest payments to be paid in connection with our senior notes and other borrowings outstanding as of May 31, 2020 after considering:

- certain interest rate swap agreements for certain series of senior notes that have the economic effect of modifying the fixed-interest obligations associated with these senior notes so that they effectively became variable pursuant to a LIBOR-based index. Interest payments on these senior notes have been presented in the table above after consideration of these fixed to variable interest rate swap agreements based upon the interest rates applicable as of May 31, 2020 and are subject to change in future periods;
- certain cross-currency swap agreements for our €1.25 billion 2.25% senior notes due January 2021 that have the economic effect of converting our fixed-rate, Euro-denominated debt, including annual interest payments and the payment of principal at maturity, to a fixed-rate, U.S. Dollar-denominated debt with a fixed annual interest rate. Principal and interest payments for these senior notes were calculated and presented in the table above based on the terms of these cross-currency swap agreements; and
- certain cross-currency interest rate swap agreements for our €750 million 3.125% senior notes due July 2025 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. Principal and interest payments for these senior notes were calculated and presented in the table above based on the terms of these cross-currency interest rate swap agreements as of May 31, 2020 and the interest payments are subject to change in future periods.

Refer to Notes 7 and 10 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report for additional information related to our notes payable and other borrowings and related derivative agreements.

(2) Represents operating lease liabilities for facilities, data centers, and vehicles.

(3) Represents the future cash payments related to the transition tax payable incurred as a result of the Tax Act. The more significant provisions of the Tax Act as applicable to us are described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

- (4) Primarily represents amounts associated with agreements that are enforceable and legally binding; terms include: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the payment. We utilize several external manufacturers to manufacture sub-assemblies for our hardware products and to perform final assembly and testing of finished hardware products. We also obtain individual hardware components for our 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 amount presented in the above contractual obligations table. 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 presented above, 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, 2020, we had \$8.4 billion of gross unrecognized income tax benefits, including related interest and penalties, recorded on our consolidated balance sheet, and all such obligations have been excluded from the contractual obligations table above due to the uncertainty as to when they might be settled or released with the relevant tax authorities, although we believe it is reasonably possible that certain of these liabilities could be settled or released during fiscal 2021. We are involved in claims and legal proceedings. All such claims and obligations have been excluded from the contractual obligations table above due to the uncertainty of claims and legal proceedings and associated estimates and assumptions, all of which are inherently unpredictable and many aspects of which are out of our control. Notes 14 and 17 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report includes additional information regarding these contingencies.

We believe that our current cash, cash equivalents and marketable securities and cash generated from operations will be sufficient to meet our working capital, capital expenditures and contractual obligation requirements. In addition, we believe that we could fund our future acquisitions, dividend payments and repurchases of common stock or debt with our internally available cash, cash equivalents and marketable securities, cash generated from operations, additional borrowings or from the issuance of additional securities.

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

Selected Quarterly Financial Data

The following tables set forth selected unaudited quarterly information for our last eight fiscal quarters. We believe that all necessary adjustments, which consisted only of normal recurring adjustments, have been included in the amounts stated below to present fairly the results of such periods when read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report. The sum of the quarterly financial information may vary from annual data due to rounding. Refer to "Seasonality and Cyclicalities" in Item 1 and "Business Overview" in Item 7 included elsewhere within this Annual Report for additional information regarding the seasonality of our revenues, expenses and margins and the impacts of COVID-19 on our business during fiscal 2020.

| (in millions, except per share amounts) | Fiscal 2020 Quarter Ended (Unaudited) | | | |
|---|---------------------------------------|-------------|-------------|-----------|
| | August 31 | November 30 | February 29 | May 31 |
| Revenues | \$ 9,218 | \$ 9,614 | \$ 9,796 | \$ 10,440 |
| Gross profit | \$ 7,261 | \$ 7,566 | \$ 7,832 | \$ 8,471 |
| Operating income | \$ 2,877 | \$ 3,183 | \$ 3,528 | \$ 4,309 |
| Net income | \$ 2,137 | \$ 2,311 | \$ 2,571 | \$ 3,116 |
| Earnings per share—basic | \$ 0.64 | \$ 0.71 | \$ 0.81 | \$ 1.01 |
| Earnings per share—diluted | \$ 0.63 | \$ 0.69 | \$ 0.79 | \$ 0.99 |

| (in millions, except per share amounts) | Fiscal 2019 Quarter Ended (Unaudited) | | | |
|---|---------------------------------------|-------------|-------------|-----------|
| | August 31 | November 30 | February 28 | May 31 |
| Revenues | \$ 9,193 | \$ 9,562 | \$ 9,614 | \$ 11,136 |
| Gross profit | \$ 7,240 | \$ 7,561 | \$ 7,638 | \$ 9,073 |
| Operating income | \$ 2,778 | \$ 3,101 | \$ 3,399 | \$ 4,257 |
| Net income | \$ 2,265 | \$ 2,333 | \$ 2,745 | \$ 3,740 |
| Earnings per share—basic | \$ 0.58 | \$ 0.63 | \$ 0.78 | \$ 1.10 |
| Earnings per share—diluted | \$ 0.57 | \$ 0.61 | \$ 0.76 | \$ 1.07 |

Restricted Stock-Based Awards and Stock Options

Our stock-based compensation program is a key component of the compensation package we provide to attract and retain certain of our talented employees and align their interests with the interests of existing stockholders.

We recognize that restricted stock-based awards and stock options dilute existing stockholders and have sought to control the number of stock-based awards granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution since June 1, 2017 has been a weighted-average annualized rate of 1.5% per year. The potential dilution percentage is calculated as the average annualized new restricted stock-based awards and stock options granted and assumed, net of restricted stock-based awards and stock options forfeited by employees leaving the company, divided by the weighted-average outstanding shares during the calculation period. This maximum potential dilution will only result if all restricted stock-based awards vest and stock options are exercised. Of the outstanding stock options at May 31, 2020, which generally have a ten-year exercise period, substantially all have exercise prices lower than the market price of our common stock on such date. In recent years, our stock repurchase program has more than offset the dilutive effect of our stock-based compensation program. However, we may modify the levels of our stock repurchases in the future depending on a number of factors, including the amount of cash we have available for acquisitions, to pay dividends, to repay or repurchase indebtedness or for other purposes. As of May 31, 2020, the maximum potential dilution from all outstanding restricted stock-based awards and unexercised stock options, regardless of when granted and regardless of whether vested or unvested and including stock options where the strike price is higher than the market price as of such date, was 9.0%.

During fiscal 2020, the Compensation Committee of the Board of Directors reviewed and approved the annual organization-wide stock-based award grants to selected employees; all stock-based award grants to senior officers; and any individual grant of restricted stock units of 62,500 or greater. The annual organization-wide stock-based award grants to selected employees are generally approved by the Compensation Committee during the ten business day period following the second trading day after the announcement of our fiscal fourth quarter earnings report. However, we currently do not expect that the annual grant for fiscal 2021 will be approved during this time period. Each member of a separate executive officer committee, referred to as the Plan Committee, was allocated a fiscal 2020 equity budget that could be used throughout the fiscal year to grant equity within his or her organization, subject to certain limitations established by the Compensation Committee.

Restricted stock-based award and stock option activity from June 1, 2017 through May 31, 2020 is summarized as follows (shares in millions):

| | |
|--|--------|
| Restricted stock-based awards and stock options outstanding at May 31, 2017 | 395 |
| Restricted stock-based awards and stock options granted | 231 |
| Restricted stock-based awards vested and issued and stock options exercised | (286) |
| Forfeitures, cancellations and other, net | (63) |
| Restricted stock-based awards and stock options outstanding at May 31, 2020 | 277 |
| Weighted-average annualized restricted stock-based awards and stock options granted and assumed, net of forfeitures and cancellations | 56 |
| Weighted-average annualized stock repurchases | (444) |
| Shares outstanding at May 31, 2020 | 3,067 |
| Basic weighted-average shares outstanding from June 1, 2017 through May 31, 2020 | 3,655 |
| Restricted stock-based awards and stock options outstanding as a percent of shares outstanding at May 31, 2020 | 9.0% |
| Total restricted stock-based awards and in the money stock options outstanding (based on the closing price of our common stock on the last trading day of fiscal 2020) as a percent of shares outstanding at May 31, 2020 | 9.0% |
| Weighted-average annualized restricted stock-based awards and stock options granted and assumed, net of forfeitures and cancellations and before stock repurchases, as a percent of weighted-average shares outstanding from June 1, 2017 through May 31, 2020 | 1.5% |
| Weighted-average annualized restricted stock-based awards and stock options granted and assumed, net of forfeitures and cancellations and after stock repurchases, as a percent of weighted-average shares outstanding from June 1, 2017 through May 31, 2020 | -10.6% |

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements, if any, and the impact of these pronouncements on our consolidated financial statements, if any, see Note 1 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Cash, Cash Equivalents, Marketable Securities and Interest Income Risk

Cash, cash equivalents, and marketable securities were \$43.1 billion and \$37.8 billion as of May 31, 2020 and 2019, respectively. Our bank deposits and time deposits are generally held with large, diverse financial institutions worldwide with high investment-grade credit ratings or financial institutions that meet investment-grade ratings criteria, which we believe mitigates credit risk and certain other risks. In addition, as of May 31, 2020, substantially all of our marketable securities were high quality with substantially all having maturity dates within one year (a description of our marketable securities held is included in Notes 3 and 4 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report and “Liquidity and Capital Resources” above). We held a mix of both fixed and floating-rate debt securities. Fixed rate securities may have their market values adversely impacted as interest rates increase, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may vary due to changes in interest rates or we may realize losses if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our debt securities as “available for sale,” no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. The fair values of our fixed-rate debt securities are impacted by interest rate movements and if interest rates would have been higher by 50 basis points as of each of May 31, 2020 and 2019 we estimate the change would have decreased the fair values of our marketable securities holdings by \$15 million and \$128 million, respectively. We generally do not use our investments for trading purposes.

Changes in the overall level of interest rates affect the interest income that is generated from our cash, cash equivalents and marketable securities. For fiscal 2020 and 2019, total interest income was \$527 million and \$1.1 billion, respectively, with our cash, cash equivalents and marketable securities investments yielding an average 1.47% and 2.08%, respectively, on a worldwide basis.

Interest Expense Risk

Interest Expense Risk—Interest Rate Swap Agreements and Cross-Currency Interest Rate Swap Agreements

Our total borrowings were \$71.6 billion as of May 31, 2020, consisting of \$71.5 billion of fixed-rate borrowings and \$113 million of other borrowings. As of May 31, 2020, we held certain interest rate swap agreements that have the economic effect of modifying the fixed-interest obligations associated with our \$1.5 billion of 2.80% fixed-rate senior notes due July 2021 (July 2021 Notes), so that the fixed-rate interest payable on these senior notes effectively became variable based on LIBOR. We have also entered into cross-currency interest rate swap agreements to manage the foreign currency exchange rate risk associated with our €750 million of 3.125% fixed-rate senior notes due July 2025 (July 2025 Notes) by effectively converting the fixed-rate, Euro denominated debt, including the annual interest payments and the payment of principal at maturity, to variable-rate, U.S. Dollar denominated debt based on LIBOR. The critical terms of the swap agreements match the critical terms of the July 2021 Notes and July 2025 Notes that the swap agreements pertain to, including the notional amounts and maturity dates. We do not use these swap arrangements for trading purposes. We are accounting for these swap agreements as fair value hedges pursuant to ASC 815, *Derivatives and Hedging* (ASC 815). The fair values of our outstanding fixed to variable interest rate swap agreements as of May 31, 2020 and 2019 were a \$12 million net gain and a \$17 million net loss, respectively. We estimate that the changes in the fair values of these swap agreements as of May 31, 2020 and 2019, respectively, were primarily attributable to a decrease and increase, respectively, in forward interest rate prices. If LIBOR-based interest rates would have been higher by 100 basis points as of May 31, 2020 and 2019, the change would have decreased the collective fair values of the fixed to variable swap agreements by \$63 million and \$90 million, respectively.

By entering into the aforementioned swap arrangements, we have assumed risks associated with variable interest rates based upon LIBOR. Changes in the overall level of interest rates affect the interest expense that we recognize in our consolidated statements of operations. An interest rate risk sensitivity analysis is used to measure interest rate risk by computing estimated changes in cash flows as a result of assumed changes in market interest rates. As of May 31, 2020 and 2019, if LIBOR-based interest rates would have been higher by 100 basis points, the change would have increased our interest expense annually by approximately \$24 million and \$52 million, respectively, as it relates to our fixed to variable interest rate swap agreements and related borrowings, and as of May 31, 2019, as it related to our floating-rate borrowings. Additional details regarding our senior notes and related swap agreements are included in Notes 7 and 10 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Currency Risk

Foreign Currency Transaction Risk—Foreign Currency Forward Contracts

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. Our foreign currency forward contracts are generally short-term in duration.

We neither use these foreign currency forward contracts for trading purposes nor do we designate these forward contracts as hedging instruments pursuant to ASC 815. Accordingly, we record the fair values of these contracts as of the end of our reporting period to our consolidated balance sheet with changes in fair values recorded to our consolidated statement of operations. Given the short duration of the forward contracts, amounts recorded generally are not significant. The balance sheet classification for the fair values of these forward contracts is prepaid expenses and other current assets for forward contracts in an unrealized gain position and other current liabilities for forward contracts in an unrealized loss position. The statement of operations classification for

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

We expect that we will continue to realize gains or losses with respect to our foreign currency exposures, net of gains or losses from our foreign currency forward contracts. Our ultimate realized gain or loss with respect to foreign currency exposures will generally depend on the size and type of cross-currency transactions that we enter into, the currency exchange rates associated with these exposures and changes in those rates, the net realized gain or loss on our foreign currency forward contracts and other factors. The notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$4.2 billion and \$3.8 billion as of May 31, 2020 and 2019, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$3.9 billion and \$3.3 billion as of May 31, 2020 and 2019, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at May 31, 2020 and 2019. Net foreign exchange transaction losses included in non-operating income, net in the accompanying consolidated statements of operations were \$185 million and \$111 million in fiscal 2020 and 2019, respectively. As a large portion of our consolidated operations are international, we could experience additional foreign currency volatility in the future, the amounts and timing of which are unknown.

Foreign Currency Translation Risk—Impact on Cash, Cash Equivalents and Marketable Securities

Fluctuations in foreign currencies impact the amount of total assets and liabilities that we report for our foreign subsidiaries upon the translation of these amounts into U.S. Dollars. In particular, the amount of cash, cash equivalents and marketable securities that we report in U.S. Dollars for a significant portion of the cash held by these subsidiaries is subject to translation variance caused by changes in foreign currency exchange rates as of the end of each respective reporting period (the offset to which is substantially recorded to AOCL on our consolidated balance sheets and is also presented as a line item in our consolidated statements of comprehensive income included elsewhere in this Annual Report).

As the U.S. Dollar fluctuated against certain international currencies as of the end of fiscal 2020, the amount of cash, cash equivalents and marketable securities that we reported in U.S. Dollars for foreign subsidiaries that hold international currencies as of May 31, 2020 decreased relative to what we would have reported using a constant currency rate from May 31, 2019. As reported in our consolidated statements of cash flows, the estimated effects of exchange rate changes on our reported cash and cash equivalents balances in U.S. Dollars was a decrease of \$125 million and \$158 million for fiscal 2020 and 2019, respectively. If overall foreign currency exchange rates in comparison to the U.S. Dollar uniformly would have been weaker by 10% as of May 31, 2020 and May 31, 2019 the amount of cash, cash equivalents and marketable securities we would report in U.S. Dollars would have decreased by approximately \$491 million and \$434 million, respectively, assuming constant foreign currency cash, cash equivalents and marketable securities balances.

Item 8. Financial Statements and Supplementary Data

The response to this item is submitted as a separate section of this Annual Report. See Part IV, Item 15.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation under the supervision and with the participation of our Disclosure Committee and our management, including our Principal Executive and Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e).

Based on our management’s evaluation (with the participation of our Principal Executive and Financial Officer), as of the end of the period covered by this report, our Principal Executive and Financial Officer has concluded that our disclosure controls and procedures were effective as of May 31, 2020 to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to our management, including our Principal Executive and Financial Officer as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Principal Executive and Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of May 31, 2020 based on the guidelines established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission’s 2013 framework. Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. GAAP.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of May 31, 2020. We reviewed the results of management’s assessment with our Finance and Audit Committee.

The effectiveness of our internal control over financial reporting as of May 31, 2020 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included in Part IV, Item 15 of this Annual Report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

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[Index to Financial Statements](#)

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Pursuant to General Instruction G(3) of Form 10-K, the information required by this item relating to our executive officers is included under the caption “Executive Officers of the Registrant” in Part I of this Annual Report.

The other information required by this Item 10 is incorporated by reference from the information contained in our Proxy Statement to be filed with the U.S. Securities and Exchange Commission in connection with the solicitation of proxies for our 2020 Annual Meeting of Stockholders (2020 Proxy Statement) under the sections entitled “Board of Directors—Nominees for Directors,” “Board of Directors—Committees, Membership and Meetings,” “Board of Directors—Committees, Membership and Meetings—The Finance and Audit Committee,” “Corporate Governance—Employee Matters—Code of Conduct,” and “Delinquent Section 16(a) Reports.”

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference from the information to be contained in our 2020 Proxy Statement under the sections entitled “Board of Directors—Committees, Membership and Meetings—The Compensation Committee—Compensation Committee Interlocks and Insider Participation,” “Board of Directors—Director Compensation,” and “Executive Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 is incorporated herein by reference from the information to be contained in our 2020 Proxy Statement under the sections entitled “Security Ownership of Certain Beneficial Owners and Management” and “Executive Compensation—Equity Compensation Plan Information.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 is incorporated herein by reference from the information to be contained in our 2020 Proxy Statement under the sections entitled “Corporate Governance—Board of Directors and Director Independence” and “Transactions with Related Persons.”

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 is incorporated herein by reference from the information to be contained in our 2020 Proxy Statement under the section entitled “Ratification of Selection of Independent Registered Public Accounting Firm.”

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:

[Reports of Independent Registered Public Accounting Firm](#)

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Consolidated Financial Statements:

[Balance Sheets as of May 31, 2020 and 2019](#)

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[Statements of Operations for the years ended May 31, 2020, 2019 and 2018](#)

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[Statements of Comprehensive Income for the years ended May 31, 2020, 2019 and 2018](#)

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[Statements of Equity for the years ended May 31, 2020, 2019 and 2018](#)

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[Statements of Cash Flows for the years ended May 31, 2020, 2019 and 2018](#)

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[Notes to Consolidated Financial Statements](#)

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2. Financial Statement Schedules

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

[Schedule II. Valuation and Qualifying Accounts](#)

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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, 2020 and 2019, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2020, 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, 2020, 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 22, 2020 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 matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

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 is highly subjective and requires significant judgment in assessing the Company's evaluation of the probability of a loss, and the estimated amount or range of loss. These judgments are 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.

/s/ Ernst & Young LLP

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

San Jose, California

June 22, 2020

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, 2020, 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, 2020, 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, 2020 and 2019, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2020, the related notes, and the financial statement schedule listed in the Index at Item 15(a) 2 and our report June 22, 2020 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 22, 2020

ORACLE CORPORATION
CONSOLIDATED BALANCE SHEETS
As of May 31, 2020 and 2019

| (in millions, except per share data) | May 31, | |
|---|------------|------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 37,239 | \$ 20,514 |
| Marketable securities | 5,818 | 17,313 |
| Trade receivables, net of allowances for doubtful accounts of \$409 and \$371 as of May 31, 2020 and May 31, 2019, respectively | 5,551 | 5,134 |
| Prepaid expenses and other current assets | 3,532 | 3,425 |
| Total current assets | 52,140 | 46,386 |
| Non-current assets: | | |
| Property, plant and equipment, net | 6,244 | 6,252 |
| Intangible assets, net | 3,738 | 5,279 |
| Goodwill, net | 43,769 | 43,779 |
| Deferred tax assets | 3,252 | 2,696 |
| Other non-current assets | 6,295 | 4,317 |
| Total non-current assets | 63,298 | 62,323 |
| Total assets | \$ 115,438 | \$ 108,709 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Notes payable, current | \$ 2,371 | \$ 4,494 |
| Accounts payable | 637 | 580 |
| Accrued compensation and related benefits | 1,453 | 1,628 |
| Deferred revenues | 8,002 | 8,374 |
| Other current liabilities | 4,737 | 3,554 |
| Total current liabilities | 17,200 | 18,630 |
| Non-current liabilities: | | |
| Notes payable and other borrowings, non-current | 69,226 | 51,673 |
| Income taxes payable | 12,463 | 13,295 |
| Other non-current liabilities | 3,832 | 2,748 |
| Total non-current liabilities | 85,521 | 67,716 |
| Commitments and contingencies | | |
| Oracle Corporation stockholders' equity: | | |
| Preferred stock, \$0.01 par value—authorized: 1.0 shares; outstanding: none | — | — |
| Common stock, \$0.01 par value and additional paid in capital—authorized: 11,000 shares; outstanding: 3,067 shares and 3,359 shares as of May 31, 2020 and May 31, 2019, respectively | 26,486 | 26,909 |
| Accumulated deficit | (12,696) | (3,496) |
| Accumulated other comprehensive loss | (1,716) | (1,628) |
| Total Oracle Corporation stockholders' equity | 12,074 | 21,785 |
| Noncontrolling interests | 643 | 578 |
| Total equity | 12,717 | 22,363 |
| Total liabilities and equity | \$ 115,438 | \$ 108,709 |

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended May 31, 2020, 2019 and 2018

| (in millions, except per share data) | Year Ended May 31, | | |
|--|--------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| Revenues: | | | |
| Cloud services and license support | \$ 27,392 | \$ 26,707 | \$ 26,222 |
| Cloud license and on-premise license | 5,127 | 5,855 | 5,772 |
| Hardware | 3,443 | 3,704 | 3,994 |
| Services | 3,106 | 3,240 | 3,395 |
| Total revenues | 39,068 | 39,506 | 39,383 |
| Operating expenses: | | | |
| Cloud services and license support(1) | 4,006 | 3,782 | 3,606 |
| Hardware(1) | 1,116 | 1,360 | 1,576 |
| Services(1) | 2,816 | 2,853 | 2,878 |
| Sales and marketing(1) | 8,094 | 8,509 | 8,433 |
| Research and development | 6,067 | 6,026 | 6,084 |
| General and administrative | 1,181 | 1,265 | 1,282 |
| Amortization of intangible assets | 1,586 | 1,689 | 1,620 |
| Acquisition related and other | 56 | 44 | 52 |
| Restructuring | 250 | 443 | 588 |
| Total operating expenses | 25,172 | 25,971 | 26,119 |
| Operating income | 13,896 | 13,535 | 13,264 |
| Interest expense | (1,995) | (2,082) | (2,025) |
| Non-operating income, net | 162 | 815 | 1,185 |
| Income before provision for income taxes | 12,063 | 12,268 | 12,424 |
| Provision for income taxes | 1,928 | 1,185 | 8,837 |
| Net income | \$ 10,135 | \$ 11,083 | \$ 3,587 |
| Earnings per share: | | | |
| Basic | \$ 3.16 | \$ 3.05 | \$ 0.87 |
| Diluted | \$ 3.08 | \$ 2.97 | \$ 0.85 |
| Weighted average common shares outstanding: | | | |
| Basic | 3,211 | 3,634 | 4,121 |
| Diluted | 3,294 | 3,732 | 4,238 |

(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, 2020, 2019 and 2018

| <u>(in millions)</u> | <u>Year Ended May 31,</u> | | |
|--|---------------------------|------------------|-----------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Net income | \$ 10,135 | \$ 11,083 | \$ 3,587 |
| Other comprehensive (loss) income, net of tax: | | | |
| Net foreign currency translation losses | (78) | (149) | (291) |
| Net unrealized (losses) gains on defined benefit plans | (79) | (70) | 34 |
| Net unrealized gains (losses) on marketable securities | 91 | 332 | (609) |
| Net unrealized (losses) gains on cash flow hedges | (22) | (52) | 37 |
| Total other comprehensive (loss) income, net | (88) | 61 | (829) |
| Comprehensive income | <u>\$ 10,047</u> | <u>\$ 11,144</u> | <u>\$ 2,758</u> |

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended May 31, 2020, 2019 and 2018

| (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, 2017 | 4,137 | \$ 27,065 | \$ 28,535 | \$ (860) | \$ 54,740 | \$ 390 | \$ 55,130 |
| Common stock issued under stock-based compensation plans | 105 | 2,277 | — | — | 2,277 | — | 2,277 |
| Common stock issued under stock purchase plans | 3 | 125 | — | — | 125 | — | 125 |
| Assumption of stock-based compensation plan awards in connection with acquisitions | — | 3 | — | — | 3 | — | 3 |
| Stock-based compensation | — | 1,607 | — | — | 1,607 | — | 1,607 |
| Repurchase of common stock | (238) | (1,632) | (9,871) | — | (11,503) | — | (11,503) |
| Shares repurchased for tax withholdings upon vesting of restricted stock-based awards | (10) | (506) | — | — | (506) | — | (506) |
| Cash dividends declared (\$0.76 per share) | — | — | (3,140) | — | (3,140) | — | (3,140) |
| Other, net | — | 11 | — | — | 11 | (24) | (13) |
| Other comprehensive loss, net | — | — | — | (829) | (829) | — | (829) |
| Net income | — | — | 3,587 | — | 3,587 | 135 | 3,722 |
| Balances as of May 31, 2018 | 3,997 | 28,950 | 19,111 | (1,689) | 46,372 | 501 | 46,873 |
| Cumulative-effect of accounting change | — | — | (110) | — | (110) | — | (110) |
| Common stock issued under stock-based compensation plans | 103 | 2,033 | — | — | 2,033 | — | 2,033 |
| Common stock issued under stock purchase plans | 2 | 122 | — | — | 122 | — | 122 |
| Assumption of stock-based compensation plan awards in connection with acquisitions | — | 8 | — | — | 8 | — | 8 |
| Stock-based compensation | — | 1,653 | — | — | 1,653 | — | 1,653 |
| Repurchase of common stock | (734) | (5,354) | (30,646) | — | (36,000) | — | (36,000) |
| Shares repurchased for tax withholdings upon vesting of restricted stock-based awards | (9) | (503) | — | — | (503) | — | (503) |
| Cash dividends declared (\$0.81 per share) | — | — | (2,932) | — | (2,932) | — | (2,932) |
| Other, net | — | — | (2) | — | (2) | (69) | (71) |
| Other comprehensive income (loss), net | — | — | — | 61 | 61 | (6) | 55 |
| Net income | — | — | 11,083 | — | 11,083 | 152 | 11,235 |
| Balances as of May 31, 2019 | 3,359 | 26,909 | (3,496) | (1,628) | 21,785 | 578 | 22,363 |
| 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 |
| Repurchase 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 |

See notes to consolidated financial statements.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2020, 2019 and 2018

| (in millions) | Year Ended May 31, | | |
|--|--------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| Cash flows from operating activities: | | | |
| Net income | \$ 10,135 | \$ 11,083 | \$ 3,587 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 1,382 | 1,230 | 1,165 |
| Amortization of intangible assets | 1,586 | 1,689 | 1,620 |
| Allowances for doubtful accounts receivable | 245 | 190 | 146 |
| Deferred income taxes | (851) | (1,191) | (847) |
| Stock-based compensation | 1,590 | 1,653 | 1,607 |
| Other, net | 239 | 157 | (27) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | | |
| (Increase) decrease in trade receivables, net | (690) | (272) | 267 |
| Decrease (increase) in prepaid expenses and other assets | 665 | 261 | (258) |
| Decrease in accounts payable and other liabilities | (496) | (102) | (260) |
| (Decrease) increase in income taxes payable | (444) | (453) | 8,150 |
| (Decrease) increase in deferred revenues | (222) | 306 | 236 |
| Net cash provided by operating activities | 13,139 | 14,551 | 15,386 |
| Cash flows from investing activities: | | | |
| Purchases of marketable securities and other investments | (5,731) | (1,400) | (25,282) |
| Proceeds from maturities of marketable securities and other investments | 4,687 | 12,681 | 20,372 |
| Proceeds from sales of marketable securities | 12,575 | 17,299 | 2,745 |
| Acquisitions, net of cash acquired | (124) | (363) | (1,724) |
| Capital expenditures | (1,564) | (1,660) | (1,736) |
| Net cash provided by (used for) investing activities | 9,843 | 26,557 | (5,625) |
| Cash flows from financing activities: | | | |
| Payments for repurchases of common stock | (19,240) | (36,140) | (11,347) |
| Proceeds from issuances of common stock | 1,588 | 2,155 | 2,402 |
| Shares repurchased for tax withholdings upon vesting of restricted stock-based awards | (665) | (503) | (506) |
| Payments of dividends to stockholders | (3,070) | (2,932) | (3,140) |
| Proceeds from borrowings, net of issuance costs | 19,888 | — | 12,443 |
| Repayments of borrowings | (4,500) | (4,500) | (9,800) |
| Other, net | (133) | (136) | (34) |
| Net cash used for financing activities | (6,132) | (42,056) | (9,982) |
| Effect of exchange rate changes on cash and cash equivalents | (125) | (158) | 57 |
| Net increase (decrease) in cash and cash equivalents | 16,725 | (1,106) | (164) |
| Cash and cash equivalents at beginning of period | 20,514 | 21,620 | 21,784 |
| Cash and cash equivalents at end of period | \$ 37,239 | \$ 20,514 | \$ 21,620 |
| Non-cash investing and financing activities: | | | |
| Fair values of stock awards assumed in connection with acquisitions | \$ — | \$ 8 | \$ 3 |
| Change in unsettled repurchases of common stock | \$ (40) | \$ (140) | \$ 154 |
| Change in unsettled investment purchases | \$ — | \$ — | \$ (303) |
| Supplemental schedule of cash flow data: | | | |
| Cash paid for income taxes | \$ 3,218 | \$ 2,901 | \$ 1,562 |
| Cash paid for interest | \$ 1,972 | \$ 2,059 | \$ 1,910 |

See notes to consolidated financial statements.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020

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. We deliver our products and services to customers worldwide through a variety of flexible and interoperable IT deployment models, including cloud-based, Cloud at Customer (an instance of Oracle Cloud in the customer's own data center), on premise 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 deploys, hosts, upgrades, supports and manages for the customer. Customers may also elect to purchase Oracle software and hardware products and related services to manage their own cloud-based or on-premise IT environments. Customers that purchase our software products may elect to purchase license support contracts, which provide our customers with rights to unspecified license upgrades and maintenance releases issued during the support period as well as technical support assistance. Customers that purchase our hardware products may elect to purchase hardware support contracts, which provide customers with software updates and can include product repairs, maintenance services, and technical support services. We also offer customers a broad set of services offerings that are designed to improve customer utilization of their investments in Oracle applications and infrastructure technologies.

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

Basis of Financial Statements

The consolidated financial statements included our accounts and the accounts of our wholly- and majority-owned subsidiaries. Noncontrolling interest positions of certain of our consolidated entities are reported as a separate component of consolidated equity from the equity attributable to Oracle's stockholders for all periods presented. The noncontrolling interests in our net income were not significant to our consolidated results for the periods presented and therefore have 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.

In fiscal 2020, we adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* and subsequent amendments to the initial guidance: ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, Topic 842). Topic 842 requires companies to generally recognize on the balance sheet, operating and financing lease liabilities and corresponding right-of-use (ROU) assets. We adopted this new standard using the effective date of June 1, 2019 as our initial application date. Consequently, financial information for the comparative periods was not updated. We elected the package of practical expedients permitted under the transition guidance of the new standard, which allows us to carry forward our historical lease classification. The adoption of Topic 842 did not result in a cumulative catch-up adjustment to the opening of our accumulated deficit balance as of June 1, 2019. There was no material impact to our consolidated statements of operations and consolidated statements of cash flows for the year ended May 31, 2020 due to the adoption of Topic 842. Refer to the "Leases" section below for a description of our accounting policy that we have applied since our adoption of Topic 842.

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

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, advanced customer services and education services.

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

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

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

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

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

technologies. Our advanced customer services are offered as standalone arrangements or as a part of arrangements to customers buying other products and services. We offer these advanced customer services to Oracle customers to enable increased performance and higher availability of Oracle products and services. Education services include instructor-led, media-based and internet-based training in the use of our cloud, software and hardware products.

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 requires revenues to be recognized upon the transfer of control of promised goods or services provided to our customers, reflecting the amount of consideration we expect to receive for those goods or services. Pursuant to 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 we contract with 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 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.

Revenue Recognition for Cloud Services

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

Revenue Recognition for License Support and Hardware Support

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

Revenue Recognition for Cloud License and On-Premise License

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

Revenue Recognition for Hardware Products

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

Revenue Recognition for Services

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

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

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

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

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, 2020 and 2019. The amount of revenues recognized during the year ended May 31, 2020 and 2019, respectively, that were included in the opening deferred revenues balance as of May 31, 2019 and 2018, respectively, was approximately \$8.4 billion and \$8.3 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, 2020, 2019 and 2018.

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, 2020, our remaining performance obligations were \$37.0 billion, approximately 62% of which we expect to recognize as revenues over the next twelve months and the remainder thereafter.

Sales of Financing Receivables

We offer certain of our customers the option to acquire our software products, hardware products and services offerings through separate long-term payment contracts. We generally sell these contracts that we have financed for our customers on a non-recourse basis to financial institutions within 90 days of the contracts' dates of execution. We record the transfers of amounts due from customers to financial institutions as sales of financing receivables because we are considered to have surrendered control of these financing receivables. During fiscal 2020, 2019 and 2018, \$1.5 billion, \$1.8 billion and \$1.7 billion, respectively, of our financing receivables were sold to financial institutions.

Business Combinations

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

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 ROU asset impairment charges pursuant to Topic 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, 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 and Equity 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 unrealized losses determined to be other-than-temporary, 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 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 recorded at fair value, if fair value is readily determinable. We hold investments in certain non-marketable equity securities with no readily determinable fair values in which we do not have a controlling interest or significant influence. We measure these equity securities at cost, less any impairment, adjusted for observable price changes from orderly transactions for identical or similar investments of the same issuer. Our non-marketable equity securities are included in other non-current assets in the accompanying consolidated balance sheets and are subject to periodic impairment reviews.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

Fair Values of Financial Instruments

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

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

Allowances for Doubtful Accounts

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

Concentrations of 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 2020, 2019 or 2018.

We outsource the manufacturing, assembly and delivery of certain of our hardware products to a variety of companies, many of which are located outside the U.S. Further, we have simplified our supply chain processes by reducing the number of third-party manufacturing partners and the number of locations where these third-party manufacturers build our hardware products. Any inability of these third-party manufacturing partners to deliver the contracted services for our hardware products could adversely impact future operating results of our hardware business.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. We evaluate our ending inventories for estimated excess quantities and obsolescence. This evaluation includes analysis of sales levels by product and projections of future demand within specific time horizons (generally six to nine months). Inventories in excess of future demand are written down and charged to hardware expenses. In addition, we assess the impact of changing technology to our inventories and we write down inventories that are considered obsolete. At the point of loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. Inventories are included in prepaid expenses and other current assets in our consolidated balance sheets and totaled \$211 million and \$320 million at May 31, 2020 and 2019, respectively.

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Other Receivables

Other receivables represent value-added tax and sales tax receivables associated with the sale of our products and services to third parties. Other receivables are included in prepaid expenses and other current assets in our consolidated balance sheets and totaled \$778 million and \$776 million at May 31, 2020 and 2019, respectively.

Deferred Sales Commissions

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

Property, Plant and Equipment

Property, plant and equipment are stated at the lower of cost or realizable value, net of accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives of the assets, which range from one to 40 years. Leasehold improvements are amortized over the lesser of the estimated useful lives of the improvements or the lease terms, as appropriate. Property, plant and equipment are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We did not recognize any significant property impairment charges in fiscal 2020, 2019 or 2018.

Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which generally range from one to 10 years. Each period we evaluate the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

The carrying amounts of our goodwill and intangible assets are periodically reviewed for impairment (at least annually for goodwill and indefinite lived intangible assets) and whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. When goodwill is assessed for impairment, we have the option to perform an assessment of qualitative factors of impairment (optional assessment) prior to necessitating a quantitative impairment test. Should the optional assessment be used for any given fiscal year, qualitative factors to consider for a reporting unit include: cost factors; financial performance; legal, regulatory, contractual, political, business, or other factors; entity specific factors; industry and market considerations; macroeconomic conditions; and other relevant events and factors affecting the reporting unit. If we determine in the qualitative assessment that it is more likely than not that the fair value of the reporting unit is less than its carrying value, a quantitative test is then performed. Otherwise, no further testing is required. For those reporting units tested using a quantitative approach, we compare the fair value of each reporting unit with the carrying amount of the reporting unit, including goodwill. To determine the fair value of each reporting unit we utilize estimates, judgments and assumptions including estimated future cash flows the reporting unit is expected to generate on a discounted basis; the discount rate used as a part of the discounted cash flow analysis; future economic and market conditions; and market comparables of peer companies, among others. If, as per the quantitative test, the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, impairment is recognized for the difference, limited to the amount of goodwill recognized for the reporting

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unit. Our most recent goodwill impairment analysis was performed on March 1, 2020 and did not result in a goodwill impairment charge. We did not recognize impairment charges in fiscal 2019 or 2018.

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 2020, 2019 or 2018. 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 2020, 2019 and 2018, we used derivative financial instruments to manage foreign currency and interest rate risks (see Note 10 below for additional information). We do not use derivative financial instruments for trading purposes. We account for these instruments in accordance with ASC 815, *Derivatives and Hedging* (ASC 815), which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of each reporting date. ASC 815 also requires that changes in our derivatives' fair values be recognized in earnings, unless specific hedge accounting and documentation criteria are met (i.e., the instruments are accounted for as hedges).

The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a fair value hedge, loss or gain attributable to the risk being hedged is recognized in earnings in the period of change with a corresponding earnings offset recorded to the item for which the risk is being hedged.

For a derivative instrument designated as a cash flow hedge, each reporting period we record the change in fair value of the derivative to accumulated other comprehensive loss (AOCL) in our consolidated balance sheets, and the change is reclassified to earnings in the period the hedged item affects earnings.

Leases

As referenced above, our accounting policy for leases under ASC 842 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. Right of Use (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 statement of cash flows for the year ended May 31, 2020.

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Legal and Other Contingencies

We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. Descriptions of our accounting policies associated with contingencies assumed as a part of a business combination are provided under “Business Combinations” above. For legal and other contingencies that are not a part of a business combination or related to income taxes, we accrue a liability for an estimated loss if the potential loss from any claim or legal proceeding is considered probable, and the amount can be reasonably estimated. Note 17 below provides additional information regarding certain of our legal contingencies.

Shipping and Handling Costs

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

Foreign Currency

We transact business in various foreign currencies. In general, the functional currency of a foreign operation is the local country’s currency. Consequently, revenues and expenses of operations outside the U.S. are translated into U.S. Dollars using weighted-average exchange rates while assets and liabilities of operations outside the U.S. are translated into U.S. Dollars using exchange rates at the balance sheet dates. The effects of foreign currency translation adjustments are included in stockholders’ equity as a component of AOCL in the accompanying 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 \$185 million, \$111 million and \$74 million in fiscal 2020, 2019 and 2018, respectively.

Stock-Based Compensation

We account for share-based payments to employees, including grants of service-based restricted stock unit awards, performance-based restricted stock unit awards (PSUs), service-based employee stock options, performance-based stock options (PSOs), and purchases under employee stock purchase plans in accordance with ASC 718, *Compensation—Stock Compensation*, which requires that share-based payments (to the extent they are compensatory) be recognized in our consolidated statements of operations based on their fair values. We account for forfeitures of stock-based awards as they occur.

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

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

We record deferred tax assets for stock-based compensation awards that result in deductions on certain of our income tax returns based on the amount of stock-based compensation recognized in each reporting period and the fair values attributable to the vested portion of stock awards assumed in connection with a business combination

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at the statutory tax rates in the jurisdictions that we are able to recognize such tax deductions. The impacts of the actual tax deductions for stock-based awards that are realized in these jurisdictions are generally recognized in the reporting period that a restricted stock-based award vests or a stock option is exercised with any shortfall/windfall relative to the deferred tax asset established recorded as a discrete detriment/benefit to our provision for income taxes in such period.

Advertising

All advertising costs are expensed as incurred. Advertising expenses, which were included within sales and marketing expenses, were \$178 million, \$169 million and \$138 million in fiscal 2020, 2019 and 2018, 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 2020, 2019 and 2018.

Acquisition Related and Other Expenses

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

| (in millions) | Year Ended May 31, | | |
|---|--------------------|-------|-------|
| | 2020 | 2019 | 2018 |
| Transitional and other employee related costs | \$ 12 | \$ 49 | \$ 48 |
| Stock-based compensation | — | — | 1 |
| Business combination adjustments, net | (7) | (21) | — |
| Other, net | 51 | 16 | 3 |
| Total acquisition related and other expenses | \$ 56 | \$ 44 | \$ 52 |

Non-Operating Income, net

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

| (in millions) | Year Ended May 31, | | |
|------------------------------------|--------------------|----------|----------|
| | 2020 | 2019 | 2018 |
| Interest income | \$ 527 | \$ 1,092 | \$ 1,203 |
| Foreign currency losses, net | (185) | (111) | (74) |
| Noncontrolling interests in income | (164) | (152) | (135) |
| Other income (loss), net | (16) | (14) | 191 |
| Total non-operating income, net | \$ 162 | \$ 815 | \$ 1,185 |

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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.

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). ASU 2020-04 provides optional guidance for contract modifications and certain hedging relationships associated with the transition from reference rates that are expected to be discontinued. ASU 2020-04 is effective for all entities upon issuance through December 31, 2022. We are still evaluating the impact, but do not expect the standard to have a material impact on our consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)* (ASU 2020-01). ASU 2020-01 clarifies the interaction of the accounting for equity securities under Topic 321, the accounting for equity method investments in Topic 323, and the accounting for certain forward contracts and purchased options in Topic 815. ASU 2020-01 is effective for us in the first quarter of fiscal 2022, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2020-01 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) and also issued subsequent amendments to the initial guidance (collectively, Topic 326). Topic 326 requires measurement and recognition of expected credit losses for financial assets held. We will adopt Topic 326 effective June 1, 2020 with the cumulative effect of adoption recorded as an adjustment to accumulated deficit. We currently do not expect that our pending adoption of Topic 326 will have a material effect 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 are currently evaluating the impact of our pending adoption of ASU 2019-12 on our consolidated financial statements.

2. ACQUISITIONS**Fiscal 2018 Acquisition of Aconex Limited**

On March 28, 2018, we completed our acquisition of Aconex Limited (Aconex), a provider of cloud-based collaboration software for construction projects. We have included the financial results of Aconex in our consolidated financial statements from the date of acquisition. These results were not individually material to our

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consolidated financial statements. The total purchase price for Aconex was approximately \$1.2 billion, which consisted of approximately \$1.2 billion in cash and \$7 million for the fair values of stock options and restricted stock-based awards assumed. In allocating the purchase price based on estimated fair values, we recorded approximately \$873 million of goodwill, \$377 million of identifiable intangible assets, and \$29 million of net liabilities. Goodwill generated from our acquisition of Aconex was primarily attributable to synergies expected to arise after the acquisition and is tax deductible.

Other Fiscal 2020, 2019 and 2018 Acquisitions

During fiscal 2020, 2019 and 2018, we acquired certain other companies and purchased certain technology and development assets primarily to expand our products and services offerings. These acquisitions were not significant individually or in the aggregate to our consolidated financial statements.

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, 2020 and 2019. 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 2020, 2019 and 2018. 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, | |
|---|-----------|-----------|
| | 2020 | 2019 |
| Corporate debt securities and other | \$ 6,625 | \$ 22,242 |
| Commercial paper debt securities | 5,640 | — |
| Money market funds | 18,587 | 5,700 |
| Total investments | \$ 30,852 | \$ 27,942 |
| Investments classified as cash equivalents | \$ 25,034 | \$ 10,629 |
| Investments classified as marketable securities | \$ 5,818 | \$ 17,313 |

As of May 31, 2020 and 2019, approximately 99% and 33%, respectively, of our marketable securities investments mature within one year and 1% and 67%, respectively, mature within one to four years. Our investment portfolio is subject to market risk due to changes in interest rates. As described above, we limit purchases of marketable debt securities to investment-grade securities, which have high credit ratings and also limit the amount of credit exposure to any one issuer. As stated in our investment policy, we are averse to principal loss and seek to preserve our invested funds by limiting default risk and market risk.

Restricted cash that was included within cash and cash equivalents as presented within our consolidated balance sheets as of May 31, 2020 and 2019 and our consolidated statements of cash flows for the years ended May 31, 2020, 2019 and 2018 was nominal.

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4. FAIR VALUE MEASUREMENTS

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

| (in millions) | May 31, 2020 | | | May 31, 2019 | | |
|-------------------------------------|--|----------|-----------|--|-----------|-----------|
| | Fair Value Measurements Using Input Types | | | Fair Value Measurements Using Input Types | | |
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Assets: | | | | | | |
| Corporate debt securities and other | \$ 4,036 | \$ 2,589 | \$ 6,625 | \$ 4,899 | \$ 17,343 | \$ 22,242 |
| Commercial paper debt securities | — | 5,640 | 5,640 | — | — | — |
| Money market funds | 18,587 | — | 18,587 | 5,700 | — | 5,700 |
| Derivative financial instruments | — | 29 | 29 | — | 5 | 5 |
| Total assets | \$ 22,623 | \$ 8,258 | \$ 30,881 | \$ 10,599 | \$ 17,348 | \$ 27,947 |
| Liabilities: | | | | | | |
| Derivative financial instruments | \$ — | \$ 268 | \$ 268 | \$ — | \$ 230 | \$ 230 |

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

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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 \$71.6 billion and \$56.1 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, 2020 and 2019, respectively, the estimated fair values of the senior notes and the related fair value hedges using Level 2 inputs at May 31, 2020 and 2019 were \$80.9 billion and \$58.4 billion, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

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

| (Dollars in millions) | Estimated Useful Life | May 31, | |
|--|--------------------------|----------|----------|
| | | 2020 | 2019 |
| Computer, network, machinery and equipment | 1-5 years | \$ 7,757 | \$ 7,214 |
| Buildings and improvements | 1-40 years | 4,394 | 4,253 |
| Furniture, fixtures and other | 5-15 years | 509 | 554 |
| Land | — | 885 | 896 |
| Construction in progress | — | 280 | 158 |
| Total property, plant and equipment | 1-40 years | 13,825 | 13,075 |
| Accumulated depreciation | | (7,581) | (6,823) |
| Total property, plant and equipment, net | | \$ 6,244 | \$ 6,252 |

6. INTANGIBLE ASSETS AND GOODWILL

The changes in intangible assets for fiscal 2020 and the net book value of intangible assets as of May 31, 2020 and 2019 were as follows:

| (Dollars in millions) | Intangible Assets, Gross | | | | Accumulated Amortization | | | | Intangible Assets, Net | | Weighted Average Useful Life(2) |
|---|--------------------------|---------------------------------------|-------------|-----------------|--------------------------|------------|-------------|-----------------|------------------------|-----------------|--|
| | May 31, 2019 | Additions & Adjustments net (1) | Retirements | May 31, 2020 | May 31, 2019 | Expense | Retirements | May 31, 2020 | May 31, 2019 | May 31, 2020 | |
| Developed technology | \$ 5,406 | \$ 31 | \$ (966) | \$ 4,471 | \$ (3,467) | \$ (789) | \$ 966 | \$ (3,290) | \$ 1,939 | \$ 1,181 | 4 |
| Cloud services and license support agreements and related relationships | 5,693 | 12 | (116) | 5,589 | (2,711) | (676) | 116 | (3,271) | 2,982 | 2,318 | 4 |
| Other | 1,589 | 2 | (250) | 1,341 | (1,231) | (121) | 250 | (1,102) | 358 | 239 | 4 |
| Total intangible assets, net | \$ 12,688 | \$ 45 | \$ (1,332) | \$ 11,401 | \$ (7,409) | \$ (1,586) | \$ 1,332 | \$ (7,663) | \$ 5,279 | \$ 3,738 | |

(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 2020.

As of May 31, 2020, estimated future amortization expenses related to intangible assets were as follows (in millions):

| | |
|------------------------------|----------|
| Fiscal 2021 | \$ 1,351 |
| Fiscal 2022 | 1,102 |
| Fiscal 2023 | 679 |
| Fiscal 2024 | 445 |
| Fiscal 2025 | 126 |
| Thereafter | 35 |
| Total intangible assets, net | \$ 3,738 |

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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 2020 and 2019 were as follows:

| (in millions) | Cloud and License | Hardware | Services | Total Goodwill, net |
|--|-------------------|----------|----------|---------------------|
| Balances as of May 31, 2018 | \$ 39,600 | \$ 2,367 | \$ 1,788 | \$ 43,755 |
| Goodwill from acquisitions | 96 | — | — | 96 |
| Goodwill adjustments, net ⁽¹⁾ | (63) | — | (9) | (72) |
| Balances as of May 31, 2019 | 39,633 | 2,367 | 1,779 | 43,779 |
| 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 |

(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, 2020 | | May 31, 2019 | |
|--|------------------|--------------|-------------------------|--------------|-------------------------|
| | | Amount | Effective Interest Rate | Amount | Effective Interest Rate |
| Fixed-rate senior notes: | | | | | |
| \$1,750, 5.00%, due July 2019 | July 2009 | \$ — | N.A. | \$ 1,750 | 5.05% |
| \$2,000, 2.25%, due October 2019(1) | July 2014 | \$ — | N.A. | \$ 2,000 | 2.27% |
| \$1,000, 3.875%, due July 2020 | July 2010 | \$ 1,000 | 3.93% | \$ 1,000 | 3.93% |
| €1,250, 2.25%, due January 2021(2)(3) | July 2013 | \$ 1,371 | 2.33% | \$ 1,393 | 2.33% |
| \$1,500, 2.80%, due July 2021(1) | July 2014 | \$ 1,500 | 2.82% | \$ 1,500 | 2.82% |
| \$4,250, 1.90%, due September 2021 | July 2016 | \$ 4,250 | 1.94% | \$ 4,250 | 1.94% |
| \$2,500, 2.50%, due May 2022 | May 2015 | \$ 2,500 | 2.56% | \$ 2,500 | 2.56% |
| \$2,500, 2.50%, due October 2022 | October 2012 | \$ 2,500 | 2.51% | \$ 2,500 | 2.51% |
| \$1,250, 2.625%, due February 2023 | November 2017 | \$ 1,250 | 2.64% | \$ 1,250 | 2.64% |
| \$1,000, 3.625%, due July 2023 | July 2013 | \$ 1,000 | 3.73% | \$ 1,000 | 3.73% |
| \$2,500, 2.40%, due September 2023 | July 2016 | \$ 2,500 | 2.40% | \$ 2,500 | 2.40% |
| \$2,000, 3.40%, due July 2024 | July 2014 | \$ 2,000 | 3.43% | \$ 2,000 | 3.43% |
| \$2,000, 2.95%, due November 2024 | November 2017 | \$ 2,000 | 2.98% | \$ 2,000 | 2.98% |
| \$3,500, 2.50%, due April 2025(5) | April 2020 | \$ 3,500 | 2.51% | \$ — | N.A. |
| \$2,500, 2.95%, due May 2025 | May 2015 | \$ 2,500 | 3.00% | \$ 2,500 | 3.00% |
| €750, 3.125%, due July 2025(2)(4) | July 2013 | \$ 823 | 3.17% | \$ 836 | 3.17% |
| \$3,000, 2.65%, due July 2026 | July 2016 | \$ 3,000 | 2.69% | \$ 3,000 | 2.69% |
| \$2,250, 2.80%, due April 2027(5) | April 2020 | \$ 2,250 | 2.83% | \$ — | N.A. |
| \$2,750, 3.25%, due November 2027 | November 2017 | \$ 2,750 | 3.26% | \$ 2,750 | 3.26% |
| \$3,250, 2.95%, due April 2030(5) | April 2020 | \$ 3,250 | 2.96% | \$ — | N.A. |
| \$500, 3.25%, due May 2030 | May 2015 | \$ 500 | 3.30% | \$ 500 | 3.30% |
| \$1,750, 4.30%, due July 2034 | July 2014 | \$ 1,750 | 4.30% | \$ 1,750 | 4.30% |
| \$1,250, 3.90%, due May 2035 | May 2015 | \$ 1,250 | 3.95% | \$ 1,250 | 3.95% |
| \$1,250, 3.85%, due July 2036 | 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(5) | April 2020 | \$ 3,000 | 3.62% | \$ — | N.A. |
| \$2,250, 5.375%, due July 2040 | July 2010 | \$ 2,250 | 5.45% | \$ 2,250 | 5.45% |
| \$1,000, 4.50%, due July 2044 | July 2014 | \$ 1,000 | 4.50% | \$ 1,000 | 4.50% |
| \$2,000, 4.125%, due May 2045 | May 2015 | \$ 2,000 | 4.15% | \$ 2,000 | 4.15% |
| \$3,000, 4.00%, due July 2046 | July 2016 | \$ 3,000 | 4.00% | \$ 3,000 | 4.00% |
| \$2,250, 4.00%, due November 2047 | November 2017 | \$ 2,250 | 4.03% | \$ 2,250 | 4.03% |
| \$4,500, 3.60%, due April 2050(5) | April 2020 | \$ 4,500 | 3.62% | \$ — | 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(5) | April 2020 | \$ 3,500 | 3.87% | \$ — | N.A. |
| Floating-rate senior notes: | | | | | |
| \$750, three-month LIBOR plus 0.51%, due October 2019 | July 2014 | \$ — | N.A. | \$ 750 | 3.10% |
| Revolving credit agreements and other borrowings: | | | | | |
| Other borrowings due August 2025 | November 2016 | \$ 113 | 3.53% | \$ 113 | 3.53% |
| Total senior notes and other borrowings | | \$ 71,807 | | \$ 56,342 | |
| Unamortized discount/issuance costs | | \$ (285) | | \$ (202) | |
| Hedge accounting fair value adjustments(1)(4) | | \$ 75 | | \$ 27 | |
| Total notes payable and other borrowings | | \$ 71,597 | | \$ 56,167 | |
| Notes payable, current | | \$ 2,371 | | \$ 4,494 | |
| Notes payable and other borrowings, non-current | | \$ 69,226 | | \$ 51,673 | |

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- (1) We entered into certain interest rate swap agreements that have the economic effects of modifying the fixed-interest obligations associated with the 2.25% senior notes that were due and were settled in October 2019 (October 2019 Notes) and the 2.80% senior notes due July 2021 (July 2021 Notes) so that the interest payable on these notes effectively became variable based on LIBOR. The effective interest rates after consideration of these fixed to variable interest rate swap agreements were 3.07% as of May 31, 2019 for the October 2019 Notes, and 1.99% and 3.22%, respectively, for the July 2021 Notes as of May 31, 2020 and 2019, respectively. Refer to Notes 1 and 10 for a description of our accounting for fair value hedges associated with our July 2021 Notes and to our Annual Report for the year ended May 31, 2019 for a description of our accounting for fair value hedges associated with our October 2019 Notes.
- (2) In July 2013, we issued €2.0 billion of fixed-rate senior notes comprised of €1.25 billion of 2.25% senior notes due January 2021 (January 2021 Notes) and €750 million of 3.125% senior notes due July 2025 (July 2025 Notes, and together with the January 2021 Notes, the Euro Notes). Principal and unamortized discount/issuance costs for the Euro Notes in the table above were calculated using foreign currency exchange rates as of May 31, 2020 and May 31, 2019, respectively. The Euro Notes are registered and trade on the New York Stock Exchange.
- (3) In connection with the issuance of the January 2021 Notes, we entered into certain cross-currency swap agreements that have the economic effect of converting our fixed-rate, Euro-denominated debt, including annual interest payments and the payment of principal at maturity, to a fixed-rate, U.S. Dollar-denominated debt of \$1.6 billion with a fixed annual interest rate of 3.53% (see Note 10 for additional information).
- (4) In fiscal 2018 we entered into certain cross-currency interest rate swap agreements that have the economic effect of converting our fixed-rate, Euro-denominated debt, including annual interest payments and the payment of principal at maturity, to a variable-rate, U.S. Dollar-denominated debt of \$871 million based on LIBOR. The effective interest rates as of May 31, 2020 and 2019 after consideration of the cross-currency interest rate swap agreements were 4.46% and 5.74%, respectively, for the July 2025 Notes. Refer to Notes 1 and 10 for a description of our accounting for fair value hedges.
- (5) In April 2020, we issued \$20.0 billion of senior notes for general corporate purposes, which may include stock repurchases, payment of cash dividends on our common stock and repayment of indebtedness and future acquisitions. The interest is payable semi-annually. We may redeem some or all of the senior notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances.

Future principal payments (adjusted for the effects of the cross-currency swap agreements associated with the January 2021 Notes and July 2025 Notes) for all of our borrowings at May 31, 2020 were as follows (in millions):

| | | |
|-------------|----|---------------|
| Fiscal 2021 | \$ | 2,631 |
| Fiscal 2022 | | 8,250 |
| Fiscal 2023 | | 3,750 |
| Fiscal 2024 | | 3,500 |
| Fiscal 2025 | | 10,000 |
| Thereafter | | 43,984 |
| Total | \$ | <u>72,115</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, 2020.

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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, 2020 and 2019, 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). 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 \$261 million and \$476 million of restructuring expenses in connection with the 2019 Restructuring Plan in fiscal 2020 and 2019, respectively. We expect to incur the majority of the estimated remaining \$105 million of restructuring expenses in fiscal 2021. Any changes to the estimates or timing of executing the 2019 Restructuring Plan will be reflected in our future results of operations.

Fiscal 2017 Oracle Restructuring Plan

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

Summary of All Plans**Fiscal 2020 Activity**

| (in millions) | Accrued May 31, 2019(2) | Year Ended May 31, 2020 | | | | Accrued May 31, 2020(2) | Total Costs Accrued to Date | Total Expected Program Costs |
|---|-------------------------------|-------------------------|--------------------|------------------|-----------|-------------------------------|--------------------------------------|---------------------------------------|
| | | Initial Costs(3) | Adj. to Cost(4) | Cash Payments | Others(5) | | | |
| Fiscal 2019 Oracle Restructuring Plan(1) | | | | | | | | |
| Cloud and license | \$ 72 | \$ 140 | \$ (24) | \$ (112) | \$ (1) | \$ 75 | \$ 303 | \$ 370 |
| Hardware | 18 | 28 | (1) | (31) | — | 14 | 80 | 83 |
| Services | 15 | 51 | (2) | (37) | — | 27 | 91 | 123 |
| Other(6) | 108 | 59 | 10 | (111) | (44) | 22 | 263 | 266 |
| Total Fiscal 2019 Oracle Restructuring Plan | \$ 213 | \$ 278 | \$ (17) | \$ (291) | \$ (45) | \$ 138 | \$ 737 | \$ 842 |
| 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

| (in millions) | Accrued May 31, 2018 | Year Ended May 31, 2019 | | | | Accrued May 31, 2019(2) |
|---|----------------------------|-------------------------|--------------------|------------------|-----------|-------------------------------|
| | | 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 |

Fiscal 2018 Activity

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

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

(2) The balances at May 31, 2020 and 2019 included \$150 million and \$239 million, respectively, recorded in other current liabilities and \$1 million and \$23 million, respectively, recorded in other non-current liabilities.

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

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

(5) Represents foreign currency translation and certain other adjustments including those related to our adoption of Topic 842 as of June 1, 2019.

(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.

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9. DEFERRED REVENUES

Deferred revenues consisted of the following:

| (in millions) | May 31, | |
|---|----------|----------|
| | 2020 | 2019 |
| Cloud services and license support | \$ 6,996 | \$ 7,340 |
| Hardware | 613 | 635 |
| Services | 365 | 360 |
| Cloud license and on-premise license | 28 | 39 |
| Deferred revenues, current | 8,002 | 8,374 |
| Deferred revenues, non-current (in other non-current liabilities) | 597 | 669 |
| Total deferred revenues | \$ 8,599 | \$ 9,043 |

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

In connection with our acquisitions, we have estimated the fair values of the cloud services and license support performance obligations assumed from our acquired companies. We generally have estimated the fair values of these obligations assumed using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume these acquired obligations. These aforementioned fair value adjustments recorded for obligations assumed from our acquisitions reduced the cloud services and license support deferred revenues balances that we recorded as liabilities from these acquisitions and also reduced the resulting revenues that we recognized or will recognize over the terms of the acquired obligations during the post-combination periods. Refer to Note 15 for additional information.

10. DERIVATIVE FINANCIAL INSTRUMENTS**Fair Value Hedges—Interest Rate Swap Agreements and Cross-Currency Interest Rate Swap Agreements**

In May 2018, we entered into certain cross-currency interest rate swap agreements to manage the foreign currency exchange rate risk associated with our July 2025 Notes by effectively converting the fixed-rate, Euro denominated 2025 Notes, including the annual interest payments and the payment of principal at maturity, to variable-rate, U.S. Dollar denominated debt based on LIBOR. In July 2014, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed-interest obligations associated with our 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.

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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 non-current assets or other non-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, for the swap agreements associated with the July 2025 Notes, the 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 fixed-rate, U.S. Dollar-denominated debt. The economic effect of the swap agreements was to eliminate the uncertainty of the cash flows in U.S. Dollars associated with the January 2021 Notes by fixing the principal amount of the January 2021 Notes at \$1.6 billion with a fixed annual interest rate of 3.53%. We have designated these cross-currency swap agreements as qualifying hedging instruments and are accounting for these as cash flow hedges pursuant to ASC 815. The critical terms of the cross-currency swap agreements correspond to the January 2021 Notes including the annual interest payments being hedged, and the cross-currency swap agreements mature at the same time as the January 2021 Notes.

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

Foreign Currency Forward Contracts Not Designated as Hedges

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

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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, 2020 and 2019, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other major international currencies were \$4.2 billion and \$3.8 billion, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other major international currencies were \$3.9 billion and \$3.3 billion, respectively. The fair values of our outstanding foreign currency forward contracts were nominal at May 31, 2020 and 2019. 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 | Fair Value as of May 31, | |
|--|-------------------------------|--------------------------|---------------|
| | | 2020 | 2019 |
| Derivative assets: | | | |
| Interest rate swap agreements designated as fair value hedges | Other non-current assets | \$ 29 | \$ 5 |
| Total derivative assets | | \$ 29 | \$ 5 |
| Derivative liabilities: | | | |
| Cross-currency swap agreements designated as cash flow hedges | Other current liabilities | \$ 251 | \$ — |
| Interest rate swap agreements designated as fair value hedges | Other current liabilities | — | 5 |
| Cross-currency interest rate swap agreements designated as fair value hedges | Other non-current liabilities | 17 | 17 |
| Cross-currency swap agreements designated as cash flow hedges | Other non-current liabilities | — | 208 |
| Total derivative liabilities | | \$ 268 | \$ 230 |

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

| (in millions) | May 31, | |
|--|---------|----------|
| | 2020 | 2019 |
| Notes payable, current: | | |
| Carrying amount of hedged item | \$ — | \$ 1,994 |
| Cumulative hedging adjustments included in the carrying amount | — | (5) |
| Notes payable and other borrowings, non-current: | | |
| Carrying amounts of hedged items | 3,680 | 3,652 |
| Cumulative hedging adjustments included in the carrying amount | 75 | 44 |

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Effects of Derivative Instruments Designated as Hedges on Income

| (in millions) | Year Ended May 31, | | | | | |
|---|------------------------------|---------------------|------------------------------|---------------------|------------------------------|---------------------|
| | 2020 | | 2019 | | 2018 | |
| | 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 | \$ 162 | \$ (1,995) | \$ 815 | \$ (2,082) | \$ 1,185 | \$ (2,025) |
| Gain (loss) on hedges recognized in income: | | | | | | |
| Interest rate swaps designated as fair value hedges: | | | | | | |
| Derivative instruments | \$ — | \$ 29 | \$ — | \$ 31 | \$ — | \$ (66) |
| Hedged items | — | (29) | — | (31) | — | 66 |
| Cross-currency interest rate swaps designated as fair value hedges: | | | | | | |
| Derivative instruments | (7) | 7 | (38) | 27 | — | — |
| Hedged items | 3 | (7) | 38 | (27) | — | — |
| Cross-currency swap agreements designated as cash flow hedges: | | | | | | |
| Amount of gain (loss) reclassified from accumulated OCI or OCL | (21) | — | (53) | — | 51 | — |
| Total gain (loss) on hedges recognized in income | \$ (25) | \$ — | \$ (53) | \$ — | \$ 51 | \$ — |

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

| (in millions) | Year Ended May 31, | | |
|---|--------------------|----------|-------|
| | 2020 | 2019 | 2018 |
| Cross-currency swap agreements designated as cash flow hedges | \$ (43) | \$ (105) | \$ 88 |

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, 2020, our operating leases substantially have remaining terms of one year to twelve years, some of which include options to extend and/or terminate the leases.

For fiscal 2020, operating lease expenses totaled \$599 million, net of sublease income of \$16 million. At May 31, 2020, ROU assets, current lease liabilities and non-current lease liabilities for our operating leases were \$2.0 billion, \$575 million and \$1.5 billion, respectively. We recorded ROU assets of \$2.8 billion in exchange for operating lease obligations during the year ended May 31, 2020, which included \$1.9 billion for operating leases existing on June 1, 2019 that were recognized upon our initial adoption of Topic 842 and \$849 million for operating leases that were contracted during fiscal 2020. Cash paid for amounts included in the measurement of operating lease liabilities was \$663 million for year ended May 31, 2020. As of May 31, 2020, the weighted average remaining lease term for operating leases was approximately six years and the weighted average discount rate used for calculating operating lease obligations was 3.2%. As of May 31, 2020, we have \$411 million of additional operating lease commitments, primarily for data centers, that commence in fiscal 2021 for terms of one to ten years that are not reflected on our consolidated balance sheet as of May 31, 2020 or in the maturities table below.

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Maturities of operating lease liabilities were as follows as of May 31, 2020 (in millions):

| | | |
|---------------------------------|----|--------------|
| Fiscal 2021 | \$ | 616 |
| Fiscal 2022 | | 519 |
| Fiscal 2023 | | 350 |
| Fiscal 2024 | | 252 |
| Fiscal 2025 | | 192 |
| Thereafter | | 386 |
| Total operating lease payments | | <u>2,315</u> |
| Less: imputed interest | | (217) |
| Total operating lease liability | \$ | <u>2,098</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 for our hardware products and to perform final assembly and testing of finished hardware products. We also obtain individual components for our hardware products from a variety of individual suppliers based on projected demand information. Such purchase commitments are based on our forecasted component and manufacturing requirements and typically provide for fulfillment within agreed upon lead-times and/or commercially standard lead-times for the particular part or product and have been included in the amounts disclosed below. Routine arrangements for other materials and goods that are not related to our external manufacturers and certain other suppliers and that are entered into in the ordinary course of business are not included in the amounts below, as they are generally entered into in order to secure pricing or other negotiated terms and are difficult to quantify in a meaningful way.

As of May 31, 2020, our unconditional purchase and certain other obligations were as follows (in millions):

| | | |
|-------------|----|--------------|
| Fiscal 2021 | \$ | 881 |
| Fiscal 2022 | | 66 |
| Fiscal 2023 | | 30 |
| Fiscal 2024 | | 27 |
| Fiscal 2025 | | 23 |
| Thereafter | | 236 |
| Total | \$ | <u>1,263</u> |

As described in Notes 7 and 10 above, as of May 31, 2020 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

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indemnifying customers against liabilities in the event we breach confidentiality or service level requirements. It is not possible to determine the maximum potential amount under these indemnification agreements due to our limited and infrequent history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

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

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

In connection with certain litigation, we posted certain court-mandated surety bonds with a court and entered into related indemnification agreements with each of the surety bond issuing companies. Additional information is provided in Note 17 below.

12. STOCKHOLDERS' EQUITY

Common Stock Repurchases

Our Board of Directors has approved a program for us to repurchase shares of our common stock. On September 11, 2019 and March 12, 2020, we announced that our Board of Directors approved expansions of our stock repurchase program collectively totaling \$30.0 billion. As of May 31, 2020, approximately \$16.6 billion remained available for stock repurchases pursuant to our stock repurchase program. We repurchased 361.0 million shares for \$19.2 billion, 733.8 million shares for \$36.0 billion, and 238.0 million shares for \$11.5 billion in fiscal 2020, 2019 and 2018, 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 2020, 2019 and 2018, our Board of Directors declared cash dividends of \$0.96, \$0.81 and \$0.76 per share of our outstanding common stock, respectively, which we paid during the same period.

In June 2020, our Board of Directors declared a quarterly cash dividend of \$0.24 per share of our outstanding common stock. The dividend is payable on July 28, 2020 to stockholders of record as of the close of business on July 15, 2020. 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, | |
|---|------------|------------|
| | 2020 | 2019 |
| Foreign currency translation losses | \$ (1,254) | \$ (1,176) |
| Unrealized losses on defined benefit plans, net | (471) | (392) |
| Unrealized gains (losses) on marketable securities, net | 1 | (90) |
| Unrealized gains on cash flow hedges, net | 8 | 30 |
| Total accumulated other comprehensive loss | \$ (1,716) | \$ (1,628) |

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

In fiscal 2001, we adopted the 2000 Long-Term Equity Incentive Plan, which provides for the issuance of long-term performance awards, including restricted stock-based awards, non-qualified stock options and incentive stock options, as well as stock purchase rights and stock appreciation rights, to our eligible employees, officers and directors who are also employees or consultants, independent consultants and advisers.

- In fiscal 2011, our stockholders, upon the recommendation of our Board of Directors (the Board), approved the adoption of the Amended and Restated 2000 Long-Term Equity Incentive Plan (the 2000 Plan), which extended the termination date of the 2000 Plan by 10 years and increased the number of authorized shares of stock that may be issued by 388,313,015 shares.
- In fiscal 2014, our stockholders, upon the recommendation of the Board, approved a further increase in the number of authorized shares of stock that may be issued under the 2000 Plan by 305,000,000 shares. Under the terms of the 2000 Plan, long-term full value awards are granted in the form of restricted stock units (RSUs) and performance-based restricted stock awards (PSUs). For each share granted as a full value award under the 2000 Plan, an equivalent of 2.5 shares is deducted from our pool of shares available for grant.
- In fiscal 2018, our stockholders, upon the recommendation of the Board, approved a further increase in the number of authorized shares of stock that may be issued under the 2000 Plan by 330,000,000 shares, and approved material terms of the performance goals under which PSUs and performance-based stock options (PSOs) could be granted.

As of May 31, 2020, the 2000 Plan had 97 million unvested RSUs outstanding, 54 million PSOs outstanding and service-based stock options (SOs) to purchase 120 million shares of common stock outstanding of which 112 million shares were vested. As of May 31, 2020, approximately 212 million shares of common stock were available for future awards under the 2000 Plan. To date, we have not issued any stock purchase rights or stock appreciation rights under the 2000 Plan. The 2000 Plan is scheduled to expire on the date of Oracle's annual meeting of stockholders in November 2020.

The vesting schedule for all awards granted under the 2000 Plan is established by the Compensation Committee of the Board of Directors. RSUs generally require service-based vesting of 25% annually over four years. The vesting schedule for PSUs currently requires achieving performance targets and providing service over four fiscal years. SOs are granted at not less than fair market value, become exercisable generally 25% annually over four years of service, and generally expire 10 years from the date of grant. PSOs granted to our Chief Executive Officer and Chief Technology Officer in fiscal 2018 consist of seven numerically equivalent vesting tranches that potentially may

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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 a five year performance period, assuming continued employment and service through the date the Compensation Committee of the Board of Directors certifies that performance has been achieved. The PSOs have contractual lives of eight years in comparison to the typical ten year contractual lives for SOs. For the six tranches of the PSOs with both performance and market conditions, stock-based compensation expense is to be recognized once each vesting tranche becomes probable of achievement over the longer of the estimated implicit service period or derived service. Stock-based compensation associated with a vesting tranche where vesting is no longer 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. We have preliminarily estimated service periods for those tranches that have been deemed probable of achievement to be up to five years. Stock-based compensation for the market-based tranche will be recognized using the derived service period for the market-based metric achievement, which we have initially estimated to be approximately three years.

In fiscal 1993, the Board adopted the 1993 Directors' Stock Plan (the Directors' Plan), which provides for the issuance of RSUs and other stock-based awards, including non-qualified stock options, to non-employee directors. The Directors' Plan has from time to time been amended and restated. Under the terms of the Directors' Plan, 10 million shares of common stock are reserved for issuance (including a fiscal 2013 amendment to increase the number of shares of our common stock reserved for issuance by 2 million shares). In prior years, we granted stock options at not less than fair market value, that vest over four years, and expire no more than 10 years from the date of grant. We currently grant RSUs only that vest fully on the one-year anniversary of the date of grant. The Directors' Plan was most recently amended on April 29, 2016 and permits the Compensation Committee of the Board to determine the amount and form of automatic grants of stock awards, 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, 2020, approximately 81,000 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, 2020, approximately 1 million shares were available for future stock awards under this plan.

In connection with certain of our acquisitions, we assumed certain outstanding restricted stock-based awards and stock options under each acquired company's respective stock plans, or we substituted substantially similar awards under the 2000 Plan. These restricted stock-based awards and stock options assumed or substituted generally retain all of the rights, terms and conditions of the respective plans under which they were originally granted. As of May 31, 2020, stock options to purchase approximately 1 million shares of common stock were outstanding under acquired company stock plans that Oracle assumed.

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The following table summarizes restricted stock-based award activity, including service-based awards and performance-based awards, granted pursuant to Oracle-based stock plans and stock plans assumed from our acquisitions for our last three fiscal years ended May 31, 2020:

| (in millions, except fair value) | Restricted Stock-Based Awards Outstanding | |
|----------------------------------|---|---|
| | Number of Shares | Weighted-Average Grant Date Fair Value |
| Balance, May 31, 2017 | 83 | \$ 39.18 |
| Granted | 44 | \$ 47.42 |
| Vested and Issued | (27) | \$ 39.10 |
| Canceled | (11) | \$ 41.97 |
| Balance, May 31, 2018 | 89 | \$ 42.93 |
| Granted | 53 | \$ 42.47 |
| Vested and Issued | (31) | \$ 41.85 |
| Canceled | (12) | \$ 42.97 |
| Balance, May 31, 2019 | 99 | \$ 43.01 |
| Granted | 50 | \$ 53.38 |
| Vested and Issued | (34) | \$ 42.67 |
| Canceled | (14) | \$ 46.81 |
| Balance, May 31, 2020 | 101 | \$ 48.36 |

The total grant date fair value of restricted stock-based awards that were vested and issued in fiscal 2020, 2019 and 2018 was \$1.5 billion, \$1.3 billion and \$1.0 billion, respectively. As of May 31, 2020, total unrecognized stock-based compensation expense related to non-vested restricted stock-based awards was \$3.2 billion and is expected to be recognized over the remaining weighted-average vesting period of 2.72 years.

No PSUs were granted in fiscal 2020, 2019 or 2018. In fiscal 2017, PSUs were granted that vest upon the attainment of certain performance metrics and service-based vesting. In fiscal 2020, 1.1 million PSUs vested and were issued and 0.3 million PSUs remained outstanding as of May 31, 2020.

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The following table summarizes stock option activity, including SOs and PSOs, and includes awards granted pursuant to the 2000 Plan and stock plans assumed from our acquisitions for our last three fiscal years ended May 31, 2020:

| (in millions, except exercise price) | Options Outstanding | |
|--------------------------------------|------------------------------|------------------------------------|
| | Shares Under Stock Option | Weighted-Average Exercise Price |
| Balance, May 31, 2017 | 312 | \$ 29.02 |
| Granted ⁽¹⁾ | 77 | \$ 50.95 |
| Exercised | (78) | \$ 28.78 |
| Canceled | (7) | \$ 45.70 |
| Balance, May 31, 2018 | 304 | \$ 36.11 |
| Granted | 7 | \$ 43.47 |
| Exercised | (72) | \$ 28.32 |
| Canceled | (17) | \$ 49.28 |
| Balance, May 31, 2019 | 222 | \$ 37.78 |
| Granted | — | \$ — |
| Exercised | (44) | \$ 33.18 |
| Canceled | (2) | \$ 44.76 |
| Balance, May 31, 2020 | 176 | \$ 38.86 |

(1) Awards granted in fiscal 2018 included 66.5 million PSOs granted in total to certain executive officers, the contractual terms of which are described in greater detail above.

Stock options outstanding that have vested and that are expected to vest as of May 31, 2020 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 | 113 | \$ 32.70 | 2.53 | \$ 2,392 |
| Expected to vest ⁽²⁾ | 14 | \$ 46.59 | 6.57 | 99 |
| Total | 127 | \$ 34.20 | 2.97 | \$ 2,491 |

(1) The aggregate intrinsic value was calculated based on the gross difference between our closing stock price on the last trading day of fiscal 2020 of \$53.77 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, 2020 was approximately \$64 million and is expected to be recognized over a weighted-average period of 1.94 years. Approximately 49 million shares outstanding as of May 31, 2020 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, | | |
|---|--------------------|----------|----------|
| | 2020 | 2019 | 2018 |
| Cloud services and license support | \$ 110 | \$ 99 | \$ 82 |
| Hardware | 11 | 10 | 10 |
| Services | 54 | 49 | 52 |
| Sales and marketing | 261 | 360 | 361 |
| Research and development | 1,035 | 963 | 921 |
| General and administrative | 119 | 172 | 180 |
| Acquisition related and other | — | — | 1 |
| Total stock-based compensation | 1,590 | 1,653 | 1,607 |
| Estimated income tax benefit included in provision for income taxes | (343) | (358) | (451) |
| Total stock-based compensation, net of estimated income tax benefit | \$ 1,247 | \$ 1,295 | \$ 1,156 |

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

Total cash received as a result of option exercises was approximately \$1.5 billion, \$2.0 billion and \$2.3 billion for fiscal 2020, 2019 and 2018, respectively. The total aggregate intrinsic value of restricted stock-based awards that vested and were issued and stock options that were exercised was \$2.9 billion, \$3.1 billion and \$3.0 billion for fiscal 2020, 2019 and 2018, 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 \$638 million, \$692 million and \$860 million for fiscal 2020, 2019 and 2018, 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, 2020, 44 million shares were reserved for future issuances under the Purchase Plan. We issued 2 million shares in each of fiscal 2020 and 2019, respectively, and 3 million shares in fiscal 2018 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 \$376 million, \$380 million and \$384 million for fiscal 2020, 2019 and 2018, 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 \$152 million, \$154 million and \$151 million in fiscal 2020, 2019 and 2018, 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 \$636 million and approximately \$566 million as of May 31, 2020 and 2019, 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 \$97 million, \$90 million and \$102 million for fiscal 2020, 2019 and 2018, respectively. The aggregate projected benefit obligation and aggregate net liability (funded status) of our defined benefit plans as of May 31, 2020 were \$1.3 billion and \$884 million, respectively, and as of May 31, 2019 were \$1.2 billion and \$821 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 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 Global Intangible Low-Taxed Income (GILTI). During fiscal 2019, we recorded a net benefit of \$389 million in accordance with SEC Staff Accounting Bulletin No. 118 (SAB 118) related to adjustments in our estimates of the one-time transition tax on certain foreign subsidiary earnings, and the remeasurement of our net deferred tax assets and liabilities affected by the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act). Our provision for income taxes for fiscal 2019 varied from the 21% U.S. statutory rate imposed by the Tax Act primarily due to earnings in foreign operations, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based compensation, the Foreign Derived Intangible Income deduction, GILTI, and the aforementioned \$389 million net reduction to our transition tax recorded consistent with the provision of SAB 118. Our provision for income taxes for fiscal 2018 varied from the 21% U.S. statutory rate imposed by the Tax Act primarily due to the impacts of the Tax Act upon our adoption date of January 1, 2018 including the impacts of the transition tax, state taxes, the U.S. research and development tax credit, settlements with tax authorities, the tax effects of stock-based compensation and the U.S. domestic production activity deduction.

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

| (in millions) | Year Ended May 31, | | |
|--|--------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Domestic | \$ 3,890 | \$ 3,774 | \$ 3,366 |
| Foreign | 8,173 | 8,494 | 9,058 |
| Income before provision for income taxes | <u>\$ 12,063</u> | <u>\$ 12,268</u> | <u>\$ 12,424</u> |

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The provision for income taxes consisted of the following:

| (Dollars in millions) | Year Ended May 31, | | |
|---|------------------------|------------------------|------------------------|
| | 2020 | 2019 | 2018 |
| Current provision: | | | |
| Federal | \$ 1,616 | \$ 979 | \$ 8,320 |
| State | 19 | 300 | 264 |
| Foreign | 1,144 | 1,097 | 1,100 |
| Total current provision | <u>\$ 2,779</u> | <u>\$ 2,376</u> | <u>\$ 9,684</u> |
| Deferred benefit: | | | |
| Federal | \$ (983) | \$ 483 | \$ (827) |
| State | 50 | (28) | (26) |
| Foreign | 82 | (1,646) | 6 |
| Total deferred benefit | <u>\$ (851)</u> | <u>\$ (1,191)</u> | <u>\$ (847)</u> |
| Total provision for income taxes | <u><u>\$ 1,928</u></u> | <u><u>\$ 1,185</u></u> | <u><u>\$ 8,837</u></u> |
| Effective income tax rate | 16.0% | 9.7% | 71.1% |

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

| (Dollars in millions) | Year Ended May 31, | | |
|---|------------------------|------------------------|------------------------|
| | 2020 | 2019 | 2018 |
| U.S. federal statutory tax rate | 21.0% | 21.0% | 29.2% |
| Tax provision at statutory rate | \$ 2,533 | \$ 2,576 | \$ 3,629 |
| Impact of the Tax Act of 2017: | | | |
| One-time transition tax | — | (529) | 7,781 |
| Deferred tax effects | — | 140 | (911) |
| Foreign earnings at other than United States rates | (496) | (1,053) | (1,132) |
| State tax expense, net of federal benefit | 172 | 163 | 121 |
| Settlements and releases from judicial decisions and statute expirations, net | (137) | (132) | (252) |
| Tax contingency interest accrual, net | 163 | 245 | 105 |
| Domestic production activity deduction | — | — | (87) |
| Federal research and development credit | (151) | (159) | (174) |
| Stock-based compensation | (166) | (201) | (302) |
| Other, net | 10 | 135 | 59 |
| Total provision for income taxes | <u><u>\$ 1,928</u></u> | <u><u>\$ 1,185</u></u> | <u><u>\$ 8,837</u></u> |

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

| (in millions) | May 31, | |
|---|----------|----------|
| | 2020 | 2019 |
| Deferred tax assets: | | |
| Accruals and allowances | \$ 469 | \$ 541 |
| Employee compensation and benefits | 638 | 646 |
| Differences in timing of revenue recognition | 524 | 322 |
| Lease liabilities | 253 | — |
| Basis of property, plant and equipment and intangible assets | 1,115 | 1,238 |
| Tax credit and net operating loss carryforwards | 3,871 | 3,717 |
| Total deferred tax assets | 6,870 | 6,464 |
| Valuation allowance | (1,359) | (1,266) |
| Total deferred tax assets, net | 5,511 | 5,198 |
| Deferred tax liabilities: | | |
| Unrealized gain on stock | (78) | (78) |
| Acquired intangible assets | (561) | (973) |
| GILTI deferred | (1,108) | (1,515) |
| ROU assets | (241) | — |
| Withholding taxes on foreign earnings | (171) | (91) |
| Other | (141) | (109) |
| Total deferred tax liabilities | (2,300) | (2,766) |
| Net deferred tax assets | \$ 3,211 | \$ 2,432 |
| Recorded as: | | |
| Non-current deferred tax assets | \$ 3,252 | \$ 2,696 |
| Non-current deferred tax liabilities (in other non-current liabilities) | (41) | (264) |
| Net deferred tax assets | \$ 3,211 | \$ 2,432 |

We provide for taxes on the undistributed earnings of foreign subsidiaries. We do not provide for taxes on other outside basis temporary differences of foreign subsidiaries as they are considered indefinitely reinvested outside the U.S. At May 31, 2020, the amount of temporary differences related to other outside basis temporary differences of investments in foreign subsidiaries upon which U.S. income taxes have not been provided was approximately \$7.9 billion. If the other outside basis differences were recognized in a taxable transaction, they would generate foreign tax credits that would reduce the federal tax liability associated with the foreign dividend or the otherwise taxable transaction. At May 31, 2020, assuming a full utilization of the foreign tax credits, the potential net deferred tax liability associated with these other outside basis temporary differences would be approximately \$1.5 billion.

Our net deferred tax assets were \$3.2 billion and \$2.4 billion as of May 31, 2020 and 2019, 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.

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The valuation allowance was \$1.4 billion and \$1.3 billion as of May 31, 2020 and 2019, respectively. A majority of the valuation allowances as of May 31, 2020 and 2019 related to tax assets established in purchase accounting and other tax credits. Any subsequent reduction of that portion of the valuation allowance and the recognition of the associated tax benefits associated with our acquisitions will be recorded to our provision for income taxes subsequent to our final determination of the valuation allowance or the conclusion of the measurement period (as defined above), whichever comes first.

At May 31, 2020, we had federal net operating loss carryforwards of approximately \$597 million, which are subject to limitation on their utilization. Approximately \$537 million of these federal net operating losses expire in various years between fiscal 2021 and fiscal 2038. Approximately \$60 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, 2020, which expire between fiscal 2021 and fiscal 2038 and are subject to limitations on their utilization. We had total foreign net operating loss carryforwards of approximately \$1.9 billion at May 31, 2020, 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 \$133 million, expire between fiscal 2021 and fiscal 2040. We had tax credit carryforwards of approximately \$1.1 billion at May 31, 2020, which are subject to limitations on their utilization. Approximately \$741 million of these tax credit carryforwards are not currently subject to expiration dates. The remainder of the tax credit carryforwards, approximately \$357 million, expire in various years between fiscal 2021 and fiscal 2038.

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

| (in millions) | Year Ended May 31, | | |
|---|--------------------|----------|----------|
| | 2020 | 2019 | 2018 |
| Gross unrecognized tax benefits as of June 1 | \$ 6,348 | \$ 5,592 | \$ 4,919 |
| Increases related to tax positions from prior fiscal years | 624 | 772 | 200 |
| Decreases related to tax positions from prior fiscal years | (298) | (135) | (65) |
| Increases related to tax positions taken during current fiscal year | 628 | 540 | 840 |
| Settlements with tax authorities | (177) | (153) | (42) |
| Lapses of statutes of limitation | (116) | (202) | (273) |
| Cumulative translation adjustments and other, net | (37) | (66) | 13 |
| Total gross unrecognized tax benefits as of May 31 | \$ 6,972 | \$ 6,348 | \$ 5,592 |

As of May 31, 2020, 2019 and 2018, \$4.3 billion, \$4.2 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 \$202 million, \$312 million and \$127 million during fiscal 2020, 2019 and 2018, respectively. Interest and penalties accrued as of May 31, 2020 and 2019 were \$1.4 billion and \$1.3 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 2017. Many issues are at an advanced stage in the examination process, the most significant of which include the deductibility of certain royalty payments, transfer pricing, extraterritorial income exemptions, domestic production activity, foreign tax credits, and research and development credits taken. With all of these domestic audit issues considered in the aggregate, we believe that it was reasonably possible that, as of May 31, 2020, 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 \$1.1 billion (\$1.0 billion net of offsetting tax benefits). Our U.S. federal income tax returns have been examined for all years prior to fiscal 2010 and we are no longer subject to audit for those periods. Our U.S. state income tax returns, with

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some exceptions, have been examined for all years prior to fiscal 2007 and we are no longer subject to audit for those periods.

Internationally, tax authorities for numerous non-U.S. jurisdictions are also examining returns affecting our unrecognized tax benefits. We believe that it was reasonably possible that, as of May 31, 2020, the gross unrecognized tax benefits could decrease (whether by payment, release, or a combination of both) by as much as \$105 million (\$42 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 believe that we have adequately provided under GAAP for outcomes related to our tax audits. However, there can be no assurances as to the possible outcomes or any related financial statement effect thereof. On June 22, 2020 the U.S. Supreme Court declined a Writ of Certiorari in the case of Altera Corp vs Commissioner challenging a decision by the Ninth Circuit Court of Appeals (which itself reversed a previous decision of the U.S. Tax Court) holding that the U.S. Treasury Department's regulations requiring the inclusion of stock-based compensation expense in a taxpayer's cost-sharing calculations were valid. Our consolidated financial statements have been prepared consistent with this outcome, and accordingly no adjustments will be required as the result of this development.

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, South Korea, Mexico, Pakistan, Saudi Arabia and Spain, where the amounts under controversy are significant. In some, although not all cases, we have reserved for potential adjustments to our provision for income taxes and accrual of indirect taxes that may result from examinations by, or any negotiated agreements with, these tax authorities or final outcomes in judicial proceedings, and we believe that the final outcome of these examinations, agreements or judicial proceedings will not have a material effect on our results of operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of benefits in the period we determine the liabilities are no longer necessary. If our estimates of the federal, state, and foreign income tax liabilities and indirect tax liabilities are less than the ultimate assessment, it could result in a further charge to expense.

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15. SEGMENT INFORMATION

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision makers (CODMs) are our Chief Executive 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 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 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.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

The following table presents summary results for each of our three businesses for each of fiscal 2020, 2019 and 2018:

| (in millions) | Year Ended May 31, | | |
|---|--------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| Cloud and license: | | | |
| Revenues(1) | \$ 32,523 | \$ 32,582 | \$ 32,041 |
| Cloud services and license support expenses | 3,803 | 3,597 | 3,441 |
| Sales and marketing expenses | 7,159 | 7,398 | 7,213 |
| Margin(2) | \$ 21,561 | \$ 21,587 | \$ 21,387 |
| Hardware: | | | |
| Revenues | \$ 3,443 | \$ 3,704 | \$ 3,994 |
| Hardware products and support expenses | 1,084 | 1,327 | 1,547 |
| Sales and marketing expenses | 456 | 520 | 643 |
| Margin(2) | \$ 1,903 | \$ 1,857 | \$ 1,804 |
| Services: | | | |
| Revenues | \$ 3,106 | \$ 3,240 | \$ 3,395 |
| Services expenses | 2,656 | 2,703 | 2,729 |
| Margin(2) | \$ 450 | \$ 537 | \$ 666 |
| Totals: | | | |
| Revenues(1) | \$ 39,072 | \$ 39,526 | \$ 39,430 |
| Expenses | 15,158 | 15,545 | 15,573 |
| Margin(2) | \$ 23,914 | \$ 23,981 | \$ 23,857 |

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

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

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

| (in millions) | Year Ended May 31, | | |
|---|--------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| Total revenues for operating segments | \$ 39,072 | \$ 39,526 | \$ 39,430 |
| Cloud and license revenues(1) | (4) | (20) | (47) |
| Total revenues | \$ 39,068 | \$ 39,506 | \$ 39,383 |
| Total margin for operating segments | \$ 23,914 | \$ 23,981 | \$ 23,857 |
| Cloud and license revenues(1) | (4) | (20) | (47) |
| Research and development | (6,067) | (6,026) | (6,084) |
| General and administrative | (1,181) | (1,265) | (1,282) |
| Amortization of intangible assets | (1,586) | (1,689) | (1,620) |
| Acquisition related and other | (56) | (44) | (52) |
| Restructuring | (250) | (443) | (588) |
| Stock-based compensation for operating segments | (436) | (518) | (505) |
| Expense allocations and other, net | (438) | (441) | (415) |
| Interest expense | (1,995) | (2,082) | (2,025) |
| Non-operating income, net | 162 | 815 | 1,185 |
| Income before provision for income taxes | \$ 12,063 | \$ 12,268 | \$ 12,424 |

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

Disaggregation of Revenues

We have considered information that is regularly reviewed by our CODMs in evaluating financial performance, and disclosures presented outside of our financial statements in our earnings releases and used in investor presentations to disaggregate revenues to depict how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors. The principal category we use to disaggregate revenues is the nature of our products and services as presented in our consolidated statements of operations, the 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 2020, 2019 and 2018:

| (in millions) | Year Ended May 31, | | |
|----------------|--------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| Americas | \$ 21,563 | \$ 21,856 | \$ 21,648 |
| EMEA(1) | 11,035 | 11,270 | 11,409 |
| Asia Pacific | 6,470 | 6,380 | 6,326 |
| Total revenues | \$ 39,068 | \$ 39,506 | \$ 39,383 |

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

The following table presents our cloud services and license support revenues by applications and infrastructure ecosystems.

| (in millions) | Year Ended May 31, | | |
|---|--------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Applications cloud services and license support | \$ 11,015 | \$ 10,553 | \$ 10,038 |
| Infrastructure cloud services and license support | 16,377 | 16,154 | 16,184 |
| Total cloud services and license support revenues | <u>\$ 27,392</u> | <u>\$ 26,707</u> | <u>\$ 26,222</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 2020, 2019 or 2018.

| (in millions) | As of and for the Year Ended May 31, | | | | | |
|-----------------|--------------------------------------|----------------------|------------------|----------------------|------------------|----------------------|
| | 2020 | | 2019 | | 2018 | |
| | Revenues | Long-Lived Assets(1) | Revenues | Long-Lived Assets(1) | Revenues | Long-Lived Assets(1) |
| United States | \$ 18,428 | \$ 6,012 | \$ 18,596 | \$ 5,318 | \$ 18,330 | \$ 4,976 |
| Japan | 1,977 | 655 | 1,848 | 422 | 1,716 | 388 |
| United Kingdom | 1,904 | 472 | 2,054 | 423 | 2,093 | 510 |
| Germany | 1,510 | 418 | 1,583 | 263 | 1,526 | 179 |
| Canada | 1,162 | 169 | 1,166 | 87 | 1,200 | 78 |
| Other countries | 14,087 | 1,977 | 14,259 | 1,356 | 14,518 | 1,223 |
| Total | <u>\$ 39,068</u> | <u>\$ 9,703</u> | <u>\$ 39,506</u> | <u>\$ 7,869</u> | <u>\$ 39,383</u> | <u>\$ 7,354</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, | | |
|--|--------------------|--------------|--------------|
| | 2020 | 2019 | 2018 |
| Net income | \$ 10,135 | \$ 11,083 | \$ 3,587 |
| Weighted average common shares outstanding | 3,211 | 3,634 | 4,121 |
| Dilutive effect of employee stock plans | 83 | 98 | 117 |
| Dilutive weighted average common shares outstanding | <u>3,294</u> | <u>3,732</u> | <u>4,238</u> |
| Basic earnings per share | \$ 3.16 | \$ 3.05 | \$ 0.87 |
| Diluted earnings per share | \$ 3.08 | \$ 2.97 | \$ 0.85 |
| Shares subject to anti-dilutive restricted stock-based awards and stock options excluded from calculation(1) | 56 | 71 | 64 |

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

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

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.

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. We continue to believe that we have meritorious defenses against HP's claims, and we intend to present these defenses to the appellate court. Oracle filed its opening brief on March 7, 2019. Briefing on the appeal was completed November 1, 2019, and the appellate court has not scheduled a date for oral argument. We cannot currently estimate a reasonably possible range of loss for this action due to the complexities and uncertainty surrounding the appeal process and the nature of the claims. Litigation is inherently unpredictable, and the outcome of the appeal process related to this action is uncertain. It is possible that the resolution of this action could have a material impact on our future cash flows and results of operations.

Derivative Litigation Concerning Oracle's NetSuite Acquisition

On May 3 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 alleges that the defendants breached their fiduciary duties by causing Oracle to agree to purchase NetSuite Inc. (NetSuite) at an excessive price. Plaintiff seeks declaratory relief, 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, the 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 obligations, the Board withdrew the SLC's authority, except that the SLC maintained certain authority to respond to discovery requests in the litigation.

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

After plaintiff filed its initial complaint, plaintiff filed several amended complaints. Plaintiff filed its most recent amended complaint on February 18, 2020. The 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. The complaint also asserts an aiding-and-abetting claim against NetSuite's former Chief Executive Officer and NetSuite's former Chief Technology Officer. The two former NetSuite officers moved to dismiss the complaint, and the court held a hearing on that motion on March 11, 2020. The court has not yet ruled on that motion. Our Chief Executive Officer and Chief Technology Officer answered the latest complaint on March 3, 2020, and Oracle filed an answer on the same day. On February 20, 2020, the other defendants filed a motion to dismiss. No hearing has been scheduled for this motion.

On April 20, 2020, after our Chief Executive Officer and Chief Technology Officer indicated that they might challenge plaintiff's standing to pursue this matter, an additional plaintiff moved to intervene in this case. On April 29, 2020, the court granted that plaintiff's motion to intervene. On May 7, 2020, our Chief Executive Officer and Chief Technology Officer filed a motion for summary judgment, seeking to have the plaintiff that filed the July 18, 2017 complaint dismissed from the case for lack of standing, arguing that this plaintiff had not continuously owned Oracle stock during the relevant time period. This motion is scheduled for oral argument on July 9, 2020.

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, which is scheduled for hearing on September 24, 2020. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

On February 12, 2019, a stockholder derivative lawsuit was filed in the U.S. District Court for the Northern District of California. The derivative suit is brought by two alleged stockholders of Oracle, purportedly on Oracle's behalf, against all members of our Board of Directors, and Oracle as a nominal defendant. Plaintiffs claim that the alleged actions described in the August 10, 2018 class action discussed above caused harm to Oracle, and that Oracle's Board members violated their fiduciary duties of care, loyalty, reasonable inquiry, and good faith by failing to prevent this alleged harm. Plaintiffs also allege that defendants' actions constitute gross mismanagement, waste, and securities fraud. Plaintiffs seek a ruling that this case may proceed as a derivative action, a finding that defendants are liable for breaching their fiduciary duties, an order directing defendants to enact corporate reforms, attorneys' fees and costs, and unspecified equitable relief. On April 26, 2019, the court approved a stay of this action, which will be lifted if the class action discussed above is dismissed, if the motion to dismiss the class action is denied, or if either party voluntarily chooses to lift the stay.

On May 8, 2019, a second derivative action was filed in the U.S. District Court for the Northern District of California. The derivative suit is brought by an alleged stockholder of Oracle, purportedly on Oracle's behalf, against our Chief Technology Officer, our then-two Chief Executive Officers, one former Oracle executive, and Oracle as a nominal defendant. Plaintiff claims that the alleged actions described in the August 10, 2018 class

ORACLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
May 31, 2020

action discussed above caused harm to Oracle, and plaintiff raises further allegations of impropriety relating to Oracle's stock buybacks and acquisition of NetSuite. Plaintiff asserts claims for violation of securities laws, violation of fiduciary duties, contribution and indemnification. Plaintiff seeks a ruling that the case may proceed as a derivative action, and seeks damages, declaratory and other equitable relief, attorneys' and expert fees and costs. On June 4, 2019, the court issued an order finding that this case was related to the derivative case above and staying the case under the court's prior stay order. On July 8, 2019, plaintiffs in the two derivative actions filed a consolidated complaint. The actions remain stayed.

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, 2018 | \$ 319 | \$ 146 | \$ (98) | \$ 3 | \$ 370 |
| May 31, 2019 | \$ 370 | \$ 190 | \$ (188) | \$ (1) | \$ 371 |
| May 31, 2020 | \$ 371 | \$ 245 | \$ (195) | \$ (12) | \$ 409 |

Item 16. Form 10-K Summary

None.

ORACLE CORPORATION
INDEX OF EXHIBITS

The following exhibits are filed or furnished herewith or are incorporated by reference to exhibits previously filed with the U.S. Securities and Exchange Commission.

| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | |
|-------------|---|---------------------------|------------|---------|-------------|----------------------------|
| | | Form | File No. | Exhibit | Filing Date | Filed By |
| 3.01 | Amended and Restated Certificate of Incorporation of Oracle Corporation and Certificate of Amendment of Amended and Restated Certificate of Incorporation of Oracle Corporation | 8-K 12G3 | 000-51788 | 3.01 | 2/6/06 | Oracle Corporation |
| 3.02 | Amended and Restated Bylaws of Oracle Corporation | 8-K | 001-35992 | 3.02 | 6/16/16 | Oracle Corporation |
| 4.01 | Specimen Certificate of Oracle Corporation's Common Stock | S-3 ASR | 333-166643 | 4.04 | 5/7/10 | Oracle Corporation |
| 4.02 | Indenture dated January 13, 2006, among Ozark Holding Inc., Oracle Corporation and Citibank, N.A. | 8-K | 000-14376 | 10.34 | 1/20/06 | Oracle Systems Corporation |
| 4.03 | First Supplemental Indenture dated May 9, 2007 among Oracle Corporation, Citibank, N.A. and The Bank of New York Trust Company, N.A. | S-3 ASR | 333-142796 | 4.3 | 5/10/07 | Oracle Corporation |
| 4.04 | Form of 6.50% Note due 2038, together with Officers' Certificate issued April 9, 2008 setting forth the terms of the Note | 8-K | 000-51788 | 4.09 | 4/8/08 | Oracle Corporation |
| 4.05 | Form of 6.125% Note due 2039, together with Officers' Certificate issued July 8, 2009 setting forth the terms of the Note | 8-K | 000-51788 | 4.08 | 7/8/09 | Oracle Corporation |
| 4.06 | Forms of Original 2020 Note and Original 2040 Note, together with Officers' Certificate issued July 19, 2010 setting forth the terms of the Notes | 10-Q | 000-51788 | 4.08 | 9/20/10 | Oracle Corporation |
| 4.07 | Forms of New 2020 Note and New 2040 Note | S-4 | 333-176405 | 4.5 | 8/19/11 | Oracle Corporation |

| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | |
|-------------|---|---------------------------|-----------|---------|-------------|--------------------|
| | | Form | File No. | Exhibit | Filing Date | Filed By |
| 4.08 | Form of 2.50% Note due 2022, together with Officers' Certificate issued October 25, 2012 setting forth the terms of the Note | 8-K | 000-51788 | 4.10 | 10/25/12 | Oracle Corporation |
| 4.09 | Forms of 2.25% Note due 2021 and 3.125% Note due 2025, together with Officers' Certificate issued July 10, 2013 setting forth the terms of the Notes | 8-K | 001-35992 | 4.11 | 7/10/13 | Oracle Corporation |
| 4.10 | Form of 3.625% Note due 2023, together with Officers' Certificate issued July 16, 2013 setting forth the terms of the Note | 8-K | 001-35992 | 4.12 | 7/16/13 | Oracle Corporation |
| 4.11 | Forms of 2.80% Note due 2021, 3.40% Note due 2024, 4.30% Note due 2034 and 4.50% Note due 2044, together with Officers' Certificate issued July 8, 2014 setting forth the terms of the Notes | 8-K | 001-35992 | 4.13 | 7/8/14 | Oracle Corporation |
| 4.12 | Forms of 2.50% Notes due 2022, 2.95% Notes due 2025, 3.25% Notes due 2030, 3.90% Notes due 2035, 4.125% Notes due 2045 and 4.375% Notes due 2055, together with Officers' Certificate issued May 5, 2015 setting forth the terms of the Notes | 8-K | 001-35992 | 4.13 | 5/5/15 | Oracle Corporation |
| 4.13 | Forms of 1.90% Notes due 2021, 2.40% Notes due 2023, 2.65% Notes due 2026, 3.85% Notes due 2036 and 4.00% Notes due 2046, together with Officers' Certificate issued July 7, 2016 setting forth the terms of the Notes | 8-K | 001-35992 | 4.1 | 7/7/16 | Oracle Corporation |
| 4.14 | Forms of 2.625% Notes due 2023, 2.950% Notes due 2024, 3.250% Notes due 2027, 3.800% Notes due 2037 and 4.000% Notes due 2047, together with Officers' Certificate issued November 9, 2017 setting forth the terms of the Notes | 8-K | 001-35992 | 4.1 | 11/9/17 | Oracle Corporation |

| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | |
|-------------|---|---------------------------|-----------|---------|-------------|--------------------|
| | | Form | File No. | Exhibit | Filing Date | Filed By |
| 4.15 | Forms of 2.500% Notes due 2025, 2.800% Notes due 2027, 2.950% Notes due 2030, 3.600% Notes due 2040, 3.600% Notes due 2050 and 3.850% Notes due 2060, together with Officers' Certificate issued April 1, 2020 setting forth the terms of the Notes | 8-K | 001-35992 | 4.1 | 4/1/20 | Oracle Corporation |
| 4.16 | Description of Oracle Corporation's Securities Registered Under Section 12 of the Exchange Act | 10-K | 001-35992 | 4.15 | 6/21/19 | Oracle Corporation |
| 10.01* | Oracle Corporation Deferred Compensation Plan, as amended and restated as of July 1, 2015 | 10-Q | 001-35992 | 10.01 | 9/18/15 | Oracle Corporation |
| 10.02* | Oracle Corporation Employee Stock Purchase Plan (1992), as amended and restated as of October 1, 2009 | 10-K | 000-51788 | 10.02 | 7/1/10 | Oracle Corporation |
| 10.03* | Oracle Corporation Amended and Restated 1993 Directors' Stock Plan, as amended and restated on April 29, 2016 | 10-K | 001-35992 | 10.03 | 6/22/16 | Oracle Corporation |
| 10.04* | Amended and Restated 2000 Long-Term Equity Incentive Plan, as approved on November 15, 2017 | 8-K | 001-35992 | 10.04 | 11/17/17 | Oracle Corporation |
| 10.05* | Form of Stock Option Agreement under the Amended and Restated 2000 Long-Term Equity Incentive Plan for U.S. Executive Vice Presidents and Section 16 Officers | 10-Q | 001-35992 | 10.05 | 9/18/17 | Oracle Corporation |
| 10.06* | Form of Stock Option Agreement under the Oracle Corporation Amended and Restated 1993 Directors' Stock Plan | 10-K | 001-35992 | 10.06 | 6/25/15 | Oracle Corporation |
| 10.07* | Form of Indemnity Agreement for Directors and Executive Officers | 10-Q | 000-51788 | 10.07 | 12/23/11 | Oracle Corporation |
| 10.08* | Oracle Corporation Amended and Restated Executive Bonus Plan, as amended and restated as of February 12, 2019 | 10-Q | 001-35992 | 10.09 | 3/18/19 | Oracle Corporation |

| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | |
|-------------|---|---------------------------|-----------|---------|-------------|--------------------|
| | | Form | File No. | Exhibit | Filing Date | Filed By |
| 10.09* | Oracle Corporation Stock Unit Award Deferred Compensation Plan, as amended and restated as of July 1, 2015 | 10-Q | 001-35992 | 10.15 | 9/18/15 | Oracle Corporation |
| 10.10* | Form of Performance-Based Stock Unit Award Agreement under the Amended and Restated 2000 Long-Term Equity Incentive Plan for Section 16 Officers | 10-Q | 001-35992 | 10.16 | 9/23/14 | Oracle Corporation |
| 10.11* | Form of Restricted Stock Unit Award Agreement under the Oracle Corporation Amended and Restated 1993 Directors' Stock Plan | 10-K | 001-35992 | 10.17 | 6/25/15 | Oracle Corporation |
| 10.12* | Form of Performance-Based Stock Option Agreement under the Amended and Restated 2000 Long-Term Equity Incentive Plan for Named Executive Officers | 10-Q | 001-35992 | 10.16 | 9/18/17 | Oracle Corporation |
| 10.13* | Form of Stock Unit Award Agreement under the Amended and Restated 2000 Long-Term Equity Incentive Plan for U.S. Employees (Including Section 16 Officers) | 10-Q | 001-35992 | 10.17 | 9/18/17 | Oracle Corporation |
| 10.14* | Service Provider Agreement between Oracle America, Inc. and Hang Ten Systems LLC, effective as of November 1, 2019 | 10-Q | 001-35992 | 10.15 | 12/13/19 | Oracle Corporation |
| 21.01† | Subsidiaries of the Registrant | | | | | |
| 23.01† | Consent of Independent Registered Public Accounting Firm | | | | | |
| 31.01† | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive and Financial Officer | | | | | |
| 32.01† | Section 1350 Certification of Principal Executive Financial Officer | | | | | |

Incorporated by Reference

| Exhibit No. | Exhibit Description | Form | File No. | Exhibit | Filing Date | Filed By |
|--------------------|--|-------------|-----------------|----------------|--------------------|-----------------|
| 101‡ | Interactive Data Files Pursuant to Rule 405 of Regulation S-T, formatted in Inline XBRL: (1) Consolidated Balance Sheets as of May 31, 2020 and 2019, (2) Consolidated Statements of Operations for the years ended May 31, 2020, 2019 and 2018, (3) Consolidated Statements of Comprehensive Income for the years ended May 31, 2020, 2019 and 2018, (4) Consolidated Statements of Equity for the years ended May 31, 2020, 2019 and 2018, (5) Consolidated Statements of Cash Flows for the years ended May 31, 2020, 2019 and 2018, (6) Notes to Consolidated Financial Statements and (7) Financial Statement Schedule II | | | | | |
| 104‡ | The cover page from the Company's Annual Report on Form 10-K for the year ended May 31, 2020, formatted in Inline XBRL and contained in Exhibit 101 | | | | | |

* Indicates management contract or compensatory plan or arrangement.

‡ Filed herewith.

† Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORACLE CORPORATION

Date: June 22, 2020

By: /s/ SAFRA A. CATZ

Safra A. Catz

Chief Executive Officer and Director

(Principal Executive and Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| Name | Title | Date |
|---|--|---------------|
| <u>/s/ SAFRA A. CATZ</u> Safra A. Catz | Chief Executive Officer and Director (Principal Executive and Financial Officer) | June 22, 2020 |
| <u>/s/ WILLIAM COREY WEST</u> William Corey West | Executive Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer) | June 22, 2020 |
| <u>/s/ LAWRENCE J. ELLISON</u> Lawrence J. Ellison | Chairman of the Board of Directors and Chief Technology Officer | June 22, 2020 |
| <u>/s/ JEFFREY O. HENLEY</u> Jeffrey O. Henley | Vice Chairman of the Board of Directors | June 22, 2020 |
| <u>/s/ JEFFREY S. BERG</u> Jeffrey S. Berg | Director | June 22, 2020 |
| <u>/s/ MICHAEL J. BOSKIN</u> Michael J. Boskin | Director | June 22, 2020 |
| <u>/s/ BRUCE R. CHIZEN</u> Bruce R. Chizen | Director | June 22, 2020 |
| <u>/s/ GEORGE H. CONRADES</u> George H. Conrades | Director | June 22, 2020 |
| <u>/s/ RONA A. FAIRHEAD</u> Rona A. Fairhead | Director | June 22, 2020 |
| <u>/s/ RENÉE J. JAMES</u> Renée J. James | Director | June 22, 2020 |
| <u>/s/ CHARLES W. MOORMAN IV</u> Charles W. Moorman IV | Director | June 22, 2020 |
| <u>/s/ LEON E. PANETTA</u> Leon E. Panetta | Director | June 22, 2020 |
| <u>/s/ WILLIAM G. PARRETT</u> William G. Parrett | Director | June 22, 2020 |
| <u>/s/ NAOMI O. SELIGMAN</u> Naomi O. Seligman | Director | June 22, 2020 |
| <u>/s/ DR. VISHAL SIKKA</u> Dr. Vishal Sikka | Director | June 22, 2020 |

ORACLE CORPORATION
Subsidiaries of the Registrant

| <u>Name of Subsidiary</u> | <u>Place of Incorporation</u> |
|----------------------------------|-------------------------------|
| Oracle International Corporation | California |
| Oracle America, Inc. | Delaware |
| Oracle Global Holdings, Inc. | Delaware |
| Oracle Systems Corporation | Delaware |
| OCAPAC Distributor Partner UC | Ireland |
| OCAPAC Hardware Partner UC | Ireland |
| OCAPAC Holding Company UC | Ireland |
| OCAPAC Research Company UC | Ireland |
| OCAPAC Research Partner UC | Ireland |
| Oracle Technology Company UC | Ireland |

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-223826) of Oracle Corporation, and
- (2) Registration Statement (Form S-8 Nos. 333-235503, 333-228899, 333-225829, 333-222139, 333-218996, 333-216796, 333-215835, 333-215171, 333-214106, 333-212182, 333-210287, 333-208632, 333-207038, 333-202870, 333-199617, 333-195502, 333-194705, 333-193006, 333-187924, 333-186971, 333-184062, 333-181023, 333-179586, 333-179132, 333-176986, 333-171939, 333-169089, 333-164734, 333-163147, 333-157758, 333-153660, 333-151045, 333-147400, 333-145162, 333-142776, 333-142225, 333-139901, 333-139875, 333-138694, 333-136275, 333-131988, 333-131427) pertaining to the Equity Incentive Plan of Oracle Corporation;

of our reports dated June 22, 2020, with respect to the consolidated financial statements and schedule of Oracle Corporation and the effectiveness of internal control over financial reporting of Oracle Corporation included in this Annual Report (Form 10-K) of Oracle Corporation for the year ended May 31, 2020.

/s/ Ernst & Young LLP

San Jose, California

June 22, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Safra A. Catz, certify that:

1. I have reviewed this annual report on Form 10-K of Oracle Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Finance and Audit Committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 22, 2020

By: /s/ SAFRA A. CATZ
Safra A. Catz
Chief Executive Officer and Director (Principal Executive and Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the report on Form 10-K of Oracle Corporation for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Safra A. Catz, the Chief Executive Officer (Principal Executive and Financial Officer) of Oracle Corporation, certifies that, to the best of her knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Oracle Corporation.

Date: June 22, 2020

By: /s/ SAFRA A. CATZ
Safra A. Catz
Chief Executive Officer and Director (Principal Executive and Financial Officer)

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of Oracle Corporation, regardless of any general incorporation language in such filing.