

# ORACLE SYSTEMS

## FORM 10-K (Annual Report)

Filed 06/24/03 for the Period Ending 05/31/03

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SIC Code	7372 - Prepackaged Software
Industry	Software & Programming
Sector	Technology
Fiscal Year	05/31

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

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**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, 2003

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 0-14376

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**Oracle Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-2871189**  
(I.R.S. employer  
identification no.)

**500 Oracle Parkway  
Redwood City, California 94065**  
(Address of principal executive offices, including zip code)

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

**Securities registered pursuant to Section 12(b) of the Act:**  
**None**

**Securities registered pursuant to Section 12(g) of the Act:**  
**Common Stock, par value \$0.01 per share**  
**Preferred Stock Purchase Rights**  
(Title of class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (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 \$47,506,422,702 based on the number of shares held by non-affiliates of the registrant as of May 31, 2003, and based on the reported last sale price of common stock on November 29, 2002, 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 13, 2003: 5,233,772,823

**Documents Incorporated by Reference:**

Part III—Portions of the registrant's definitive proxy statement to be issued in conjunction with registrant's annual stockholders' meeting to be held on October 13, 2003.

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**ORACLE CORPORATION**  
**FISCAL YEAR 2003**  
**FORM 10-K**  
**ANNUAL REPORT**

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**Forward-Looking Statements**

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors That May Affect Our Future Results or the Market Price of Our Stock.” When used in this report, the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Annual Report. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document. You should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in our 2004 fiscal year, which runs from June 1, 2003 to May 31, 2004.

**PART I****Item 1. Business****General**

We are the world’s largest enterprise software company. We develop, manufacture, market and distribute computer software that helps our customers manage and grow their businesses and operations. Our offerings include new software licenses, software license updates and product support and services, which include consulting, advanced product services and education. We also offer an integrated suite of business applications software and other business software infrastructure, including application server, collaborative software and development tools.

We seek to be an industry leader in each of the specific product categories in which we compete and to expand into new and emerging markets. In fiscal 2003, we focused on improving our market position and enhancing our portfolio of products and services in each of our segments as described below. In addition, we reorganized our North American commercial sales force to focus separately on our database technology and applications software products and to simplify our sales coverage model.

Our goal is to provide our customers with scalable, reliable and secure database technology software and integrated business applications software that give them transactional efficiency and quality information at a low cost of total ownership.

Oracle Corporation was incorporated in 1986 as a Delaware corporation and is the successor to operations originally begun in June 1977.

**Tender Offer for PeopleSoft, Inc.**

On June 9, 2003, we commenced an unsolicited \$16.00 per share cash tender offer for all of the outstanding shares of PeopleSoft, Inc., a Delaware corporation, or approximately \$5.1 billion for approximately 317 million shares. On June 18, 2003, we increased the cash tender offer to \$19.50 per share or approximately \$6.2 billion. We have entered into a commitment with Credit Suisse First Boston to provide a \$5.0 billion revolving credit facility with a term of 364 days. We plan to pay for the PeopleSoft shares and related transaction fees and expenses with internally available cash and borrowings under the revolving credit facility.

In connection with the tender offer, we have been named as a defendant in various legal proceedings and may be a party to additional legal proceedings in the future. While the outcome of these matters cannot be predicted with certainty, we believe we have meritorious defenses to these actions, and we will vigorously defend them.

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### Products and Services

We have five operating segments based on our product and service offerings: new software licenses, software license updates and product support, consulting, advanced product services and education. See Note 15 of Notes to Consolidated Financial Statements for additional information related to our operating segments.

#### *New Software Licenses*

Our new software license line of business (formerly referred to as the licenses line of business) includes the licensing of database technology software and applications software. Our software platform is based on an internet architecture comprised of interconnected database servers, application servers and client computers or devices running web browsers. This architecture permits end users to access business data and applications through standard web browsers, while allowing enterprises to manage business information and applications from centralized locations. Database servers manage the underlying business information, while application servers run the business applications. These servers are typically managed by professional information technology managers. In contrast, traditional client/server computing architectures require that each client computer run and manage its own applications and also be updated every time an application changes. We believe that the network-centric design of our software for internet computing improves network performance and data quality and helps our customers better control installation, maintenance and training costs associated with information technology infrastructure. Our integrated, component based architecture can be designed around the specific needs of any industry and is supported on several different operating systems, including Linux, UNIX and Windows.

New software license revenues include all fees earned from granting customers licenses to use our software products and exclude revenues derived from software license updates and product support. The standard end user software license agreement for our products provides for an initial fee to use the product in perpetuity based on a maximum number of processors or a maximum number of named users. We also have other types of software license agreements restricted by the number of employees or the license term. New software license revenues represented 34%, 36% and 42% of total revenues in fiscal 2003, 2002 and 2001, respectively. Other revenues, which include documentation and miscellaneous revenues, represented 1% of total revenues in fiscal 2003, 2002 and 2001.

#### *Database Technology*

Our database technology software provides a platform for developing and deploying applications on the internet and on corporate intranets. Database technology software products include database management software, application server software, collaboration software and development tools that allow users to create, retrieve and modify the various types of data stored in a computer system. New software license revenues from database technology products represented 28%, 29% and 33% of total revenues and 81%, 80% and 78% of new software license revenues in fiscal 2003, 2002 and 2001, respectively.

#### *Oracle Database*

The Oracle relational database management system is a key component of our internet platform and enables the storage, manipulation and retrieval of relational, object-relational, multi-dimensional and other types of data.

Oracle9 *i* is designed to run applications with a very high degree of scalability and reliability across multiple computers clustered together. The Oracle database with Real Application Clusters acts as a single database in a cluster of computers linked together and does not require the data to be separated on multiple computers. Customers can simply add computers to the cluster and the database software adapts to utilize the additional computing resources, thereby significantly improving application scalability and availability without requiring users to modify their applications. Customers can achieve significant cost savings by scaling up and eliminating

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fail-over servers and by using lower cost hardware as the basis of the cluster, instead of larger, more expensive computers.

In addition to Oracle9 *i* Real Application Clusters, Oracle9 *i* Database contains features that facilitate customers' ability to build, deploy and manage internet applications at lower costs. The key features of Oracle9 *i* include improved database availability, functionality, enhanced security capabilities and an integrated infrastructure for building business intelligence applications.

### Oracle Application Server

Oracle9 *i* Application Server or Oracle9 *i* AS, a consolidated software platform based on industry standards, makes it easier for developers to build and deploy web services, web sites and portals and web-based applications. Oracle9 *i* AS supports a range of development languages and tools, including the latest J2EE technologies and complies with industry standards. In addition, Oracle9 *i* AS incorporates clustering and caching technology, which significantly increases application reliability, performance, security and scalability.

Oracle 9*i* AS comes with an integrated set of business intelligence software including Oracle Discoverer, Oracle Reports and Oracle Clickstream. Oracle Discoverer is an intuitive web-based ad hoc query, reporting and analysis tool for end users. Oracle Reports offers an enterprise-reporting tool for the production of high quality reports. Oracle Clickstream provides a facility to analyze web site traffic.

Oracle9 *i* AS also includes Portal, which allows personalized portal sites to be rapidly developed and deployed, all with single sign on and security. Portal sites are assembled using 'portlets,' which are reusable interface components that provide access to web-based resources such as applications, business intelligence reports, syndicated content feeds and outsourced software services. With the Oracle9 *i* AS Wireless Option, portal sites can be made available to any wireless device.

Oracle9 *i* AS includes an enhanced Enterprise Integration platform that provides a comprehensive E-Business integration solution delivered as an integral feature of Oracle9 *i* AS. The E-Business integration solution provides an open, standards-based infrastructure for enterprise application integration, business-to-business collaboration and web services integration in a single product.

### Oracle Collaboration Suite

Oracle Collaboration Suite is a single, integrated suite that manages email and voicemail messages, facsimiles, calendaring, file sharing, search and workflow. The Oracle Collaboration Suite centralizes administration and lowers operating costs by consolidating email and file servers. Additionally, users are provided with one folder for their email, files, voicemail and facsimile messages. The Oracle Collaboration Suite is built on the Oracle9 *i* Database and Oracle9 *i* AS, supports enterprise-scale implementations and offers high-availability features like rapid server failover, disaster recovery and automated backup. With Oracle Collaboration Suite, users access all their communications content via desktop applications, the internet, personal digital assistants or mobile phones, improving communication and collaboration.

### Oracle Developer Suite

Oracle Developer Suite is an integrated suite of development tools designed to facilitate rapid development of internet database applications and web services. Built on internet standards such as Java, J2EE, XML and HTML, the Developer Suite contains application development and business intelligence tools.

The Developer Suite includes Oracle JDeveloper, a Java development environment for modeling, building, debugging and testing enterprise-class J2EE applications and web services. In addition, the suite contains Oracle Designer, a tool that allows developers to model business processes and automatically generate enterprise

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database applications, and Oracle Forms Developer, a development tool for building database applications that can be deployed unchanged in both internet and client/server based environments.

The Developer Suite also includes Oracle Warehouse Builder to consolidate fragmented data and metadata pulled from packaged applications, custom applications and legacy applications. Oracle Warehouse Builder enables developers to graphically design the multidimensional database schema and to automatically generate and load the data warehouse.

### *Applications*

We offer a fully integrated suite of applications built upon a unified information architecture. Our applications software can be accessed with standard web browsers and can be used to automate business processes and to provide business intelligence for financials, projects, marketing, sales, order management, procurement, supply chain, manufacturing, service and human resources. New software license revenues from applications software represented 6%, 7% and 9% of total revenues and 19%, 20% and 22% of new software license revenues in fiscal 2003, 2002 and 2001, respectively.

The Oracle E-Business Suite, which is offered as an entire suite or on a component basis, provides integrated enterprise information that enables companies to manage their business cycles on a global basis and to solve end-to-end business problems.

The Oracle E-Business Suite utilizes Oracle's full technology stack, including database, application server and developer tools. The E-Business Suite is an open architecture, which can be integrated to legacy applications that exist in a customer's environment.

The Oracle E-Business Suite applications combine business functionality with innovative technologies, such as workflow and self-service applications, that enable users to lower the cost of their business operations by providing customers, suppliers and employees with self-service internet access to both transaction processing and critical business information. Self-service applications automate a variety of business functions such as customer service and support, procurement, expense reporting and reimbursement. The Oracle E-Business Suite can also help companies automate and improve business processes associated with financials, projects, marketing, sales, order management, procurement, supply chain, manufacturing, service and human resources.

Available in approximately 30 languages, Oracle's E-Business Suite applications also allow companies to operate in multiple currencies and to support both global and local business practices and legal requirements.

### ***Software License Updates and Product Support***

Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period, which is typically one year. Product support services include internet access to technical content, as well as internet and telephone access to technical support personnel. Product support is provided by local offices, as well as by our four global support centers located around the world. Software license updates and product support are generally priced as a percentage of the net new software license fees. Software license updates can be purchased separately from product support; however, only customers who purchase software license updates can purchase product support. Substantially all of our customers purchase both license updates and product support upon the initial licensing of our software. In addition, most of these customers renew the software license updates and product support rights annually. Software license updates and product support revenues represented 41%, 37% and 30% of total revenues in fiscal 2003, 2002 and 2001, respectively. We believe that software license updates and product support represent a recurring source of revenues and will continue to grow if our installed base of software licenses continues to expand.

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### ***Consulting***

Through Oracle Consulting, we globally deploy professionals who specialize in rapid design, implementation, deployment, upgrade and migration services for our database technology and applications software. We focus on implementing software with a number of consulting accelerators such as preconfigured business flows, all of which increase the pace at which our customers achieve value from our applications. Our consulting services help customers consolidate their information technology operations, integrate disparate systems and increase the security of their data assets. Oracle Consulting leverages several remote delivery channels, including offshore centers. Consulting revenues represented 19%, 20% and 21% of total revenues in fiscal 2003, 2002 and 2001, respectively.

### ***Advanced Product Services***

Our advanced product services offering includes remote database administration, performance monitoring and tuning, on-site technical support services and outsourcing services. Our outsourcing services include multi-featured software management and maintenance services. We provide outsourced services for products such as the Oracle E-Business Suite, Oracle9 *i* Database, Oracle9 *i* AS and Oracle Collaboration Suite. With Oracle E-Business Suite Outsourcing, customers gain access to their applications through a standard web browser and network connection. Oracle's Technology Outsourcing administers, manages and maintains the Oracle9 *i* Database, Oracle9 *i* AS and Oracle Collaboration Suite. Customers can choose to have their servers located at our own data centers, where we maintain both the software and hardware, or they can place and manage the servers they are using at their own locations or at qualified third party locations and allow us to remotely manage the software. With either approach, we provide outsourced services that enable customers to lower information technology costs and improve their business efficiency. Although a new service offering, our outsourcing business has more than 500 customers worldwide. Advanced product services revenues represented 2%, 3% and 2% of total revenues in fiscal 2003, 2002 and 2001, respectively.

### ***Education***

Through Oracle University, we provide training to customers and partners as part of our mission of accelerating the adoption of Oracle technology around the world. Operating out of approximately 400 Oracle training centers and 200 delivery partner locations, Oracle University trains over 400,000 students in 65 countries each year on Oracle technology. Our training is provided primarily through instructor-led classroom events, but is also made available through a variety of online courses and self paced media training on CD-Roms. Oracle University's curriculum is entirely Oracle-based, covering all aspects of Oracle 9 *i* Database, Oracle 9 *i* AS, Collaboration Suite, Developer Suite and E-Business Applications Suite products. At any point in time, there are over 300 instructor- led courses, over 1,000 hours of rich online course content and over 500 CD-Rom based course titles available. This curriculum is continuously updated for the latest versions of our software products. Education revenues represented 3%, 3% and 4% of total revenues in fiscal 2003, 2002 and 2001, respectively.

### ***Marketing and Sales***

#### ***Key Market Segments***

We sell our products and services in three key market segments: the enterprise business market, the government market and the general business market. We define the enterprise business market segment as those businesses with total annual revenues over a specific amount, which may vary by country. In the United States, we define the enterprise business market segment as those businesses with total annual revenues of more than \$1 billion. In the enterprise business market and government market segments, we believe that the most important considerations for our customers are performance, functionality, availability, product reliability, ease of use, security, quality of technical support and total cost of ownership, including the initial price and deployment costs, as well as ongoing maintenance costs. We define the general business market segment as those entities smaller than the enterprise businesses. In addition to the considerations noted above, we believe that the principal



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competitive factors for the general business market segment are strength in distribution and marketing, brand name recognition, ability to integrate with enterprise systems and product integration. We believe that we compete effectively in each of these markets, although the competition is intense in each market.

### ***Sales Distribution Channels***

In the United States, we market our products and services primarily through our own direct sales and service organization. Sales and service employees are based in our headquarters and in field offices located in approximately 60 metropolitan areas.

Outside the United States, we market our products and services primarily through our subsidiary sales and service organizations. Our subsidiaries license and support our products in their local countries as well as within other foreign countries where we do not operate through a direct sales subsidiary.

We also market our products through indirect channels. The companies that comprise our indirect channel network are members of the Oracle Partner Program. Our partners resell our products or combine our database, development tools and business applications with computer hardware, software application packages or services for subsequent redistribution and/or implementation.

The Oracle Partner Program allows us to pursue new business opportunities through partners as well as with direct customers. Partners in the program include consultants, education providers, internet service providers, network integrators, resellers, independent software vendors and system integrators/implementers. Partners can also participate in the Oracle Technology Network and the Oracle Applications Network. These programs are specifically designed for the internet developer and business applications suite user communities, respectively. We provide applications, technology, education and technical support that enable our partners to effectively integrate our products into their business offerings. The combination of the Oracle technology stack, the Oracle E-Business Suite and our partners' expertise broadens our exposure in new markets.

### ***International***

We conduct business in more than 87 countries around the world. We believe this geographic diversity allows us to draw on business and technical expertise from a worldwide workforce, provides stability to our operations and revenue streams to offset geography-specific economic trends and offers us an opportunity to exploit new markets for maturing products. Our results of operations could be affected by economic and political uncertainty or changes in the laws or policies in the countries in which we operate and by macroeconomic changes, including currency rate fluctuations, recessions and inflation. A summary of our domestic and international revenues and long-lived assets is set forth in Note 15 of Notes to Consolidated Financial Statements.

### ***Seasonality***

General economic conditions have an impact on our business and financial results. The markets in which we sell our products and services have, at times, experienced weak economic conditions that have negatively affected revenues. Our quarterly results reflect distinct seasonality in the sale of our products and services, as our revenues are typically highest in our fourth fiscal quarter and lowest in our first fiscal quarter. See "Quarterly Results of Operations" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Form 10-K for a more complete description of the seasonality of our revenues and expenses.

### ***Customers***

Our customer base consists of a significant number of organizations of all sizes, from small businesses to the largest multinational organizations, government agencies, educational institutions and resellers. Our internet

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architecture supports the complex needs of the largest global organizations. Our target end-user customers are organizations with sophisticated, high-end information systems with numerous, often geographically dispersed, users and diverse, heterogeneous computing environments. Typical customers have web-based implementations that handle very high volumes of business transactions with unpredictable usage volumes. Our primary industry markets include defense and government, education, financial services, technology, transportation, life sciences, insurance, telecommunications, manufacturing and healthcare. No single customer accounted for 10% or more of revenues in fiscal 2003, 2002 or 2001.

### **Competition**

The software industry is intensely competitive and rapidly evolving. We compete in various markets including the database management system, data warehouse, collaboration, application server, development tools, applications, consulting and outsourcing markets. Total cost of ownership, performance, functionality, ease of use, product reliability, security and quality of technical support are the key competitive factors that face us in each of the markets in which we compete.

Our principal software competitors in the database management system and collaboration markets are International Business Machines Corporation and Microsoft Corporation. In the data warehousing market, our online analytical processing products compete primarily with those of Business Objects S.A., Cognos Incorporated, Hyperion Solutions Corporation and NCR Corporation. In the application server market, our competitors include BEA Systems, Inc., IBM and Microsoft. In the development tools market, we compete primarily against Borland Software Corporation, IBM and Microsoft. In the highly fragmented applications market, we compete against Microsoft, PeopleSoft, Inc., SAP Aktiengesellschaft Systeme, Siebel Systems, Inc. and many other application providers, as well as outsourced and in-house solutions for customers. In the consulting and outsourcing markets, we periodically compete against or collaborate with Accenture Ltd., Electronic Data Systems Corporation, IBM Global Services and as well as other smaller service providers. We may also face competition from open source software initiatives, in which developers provide software and intellectual property free over the internet.

### **Research and Development**

We develop the majority of our products internally. In certain circumstances, we also purchase or license intellectual property rights. Internal development allows us to maintain technical control over the design and development of our products. We have a number of United States 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 itself is essential to us or to any of our principal business segments.

Research and development expenditures were 12%, 11% and 10% of total revenues in fiscal 2003, 2002 and 2001, respectively. As a percentage of new software license revenues, research and development expenditures were 36%, 31% and 24% in fiscal 2003, 2002 and 2001, respectively. Rapid technological advances in hardware and software development, evolving standards in computer hardware and software technology, changing customer needs and frequent new product introductions and enhancements characterize the software markets in which we compete. We plan on continuing to dedicate a significant amount of resources to research and development efforts to maintain and improve our competitive position in these markets.

### **Employees**

As of May 31, 2003, we employed 40,650 full-time employees, including 25,268 in sales and services, 916 in marketing, 9,429 in research and development and 5,037 in general and administrative positions. Of these employees, 17,968 were located in the United States and 22,682 were employed internationally.

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None of our employees in the United States are represented by a labor union; however, in certain international subsidiaries our employees are represented by worker councils. We have not experienced any work stoppages and believe that our employee relations are good.

### Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to 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 our Investor Relations web site at [www.oracle.com](http://www.oracle.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. The information posted on our web site is not incorporated into this Annual Report.

### Executive Officers of the Registrant

Our executive officers are as follows:

<u>Name</u>	<u>Office(s)</u>
Lawrence J. Ellison	Chief Executive Officer and Chairman of the Board of Directors
Jeffrey O. Henley	Executive Vice President, Chief Financial Officer and Director
Safra A. Catz	Executive Vice President and Director
Keith G. Block	Executive Vice President, North America Sales and Consulting
Sergio Giacoletto	Executive Vice President, Europe, Middle East and Africa Sales and Consulting
Charles E. Phillips, Jr.	Executive Vice President
George J. Roberts	Executive Vice President
Michael S. Rocha	Executive Vice President, Global Support Services
Charles A. Rozwat	Executive Vice President, Server Technologies
Derek H. Williams	Executive Vice President, Asia Pacific Sales and Consulting
Ronald A. Wohl	Executive Vice President, Applications Development
Daniel Cooperman	Senior Vice President, General Counsel and Secretary
Jennifer L. Minton	Senior Vice President, Finance and Operations

Mr. Ellison, 58, is one of our co-founders and has been Chief Executive Officer since June 1977. Mr. Ellison has been Chairman of the Board since June 1995, served as Chairman of the Board from April 1990 until September 1992 and served as President of Oracle from May 1977 to June 1996.

Mr. Henley, 58, has been Executive Vice President and Chief Financial Officer since March 1991 and has been a Director since June 1995. Prior to joining us, he served as Executive Vice President and Chief Financial Officer of Pacific Holding Company, a privately held company with diversified interests in manufacturing and real estate, from August 1986 to February 1991. Mr. Henley is a director of Computer Motion, Inc., a medical robotics company.

Ms. Catz, 41, has served as a Director since October 2001. She has been an Executive Vice President since November 1999 and served as Senior Vice President between April 1999 and October 1999. Prior to joining us, Ms. Catz was employed by Donaldson, Lufkin & Jenrette, a global investment bank, where she was a Managing Director from February 1997 to March 1999.

Mr. Block, 42, has been Executive Vice President, North America Sales and Consulting since September 2002 and Executive Vice President, North America Consulting since February 2002. Mr. Block served as Senior Vice President of North America Commercial Consulting and Global Service Lines from June 1999 until January 2002. He served as Senior Vice President of the Commercial Consulting Practice from April 1999 until May 1999. Mr. Block was Group Vice President, East Consulting from June 1997 until March 1999. Prior to joining us in 1986, Mr. Block was a Senior Consultant at Booz, Allen and Hamilton.

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Mr. Giacoletto, 53, has been Executive Vice President for Europe, Middle East and Africa since June 2000 and Senior Vice President, Business Solutions, since November 1998. He was Vice President, Alliances and Technology from March 1997 to November 1998. Before joining us, he was President of AT&T Solutions for Europe, since August 1994. Previously, he spent 20 years with Digital Equipment Corporation in various positions in European marketing and services.

Mr. Phillips, 43, has been an Executive Vice President since May 2003. Prior to joining us, Mr. Phillips was at Morgan Stanley & Co., Incorporated, a global investment bank, where he was a Managing Director from November 1995 to May 2003 and a Principal from December 1994 to November 1995. Prior to that, Mr. Phillips was an information technology officer as a Captain with the United States Marine Corps.

Mr. Roberts, 47, has been an Executive Vice President since June 1999 and until September 2002, was Executive Vice President, North America Sales. Mr. Roberts served as Senior Vice President North America Sales from July 1998 to May 1999, and as Senior Vice President, Business Online from April 1998 to June 1998. He took a leave of absence from July 1997 to April 1998. Mr. Roberts joined us in March 1990 and from June 1990 to June of 1997 served as Group Vice President, Central Commercial Sales.

Mr. Rocha, 38, has been Executive Vice President, Global Support Services since December 2002 and served as Senior Vice President, Global Support Services & Platform Technologies from December 2001 to November 2002. Mr. Rocha joined us in 1989 and has held various positions in business planning, engineering and product management including Senior Vice President Platform Technologies from August 1998 to November 2001 and Vice President Porting Technologies from September 1997 to July 1998.

Mr. Rozwat, 55, has been Executive Vice President, Server Technologies since November 1999 and served as Senior Vice President, Database Server from December 1996 to October 1999. Mr. Rozwat served as Vice President of Development from May 1995 to November 1996. Prior to joining us, he spent 17 years in various positions at Digital Equipment Corporation.

Mr. Williams, 58, has been Executive Vice President, Asia Pacific since October 2000 and Senior Vice President, Asia Pacific from July 1993 to October 2000. Mr. Williams served as Vice President, Asia Pacific, from April 1991 to July 1993. Mr. Williams joined Oracle United Kingdom in October 1988 and served as Regional Director, Strategic Accounts from October 1988 to April 1991.

Mr. Wohl, 42, has been Executive Vice President, Applications Development since November 1999 and served as Senior Vice President, Applications Development, from December 1992 to October 1999. From September 1989 until December 1992, Mr. Wohl was Vice President and Assistant General Manager of the Systems Product Division.

Mr. Cooperman, 52, has been Senior Vice President, General Counsel and Secretary since February 1997. Prior to joining us, Mr. Cooperman had been associated with the law firm of McCutchen, Doyle, Brown & Enersen (which has since become Bingham McCutchen LLP), from October 1977 and had served as a partner since June 1983. From September 1995 until February 1997, Mr. Cooperman was Chair of the law firm's Business and Transactions Group and from April 1989 through September 1995, he served as the Managing Partner of the law firm's San Jose office.

Ms. Minton, 42, has been Senior Vice President, Finance and Operations since October 2001. She served as Senior Vice President and Corporate Controller from April 2000 to September 2001 and Vice President and Corporate Controller from November 1998 to March 2000. Ms. Minton joined us in May 1989 and has held various positions in the finance organization including Assistant Corporate Controller and was a Vice President since August 1995.

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### **Item 2. Properties**

Our properties consist of owned and leased office facilities for sales, support, research and development, consulting and administrative personnel. Our headquarters facility consists of approximately 2.5 million square feet in Redwood City, California. We also own or lease office facilities consisting of approximately 8.4 million square feet in various locations in the United States and abroad.

We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations. See Note 12 of Notes to Consolidated Financial Statements for information regarding our lease obligations.

### **Item 3. Legal Proceedings**

The material set forth in Note 17 of Notes to Consolidated Financial Statements in Item 15 of this Form 10-K is incorporated herein by reference.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

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### PART II

#### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on The Nasdaq National Market under the symbol "ORCL" and has been traded on Nasdaq since our initial public offering in 1986. According to the records of our transfer agent, we had 26,716 stockholders of record as of May 31, 2003. The majority of our shares are held in approximately two million customer accounts held by brokers and other institutions on behalf of stockholders. However, we believe that the number of total stockholders is less than two million due to stockholders with accounts at more than one brokerage. The following table sets forth the low and high sale price of our common stock, based on the last daily sale, in each of our last eight fiscal quarters.

	Low Sale Price	High Sale Price
Fiscal 2003:		
Fourth Quarter	\$ 10.68	\$ 13.26
Third Quarter	10.53	13.11
Second Quarter	7.64	12.15
First Quarter	7.32	11.19
Fiscal 2002:		
Fourth Quarter	\$ 7.92	\$ 15.99
Third Quarter	13.70	17.26
Second Quarter	10.76	15.58
First Quarter	12.00	19.77

Our policy has been to reinvest earnings to fund future growth and to repurchase our common stock under a program approved by our Board of Directors. Accordingly, we have not paid cash dividends and do not anticipate declaring cash dividends on our common stock in the foreseeable future.

#### Item 6. Selected Financial Data

The following table sets forth selected financial data for the last five years. This selected financial data should be read in conjunction with the consolidated financial statements and related notes included in Item 15 of this Form 10-K.

(Dollars in millions, except per share amounts)	Year ended May 31,				
	2003	2002	2001	2000	1999
Total revenues	\$ 9,475	\$ 9,673	\$10,961	\$10,231	\$8,939
Operating income	3,440	3,571	3,777	3,080	1,873
Net income	2,307	2,224	2,561	6,297 <sup>(1)</sup>	1,290
Earnings per share—basic	0.44	0.40	0.46	1.11	0.22
Earnings per share—diluted	0.43	0.39	0.44	1.05	0.22
Working capital	5,069	4,768	5,046	5,021	2,401
Total assets	11,064	10,800	11,030	13,077	7,260
Long-term debt, net of current portion	175	298	301	301	304
Stockholders' equity	6,320	6,117	6,277	6,461	3,695

<sup>(1)</sup> Net income for fiscal 2000 includes a \$4.0 billion gain, net of tax, resulting from the sale of shares in Oracle Japan, a majority owned subsidiary.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Revenue Recognition
- Allowances for Doubtful Accounts and Returns
- Legal Contingencies
- Accounting for Income Taxes

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. Our senior management has reviewed these critical accounting policies and related disclosures with our Finance and Audit Committee.

*Revenue Recognition*

We derive revenues from three primary sources: (1) new software licenses, (2) software license updates and product support, and (3) services, which include consulting, advanced product services and education revenues. New software license revenues represent all fees earned from granting customers licenses to use our database technology and applications software, and excludes revenues derived from software license updates, which are included in software license updates and product support. While the basis for software license revenue recognition is substantially governed by the provisions of Statement of Position No. 97-2, *Software Revenue Recognition*, issued by the American Institute of Certified Public Accountants, we exercise judgment and use estimates in connection with the determination of the amount of new software license, software license updates and product support and services revenues to be recognized in each accounting period.

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize new software license revenue when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Substantially all of our new software license revenues are recognized in this manner.

The vast majority of our software license arrangements include software license updates and product support, which are recognized ratably over the term of the arrangement, typically one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period. Product support services include internet access to technical content, as well as internet and telephone access to technical support personnel. Software license updates and product support are generally priced as a percentage of the net new software license fees. Software license updates can be purchased separately from product support; however, only customers who purchase software license updates can purchase product support. Substantially all of our customers purchase both software license updates and product support upon the initial licensing of our software. In addition, most of these customers renew the software license updates and product support rights annually.

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Many of our software arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenues from these arrangements are generally accounted for separately from new software license revenues because the arrangements qualify as service transactions as defined in SOP 97-2. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments and impact of milestones or acceptance criteria on the realizability of the software license fee. Revenues for consulting services are generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. We estimate the percentage of completion on contracts with fixed or “not to exceed” fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. We recognize no more than 90% of the milestone or total contract amount until project acceptance is obtained. If we do not have a sufficient basis to measure progress towards completion, revenue is recognized when we receive final acceptance from the customer. When total cost estimates exceed revenues, we accrue for the estimated losses immediately based upon an average fully burdened daily rate applicable to the consulting organization delivering the services. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the percentage-of-completion method of accounting affect the amounts of revenue and related expenses reported in our consolidated financial statements. A number of internal and external factors can affect our estimates, including labor rates, utilization and efficiency variances and specification and testing requirement changes.

If an arrangement does not qualify for separate accounting of the software license and consulting transactions, then new software license revenue is generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method as described above. Contract accounting is applied to any arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license fees; (2) where services include significant modification or customization of the software; (3) where significant consulting services are provided for in the software license contract without additional charge; or (4) where the software license payment is tied to the performance of consulting services.

Advanced product services are earned by providing services to customers that include remote database administration, performance monitoring and tuning, annual on-site technical support services and outsourcing. Outsourcing services include multi-featured software management and maintenance services for our database technology and applications software. Advanced product services revenues are recognized over the term of the service contract, which is generally one year.

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

For arrangements with multiple elements, we allocate revenue to each element of a transaction based upon its fair value as determined by “vendor specific objective evidence.” Vendor specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately and for software license updates and product support services, is additionally measured by the renewal rate offered to the customer. We defer revenue for any undelivered elements, and recognize revenue when the product is delivered or over the period in which the service is performed, in accordance with our revenue recognition policy for such element. If we cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, we defer revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, we use the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.



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Our software license arrangements generally do not include acceptance provisions. However, if acceptance provisions exist as part of public policy, for example in agreements with government entities when acceptance periods are required by law, or within previously executed terms and conditions that are referenced in the current agreement and are short-term in nature, we provide for a sales return allowance in accordance with FASB Statement No. 48, *Revenue Recognition when Right of Return Exists*. If acceptance provisions are long-term in nature or are not included as standard terms of an arrangement or if we cannot reasonably estimate the incidence of returns, revenue is recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

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

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

While most of our arrangements include short-term payment terms, we have a standard practice of providing long-term financing to credit worthy customers through our financing division. Since fiscal 1989, when our financing division was formed, we have established a history of collection, without concessions, on these receivables with payment terms that generally extend up to five years from the contract date. Provided all other revenue recognition criteria have been met, we recognize new software license revenue for these arrangements upon delivery, net of any payment discounts from financing transactions. In fiscal 2003, 2002 and 2001 approximately 11%, 13% and 16% of our new software license revenues were financed through our financing division. We have generally sold these receivables on a non-recourse basis to third party financing institutions. We account for the sale of these receivables as “true sales” as defined in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

### *Allowances for Doubtful Accounts and Returns*

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made 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. In determining these percentages, we analyze our historical collection experience and current economic trends. If the historical data we use to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

We also record a provision for estimated sales returns and allowances on product and service related sales in the same period the related revenues are recorded in accordance with Statement 48. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. If the historical data we use to calculate these estimates does not properly reflect future returns, then a change in the allowances would be made in the period in which such a determination is made and revenues in that period could be materially affected.

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### *Legal Contingencies*

We are currently involved in various claims and legal proceedings. Periodically, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. 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. See Note 17 of Notes to Consolidated Financial Statements for a description of our material legal proceedings not in the ordinary course of business.

### *Accounting for Income Taxes*

Significant 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 revenue and expense that qualify for preferential tax treatment, and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than 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 of future tax benefit that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance will not need to be increased to cover additional deferred tax assets that may not be realizable. Any increase in the valuation allowance could have a material adverse impact on our income tax provision and net income in the period in which such determination is made.

We provide for United States income taxes on the earnings of foreign subsidiaries unless they are considered permanently invested outside the United States. At May 31, 2003, the cumulative earnings upon which United States income taxes have not been provided are approximately \$3.1 billion. If these earnings were repatriated to the United States, they would generate foreign tax credits that could reduce the Federal tax liability associated with the foreign dividend. Assuming a full utilization of the foreign tax credits, the potential deferred tax liability for these earnings is \$690.7 million.

## **Results of Operations**

### *Constant Currency Presentation*

We compare the percent change in the results from one period to another period in this Annual Report using constant currency disclosure. To present that information, current period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the exchange rate in effect on the last day of the prior fiscal year, rather than the exchange rates in effect during current period. For example, if an entity reporting in Euros had revenues of 1.0 million Euros from products sold on the last day of both fiscal 2003 and 2002, our financial statements would reflect revenues of \$1.2 million in fiscal 2003 (using 0.8512 as the exchange rate) and \$0.9 million in fiscal 2002 (using 1.0707 as the exchange rate). The constant currency presentation would translate the fiscal 2003 results using the fiscal 2002 exchange rate and indicate, in this example, no change in fiscal 2003 revenues from those in fiscal 2002. We present this constant currency information in order to allow investors to assess how our underlying business performed excluding the effect of

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currency rate fluctuations. In each of the tables below, we present the percent change based on actual results as reported and based on constant currency.

### Total Revenues and Operating Expenses

	Year Ended May 31,						
		Percent Change			Percent Change		
		Actual	Constant		Actual	Constant	
(Dollars in millions)	2003			2002			2001
<b>Total Revenues :</b>							
Americas	\$4,844	-8%	-7%	\$5,293	-17%	-16%	\$ 6,350
EMEA	3,254	7%	-6%	3,050	-2%	-2%	3,120
APAC	1,377	4%	-1%	1,330	-11%	-5%	1,491
Total revenues	9,475	-2%	-6%	9,673	-12%	-10%	10,961
<b>Total Operating Expenses</b>	6,035	-1%	-5%	6,102	-15%	-14%	7,184
<b>Total Operating Margin</b>	\$3,440	-4%	-9%	\$3,571	-5%	-4%	\$ 3,777
<b>Total Operating Margin %</b>	36%			37%			34%
<b>% Revenues by Geography:</b>							
Americas	51%			55%			58%
EMEA	34%			31%			28%
APAC	15%			14%			14%

**Fiscal 2003 Compared to Fiscal 2002:** Total revenues declined in fiscal 2003 primarily due to lower new software license, consulting and education revenues. The decline in total revenues is primarily attributable to continued weak economic conditions, both domestically and internationally, that have resulted in customers delaying or limiting their technology spending. The weak economy has caused customers to continue to exercise caution over spending. Total revenues were favorably affected by currency rate fluctuations. The favorable currency rate fluctuations were due to a weakening of the United States dollar against certain major international currencies, primarily the Euro, British Pound and Japanese Yen. Excluding the effect of currency rate fluctuations, Americas revenues contributed 63% to the decline in total revenues in fiscal 2003, EMEA revenues, which are comprised of Europe, the Middle East and Africa, contributed 34% and Asia Pacific revenues contributed 3%.

Excluding currency rate fluctuations, total operating expenses decreased due to lower salary expenses as a result of lower personnel levels and related expenditures, tighter controls over discretionary spending and productivity improvements. International operating expenses were unfavorably affected as a result of the weak United States dollar relative to other major international currencies. Excluding the effect of currency rate fluctuations, Americas contributed 48% to the decline in total operating expenses in fiscal 2003, while EMEA contributed 65%, offset by an increase in Asia Pacific.

Operating margins as a percentage of total revenues decreased from 37% to 36%, primarily due to the decline in total revenues. International operations will continue to provide a significant portion of total revenues. As a result, total revenues and expenses will be affected by changes in the relative strength of the United States dollar against certain major international currencies.

**Fiscal 2002 Compared to Fiscal 2001:** Total revenues declined in fiscal 2002 primarily due to lower new software license, consulting and education revenues. The decrease in revenues resulted from weak economic conditions, particularly in the United States. International revenues were unfavorably affected as a result of the strong United States dollar relative to certain other major international currencies. Excluding the effect of currency rate fluctuations, Americas revenues contributed 89% to the decline in total revenues in fiscal 2002, EMEA revenues contributed 5% and Asia Pacific revenues contributed 6%.

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Total operating expenses decreased due to lower sales commissions and bonuses that resulted from lower new software license and consulting revenues, the elimination of discretionary bonuses for the United States operations, lower personnel levels and related expenditures, tighter controls over discretionary spending and productivity improvements. International operating expenses were favorably affected as a result of the strong United States dollar relative to certain other major international currencies. Excluding the effect of currency rate fluctuations, Americas contributed 75% to the decline in total operating expenses in fiscal 2002, EMEA contributed 18% and Asia Pacific contributed 7%.

Despite the significant decrease in revenues, operating margins as a percentage of total revenues increased to 37% due to lower personnel levels and related expenditures, as well as tighter controls over discretionary spending.

**New Software License and Other:** New software license revenues represent fees earned from granting customers licenses to use our database technology and application software products, and exclude revenues derived from software license updates, which are included in software license updates and product support. Other revenues include documentation and miscellaneous revenues. We continue to place significant emphasis, both domestically and internationally, on direct sales through our own sales force. We also continue to market our products through indirect channels.

	Year Ended May 31,						
		Percent Change			Percent Change		
		Actual	Constant		Actual	Constant	
(Dollars in millions)	2003			2002			2001
<b><i>New Software License and Other Revenues:</i></b>							
Americas	\$1,426	-15%	-13%	\$1,671	-36%	-35%	\$2,604
EMEA	1,225	5%	-8%	1,167	-8%	-8%	1,265
APAC	619	-8%	-12%	675	-19%	-14%	838
Total revenues	3,270	-7%	-11%	3,513	-25%	-24%	4,707
<b><i>Sales and Marketing Expenses</i></b>	2,072	-6%	-5%	2,209	-18%	-14%	2,691
<b><i>Total Margin</i></b>	\$1,198	-8%	-9%	\$1,304	-35%	-34%	\$2,016
<b><i>Total Margin %</i></b>	37%			37%			43%
<b><i>% Revenues by Geography:</i></b>							
Americas	44%			48%			55%
EMEA	37%			33%			27%
APAC	19%			19%			18%
<b><i>Revenues by Product:</i></b>							
Database technology	\$2,618	-4%	-9%	\$2,739	-23%	-21%	\$3,562
Applications	605	-14%	-17%	703	-31%	-31%	1,022
Total revenues by product	3,223	-6%	-11%	3,442	-25%	-24%	4,584
Other revenues	47	-34%	-36%	71	-42%	-41%	123
Total new software license and other revenues	\$3,270	-7%	-11%	\$3,513	-25%	-24%	\$4,707

**Fiscal 2003 Compared to Fiscal 2002:** The decline in new software license revenues was primarily due to customers delaying or limiting their technology capital spending as a result of weak domestic and international economic conditions. These weak economic conditions have resulted in more customers restricting their software procurement to well-defined current needs and a decline in purchases intended to accommodate future customer growth. New software license revenues earned from large transactions, defined as new software license transactions over \$0.5 million, decreased by 11% in fiscal 2003, contributing to the decline in new software license revenues. New software license revenues generated from large transactions declined slightly as a

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percentage of total new software license revenues from 37% in fiscal 2002 to 36% in fiscal 2003. Excluding the effect of currency rate fluctuations, Americas revenues contributed 53% to the decline in new software license revenues in fiscal 2003, EMEA revenues contributed 26% and Asia Pacific revenues contributed 21%.

Despite the decline in database technology revenues, we believe that we are the leading database supplier in the markets we serve. We believe that the decrease in database technology revenues is due to the economic factors discussed above, which have resulted in a decrease in the size of the database market, a slow down in the growth of the applications market, as well as a shift from our Database Enterprise Edition to our Database Standard Edition, which has fewer features and a lower price. We also believe that applications software revenues decreased primarily due to the economic factors discussed above.

Sales and marketing expenses decreased due to lower personnel and related expenditures, as well as tighter controls over discretionary spending. The overall decrease in new software license margin is primarily due to the decrease in new software license revenues, partially offset by lower sales and marketing expenses.

**Fiscal 2002 Compared to Fiscal 2001:** The decrease in new software license revenues was primarily due to weak economic conditions, both domestically and internationally, that caused our customers to delay or lower their technology capital spending. Of particular note, the economic weakness of the “dot.com,” telecommunications and high technology industries negatively affected demand for our database technology and applications products. These weak economic conditions, combined with a concerted effort to limit large discounts, have resulted in more customers restricting their software procurement to well-defined current needs and a decline in purchases intended to accommodate future customer growth. Consequently, the percentage of new software license revenues generated from large transactions decreased from 46% of total new software license revenues in fiscal 2001 to 37% of total new software license revenues in fiscal 2002, contributing to the decline in new software license revenues.

Sales and marketing expenses decreased due to lower sales commissions and bonuses as a result of lower new software license revenues and sales personnel levels, as well as tighter controls over discretionary spending. The overall decrease in new software license margin is primarily due to the decrease in new software license revenues, partially offset by lower sales and marketing expenses.

**Software License Updates and Product Support:** Software license updates grant customers rights to unspecified software product upgrades and maintenance releases issued during the support period. Product support includes internet access to technical content, as well as internet and telephone access to technical support personnel. The cost of providing support services consists largely of personnel related expenses.

	Year Ended May 31,						
	Percent Change			Percent Change			
	Actual	Constant		Actual	Constant		
(Dollars in millions)	2003			2002			2001
<b>Software License Updates and Product Support Revenues:</b>							
Americas	\$2,170	4%	6%	\$2,077	5%	6%	\$1,974
EMEA	1,272	22%	7%	1,043	10%	11%	949
APAC	487	16%	10%	420	11%	18%	378
Total revenues	3,929	11%	7%	3,540	7%	9%	3,301
<b>Expenses</b>	474	3%	-2%	462	-16%	-15%	551
<b>Total Margin</b>	\$3,455	12%	8%	\$3,078	12%	14%	\$2,750
<b>Total Margin %</b>	88%			87%			83%
<b>% Revenues by Geography:</b>							
Americas	55%			59%			60%
EMEA	32%			29%			29%
APAC	13%			12%			11%

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**Fiscal 2003 Compared to Fiscal 2002:** Software license updates and product support revenue growth rates are affected by the overall new software license revenue growth rates, as well as the renewal rate of annual support contracts by existing customers. The increase in software license updates and product support revenues in fiscal 2003 reflects an increase in the overall customer installed base as compared to the prior year, as well as improved renewal rates and more timely renewals. Excluding the effect of currency rate fluctuations, Americas revenues contributed 50% to the growth in software license updates and product support revenues in fiscal 2003, EMEA revenues contributed 33% and Asia Pacific revenues contributed 17%.

Excluding the effect of currency rate fluctuations, software license and product support expenses decreased slightly due to controls over non-headcount related operating expenses. The software license and product support margin as a percent of revenues increased in fiscal 2003 as compared to the prior year, as a result of increased revenues.

**Fiscal 2002 Compared to Fiscal 2001:** Software license updates and product support revenues grew more slowly in fiscal 2002 as compared to the prior year as a result of the decrease in new software license revenues in fiscal 2002, and the weak new software license revenue growth rate experienced in the second half of fiscal 2001. Excluding the effect of currency rate fluctuations, Americas revenues contributed 41% to the growth in software updates and product support revenues in fiscal 2002, EMEA revenues contributed 37% and Asia Pacific revenues contributed 22%.

Software license updates and product support expenses decreased in fiscal 2002 primarily due to the elimination of discretionary employee bonuses. The software license updates and product support margin as a percentage of revenues increased to 87% in fiscal 2002 from 83% in fiscal 2001, primarily due to increased revenues.

### Services

Services consist of consulting, advanced product services and education.

**Consulting:** Consulting revenues are earned by providing services to customers specializing in the rapid design, implementation, deployment, upgrade and migration of our database technology and applications software. The cost of providing consulting services consists primarily of personnel related expenditures.

	Year Ended May 31,						
		Percent Change			Percent Change		
		Actual	Constant		Actual	Constant	
(Dollars in millions)	2003			2002			2001
<b>Consulting Revenues:</b>							
Americas	\$ 999	-19%	-18%	\$1,236	-13%	-12%	\$1,418
EMEA	583	-5%	-16%	613	-8%	-7%	666
APAC	179	35%	27%	133	-23%	-18%	173
Total revenues	1,761	-11%	-14%	1,982	-12%	-11%	2,257
<b>Expenses</b>	1,472	-3%	-7%	1,522	-19%	-17%	1,875
<b>Total Margin</b>	\$ 289	-37%	-38%	\$ 460	20%	21%	\$ 382
<b>Total Margin %</b>	16%			23%			17%
<b>% Revenues by Geography:</b>							
Americas	57%			62%			63%
EMEA	33%			31%			29%
APAC	10%			7%			8%

**Fiscal 2003 Compared to Fiscal 2002:** The decline in total consulting revenues in fiscal 2003 was primarily due to weak economic conditions, both domestically and internationally, which have caused companies to delay or limit technology spending and product implementations.

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Excluding the effect of currency rate fluctuations, the decline in consulting expenses is due to a reduction of personnel related expenditures as a result of lower headcount levels, as well as controls over discretionary spending. The consulting margin as a percentage of revenues declined to 16% in fiscal 2003, as consulting revenues declined at a higher rate than consulting expenses. In Europe, the consulting margins deteriorated more significantly than margins in other geographies. Due to labor regulations in most countries throughout Europe, we were unable to reduce headcount quickly in response to deteriorating market conditions. The margins in Europe were also negatively affected by high employee severance costs recorded in the second and fourth quarters of fiscal 2003.

**Fiscal 2002 Compared to Fiscal 2001:** Consulting revenues decreased due to weak economic conditions, both domestically and internationally, which have caused companies to delay technology capital spending and product implementations.

Consulting expenses decreased due to efficiency gains resulting from the consolidation of the domestic consulting organizations, reductions in personnel, the elimination of a portion of discretionary employee bonuses and tighter controls over discretionary spending. As a result, despite lower revenues, the consulting margin as a percentage of revenues increased to 23% in fiscal 2002.

**Advanced Product Services:** Advanced product services are earned by providing services to customers that include remote database administration, performance monitoring and tuning, annual on-site technical services and outsourcing services. Outsourcing services include multi-featured software management and maintenance services for our database technology and applications software. The cost of providing advanced product services consists primarily of personnel related expenditures.

	Year Ended May 31,						
		Percent Change			Percent Change		
		Actual	Constant		Actual	Constant	
(Dollars in millions)	2003			2002			2001
<b>Advanced Product Services Revenues:</b>							
Americas	\$ 150	-16%	-14%	\$ 178	8%	9%	\$ 165
EMEA	78	-31%	-39%	113	18%	18%	96
APAC	29	-3%	-10%	30	30%	32%	23
Total revenues	257	-20%	-23%	321	13%	14%	284
Expenses	182	-3%	-7%	188	15%	16%	164
Total Margin	\$ 75	-44%	-46%	\$ 133	11%	12%	\$ 120
Total Margin %	29%			41%			42%
<b>% Revenues by Geography:</b>							
Americas	59%			56%			58%
EMEA	30%			35%			34%
APAC	11%			9%			8%

**Fiscal 2003 Compared to Fiscal 2002:** Advanced product services revenues decreased in fiscal 2003 due to continued weak domestic and international economic conditions and a de-emphasis of certain services. Additionally, primarily in Europe, responsibility for performing certain on-site support services on a time and materials basis was transferred to the consulting line of business, which contributed to the reduction in advanced product services revenues.

Excluding the effect of currency rate fluctuations, total advanced product services expenses decreased primarily due to a reduction of personnel related expenditures as a result of lower headcount levels. Due to the decline in advanced product services revenues, the total advanced product services margin as a percent of revenues decreased to 29% in fiscal 2003.



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**Fiscal 2002 Compared to Fiscal 2001:** Advanced product services revenues increased in fiscal 2002, primarily due to an increased focus on certain services, particularly annual on-site technical support services.

Excluding the effect of currency rate fluctuations, total advanced product services expenses increased primarily due to higher personnel related expenditures as a result of increased headcount levels. The total advanced product services margin as a percent of revenues decreased slightly to 41% in fiscal 2002.

**Education:** Education revenues are earned by providing instructor led and media based training in the use of our database technology and applications software. Education expenses primarily consist of personnel related expenditures, facilities and external contractor costs.

	Year Ended May 31,						
		Percent Change			Percent Change		
		Actual	Constant		Actual	Constant	
(Dollars in millions)	2003			2002			2001
<b>Education Revenues:</b>							
Americas	\$ 99	-24%	-23%	\$ 131	-31%	-30%	\$ 189
EMEA	96	-16%	-25%	114	-21%	-20%	144
APAC	63	-13%	-16%	72	-9%	-3%	79
Total revenues	258	-19%	-22%	317	-23%	-21%	412
<b>Expenses</b>	214	-9%	-13%	234	-24%	-22%	307
<b>Total Margin</b>	\$ 44	-47%	-50%	\$ 83	-21%	-19%	\$ 105
<b>Total Margin %</b>	17%			26%			25%
<b>% Revenues by Geography:</b>							
Americas	38%			41%			46%
EMEA	37%			36%			35%
APAC	25%			23%			19%

**Fiscal 2003 Compared to Fiscal 2002:** The decline in education revenues is attributable to lower new software license revenue growth rates, as well as weak economic conditions that have resulted in a decline in customer discretionary spending. In addition, as a result of headcount reductions of information technology personnel across multiple industry sectors, the demand for technical product training has declined. Excluding the effect of currency rate fluctuations, Americas revenues contributed 42% to the decline in education revenues in fiscal 2003, EMEA revenues contributed 41% and Asia Pacific revenues contributed 17%.

Education expenses decreased due to reductions in personnel and related expenditures and tighter controls over discretionary spending. The education margins as a percentage of revenue decreased to 17% in fiscal 2003, as revenues declined at a faster rate than expenses.

**Fiscal 2002 Compared to Fiscal 2001:** The decline in education revenues in fiscal 2002 was due to the decrease in new software license revenues in fiscal 2002 and a decline in customer discretionary spending as a result of weak economic conditions, both domestically and internationally. Excluding the effect of currency rate fluctuations, Americas revenues contributed 63% to the decline in education revenues in fiscal 2002, EMEA revenues contributed 34% and Asia Pacific revenues contributed 3%.

Education expenses decreased due to reductions in personnel and related expenditures and tighter controls over discretionary spending. Although education margins decreased, the education margins as a percentage of revenue increased to 26% in fiscal 2002, due to tighter controls over spending.



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**Research and Development Expenses:** Research and development expenses primarily consist 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.

	Year Ended May 31,						
	Percent Change			Percent Change			
		Actual	Constant		Actual	Constant	
(Dollars in millions)	2003			2002			2001
<i>Expenses</i>	\$1,180	10%	8%	\$1,076	-6%	-5%	\$1,139
<i>Percent of Total Revenues</i>	12%			11%			10%

**Fiscal 2003 Compared to Fiscal 2002:** Excluding the effect of currency rate fluctuations, research and development expenses increased in fiscal 2003 due to a 9% and 1% increase in personnel in the database technology and applications development organizations, respectively. The increase in personnel expenses was partially lessened by the hiring of personnel in India, where personnel costs are significantly lower than in the United States.

**Fiscal 2002 Compared to Fiscal 2001:** Although research and development personnel increased 12%, expenditures decreased due to the hiring of personnel in India and China where personnel costs are significantly lower than in the United States, the elimination of discretionary employee bonuses and tighter controls over discretionary spending.

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

(Dollars in millions)	Year Ended May 31,						2001
	2003	Percent Change		2002	Percent Change		
		Actual	Constant		Actual	Constant	
<i>Expenses</i>	\$441	7%	2%	\$411	-10%	-8%	\$457
<i>Percent of Total Revenues</i>	5%			4%			4%

**Fiscal 2003 Compared to Fiscal 2002:** Excluding the effect of currency rate fluctuations, general and administrative expenses grew slightly due to increased headcount.

**Fiscal 2002 Compared to Fiscal 2001:** General and administrative expenses decreased primarily due to lower compensation related expenditures including the elimination of discretionary employee bonuses, as well as savings from productivity efficiencies and cost controls.

**Net Investment Losses Related to Equity Securities:** Net investment losses primarily relate to provisions for losses related to Liberate Technologies and investments in other companies.

		Year Ended May 31,					
		Percent Change			Percent Change		
		Actual	Constant		Actual	Constant	
(Dollars in millions)	2003			2002			2001
Liberate Technologies	\$ (87)	*	*	\$(174)	*	*	\$ —
Other investments	(24)	*	*	(70)	*	*	(17)
Net investment losses	\$(111)	*	*	\$(244)	*	*	\$(17)

\* not meaningful

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**Fiscal 2003 Compared to Fiscal 2002:** The decrease in net investment losses in fiscal 2003 as compared to fiscal 2002 was primarily due to a lower impairment charge recorded for our investment in Liberate Technologies. In the fourth quarter of 2002, we recognized a \$173.5 million impairment charge relating to an other than temporary decline in the fair value of our investment in Liberate Technologies. We concluded that our investment was other than temporarily impaired because our cost basis exceeded the publicly traded market value of the Liberate Technologies common stock for approximately six months. Due to further declines in the market value of Liberate Technologies, we recognized an additional impairment charge of \$87.2 million in the first six months of fiscal 2003. During the second half of fiscal 2003, the market value of our investment in Liberate Technologies increased by \$41.7 million, which is reflected within stockholders' equity as an unrealized gain on equity securities, net of taxes. The carrying value of our remaining investment in Liberate Technologies as of May 31, 2003 was \$89.8 million, which includes the unrealized gain of \$41.7 million.

In fiscal 2003 and 2002, we recognized \$23.9 million and \$70.0 million of impairment losses related to other investments, which include investments in privately held companies, venture funds and publicly traded companies. We determined that the decreases in the fair value of these investments were other than temporary based upon the financial condition and near term prospects of the underlying investees, changes in the market demand for technology being sold or developed by the underlying investees and our intent regarding providing future funding to the underlying investees. The carrying value of our remaining other investments as of May 31, 2003 was \$64.8 million.

**Fiscal 2002 Compared to Fiscal 2001:** The increase in net investment losses was primarily due to the impairment charge recorded for our investment in Liberate Technologies. The carrying value of our investment in Liberate at May 31, 2002 was \$135.3 million. In addition, we also reduced the carrying value of certain other investments to their estimated net realizable value during fiscal 2002. The carrying value of our remaining other investments at May 31, 2002 was \$85.7 million.

**Other Income, Net:** Other income, net consists primarily of interest income, interest expense, foreign currency exchange gains and losses and the minority interest share in the net profits of Oracle Japan.

	Year Ended May 31,						
	Percent Change			Percent Change			
		Actual	Constant		Actual	Constant	
(Dollars in millions)	2003			2002			2001
Interest income	\$129	-22%	-25%	\$166	-43%	-42%	\$289
Interest expense	(16)	-20%	-15%	(20)	-17%	-6%	(24)
Foreign currency gains (losses)	8	*	*	(21)	*	*	(10)
Minority interest	(33)	*	*	(36)	*	*	(39)
Other	8	*	*	(8)	*	*	(5)
Total other income, net	\$ 96	*	*	\$ 81	*	*	\$211

\* not meaningful

**Fiscal 2003 Compared to Fiscal 2002:** Other income, net increased in fiscal 2003 as compared to fiscal 2002, primarily due to foreign currency exchange gains, which were partially offset by lower interest income. In fiscal 2002, the Argentine Peso was devalued resulting in foreign currency exchange losses. In fiscal 2003, interest income decreased as a result of lower interest rates available in the capital markets. In fiscal 2003, the weighted average interest rate earned on cash, cash equivalents and investments decreased to 1.6% as compared to 2.0% in fiscal 2002.

**Fiscal 2002 Compared to Fiscal 2001:** The decrease in other income, net was primarily due to lower interest income attributable to lower interest rates available in the capital markets. The weighted average interest rate earned on cash, cash equivalents and investments during fiscal 2002 decreased to 2.0% from 4.5% in fiscal 2001.

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**Provision for Income Taxes:** Our effective income tax rates were 32.6%, 34.7% and 35.5% in fiscal 2003, 2002 and 2001, respectively. The effective tax rate in all periods is the result of the mix of our and our subsidiaries taxable income earned in various tax jurisdictions that apply a broad range of income tax rates. The provision for income taxes differs from the tax computed at the federal statutory income tax rate due primarily to state taxes, earnings considered as permanently reinvested in foreign operations, reduced by the 40% effective tax benefit on the impairment charges on our investment in Liberate Technologies and, in fiscal 2003, a benefit resulting from the reversal of previously accrued taxes due to the Internal Revenue Service conceding the Tax Court case regarding Foreign Sales Corporation benefits on our foreign royalties. Future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where we have lower statutory rates, by unfavorable changes in tax laws and regulations, or by adverse rulings in tax related litigation.

We provide for United States income taxes on the earnings of foreign subsidiaries unless they are considered permanently invested outside the United States. At May 31, 2003, the cumulative earnings upon which United States income taxes have not been provided were approximately \$3.1 billion. If these earnings were repatriated to the United States, they would generate foreign tax credits that could reduce the Federal tax liability associated with the foreign dividend. Assuming a full utilization of the foreign tax credits, the potential deferred tax liability for these earnings would be \$690.7 million.

Under FASB Statement No. 109, *Accounting for Income Taxes*, deferred assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Statement 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. We will continue to evaluate the realizability of the deferred tax assets on a quarterly basis.

At May 31, 2003, we had net operating loss carryforwards, resulting in a \$10.9 million deferred tax asset, which originated from acquired domestic subsidiaries. We expect to utilize all of these loss carryforwards, which expire between 2004 and 2019. We also have loss carryforwards of \$71.5 million in certain foreign subsidiaries, resulting in deferred tax assets of approximately \$21.3 million, which expire at various dates: \$2.4 million in 2005, \$11.4 million in 2007, \$8.4 million in 2008, \$1.7 million in 2010, \$9.6 million in 2011, \$6.1 million in 2013 and the remaining balance of \$31.9 million has no expiration.

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### Quarterly Results of Operations

Quarterly revenues and expenses have historically been affected by a variety of seasonal factors, including sales compensation plans. These seasonal factors are common in the software industry. These factors have caused a decrease in our first quarter revenues as compared to revenues in the immediately preceding fourth quarter, which historically, has been the highest quarter. We expect this trend to continue in the first quarter of fiscal 2004. In addition, our European operations generally provide lower revenues in our first fiscal quarter because of the reduced economic activity in Europe during the summer.

We expect the total revenue growth in the first quarter of fiscal 2004 to range between 4% and 7%, while the new software license revenue growth is expected to range between 2% and 12%. In addition, we anticipate reported earnings per share to range between \$0.07 and \$0.08, depending on actual revenue growth rates. These estimates are forward looking and are based on current expectations and assumptions. Actual results may differ materially and you should not rely on these estimates. We undertake no specific obligation to provide any updates regarding these estimates.

The following table sets 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 Form 10-K. The sum of the quarterly financial information may vary from the annual data due to rounding.

(in millions, except per share data)	Fiscal 2003 Quarter Ended (Unaudited)			
	August 31	November 30	February 28	May 31
Revenues	\$ 2,028	\$ 2,309	\$ 2,307	\$2,832
Operating income	\$ 580	\$ 794	\$ 796	\$1,271
Net income	\$ 343	\$ 535	\$ 571	\$ 858
Earnings per share—basic	\$ 0.06	\$ 0.10	\$ 0.11	\$ 0.16
Earnings per share—diluted	\$ 0.06	\$ 0.10	\$ 0.11	\$ 0.16

(in millions, except per share data)	Fiscal 2002 Quarter Ended (Unaudited)			
	August 31	November 30	February 28	May 31
Revenues	\$ 2,265	\$ 2,380	\$ 2,254	\$2,774
Operating income	\$ 746	\$ 820	\$ 779	\$1,226
Net income	\$ 511	\$ 549	\$ 508	\$ 656
Earnings per share—basic	\$ 0.09	\$ 0.10	\$ 0.09	\$ 0.12
Earnings per share—diluted	\$ 0.09	\$ 0.10	\$ 0.09	\$ 0.12

### Liquidity and Capital Resources

(in millions)	As of and for the Fiscal Year Ended May 31,				
	2003	Change	2002	Change	2001
Working capital	\$ 5,069	6%	\$ 4,768	-6%	\$ 5,046
Cash and cash equivalents and short-term investments	\$ 6,519	12%	\$ 5,841	-1%	\$ 5,887
Cash provided by operating activities	\$ 3,023	-4%	\$ 3,135	48%	\$ 2,124
Cash provided by (used for) investing activities	\$ 895	144%	\$(2,030)	-69%	\$(1,200)
Cash used for financing activities	\$(2,454)	0%	\$(2,465)	35%	\$(3,806)

**Cash, cash equivalents and short-term investments:** Cash and cash equivalents consist of highly liquid investments in time deposits held at major banks, commercial paper, United States government agency discount notes, money market mutual funds and other money market securities with original maturities of 90 days or less. Short-term investments include all investments with original maturities of greater than 90 days that mature in fiscal 2004. Cash, cash equivalents and short-term investments include \$5.0 billion held by our foreign subsidiaries, \$3.1 billion of which we consider permanently reinvested outside of the United States. These

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earnings would be subject to United States income tax if repatriated to the United States. Assuming a full utilization of the foreign tax credits, the potential deferred tax liability for these earnings would be \$690.7 million.

Improved timeliness in the collection of accounts receivable has contributed to the increase in cash, cash equivalents and short-term investments in fiscal 2003. Days sales outstanding, which is calculated by dividing period end accounts receivable by average daily sales for the quarter, was 61, 66 and 67 in the fourth quarter of fiscal 2003, 2002 and 2001, respectively.

### ***Cash flows from operating activities:***

***Fiscal 2003 Compared to Fiscal 2002:*** Cash flows from operating activities decreased in fiscal 2003, primarily due to an increase in income tax payments partially offset by a decline in compensation and bonus payments.

***Fiscal 2002 Compared to Fiscal 2001:*** Although net income decreased in fiscal 2002, cash flows from operating activities increased due to large tax payments made in fiscal 2001 related to the sale of Oracle Japan and Liberate common stock in fiscal 2000. Excluding these tax payments, cash provided by operating activities would have decreased slightly from fiscal 2001 to fiscal 2002.

### ***Cash flows from investing activities:***

The changes in cash flows from investing activities primarily relate to the timing of purchases and maturities of investments. We expect to continue to invest in capital and other assets to support our growth.

***Cash flows from financing activities:*** We incurred negative cash flows from financing activities in fiscal 2003, 2002 and 2001 primarily as a result of common stock repurchases. Cash flow from operations and existing cash balances were used to repurchase our common stock and to invest in working capital and other assets to support our growth.

Our Board of Directors has approved a program to repurchase shares of our common stock to reduce the dilutive effect of our stock option and stock purchase plans. Pursuant to the stock repurchase program, a total of 1,556.5 million shares have been repurchased as of May 31, 2003 for approximately \$17.6 billion. We repurchased 270.4 million shares for \$2.7 billion, 210.1 million shares for \$2.8 billion and 141.6 million shares for \$4.3 billion in fiscal 2003, 2002 and 2001, respectively. At May 31, 2003, approximately \$2.8 billion was available to repurchase shares of our common stock pursuant to the stock repurchase program.

In February 1998, we entered into a forward contract to sell 36.0 million shares of our common stock at \$4.42 per share plus accretion, subject to adjustments over time. The forward contract had a stated maturity of February 13, 2003 and was accounted for as an equity instrument. The forward contract collateralized our master lease facility that provided for the construction or purchase of up to \$182.0 million of property and improvements leased by us. On October 31, 2002, we settled the forward contract with a cash payment of \$166.3 million, which was recorded as a reduction to additional paid in capital. In May 2003, we exercised an option under the master lease facility and purchased the leased properties for \$168.3 million.

We have an option to acquire an office building and the underlying land, which we currently occupy under an operating lease. The option price is \$46.2 million and we currently plan to acquire this property in the first quarter of fiscal 2004.

During fiscal 1997, we issued \$150.0 million in 6.72% senior notes due in February 2004 and \$150.0 million in 6.91% senior notes due in February 2007. In February 2002, we entered into two interest-rate swap agreements that have the economic effect of modifying the interest obligations associated with these senior notes so that the interest payable on the senior notes effectively becomes variable. The notional amount of the interest rate swaps and their termination date match the principal amounts and maturities of the outstanding senior notes. As a result of the two interest rate swaps, the effective interest rates on the senior notes as of May 31, 2003, were reduced to

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4.66% on the February 2004 senior notes and 3.38% on the February 2007 senior notes. Additionally, at May 31, 2003, we had notes payable of \$9.5 million due in fiscal 2005.

The following is a summary of our contractual commitments associated with our debt and lease obligations as of May 31, 2003:

(Dollars in millions)	Year Ending May 31,						Total
	2004	2005	2006	2007	2008	Thereafter	
Principal and interest payments on senior notes	\$168	\$ 10	\$ 10	\$158	\$ –	\$ –	\$346
Notes payable	–	10	–	–	–	–	10
Operating leases	125	93	67	46	39	137	507
Option to purchase facility under operating lease	46	–	–	–	–	–	46
<b>Total commitments</b>	<b>\$339</b>	<b>\$113</b>	<b>\$ 77</b>	<b>\$204</b>	<b>\$ 39</b>	<b>\$ 137</b>	<b>\$909</b>

We offer our customers the option to acquire our software and services through separate long-term payment contracts. We generally sell such contracts on a non-recourse basis to financial institutions. We record the transfers of amounts due from customers to financial institutions as sales of financial assets because we are considered to have surrendered control of these financial assets under the provisions of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. In fiscal 2003, 2002 and 2001, approximately 11%, 13% and 16%, respectively, of our new software license revenues were financed through our financing division.

On June 9, 2003, we commenced an unsolicited \$16.00 per share cash tender offer for all of the outstanding shares of PeopleSoft, Inc., a Delaware corporation, or approximately \$5.1 billion for approximately 317 million shares. On June 18, 2003, we increased the cash tender offer to \$19.50 per share or approximately \$6.2 billion. We have entered into a commitment with Credit Suisse First Boston to provide a \$5.0 billion revolving credit facility with a term of 364 days. We plan to pay for the PeopleSoft shares and related transaction fees and expenses with internally available cash and borrowings under the revolving credit facility.

In connection with the tender offer, we have been named as a defendant in various legal proceedings and may be a party to additional legal proceedings in the future. While the outcome of these matters cannot be predicted with certainty, we believe we have meritorious defenses to these actions, and we will vigorously defend them.

We believe that our current cash and cash equivalents, short-term investments, cash generated from operations and the revolving credit facility discussed above will be sufficient to meet our working capital, capital expenditure and investment needs through at least May 31, 2004.

### Employee Stock Options

Our stock option program is a key component of the compensation package we provide to attract and retain talented employees and align their interests with the interests of existing stockholders. We recognize that options dilute existing stockholders and have sought to control the number of options granted while providing competitive compensation packages. Consistent with these dual goals, our cumulative potential dilution over the last three full fiscal years has been less than 1.0%, and has averaged 0.8% per year. The potential dilution percentage is calculated as the new option grants for the year, net of options forfeited by employees leaving the company, divided by the total outstanding shares at the beginning of the year. This maximum potential dilution will only result if all options are exercised. Many of these options, which have 10-year exercise periods, have exercise prices substantially higher than the current market price. At May 31, 2003, 25.1% of our outstanding stock options had exercise prices in excess of the current market price. Consistent with our historic practices, we do not expect that dilution from future grants before the effect of our stock repurchase program will exceed 1.5% per year for our ongoing business. Over the last 10 years, our stock repurchase program has more than offset the

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dilutive effect of our stock option program. At May 31, 2003, the maximum potential dilution from all option awards, regardless of when granted and regardless of whether vested or unvested and including options where the strike price is higher than the current market price, was 8.7%.

The Compensation Committee of the Board of Directors reviews and approves the organization-wide stock option grants to selected employees, all stock option grants to executive officers and any individual stock option grant in excess of 25,000 shares. The Plan Committee approves any individual stock option grant up to 25,000 shares to non-executive officers.

Options granted from fiscal year 2001 through fiscal 2003 are summarized as follows:

	(Shares in millions)
Options outstanding at May 31, 2000	592
Options granted	144
Options exercised	(186)
Cancellations	(95)
Options outstanding at May 31, 2003	455
Average annual options granted, net of cancellations	16
Shares outstanding at May 31, 2003	5,233
Weighted average shares outstanding for the three years ended May 31, 2003	5,472
Options outstanding as a percent of shares outstanding at May 31, 2003	8.7%
In the money options outstanding (based on our May 31, 2003 stock price) as a percent of shares outstanding at May 31, 2003	6.5%
Average annual options granted, net of cancellations and before stock repurchases, as a percent of weighted average shares outstanding for the three years ended May 31, 2003	0.3%
Average annual options granted, net of cancellations and after stock repurchases, as a percent of weighted average shares outstanding for the three years ended May 31, 2003	-3.5%

Generally, we grant stock options to our existing employees on an annual basis. During the year ended May 31, 2003, we made our annual grant of options and other grants to purchase approximately 66.1 million shares of our stock, which resulted in a net grant of options for 49.6 million shares after deducting 16.5 million shares for cancelled options. The net options granted in the year ended May 31, 2003 after cancellations represented 0.9% of our total outstanding shares of approximately 5,233 million as of May 31, 2003. For additional information about our employee stock option plan activity for the fiscal years 2001 through 2003, and the pro forma earnings presentation as if we had expensed our stock option grants using the fair value method of accounting, see Note 3 of Notes to Consolidated Financial Statements.

## New Accounting Pronouncements

### *Accounting for Revenue Arrangements with Multiple Deliverables*

In November 2002, the EITF reached a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Issue 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of Issue 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We do not believe that the adoption of Issue 00-21 will have a material effect on our consolidated financial position, results of operations or cash flows.

### *Consolidation of Variable Interest Entities*

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. Interpretation 46



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establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. Interpretation 46 applies to any business enterprise, both public and private, that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. We believe we have no investment in or contractual relationship or other business relationship with a variable interest entity and therefore the adoption did not have any impact on our consolidated financial position or results of operations. However, if we enter into any such arrangement with a variable interest entity in the future, our consolidated financial position or results of operations may be adversely impacted.

### *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*

On April 30, 2003, the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. Statement 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. In addition, Statement 149 clarifies the definition of a derivative by providing guidance on the meaning of initial net investments related to derivatives. Statement 149 is effective for contracts entered into or modified after June 30, 2003. We do not believe the adoption of Statement 149 will have a material effect on our consolidated financial position, results of operations or cash flows.

### *Financial Instruments with Characteristics of Both Liabilities and Equity*

On May 15, 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Statement 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. Statement 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. We do not use such instruments in our share repurchase program. Statement 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments as of September 1, 2003. We adopted Statement 150 on June 1, 2003 and do not believe the effect of adopting this statement will have a material impact on our financial position, results of operations or cash flows.

### **Factors That May Affect Our Future Results or the Market Price of Our Stock**

We operate in a rapidly changing economic and technological environment that presents numerous risks. Many of these risks are beyond our control and are driven by factors that we cannot predict. The following discussion highlights some of these risks.

***Economic, political and market conditions can adversely affect our revenue growth.*** Our revenue growth and profitability depends on the overall demand for computer software and services, particularly in the sectors in which we offer products. Because our sales are primarily to corporate and government customers, the health of our business is directly related to the strength of general economic and business conditions. The general weakening of the global economy and the weakening of business conditions, particularly in the high technology, telecommunications, financial services and manufacturing industry sectors, as well as governmental budgetary constraints, have resulted in delays and decreases of customer purchases. If demand for our software and related services continues to be weak, our revenue growth rates will be adversely affected. In addition, the war on terrorism and the potential for other hostilities in various parts of the world continues to contribute to a climate of economic and political uncertainty that could adversely affect our revenue growth and results. If economic and market conditions do not improve, our business will continue to be adversely affected.

Although our business depends materially on the condition of domestic and foreign economies, and on the performance of key sectors that generate a disproportionate percentage of our revenues and earnings, our management has no comparative advantage in forecasting macroeconomic trends and developments relating to



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these general business conditions. Our management is, however, required to make these forecasts in order to develop budgets, plan research and development strategies and perform a wide variety of general management functions. To the extent that our forecasts are in error, because we are either overly optimistic or overly pessimistic about the performance of an economy or of a sector, our performance can suffer because of a failure to properly match corporate strategy with economic conditions.

***Our success depends upon our ability to develop new products and enhance our existing products.*** Rapid technological advances in hardware and software development, evolving standards in computer hardware, software technology and communications infrastructure, changing customer needs and frequent new product introductions and enhancements characterize the enterprise software market in which we compete. To keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance, we must enhance and improve existing products like Oracle9 i Database, Oracle9 i AS and Oracle E-Business Suite and we must also continue to introduce new products and services such as the Oracle Collaboration Suite and Outsourcing. If we are unable to develop new products or adapt our current products to run on new or popular operating systems, if we are unable to enhance and improve our products successfully in a timely manner or if we fail to position and/or price our products to meet market demand, our business and operating results will be adversely affected. In addition, standards for network protocols, as well as other industry adopted and de facto standards for the internet, are rapidly evolving. 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 as they arise in emerging areas. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect our operating results. Further, any new products we develop may not be introduced in a timely manner and may not achieve the broad market acceptance necessary to generate significant revenues.

***Our sales forecasts may not consistently correlate to revenues in a particular quarter.*** We use a “pipeline” system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all proposals, such as the date when they estimate that a customer will make a purchase decision and the potential dollar amount of the sale. These estimates are aggregated periodically to generate a sales pipeline. We compare this pipeline at various points in time to evaluate trends in our business. This analysis provides some guidance in business planning and budgeting, but these pipeline estimates are by their nature speculative. Our pipeline estimates are not necessarily reliable predictors of revenues in a particular quarter or over a longer period of time, partially because of changes in conversion rates of the pipeline into contracts that can be very difficult to estimate. The slowdown in the economy, domestically and internationally, has caused and may continue to cause customer purchasing decisions to be delayed, reduced in amount or cancelled. All of these trends have reduced and could continue to reduce the rate of conversion of the pipeline into contracts and consequently into revenues. A variation in the conversion rate of the pipeline into contracts, or in the pipeline itself, could cause us to plan or budget incorrectly and thereby adversely affect our business or results of operations. In particular, a slowdown in information technology spending or economic conditions can cause purchasing decisions to be delayed, reduced in amount or cancelled, which would reduce the overall software license pipeline conversion rate in a particular period of time. Because a substantial portion of our software license revenue contracts are completed in the latter part of a quarter, we may not be able to adjust our cost structure promptly in response to a decrease in our pipeline conversion rate.

***Acquisitions and investments present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction.*** We have in the past and expect in the future to acquire or make investments in complementary companies, products, services and technologies. We recently commenced an unsolicited cash tender offer for all of the outstanding shares of PeopleSoft. In connection with the tender offer, we have been named as a defendant in various legal proceedings and we may be a party to additional legal proceedings in the future. PeopleSoft has a “poison pill” in place, which could delay or discourage an acquisition that the PeopleSoft stockholders may consider favorable. PeopleSoft has implemented several additional defensive tactics including offering customers “money back” guarantees (payable if Oracle acquires the company) and amending the terms of their proposed acquisition of J.D. Edwards & Company to pay

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a combination of stock and cash, which eliminates the need to obtain approval from the PeopleSoft stockholders. PeopleSoft has also raised antitrust concerns with various governmental authorities. While we intend to proceed with our offer, we cannot assure you that we will be successful in acquiring PeopleSoft.

The risks we may encounter in acquisitions and investments include:

- we may find that the acquired company or assets do not further our business strategy or that we paid more than what the company or assets are worth;
- we may have difficulty integrating the operations and personnel of the acquired businesses;
- we may have difficulty incorporating the acquired technologies or products with our existing product lines;
- we may have product liability or intellectual property liability associated with the sale of the acquired company's products;
- our ongoing business may be disrupted by transition or integration issues;
- our management's attention may be diverted from other business concerns;
- our management may not be able to improve our financial and strategic position;
- we may have difficulty maintaining uniform standards, controls, procedures and policies;
- our relationship with current and new employees, customers and distributors could be impaired;
- the acquisition may result in litigation from terminated employees or third parties who believe a claim against Oracle would be valuable to pursue; and
- our due diligence process may fail to identify significant issues with product quality, product architecture and legal contingencies, among other matters.

These factors 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 number of acquisitions. Our investments in other businesses are also accompanied by risks similar to those involved in an acquisition.

We previously have generally paid for acquisitions in cash. We may in the future pay for acquisitions in whole or in part with stock or other equity-related purchase rights. To the extent that we issue shares of stock or other rights to purchase stock, including options and other rights, existing stockholders may be diluted and earnings per share may decrease.

***Our quarterly revenues and operating results can be difficult to predict and can fluctuate substantially.*** Our revenues in general, and our software license revenues in particular, are difficult to forecast and are likely to fluctuate substantially from quarter to quarter due to a number of factors, many of which are outside of our control. These factors include:

- the relatively long sales cycles for many of our products;
- the tendency of some of our customers to wait until the end of a fiscal quarter or our fiscal year in the hope of obtaining more favorable terms;
- the timing of our or our competitors' new products or product enhancements or any delays in such introductions;
- any delays or deferrals of customer implementations of our products;
- any changes in customer budgets that could affect both the timing and size of any transaction;

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- any delays in recognizing revenue on any transaction;
- any seasonality of technology purchases;
- changes in local, national and international regulatory requirements;
- any changes in general economic conditions;
- the degree to which the recent SARS (severe acute respiratory syndrome) outbreak affects the business environment in our target markets;
- any changes in the product selection purchasing patterns of our customers between standard edition products and higher premium products; and
- changes in our pricing policies or the policies of our competitors.

Our new software license revenues in any quarter depend on orders booked and shipped in that particular quarter. Our operating expenses are based on our estimates of revenues and a high percentage of our expenses are fixed. Accordingly, our quarterly results are difficult to predict with any accuracy until the very end of a quarter. If even a small number of large software license transactions are delayed until after a quarter ends, our operating results could vary substantially from quarter to quarter and our net income could fall significantly short of our predictions.

***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 customers outside the United States. We have significant operations outside of the United States, including software development, sales, customer support and shared administrative service centers, and we plan to expand our international operations, including continued expansion of our development centers in China and India. Our international operations are subject to a variety of risks, including:

- general economic conditions in each country or region;
- the overlap of different tax regimes;
- the difficulty of managing an organization spread over various countries;
- changes in regulatory requirements;
- compliance with a variety of international laws and regulations, including trade restrictions, local labor ordinances and changes in tariff rates;
- longer payment cycles and difficulties in collecting accounts receivable;
- fluctuations in currency exchange rates and difficulties in transferring funds from certain countries;
- import and export licensing requirements;
- political unrest, terrorism and the potential for other hostilities, particularly in areas in which we have facilities; and
- reduced protection for intellectual property rights in some countries.

Our success depends, in part, on our ability to anticipate and address these risks. We cannot guarantee that these or other factors will not adversely affect our business or operating results.

We conduct a significant portion of our business in currencies other than the United States dollar. Our operating results are therefore subject to fluctuations in foreign currency exchange rates. Our revenues and operating results are adversely affected when the United States dollar strengthens relative to other currencies and are positively affected when the United States dollar weakens. Changes in the value of major foreign currencies, particularly the Euro, relative to the value of the United States dollar positively affected revenues and operating

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results in fiscal 2003. If the United States dollar strengthens relative to other currencies our revenues and operating results will be adversely affected. Our foreign currency transaction gains and losses are primarily related to sublicense fee and other agreements among our subsidiaries, our selling distributors and ourselves. These gains and losses are charged against earnings in the period incurred. To reduce our transaction and translation gains and losses associated with converting foreign currencies into United States dollars, we enter into foreign exchange forward contracts to hedge transaction and translation exposures in major currencies. In certain instances, we do not hedge foreign currencies, such as when the forward contracts in the relevant currency are not readily available or are not, in our opinion, cost effective. As a result, we will continue to experience foreign currency gains and losses.

***Disruptions of our indirect sales channel could affect our future operating results.*** In addition to marketing our products and services through our own direct sales and service forces, we market our products and services through indirect channels. Our indirect channel network is comprised primarily of resellers, system integrators/implementers, consultants, education providers, internet service providers, network integrators, and independent software vendors. We believe that our relationships with these channel participants enhance our marketing and sales efforts. Our financial results could be adversely affected if our contracts with channel participants were terminated, if our relationship with channel participants were to deteriorate, if any of our competitors enter into strategic relationships or acquire a significant channel participant, or if the financial condition of our channel participants were to weaken. There can be no assurance that we will be successful in maintaining or expanding our relationships with these channel participants. If we are not successful, we may lose sales opportunities, customers and market share.

***If we account for employee stock option and employee stock purchase plans using the fair value method, it could significantly reduce our net income and earnings per share.*** There has been ongoing public debate whether employee stock option and employee stock purchase plans shares should be treated as a compensation expense and, if so, how to properly value such charges. If we elected or were required to record an expense for our stock-based compensation plans using the fair value method, we could have significant accounting charges. For example, in fiscal year 2003, had we accounted for stock-based compensation plans using the fair-value method prescribed in FASB Statement No. 123 as amended by Statement 148, earnings per share would have been reduced by \$.07 per share. Although we are not currently required to record any compensation expense using the fair value method in connection with option grants that have an exercise price at or above fair market value at the grant date and for shares issued under our employee stock purchase plan, it is possible that future laws or regulations will require us to treat all stock-based compensation as an expense using the fair value method. See Notes 1 and 3 of Notes to Consolidated Financial Statements and our discussion in the Employee Stock Options section of Management's Discussion and Analysis of Financial Condition and Results of Operations for a more detailed presentation of accounting for stock-based compensation plans.

***To be successful we must effectively compete in a range of markets within the highly competitive software industry.*** The software industry is intensely competitive. Several large vendors develop and market databases, internet application server products, application development tools, business applications, collaboration products and business intelligence products that compete with our offerings. Some of these competitors have significantly greater financial and technical resources than we do. We expect to continue to face intense competition in each market in which we compete. We could lose market share if our competitors introduce new competitive products into one or more of our markets, add new functionality into an existing competitive product, acquire a competitive product, reduce prices, or form strategic alliances with other companies. In addition, because new distribution methods and opportunities offered by the internet and electronic commerce have removed many of the barriers to entry historically faced by small and start-up companies in the software industry, we expect to face additional future competition from these companies. We may also face competition from open source software initiatives, in which developers provide software and intellectual property free over the internet. If existing or new competitors gain market share in any of these markets, at our expense, our business and operating results could be adversely affected. Our applications run only on our database products, which could potentially limit our share of the market for business applications software. Additionally, our competitors who offer business

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applications and application server products may influence a customer's purchasing decisions for the underlying database in an effort to persuade potential customers not to acquire our products.

***We may need to change our pricing models to compete successfully.*** The intensely competitive markets in which we compete can put pressure on us to reduce our prices. If our competitors offer deep discounts on certain products in an effort to recapture or gain market share or to sell other software or hardware products, we may then need to lower prices or offer other favorable terms in order to compete successfully. Any such changes would be likely to reduce margins and could adversely affect operating results. We have periodically changed our pricing model for our database management software and applications software and any broadly based changes to our prices and pricing policies could cause sales and software license 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 software products for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, significantly constrain the prices that we can charge for our products. In addition, if we do not adapt our pricing models to reflect changes in customer use of our products, our software license revenues could decrease. Our software license revenues could also decline if our customers shift to operating systems on which we experience relatively greater price competition and resulting lower average software license prices. Additionally, although the distribution of applications through application service providers may provide a new market for our products, these new distribution methods could also reduce the price paid for our products or adversely affect other sales of our products. If we cannot offset price reductions with a corresponding increase in the number of sales or with lower spending, then the reduced software license revenues resulting from lower prices would adversely affect our results.

***If we cannot hire enough qualified employees or if we lose key employees, it will adversely affect our ability to manage our business, develop our products and increase our revenues.*** We believe our continued success depends to a large extent on the continued service of our senior management and other key employees and the hiring of new qualified employees. In the software industry, there is substantial and continuous competition for highly skilled business, product development, technical and other personnel. We may experience increased compensation costs that are not offset by either improved productivity or higher prices. We may not be successful in recruiting new personnel and in retaining and motivating existing personnel. Members of our senior management team have left Oracle over the years for a variety of reasons and we cannot assure you that there will not be additional departures. Any changes in management can be disruptive to our operations. In general, we do not have long-term employment or non-competition agreements with our employees. Part of our total compensation program includes stock options. The volatility or lack of positive performance of our stock price may from time to time adversely affect our ability to retain or attract key employees.

***Our outsourcing services may not be successful.*** We offer outsourced services for our products through our E-Business Suite Outsourcing, Collaboration Suite Outsourcing and Technology Outsourcing services. Outsourcing is a new service offering and represents an unproven business for us. Outsourcing revenues to date have not been significant. Our outsourcing business model is rapidly evolving and we may not be able to compete effectively or generate significant revenues. Our outsourcing business is subject to a variety of risks including:

- we may not be able to operate this business at an acceptable profit level;
- we may not be able to expand our client base beyond current levels;
- the expense of fulfilling our service level commitments may be greater than we anticipate;
- we may have an inappropriate level of resources dedicated to the outsourcing business in relation to the number of clients;
- because we will be hosting critical customer operations we could be exposed to significant damage claims in the event of system failures;

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- because outsourcing results in our hosting of customer data and other confidential information we have increased exposure to risk of claims around data security and privacy and misappropriation of customer confidential information; and
- the laws and regulations applicable to hosted service providers is unsettled and we could have regulatory exposure in certain areas such as data privacy, data security, export compliance and workforce reduction claims as a result of customers transferring their information technology functions to us.

If we are unable to successfully exploit this business our future operating results could be adversely affected.

***We might experience significant undetected errors or “bugs” in our products.*** Despite testing prior to release of the products, software products frequently contain errors or security flaws, especially when first introduced or when new versions are released. Software errors in our products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. End users, who rely on our products for applications that are critical to their businesses, may have a greater sensitivity to product errors and security vulnerabilities than customers for software products generally. If we experience errors or delays in releasing new products or new versions of products, we could lose revenues. Software product errors could also subject us to product liability, performance and/or warranty claims, which could adversely affect our business and operating results.

***We periodically have restructured our sales force, which can be disruptive.*** We continue to rely heavily on our direct sales force. In many years, we have restructured or made other adjustments to our sales force in response to factors such as management changes, product changes, performance issues and other internal considerations. During the second half of fiscal 2003 we made some adjustments to the organization of our sales force in North America to focus separately on our database management software or applications software products and to simplify our coverage model. In the past, changes in the structure of the sales force and sales force management have generally resulted in a temporary lack of focus and reduced productivity that may have affected revenues in one or more quarters. We cannot assure you that we will not continue to restructure our sales force or that the transition issues associated with restructuring the sales force will not recur.

***Some of our products are not as profitable as others.*** Some of our products require a higher level of development, distribution and support expenditures, on a percentage of revenues basis. If revenues generated from these products become a greater percentage of our total revenues and if the expenses associated with these products on a percentage of revenues basis do not decrease, then our operating margins will be adversely affected.

***We may not receive significant revenues from our current research and development efforts for several years, if at all.*** Developing and localizing software is expensive and the investment in product development often involves a long payback cycle. In fiscal 2003, our research and development expenses were \$1.2 billion, or 12% of our total revenues. Our plans for fiscal 2004 include significant investments in software research and development and related product opportunities. 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.

***We may not be able to protect our intellectual property.*** We rely on a combination of copyright, patent, trademark, trade secrets, confidentiality procedures and contractual commitments to protect our proprietary information. Despite our efforts, these measures can only provide limited protection. 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

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claims we seek, if at all. In addition, the laws of some countries do not provide the same level of protection of our proprietary rights as do the laws of the United States. If we cannot protect our proprietary technology against unauthorized copying or use, we may not remain competitive.

***Third parties may claim we infringe their intellectual property rights.*** We sometimes receive notices from others claiming we are infringing their patent or other intellectual property rights. We expect the number of such claims will increase as the number of products and competitors in our industry segments grows and the functionality of products overlaps. Companies are more frequently seeking to patent software and business methods because of developments in the law that may extend the ability to obtain such patents. As a result, we expect to receive more patent infringement claims. Responding to any infringement claim, regardless of its validity, could:

- be time-consuming to defend;
- result in costly litigation;
- divert management's time and attention from developing our business;
- require us to enter into royalty and licensing agreements that we would not normally find acceptable;
- require us to stop selling or to redesign our products; and
- require us to pay money as damages or to satisfy indemnification obligations that we have with our customers.

If a successful claim is made against us and we fail to develop or license a substitute technology, our business, results of operations, financial condition or cash flows could be materially adversely affected.

***Business disruptions could affect our future operating results.*** Our operating results and financial condition could be materially and adversely affected in the event of a major earthquake, fire or other catastrophic event. We are a highly automated business and a disruption or failure of our systems could cause delays in completing sales and providing services. Our corporate headquarters, a significant portion of our research and development activities and certain other critical business operations are located in California, near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and as a result our future operating results could be adversely affected.

***Our sales to government clients subject us to risks including early termination, audits and investigations that can adversely affect our business.*** We derive a substantial portion of our revenues from contracts with the United States government and its agencies and from contracts with state and local governments and their agencies. Governments and their agencies may terminate most of these contracts at any time, without cause.

Also, our federal government contracts are subject to the approval of appropriations being made by the United States Congress to fund the expenditures to be made by the federal government under these contracts. Additionally, government contracts are generally subject to audits and investigations by government agencies. If the government discovers improper or illegal activities in the course of audits or investigations, the contractor may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. If we were assessed any penalties or sanctions, our business and operating results could be adversely affected.

***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 United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities.



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In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Our intercompany transfer prices are currently being reviewed by the IRS and by foreign tax jurisdictions and will likely be subject to additional audits in the future. We previously negotiated two Advance Pricing Agreements with the IRS that cover many of our intercompany transfer prices and preclude the IRS from making a transfer pricing adjustment within the scope of these agreements. The agreements, however, are only effective through May 31, 2001, do not cover all elements of our transfer pricing and do not bind tax authorities outside the United States. We are currently negotiating bilateral and unilateral Advance Pricing Agreements to cover the period from June 1, 2001 to May 31, 2006.

Although we believe that our tax estimates are reasonable, we cannot assure you that the final determination of our tax audits and litigation will not be different from what is reflected in our historical income tax provisions and accruals. Should we be assessed with additional taxes, there could be a material effect on our income tax provision and net income in the period or periods for which such determination is made.

We have exposure to additional non-income tax liabilities. We are subject to non-income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the United States and various foreign jurisdictions. We are regularly under audit by tax authorities with respect to these non-income taxes.

***United States Congressional action in connection with the extraterritorial income case could adversely affect our net income.*** The World Trade Organization has ruled the extraterritorial income regime (ETI) operated by the United States to be an illegal export subsidy and has authorized the European Union to impose tariffs on certain United States-made products imported into the European Union. ETI is a provision in the United States Tax Code providing tax incentives on products produced in the United States and exported for sale. European Union officials have indicated they will exercise restraint in raising tariffs as long as the United States shows substantial progress and a commitment to act within the current year. The United States Congress thus has incentive to repeal and replace the ETI regime, but we cannot be certain that any legislation replacing ETI will provide us with the level of tax incentives received under the existing regime. We currently save approximately \$25 million per year in United States federal income tax under the ETI regime.

***The conviction of Arthur Andersen LLP may limit potential recoveries from them related to their prior service as our independent auditors.***

Prior to April 8, 2002, Arthur Andersen LLP served as our independent auditors. On March 14, 2002, Arthur Andersen was indicted on federal obstruction of justice charges arising from the government's investigation of Enron Corporation and on June 15, 2002, Arthur Andersen was found guilty. Arthur Andersen has ceased practicing before the SEC. On April 8, 2002, we dismissed Arthur Andersen and retained Ernst & Young LLP as our independent auditors. SEC rules require us to present historical audited financial statements in various SEC filings, such as registration statements, along with Arthur Andersen's consent to our inclusion of its audit report in those filings. In light of the cessation of Arthur Andersen's SEC practice, we will not be able to obtain the consent of Arthur Andersen to the inclusion of its audit report in our relevant current and future filings. The SEC has provided regulatory relief designed to allow companies that file reports with the SEC to dispense with the requirement to file a consent of Arthur Andersen in certain circumstances, but purchasers of securities sold under our registration statements, which were not filed with the consent of Arthur Andersen to the inclusion of its audit report, will not be able to sue Arthur Andersen pursuant to Section 11(a)(4) of the Securities Act and, therefore, their right of recovery under that section may be limited as a result of the lack of our ability to obtain Arthur Andersen's consent.

***Our stock price could remain volatile and your investment could lose value.*** Our stock price has fluctuated widely in the past and could continue to do so in the future. Your investment in our stock could lose value. Some of the factors that could significantly affect the market price of our stock include:

- quarterly variations in our results of operations or those of our competitors;
- changes in our or our competitors' prices;



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- changes in our revenue and revenue growth rates as a whole or for specific geographic areas, business units, products or product categories;
- announcements of new products or product enhancements by us or our competitors;
- announcements regarding our tender offer for PeopleSoft and the reactions to such offer;
- announcements of advances in technology by us or our competitors;
- changes in management;
- changes in recommendations or earnings estimates by financial analysts;
- speculation in the press or analyst community;
- changes in political, economic and market conditions either generally or specifically to particular industries;
- fluctuations in stock prices generally, particularly with respect to the stock prices for other technology companies;
- changes in interest rates; and
- changes in investors' beliefs as to the appropriate price-earnings ratios for our competitors and us.

A significant drop in our stock price could expose us to the risk of securities class action lawsuits. Defending against such lawsuits could result in substantial costs and divert management's attention and resources. Furthermore, any settlement or adverse determination of these lawsuits could adversely affect us.

### Item 7a. Quantitative and Qualitative Disclosures About Market Risk

**Interest Rate Risk.** All of our fixed income investments are classified as held-to maturity, and are reported on the balance sheet at amortized cost. Therefore, interest rate movements do not affect the balance sheet valuation of the fixed income investments. However, changes in the overall level of interest rates affect our interest income that is generated from our investments. For fiscal 2003, total interest income was \$128.6 million with investments yielding an average 1.92% on a worldwide basis. This interest rate level was down approximately 67 basis points from 2.59% in fiscal 2002. If a similar decline in overall interest rates (67 basis points) were to occur in fiscal 2004, our interest income would decline approximately \$45 million, assuming consistent investments levels.

#### Table of Investment Securities:

The table below presents the amortized principal amount, related weighted average interest rates and maturities for our investment portfolio. The amortized principal amount approximates fair value at May 31, 2003.

(Dollars in millions)	Amortized Principal Amount	Weighted Average Interest Rate
Cash and cash equivalents	\$ 4,737	1.75%
Short-term investments (91 days -1 year)	1,782	1.33%
Long-term investments (1-2 years)	233	1.54%
<b>Total cash, cash equivalents and investments</b>	<b>\$ 6,752</b>	<b>1.63%</b>

The table above includes the United States dollar equivalent of cash, cash equivalents and investments, a portion of which is denominated in foreign currencies as shown below. See discussion of our foreign currency risk below for a description of how we hedge net assets of certain international subsidiaries from foreign currency exposure.

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(Dollars in millions)	Balance at May 31, 2003
Japanese Yen	\$ 722
Euro	978
UK Pound	144
Chinese Renminbi	98
Canadian Dollar	52
Other currencies	563
Total cash, cash equivalents and short-term investments denominated in foreign currencies	\$ 2,557

During fiscal 1997, we issued \$150.0 million in 6.72% senior notes due in February 2004 and \$150.0 million in 6.91% senior notes due in February 2007. In February 2002, we entered into two interest-rate swap agreements that have the economic effect of modifying the interest obligations associated with these senior notes so that the interest payable on the senior notes effectively becomes variable based on the three month LIBOR set on February 15, May 15, August 15 and November 15 of each year until maturity. The notional amount of the interest rate swaps and their termination date match the principal amounts and maturities of the outstanding senior notes. At May 31, 2003, the effective interest rates on the senior notes were reduced to 4.66% for the 2004 senior notes and 3.38% for the 2007 senior notes as a result of the two interest rate swaps. The fair value of the interest rate swaps was \$19.0 million at May 31, 2003, and is included in intangible and other assets in the consolidated balance sheet.

### Table of Interest Rate Swaps:

(Dollars in millions)	Notional Amount	Rate on Senior Notes	Received on Swap	Variable Rate Paid on Swap	Effective Interest Rate on Senior Notes
Matures in February 2004	\$ 150	6.72%	(3.35%)	1.29%	4.66%
Matures in February 2007	\$ 150	6.91%	(4.82%)	1.29%	3.38%

**Equity price risk:** The only significant public equity investment that we hold is our investment in Liberate Technologies. The market value of our investment in Liberate Technologies as of May 31, 2003 was \$89.8 million. A hypothetical 25% adverse change in the stock price of our holdings would result in a loss in the fair value of marketable equity securities of approximately \$22.5 million, which would partially offset the unrealized gain of \$41.7 million recorded in stockholders' equity as of May 31, 2003.

**Foreign Currency Transaction Risk.** We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward exchange contracts to offset the risk associated with the effects of certain foreign currency exposures. Under this program, increases or decreases in our foreign currency exposures are offset by gains and losses on the forward contracts, so as to mitigate the possibility of foreign currency transaction gains and losses. These foreign currency exposures typically arise from intercompany sublicense fees and other intercompany transactions. Our forward contracts generally have terms of 180 days or less. We do not use forward contracts for trading purposes. All outstanding forward contracts (excluding equity hedges) are marked to market at the end of the period with unrealized gains and losses included in other income, net. Our ultimate realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature. Net foreign exchange transaction losses included in other income, net in the accompanying consolidated statements of operations were \$1.0 million, \$27.4 million and \$10.3 million in fiscal 2003, 2002 and 2001, respectively. The fair value of the foreign currency exchange contracts was \$(0.6) million and \$(0.4) million as of May 31, 2003 and 2002.

The table below presents the notional amounts (at contract exchange rates) and the weighted average contractual foreign currency exchange rates for the outstanding forward contracts as of May 31, 2003. In the first table, notional weighted average exchange rates are quoted using market conventions where the currency is expressed

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in currency units per United States dollar. In the second table, notional weighted average exchange rates are quoted using market conventions where the currency is expressed in units per Euro. All of our forward contracts mature in ninety days or less as of May 31, 2003.

### Table of Forward Contracts:

#### United States Dollar Foreign Exchange Contracts

(Dollars in millions)	Exchange Foreign Currency for United States Dollars (Notional Amount)	Exchange United States Dollars for Foreign Currency (Notional Amount)	Notional Weighted Average Exchange Rate
<b>Functional Currency:</b>			
British Pound	\$ —	\$ 8	1.63
Canadian Dollar	1	—	1.39
Chilean Peso	5	—	713.80
Chinese Renminbi	72	—	8.27
Danish Krona	—	6	6.32
Euro	67	—	1.17
Indian Rupee	—	20	46.60
Israeli Shekel	23	—	4.46
Japanese Yen	39	—	118.11
Korean Won	4	—	1,211.00
Mexican Peso	1	—	10.43
New Zealand Dollar	—	5	0.57
Peruvian New Sol	3	—	3.52
Philippine Peso	15	—	54.50
Polish Zloty	—	15	3.73
Saudi Arabian Riyal	26	—	3.75
Singapore Dollar	1	—	1.73
South African Rand	18	—	8.28
Swiss Franc	—	1	1.30
Taiwan Dollar	—	26	34.59
Total	\$ 275	\$ 81	

#### Euro Foreign Exchange Contracts

(Euros in millions)	Exchange Foreign Currency for Euros (Notional Amount)	Exchange Euros for Foreign Currency (Notional Amount)	Notional Weighted Average Exchange Rate
<b>Functional Currency:</b>			
Danish Krona	€ —	€ 2	7.42
British Pound	6	—	0.72
United States Dollar	—	7	1.17
Total	€ 6	€ 9	

**Net Investment Risk.** Periodically, we hedge the net assets of certain international subsidiaries (“net investment hedges”) using forward foreign currency exchange contracts to offset the translation and economic exposures related to our investments in these subsidiaries. We measure the ineffectiveness of net investment hedges by using the changes in spot exchange rates because this method reflects our risk management strategies, the economics of those strategies in our financial statements and better manages interest rate differentials between

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different countries. Under this method, the change in fair value of the forward contract attributable to the changes in spot exchange rates (the “effective portion”) is reported in stockholders’ equity to offset the translation results on the net investments. The remaining change in fair value of the forward contract (the “ineffective portion”) is recognized in other income, net.

At May 31, 2003, we had one net investment hedge in Japanese Yen. The Yen equity hedge minimizes currency risk arising from net assets held in Yen as a result of equity capital raised during the initial public offering and secondary offering of Oracle Japan. The fair value of our Yen equity hedge was not material to our consolidated financial statements. The Yen equity hedge has a notional amount of \$615.1 million and a weighted average exchange rate of 118.4 Yen for United States dollar. We previously had a Euro equity hedge that we settled on September 30, 2002 for an immaterial amount.

Net gains (losses) on equity hedges reported in stockholders’ equity relating to the effective portion of the net investment hedge were \$(44.7) million, \$(6.9) million and \$5.7 million in fiscal 2003, 2002 and 2001, respectively. The net gain on equity hedges reported in other income, net relating to the ineffective portion of the net investment hedges were \$8.9 million, \$6.4 million and \$0 in fiscal 2003, 2002 and 2001, respectively. Prior to our June 1, 2001 adoption of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Transactions*, as amended, we recorded all gains (losses) related to the equity hedges as a component of accumulated other comprehensive income (loss) in stockholders’ equity.

### **Item 8. Financial Statements and Supplementary Data**

The response to this item is submitted as a separate section of this Form 10-K. See Item 15.

### **Item 8a. Disclosure Controls and Procedures**

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of the Company’s “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this annual report (the “Evaluation Date”), have concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and designed to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities.

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

None.

### **Item 9a. Internal Control Over Financial Reporting**

There were no significant changes in our internal control over financial reporting (as required by the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART III**

### **Item 10. Directors and Executive Officers of the Registrant**

The information required by this Item with respect to the directors and compliance with Section 16(a) of the Securities and Exchange Act is incorporated by reference from the information provided under the headings “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance,” respectively, contained in our Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our Annual Meeting of Stockholders to be held on October 13, 2003. The information required by this Item with respect to our executive officers is contained in Item 1 of Part I of this Annual Report under the heading “Executive Officers of the Registrant.”

### **Item 11. Executive Compensation**

The information required by this Item is incorporated by reference from the information provided under the heading “Executive Compensation” of our Proxy Statement. The information specified in Item 402 (k) and (l) of Regulation S-K and set forth in our Proxy Statement is not incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

Information required by this Item with respect to Securities Authorized for Issuance under Equity Compensation Plans is incorporated herein by reference from the information provided in the proposal to approve the amendment of our Directors’ Stock Option Plan under the heading “Equity Compensation Plan” of our Proxy Statement.

Information required by this Item with respect to Stock Ownership of Certain Beneficial Owners and Management is incorporated herein by reference from the information provided under the heading “Stock Ownership of Certain Beneficial Owners and Management” of our Proxy Statement.

### **Item 13. Certain Relationships and Related Transactions**

The information required by this Item is incorporated herein by reference from the information provided under the heading “Transactions and Legal Actions Involving Management” of our Proxy Statement.

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### PART IV

#### Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

##### (a) 1. Financial Statements

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

	Page
Report of Ernst & Young LLP, Independent Auditors	45
Copy of Report of Independent Public Accountants (Arthur Andersen LLP)	46
Consolidated Financial Statements:	
Balance Sheets as of May 31, 2003 and 2002	47
Statements of Operations for the years ended May 31, 2003, 2002 and 2001	48
Statements of Stockholders' Equity for the years ended May 31, 2003, 2002 and 2001	49
Statements of Cash Flows for the years ended May 31, 2003, 2002 and 2001	50
Notes to Consolidated Financial Statements	51

##### (a) 2. Financial Statement Schedules

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

	Page
II Valuation and Qualifying Accounts	76

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

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### (a) 3. Exhibits

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the SEC.

<u>Exhibit Number</u>	<u>Exhibit Title</u>
3.01 <sup>(1)</sup> *	Restated Certificate of Incorporation filed with the Delaware Secretary of State on January 11, 2000.
3.02 <sup>(2)</sup>	Oracle Bylaws, as adopted October 30, 1986, and amendments dated January 13, 1989 and December 3, 1990.
3.04 <sup>(2)</sup>	Certificate of Amendment of Restated Certificate of Incorporation filed with the Delaware Secretary of State on June 5, 2000.
4.01	Indenture between Oracle Corporation and State Street Bank and Trust Company of California, N.A., dated February 24, 1997.
4.02 <sup>(3)</sup> *	Oracle Corporation 1993 Deferred Compensation Plan, as amended and restated as of November 15, 2000.
4.03 <sup>(4)</sup>	Amended and Restated Preferred Shares Rights Agreement, dated March 31, 1998.
4.04 <sup>(5)</sup>	Amendment Number One to the Amended and Restated Preferred Shares Rights Agreement, dated March 22, 1999.
4.05 <sup>(6)</sup>	Specimen Certificate of Registrant's Common Stock.
10.01 <sup>(3)</sup> *	Oracle Corporation Employee Stock Purchase Plan (1992), as amended and restated as of March 22, 2002.
10.02 *	1993 Directors' Stock Option Plan, as amended through April 11, 2003.
10.04 <sup>(1)</sup> *	The 1991 Long-Term Equity Incentive Plan, as amended through October 18, 1999.
10.05 <sup>(2)</sup> *	Amendment to the 1991 Long-Term Equity Incentive Plan, dated January 7, 2000.
10.06 <sup>(2)</sup> *	Amendment to the 1991 Long-Term Equity Incentive Plan, dated June 2, 2000.
10.07 <sup>(7)</sup> *	The 2000 Long-Term Equity Incentive Plan, as approved on October 16, 2000.
10.08 <sup>(8)</sup>	Credit Suisse First Boston Commitment Letter, dated June 6, 2003.
21.01	Subsidiaries of the Registrant.
23.01	Consent of Ernst & Young LLP, Independent Auditors.
23.02	Statement Regarding Consent of Arthur Andersen LLP.
99.01	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act—Lawrence J. Ellison.
99.02	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act—Jeffrey O. Henley.
99.03	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act.

\* Indicates management contract or compensatory plan or arrangement.

(1) Incorporated by reference to the Form 10-Q filed on January 14, 2000.

(2) Incorporated by reference to the Form 10-K filed on August 28, 2000.

(3) Incorporated by reference to the Form 10-K filed on July 29, 2002.

(4) Incorporated by reference to the Form 8-A/A filed on March 31, 1998.

(5) Incorporated by reference to the Form 8-A/A filed on March 22, 1999.

(6) Incorporated by reference to the Form 10-K filed on August 10, 2001.

(7) Incorporated by reference to the Form 10-Q filed on January 16, 2001.

(8) Incorporated by reference to the Schedule TO filed on June 9, 2003.

### (b) Reports on Form 8-K

None

## REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Oracle Corporation

We have audited the accompanying consolidated balance sheets of Oracle Corporation as of May 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the index at Item 15 (a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The consolidated financial statements of Oracle Corporation for the year ended May 31, 2001, prior to the adjustments discussed in Note 15, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated June 18, 2001.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oracle Corporation as of May 31, 2003 and 2002, and its results of operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed above, the consolidated financial statements of Oracle Corporation for the year ended May 31, 2001 were audited by other auditors who have ceased operations. As described in Note 15, in the year ended May 31, 2003 the Company changed the composition of its reportable segments and the amounts in the disclosures for reportable segments for the year ended May 31, 2001 have been restated to conform to the 2003 composition. We audited the adjustments that were applied to restate the disclosures for reportable segments reflected in the consolidated financial statements for the year ended May 31, 2001. In our opinion, the adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the consolidated financial statements of the Company for the year ended May 31, 2001 other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements for the year ended May 31, 2001 taken as a whole.

/s/ ERNST & YOUNG LLP

Walnut Creek, California  
June 12, 2003,  
except for the second and fourth paragraphs of Note 17, and Note 18, as to which the date is  
June 18, 2003



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This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with our filing on Form 10-K for the year ended May 31, 2001. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 10-K. See Exhibit 23.02 for further discussion. The consolidated balance sheets as of May 31, 2001 and 2000 and the consolidated statements of operations, stockholders' equity and cash flows and the information in the financial statement schedule for the years ended May 31, 2000 and 1999 referred to in this report are not required to be and have not been included in the accompanying financial statements or schedule.

As described in Note 15, in the year ended May 31, 2003 we changed the composition of our reportable segments and the amounts in the disclosures for reportable segments for the year ended May 31, 2001 have been restated to conform to the 2003 composition. The report of Arthur Andersen LLP does not extend to these changes to the 2001 consolidated financial statements. The adjustments to the consolidated financial statements for the year ended May 31, 2001 were reported on by Ernst & Young LLP as stated in their report appearing herein.

### REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Oracle Corporation:

We have audited the accompanying consolidated balance sheets of Oracle Corporation, a Delaware corporation, and subsidiaries as of May 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended May 31, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oracle Corporation and subsidiaries as of May 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed under Item 15(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

San Jose, California  
June 18, 2001

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### ORACLE CORPORATION CONSOLIDATED BALANCE SHEETS As of May 31, 2003 and 2002

(in millions, except per share data)	May 31,	
	2003	2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,737	\$ 3,095
Short-term investments	1,782	2,746
Trade receivables, net of allowances of \$376 as of May 31, 2003 and \$413 as of May 31, 2002	1,920	2,036
Other receivables	301	293
Deferred tax assets	381	452
Prepaid expenses and other current assets	106	106
Total current assets	9,227	8,728
Investments in debt securities	233	406
Property, net	1,062	987
Deferred tax assets	197	233
Intangible and other assets	345	446
Total assets	\$11,064	\$10,800
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 228	\$ 228
Current portion of long-term debt	153	—
Income taxes payable	891	1,091
Value added tax and sales tax payable	166	155
Accrued compensation and related benefits	454	458
Other accrued liabilities	857	787
Deferred revenues	1,409	1,241
Total current liabilities	4,158	3,960
Notes payable and long-term debt, net of current portion	175	298
Deferred tax liabilities	186	204
Other long-term liabilities	225	221
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share—authorized: 1.0 shares; outstanding: none	—	—
Common stock, \$0.01 par value per share and additional paid in capital— authorized: 11,000 shares; outstanding: 5,233 shares at May 31, 2003 and 5,431 shares at May 31, 2002	5,101	5,029
Retained earnings	1,092	1,210
Accumulated other comprehensive income (loss)	127	(122)
Total stockholders' equity	6,320	6,117
Total liabilities and stockholders' equity	\$11,064	\$10,800

See notes to consolidated financial statements.

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### ORACLE CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS For the Years Ended May 31, 2003, 2002 and 2001

(in millions, except per share data)	Year Ended May 31,		
	2003	2002	2001
<b>Revenues:</b>			
New software licenses and other	\$3,270	\$3,513	\$ 4,707
Software license updates and product support	3,929	3,540	3,301
Services	2,276	2,620	2,953
<b>Total revenues</b>	<b>9,475</b>	<b>9,673</b>	<b>10,961</b>
<b>Operating expenses:</b>			
Sales and marketing	2,072	2,209	2,691
Software license updates and product support	474	462	551
Cost of services	1,868	1,944	2,346
Research and development	1,180	1,076	1,139
General and administrative	441	411	457
<b>Total operating expenses</b>	<b>6,035</b>	<b>6,102</b>	<b>7,184</b>
<b>Operating income</b>	<b>3,440</b>	<b>3,571</b>	<b>3,777</b>
Net investment losses related to equity securities	(111)	(244)	(17)
Other income, net:			
Interest income	129	166	289
Interest expense	(16)	(20)	(24)
Other	(17)	(65)	(54)
<b>Total other income, net</b>	<b>96</b>	<b>81</b>	<b>211</b>
<b>Income before provision for income taxes</b>	<b>3,425</b>	<b>3,408</b>	<b>3,971</b>
<b>Provision for income taxes</b>	<b>1,118</b>	<b>1,184</b>	<b>1,410</b>
<b>Net income</b>	<b>\$2,307</b>	<b>\$2,224</b>	<b>\$ 2,561</b>
<b>Earnings per share:</b>			
Basic	\$ 0.44	\$ 0.40	\$ 0.46
Diluted	\$ 0.43	\$ 0.39	\$ 0.44
<b>Weighted average common shares outstanding:</b>			
Basic	5,302	5,518	5,597
Diluted	5,418	5,689	5,865

See notes to consolidated financial statements.

**ORACLE CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Years Ended May 31, 2003, 2002 and 2001**

(in millions)	Comprehensive Income	Common Stock and Additional Paid in Capital		Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
		Number of Shares	Amount			
Balances, May 31, 2000	\$ —	5,615	\$3,113	\$ 3,344	\$ 5	\$ 6,462
Common stock issued under stock option plans	—	109	348	—	—	348
Common stock issued under stock purchase plan	—	10	187	—	—	187
Repurchase of common stock	—	(142)	(74)	(4,267)	—	(4,341)
Dividend for fractional shares resulting from stock split	—	—	28	(28)	—	—
Equity adjustment related to subsidiary equity transactions	—	—	70	—	—	70
Tax benefits from stock plans	—	—	1,149	—	—	1,149
Foreign currency translation adjustments	(90)	—	—	—	(90)	(90)
Unrealized loss on equity securities, net of tax of \$46	(69)	—	—	—	(69)	(69)
Net income	2,561	—	—	2,561	—	2,561
Comprehensive income	\$ 2,402	—	—	—	—	—
Balances, May 31, 2001	\$ —	5,592	4,821	1,610	(154)	6,277
Common stock issued under stock option plans	—	29	123	—	—	123
Common stock issued under stock purchase plan	—	20	209	—	—	209
Repurchase of common stock	—	(210)	(168)	(2,624)	—	(2,792)
Tax benefits from stock plans	—	—	44	—	—	44
Foreign currency translation and hedges	9	—	—	—	9	9
Reversal of unrealized loss on equity securities, net of tax of \$15	23	—	—	—	23	23
Net income	2,224	—	—	2,224	—	2,224
Comprehensive income	\$ 2,256	—	—	—	—	—
Balances, May 31, 2002	\$ —	5,431	5,029	1,210	(122)	6,117
Common stock issued under stock option plans	—	48	192	—	—	192
Common stock issued under stock purchase plan	—	24	164	—	—	164
Repurchase of common stock	—	(270)	(228)	(2,425)	—	(2,653)
Settlement of forward contract	—	—	(166)	—	—	(166)
Tax benefits from stock plans	—	—	110	—	—	110
Foreign currency translation and hedges	223	—	—	—	223	223
Unrealized gain on equity securities, net of tax of \$15	26	—	—	—	26	26
Net income	2,307	—	—	2,307	—	2,307
Comprehensive income	\$ 2,556	—	—	—	—	—
Balances, May 31, 2003		5,233	\$5,101	\$ 1,092	\$ 127	\$ 6,320

See notes to consolidated financial statements.

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### ORACLE CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended May 31, 2003, 2002 and 2001

(in millions)	Year Ended May 31,		
	2003	2002	2001
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 2,307	\$ 2,224	\$ 2,561
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	243	273	261
Amortization of intangible assets	84	90	85
Provision for trade receivable allowances	128	195	256
Net investment losses related to equity securities	111	244	17
Deferred income taxes	90	(160)	(159)
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	119	230	(199)
(Increase) decrease in prepaid expenses and other assets	41	(23)	(2)
Increase (decrease) in accounts payable and other current liabilities	(88)	(341)	69
Increase (decrease) in income taxes payable	(81)	384	(892)
Increase in deferred revenues	65	5	105
Increase in other long-term liabilities	4	14	22
<b>Net cash provided by operating activities</b>	<b>3,023</b>	<b>3,135</b>	<b>2,124</b>
<b>Cash Flows From Investing Activities:</b>			
Purchases of investments	(4,713)	(6,087)	(1,584)
Proceeds from maturities and sale of investments	5,942	4,384	725
Capital expenditures	(291)	(278)	(313)
Increase in other assets	(43)	(49)	(28)
<b>Net cash provided by (used for) investing activities</b>	<b>895</b>	<b>(2,030)</b>	<b>(1,200)</b>
<b>Cash Flows From Financing Activities:</b>			
Payments for repurchase of common stock	(2,653)	(2,792)	(4,341)
Proceeds from issuance of common stock	356	332	535
Settlement of forward contract	(166)	—	—
Borrowings (payments) of notes payable and long-term debt	9	(5)	—
<b>Net cash used for financing activities</b>	<b>(2,454)</b>	<b>(2,465)</b>	<b>(3,806)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>178</b>	<b>6</b>	<b>(98)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,642</b>	<b>(1,354)</b>	<b>(2,980)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>3,095</b>	<b>4,449</b>	<b>7,429</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,737</b>	<b>\$ 3,095</b>	<b>\$ 4,449</b>
<b>Supplemental schedule of cash flow data:</b>			
Cash paid for income taxes	\$ 1,149	\$ 1,000	\$ 2,400
Cash paid for interest	\$ 20	\$ 20	\$ 24

See notes to consolidated financial statements.

**ORACLE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**May 31, 2003**

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

We develop, manufacture, market and distribute computer software that helps organizations manage and grow their businesses. Our software products can be categorized into two broad areas: database technology software and applications software. Database technology software is used for developing and deploying applications on the internet and on corporate intranets and includes database management software, application server software, development tools and collaboration software. Applications software can be used to automate business processes and to provide business intelligence for financials, projects, marketing, sales, order management, procurement, supply chain, manufacturing, service and human resources. We also offer software license updates and product support and other services including consulting, advanced product services, and education.

*Basis of Financial Statements*

The consolidated financial statements include our accounts and the accounts of our wholly owned and majority-owned subsidiaries. We consolidate all of our majority owned subsidiaries and reflect minority interest of the portion of these entities that we do not own as a long-term liability. At May 31, 2003 and 2002 the balance of minority interest was \$196.5 million and \$196.0 million, respectively. Intercompany transactions and balances have been eliminated. Certain prior year balances have been reclassified to conform to the current year presentation.

*Use of Estimates*

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. 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 any available alternative would not produce a materially different result.

*Revenue Recognition*

We derive revenues from three primary sources: (1) new software licenses, (2) software license updates and product support, and (3) services, which include consulting, advanced product services and education revenues. New software license revenues represent all fees earned from granting customers licenses to use our database technology and applications software, and excludes revenues derived from software license updates, which are included in software license updates and product support. While the basis for software license revenue recognition is substantially governed by the provisions of Statement of Position No. 97-2, *Software Revenue Recognition*, issued by the American Institute of Certified Public Accountants, we exercise judgment and use estimates in connection with the determination of the amount of new software license, software license updates and product support and services revenues to be recognized in each accounting period.

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize new software license revenue when: (1) we enter into a legally binding arrangement with

**ORACLE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**May 31, 2003**

a customer for the license of software; (2) we deliver the products; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Substantially all of our new software license revenues are recognized in this manner.

The vast majority of our software license arrangements include software license updates and product support, which are recognized ratably over the term of the arrangement, typically one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period. Product support services include internet access to technical content, as well as internet and telephone access to technical support personnel. Software license updates and product support are generally priced as a percentage of the net new software license fees. Software license updates can be purchased separately from product support; however, only customers who purchase software license updates can purchase product support. Substantially all of our customers purchase both software license updates and product support upon the initial licensing of our software. In addition, most of these customers renew the software license updates and product support rights annually.

Many of our software arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenues from these arrangements are generally accounted for separately from new software license revenues because the arrangements qualify as service transactions as defined in SOP 97-2. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments and impact of milestones or acceptance criteria on the realizability of the software license fee. Revenues for consulting services are generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. We estimate the percentage of completion on contracts with fixed or “not to exceed” fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. We recognize no more than 90% of the milestone or total contract amount until project acceptance is obtained. If we do not have a sufficient basis to measure progress towards completion, revenue is recognized when we receive final acceptance from the customer. When total cost estimates exceed revenues, we accrue for the estimated losses immediately based upon an average fully burdened daily rate applicable to the consulting organization delivering the services. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the percentage of completion method of accounting affect the amounts of revenue and related expenses reported in our consolidated financial statements. A number of internal and external factors can affect our estimates, including labor rates, utilization and efficiency variances and specification and testing requirement changes.

If an arrangement does not qualify for separate accounting of the software license and consulting transactions, then new software license revenue is generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method as described above. Contract accounting is applied to any arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license fees; (2) where services include significant modification or customization of the software; (3) where significant consulting services are provided for in the software license contract without additional charge; or (4) where the software license payment is tied to the performance of consulting services.

Advanced product services are earned by providing services to customers that include remote database administration, performance monitoring and tuning, annual on-site technical support services and outsourcing. Outsourcing services include multi-featured software management and maintenance services for our database

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technology and applications software. Advanced product services revenues are recognized over the term of the service contract, which is generally one year.

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

For arrangements with multiple elements, we allocate revenue to each element of a transaction based upon its fair value as determined by “vendor specific objective evidence.” Vendor specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately and for software license updates and product support services, is additionally measured by the renewal rate offered to the customer. We defer revenue for any undelivered elements, and recognize revenue when the product is delivered or over the period in which the service is performed, in accordance with our revenue recognition policy for such element. If we cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, we defer revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, we use the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Our software license arrangements generally do not include acceptance provisions. However, if acceptance provisions exist as part of public policy, for example in agreements with government entities when acceptance periods are required by law, or within previously executed terms and conditions that are referenced in the current agreement and are short-term in nature, we provide for a sales return allowance in accordance with FASB Statement No. 48, *Revenue Recognition when Right of Return Exists*. If acceptance provisions are long-term in nature or are not included as standard terms of an arrangement or if we cannot reasonably estimate the incidence of returns, revenue is recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

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

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

While most of our arrangements include short-term payment terms, we have a standard practice of providing long-term financing to credit worthy customers through our financing division. Since fiscal 1989, when our financing division was formed, we have established a history of collection, without concessions, on these receivables with payment terms that generally extend up to five years from the contract date. Provided all other



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revenue recognition criteria have been met, we recognize new software license revenue for these arrangements upon delivery, net of any payment discounts from financing transactions. In fiscal 2003, 2002 and 2001 approximately 11%, 13% and 16% of our new software license revenues were financed through our financing division. We have generally sold these receivables on a non-recourse basis to third party financing institutions. We account for the sale of these receivables as “true sales” as defined in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

*Allowances for Doubtful Accounts and Returns*

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made 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. In determining these percentages, we analyze our historical collection experience and current economic trends. If the historical data we use to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

We also record a provision for estimated sales returns and allowances on product and service related sales in the same period the related revenues are recorded in accordance with Statement 48. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. If the historical data we use to calculate these estimates does not properly reflect future returns, then a change in the allowances would be made in the period in which such a determination is made and revenues in that period could be materially affected.

*Legal Contingencies*

We are currently involved in various claims and legal proceedings. Periodically, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. 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. See Note 17 for a description of our material legal proceedings not in the ordinary course of business.

*Accounting for Income Taxes*

Significant 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 revenue and expense that qualify for preferential tax treatment, and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than 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.

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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. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance will not need to be increased to cover additional deferred tax assets that may not be realizable. Any increase in the valuation allowance could have a material adverse impact on our income tax provision and net income in the period in which such determination is made.

*Other Accounting Policies*

*Concentration of Credit Risk:* Financial instruments that are potentially subject to concentrations of credit risk consist primarily of investments and trade receivables. Investment policies have been implemented that limit investments to investment grade securities. The risk with respect to trade receivables is mitigated by credit evaluations we perform on our customers and by the diversification of our customer base.

*Foreign Currency Translation:* We transact business in various foreign currencies. In general, the functional currency of a foreign operation is the local country's currency. Consequently, assets and liabilities of operations outside the United States are translated into United States dollars using year-end exchange rates. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

*Impairment of Long-Lived Assets:* We review long-lived assets and identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We assess these assets for impairment based on estimated undiscounted future cash flows from these assets. If the carrying value of the assets exceeds the estimated future undiscounted cash flows, a loss is recorded for the excess of the asset's carrying value over the fair value. We did not recognize any impairment loss for long-lived assets in fiscal 2003, 2002 or 2001.

*Advertising:* All advertising costs are expensed as incurred. Advertising expenses were \$103.6 million, \$133.2 million and \$133.1 million in fiscal 2003, 2002 and 2001, respectively.

*Research and Development:* All research and development costs are expensed as incurred. Costs eligible for capitalization under FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, were not material to our consolidated financial statements.

*Accounting for Stock-Based Compensation:* We account for our stock-based compensation plans under the intrinsic value method of accounting as defined by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. We apply the disclosure provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, as amended by FASB Statement No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, in Note 3.

## **2. NEW ACCOUNTING PRONOUNCEMENTS**

*Accounting for Revenue Arrangements with Multiple Deliverables*

In November 2002, the EITF reached a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Issue 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of Issue 00-21 will apply to

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revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We do not believe that the adoption of Issue 00-21 will have a material effect on our consolidated financial position, results of operations or cash flows.

*Consolidation of Variable Interest Entities*

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. Interpretation 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. Interpretation 46 applies to any business enterprise, both public and private, that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. We believe we have no investment in or contractual relationship or other business relationship with a variable interest entity and therefore the adoption did not have any impact on our consolidated financial position or results of operations. However, if we enter into any such arrangement with a variable interest entity in the future, our consolidated financial position or results of operations may be adversely impacted.

*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*

On April 30, 2003, the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. Statement 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. In addition, Statement 149 clarifies the definition of a derivative by providing guidance on the meaning of initial net investments related to derivatives. Statement 149 is effective for contracts entered into or modified after June 30, 2003. We do not believe the adoption of Statement 149 will have a material effect on our consolidated financial position, results of operations or cash flows.

*Financial Instruments with Characteristics of Both Liabilities and Equity*

On May 15, 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Statement 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. Statement 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. We do not use such instruments in our share repurchase program. Statement 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments as of September 1, 2003. We adopted Statement 150 on June 1, 2003 and do not believe the effect of adopting this statement will have a material impact on our financial position, results of operations or cash flows.

### **3. STOCK BASED COMPENSATION PLANS**

We issue stock options to our employees and outside directors and provide employees the right to purchase our stock pursuant to stockholder approved stock option and employee stock purchase programs. We account for our stock-based compensation plans under the intrinsic value method of accounting as defined by Opinion 25 and related interpretations. No stock-based employee compensation cost is reflected in net income for the years ended May 31, 2003, 2002 or 2001 as all options granted under these plans had an exercise price equal to or greater than the fair market value of the underlying common stock on the date of grant. We apply the disclosure provisions of Statement 123, as amended by Statement 148. For pro forma disclosures, the estimated fair value of

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the options is amortized over the vesting period, typically four years, and the estimated fair value of the stock purchases is amortized over the six-month purchase period. The following table illustrates the effect on net income and earnings per share if we had accounted for our stock option and stock purchase plans under the fair value method of accounting:

(in millions, except per share data)	Year Ended May 31,		
	2003	2002	2001
Net income, as reported	\$2,307	\$2,224	\$2,561
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(330)	(460)	(582)
Pro forma net income	\$1,977	\$1,764	\$1,979
Earnings per share:			
Basic—as reported	\$ 0.44	\$ 0.40	\$ 0.46
Basic—pro forma	\$ 0.37	\$ 0.32	\$ 0.35
Diluted—as reported	\$ 0.43	\$ 0.39	\$ 0.44
Diluted—pro forma	\$ 0.36	\$ 0.31	\$ 0.34

We estimate the fair value of our options using the Black-Scholes option value model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Our options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimates. The fair value of options granted and the option component of the employee purchase plan shares were estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

Employee and Director Stock Options	Year Ended May 31,		
	2003	2002	2001
Expected life from vest date (in years)	1.25-2.84	1.26-2.51	0.21-0.78
Risk-free interest rates	1.10-3.34%	3.45-4.48%	4.09-6.56%
Volatility	48-56%	57%	76%
Dividend yield	—	—	—
Weighted average fair value at grant date	\$3.88	\$7.45	\$18.86

Employee Stock Purchase Plan	Year Ended May 31,		
	2003	2002	2001
Expected life from vest date (in years)	0.5	0.5	0.5
Risk-free interest rates	1.12-1.22%	3.45-3.93%	4.47-6.29%
Volatility	56-57%	57%	76%
Dividend yield	—	—	—
Weighted average fair value at grant date	\$2.52	\$4.33	\$14.43

*Stock Option Plans*

In fiscal 2001, we adopted the 2000 Long-Term Equity Incentive Plan (the “2000 Plan”), which replaced the 1991 Long-Term Equity Incentive Plan (the “1991 Plan”) and provides for the issuance of non-qualified stock options and incentive stock options, as well as stock purchase rights, stock appreciation rights and long-term

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performance awards to our eligible employees, officers, independent consultants and directors. Under the terms of the 2000 Plan, options to purchase common stock generally are granted at not less than fair market value, become exercisable as established by the Board of Directors (generally ratably over four years), and generally expire ten years from the date of grant. Options granted under the 1991 Plan were granted on similar terms. If options outstanding under the 1991 Plan are forfeited, repurchased, or otherwise terminate without the issuance of stock, the shares underlying such options will also become available for future awards under the 2000 Plan. As of May 31, 2003, options to purchase 451.1 million shares of common stock were outstanding under both plans, of which 291.2 million were vested. Approximately 473.6 million shares of common stock are available for future awards under the 2000 Plan. To date, we have not issued any stock purchase rights, stock appreciation rights or long-term performance awards under this plan.

In fiscal 1993, the Board of Directors adopted the 1993 Directors' Stock Option Plan (the "Directors' Plan"), which provides for the issuance of non-qualified stock options to outside directors through May 24, 2003. The following describes the terms of the Directors' Plan during fiscal 2003. Under the terms of the Directors' Plan, options to purchase 20.3 million shares of common stock were reserved for issuance, are granted at not less than fair market value, become exercisable over four years, and expire ten years from the date of grant. All grants of options to purchase shares of our common stock under the Directors' Plan are automatic and nondiscretionary. Each individual who became an outside director was automatically granted options to purchase 80,000 shares as of the date of becoming a director. The Directors' Plan also provides for subsequent stock option grants. In May of each year, each outside director was granted options to purchase 40,000 shares of our common stock, provided that on such date the outside director had served on our Board of Directors for at least six months. In lieu of the annual grant of an option to purchase 40,000 shares of common stock in May of each year: (1) each outside director who had served as the Chairman of both the Executive and the Finance and Audit Committee of our Board of Directors was granted options to purchase 100,000 shares of common stock; (2) an outside director, who was the Chairman of the Committee on Compensation and Management Development of our Board of Directors and who had served on such committee for at least one year, was granted options to purchase 80,000 shares of common stock and (3) each outside director who had served as the Vice Chairman of the Finance and Audit Committee of our Board of Directors was granted options to purchase 60,000 shares of common stock, provided that the outside director had served in such capacity for at least six months. As of May 31, 2003, options to purchase 4.3 million shares of common stock were outstanding under the 1993 Directors' Plan, of which 3.0 million were vested. No shares are available for future grant under this plan at May 31, 2003.

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### ORACLE CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) May 31, 2003

(in millions, except exercise price)		Shares Under Option	Weighted Average Exercise Price
Balance, May 31, 2000		592	\$ 8.55
Granted		13	\$ 36.41
Exercised		(109)	\$ 3.18
Canceled		(54)	\$ 9.66
Balance, May 31, 2001		442	\$ 10.56
Granted		65	\$ 15.80
Exercised		(29)	\$ 4.20
Canceled		(24)	\$ 18.21
Balance, May 31, 2002		454	\$ 11.31
Granted		66	\$ 8.88
Exercised		(48)	\$ 3.96
Canceled		(17)	\$ 20.56
Balance, May 31, 2003		455	\$ 11.41

As of May 31, 2003, we had 929.0 million shares of common stock available for grant for the exercise of options. The range of exercise prices for options outstanding at May 31, 2003 was \$1.09 to \$45.60. The range of exercise prices for options is due to the fluctuating price of our stock over the period of the grants.

The following table summarizes information about stock options outstanding at May 31, 2003:

Range of Exercise Price	Options Outstanding as of May 31, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable as of May 31, 2003	Weighted Average Exercise Price of Exercisable Options
(Shares in millions)					
\$ 1.09-\$ 3.79	71	3.19	\$3.25	70	\$3.25
\$ 3.82-\$ 4.19	50	4.84	\$4.06	50	\$4.06
\$ 4.24-\$ 6.53	31	4.19	\$4.95	31	\$4.93
\$ 6.67-\$ 6.88	116	5.98	\$6.88	83	\$6.88
\$ 7.29-\$ 8.68	60	8.97	\$8.64	2	\$7.62
\$ 8.72-\$11.70	11	7.11	\$10.87	6	\$11.05
\$11.75-\$15.86	55	8.02	\$15.56	15	\$15.60
\$15.90-\$40.81	56	6.91	\$37.74	34	\$38.47
\$40.97-\$45.60	5	6.70	\$41.49	3	\$41.50
\$ 1.09-\$45.60	455	6.09	\$11.41	294	\$9.88

#### Stock Purchase Plan

We have an Employee Stock Purchase Plan (the "Purchase Plan"). To date, 405.0 million shares of common stock have been reserved for issuance under the Purchase Plan. Under the Purchase Plan, employees may purchase shares of common stock at a price per share that is 85% of the lesser of the fair market value as of the beginning or the end of the semi-annual option period. Through May 31, 2003, 283.1 million shares had been issued and 121.9 million shares were reserved for future issuances under the Purchase Plan. During fiscal 2003, 2002 and 2001, we issued 23.8 million, 19.6 million and 9.8 million shares, respectively, under the Purchase Plan.

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**4. 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 by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock options and shares issuable under the employee stock purchase plan using the treasury stock method, and a forward contract to sell 36.0 million shares of our common stock prior to its settlement on October 31, 2002. The following table sets forth the computation of basic and diluted earnings per share:

(in millions, except per share data)	Year Ended May 31,		
	2003	2002	2001
Net income	\$2,307	\$2,224	\$2,561
Weighted average common shares outstanding	5,302	5,518	5,597
Dilutive effect of employee stock plans	110	148	239
Dilutive effect of forward contract	6	23	29
Dilutive weighted average common shares outstanding	5,418	5,689	5,865
Basic earnings per share	\$ 0.44	\$ 0.40	\$ 0.46
Diluted earnings per share	\$ 0.43	\$ 0.39	\$ 0.44
Anti-dilutive stock options excluded from calculation <sup>(1)</sup>	115	158	67

(1) These anti-dilutive stock options could be dilutive in the future. See Note 3 for information regarding the exercise prices of our outstanding, unexercised options.

**5. CASH, CASH EQUIVALENTS AND INVESTMENTS IN DEBT SECURITIES**

Cash and cash equivalents consist primarily of highly liquid investments in time deposits held at major banks, commercial paper, United States government agency discount notes, money market mutual funds and other money market securities with original maturities of 90 days or less. Short-term investments primarily consist of commercial paper, corporate notes and United States government agency notes with original maturities of greater than 91 days that mature in fiscal 2004.

Our investment portfolio is subject to market risk due to changes in interest rates. We place our investments with high credit quality issuers and, by policy, 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, market risk and reinvestment risk.

*Cash and Cash Equivalents*

The amortized principal amount of cash and cash equivalents at May 31, 2003 and 2002 was \$4,737.3 million and \$3,095.1 million and the weighted average interest rates were 1.75% and 1.43%, respectively. The amortized principal amount approximates fair value at May 31, 2003 and 2002.

*Investments in Debt Securities*

In accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and based on our intentions regarding these instruments, we classify all investments in debt securities as held-to-maturity and account for these investments at amortized cost. The table below presents the amortized principal



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amount, related weighted average interest rates, maturities and major security type for our investments in debt securities. The amortized principal amount approximates fair value at May 31, 2003 and 2002. We determined the fair value of our investments in debt securities based upon public market rates.

	May 31, 2003		May 31, 2002	
	Amortized Principal Amount	Weighted Average Interest Rate	Amortized Principal Amount	Weighted Average Interest Rate
(Dollars in millions)				
Short-term investments (91 days-1 year)	\$ 1,782	1.33%	\$ 2,746	2.45%
Long-term investments (1-2 years)	233	1.54%	406	3.11%
<b>Total investments in debt securities</b>	<b>\$ 2,015</b>	<b>1.35%</b>	<b>\$ 3,152</b>	<b>2.53%</b>
Debt securities issued by United States governmental entities	\$ 216		\$ 739	
Corporate and other debt securities	1,799		2,413	
<b>Total investments in debt securities</b>	<b>\$ 2,015</b>		<b>\$ 3,152</b>	

The United States dollar equivalent of cash, cash equivalents and short-term investments denominated in foreign currencies are as follows:

	Amortized Principal Amount at May 31, 2003	Amortized Principal Amount at May 31, 2002
(Dollars in millions)		
Japanese Yen	\$ 722	\$ 649
Euro	978	346
British Pound	144	133
Chinese Renminbi	98	95
Canadian Dollar	52	83
Other currencies	563	463
<b>Total cash, cash equivalents and short-term investments denominated in foreign currency</b>	<b>\$ 2,557</b>	<b>\$ 1,769</b>

## 6. INVESTMENTS IN EQUITY SECURITIES

In accordance with Statement 115 and based on our intentions regarding these instruments, we classify all marketable equity securities as available-for-sale. Marketable equity securities are included in intangible and other assets in the accompanying consolidated balance sheets and all unrealized holding gains (losses) are reflected net of tax in stockholders' equity. If we determine that an investment has an other than temporary decline in fair value, generally defined as when our cost basis exceeds the fair value for approximately six months, we recognize the investment loss in other income, net. We periodically evaluate our investments to determine if impairment charges are required.

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The following table shows the net carrying value of our equity securities as of May 31, 2003, 2002 and 2001 and unrealized gains (losses), net of tax, for fiscal 2003, 2002 and 2001:

(Dollars in millions)	Fair Value Basis	Unrealized Gains (Losses) in Stockholders' Equity, net of tax
<b>May 31, 2003</b>		
Liberate Technologies	\$ 90	\$ 25
Other investments	65	1
Total	\$ 155	\$ 26
<b>May 31, 2002</b>		
Liberate Technologies	\$ 135	\$ 27
Other investments	86	(4)
Total	\$ 221	\$ 23
<b>May 31, 2001</b>		
Liberate Technologies	\$ 282	\$ (27)
Other investments	133	(42)
Total	\$ 415	\$ (69)

In the fourth quarter of 2002, we recognized a \$173.5 million impairment charge relating to an other than temporary decline in the fair value of our investment in Liberate Technologies. We concluded that our investment was other than temporarily impaired because our cost basis exceeded the publicly traded market value of the Liberate Technologies common stock for approximately six months. Due to further declines in the market value of Liberate Technologies, we recognized additional impairment charges of \$87.2 million in the first six months of fiscal 2003. During the second half of fiscal 2003, the market value of our investment in Liberate Technologies increased by \$41.7 million, which is reflected within stockholders' equity as an unrealized gain on equity securities, net of taxes. The carrying value of our remaining investment in Liberate Technologies as of May 31, 2003 was \$89.8 million, which includes the unrealized gain of \$41.7 million.

Prior to January 2001, we recorded our investment in Liberate Technologies using the equity method. In January 2001, we created an irrevocable trust (the "Liberate Trust") to hold all of our shares (the "Liberate Shares") of Liberate Technologies. The trustees of the Liberate Trust must vote the Liberate Shares in the same proportion as all the other stockholders of Liberate Technologies (determined as of the last business day prior to a Liberate Technologies Stockholders' Meeting or the earliest time thereafter that the voting results are provided to the Trustee). We control the timing of the sales of the Liberate Shares, subject to a standstill agreement with Liberate Technologies and the trustee of the Liberate Trust, and receive the proceeds of any such sales. The Liberate Trust terminates only after all shares have been sold. The standstill agreement prohibits us from acquiring any common shares or voting shares of Liberate Technologies or other securities or rights convertible or exchangeable for such shares and limits our ability to sell the Liberate Shares to: (1) sales in compliance with the volume and manner of sale limitations of Rule 144 under the Securities Act; (2) sales pursuant to a firm commitment, underwritten distribution to the public; (3) sales to a person who will own 10% or less of the total voting power of Liberate Technologies after such sale; (4) sales pursuant to a tender or exchange offer to the Liberate Technologies stockholders that is not opposed by Liberate Technologies' Board of Directors; or (5) sales pursuant to the written consent of Liberate Technologies. The standstill agreement terminates two years after the termination of the Liberate Trust or sooner if Liberate Technologies is dissolved, liquidated or wound up, substantially all Liberate Technologies' assets are sold or another entity acquires Liberate Technologies by merger or

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consolidation. Accordingly, effective February 1, 2001, we began to account for our ownership interest in Liberate Technologies as available for sale securities under Statement 115. As of May 31, 2003, our ownership interest in Liberate Technologies was approximately 32.1%.

In fiscal 2003, 2002 and 2001 we recognized \$23.9 million, \$70.0 million and \$17.1 million, respectively, of impairment losses related to our other investments, which include investments in privately held companies, venture funds and publicly traded companies. We determined that the decreases in the fair value of these investments were other than temporary based upon the financial condition and near term prospects of the underlying investees, changes in the market demand for technology being sold or developed by the underlying investees and our intent regarding providing future funding to the underlying investees. The carrying value of our remaining other investments as of May 31, 2003 and 2002 was \$64.8 million and \$85.7 million, respectively.

## **7. DERIVATIVE FINANCIAL INSTRUMENTS**

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. Statement 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met and that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. We adopted Statement 133 as of June 1, 2001. We had no material transition adjustment upon adoption of Statement 133. We use derivatives to manage foreign currency and interest rate risk.

### **Foreign Currency Risk Management**

#### *Net Investment Hedges*

Periodically, we hedge the net assets of certain of our international subsidiaries ("net investment hedges") using forward foreign currency exchange contracts to offset the translation and economic exposures related to our investments in these subsidiaries. We measure the ineffectiveness of net investment hedges by using the changes in spot exchange rates because this method reflects our risk management strategies, the economics of those strategies in our financial statements and better manages interest rate differentials between different countries. Under this method, the change in fair value of the forward contract attributable to the changes in spot exchange rates (the "effective portion") is reported in stockholders' equity to offset the translation results on the net investments. The remaining change in fair value of the forward contract (the "ineffective portion") is recognized in other income, net.

At May 31, 2003, we had one net investment hedge in Japanese Yen. The Yen equity hedge minimizes currency risk arising from net assets held in Yen as a result of equity capital raised during the initial public offering and secondary offering of Oracle Japan. The fair value of our Yen equity hedge was not material to our consolidated financial statements as of May 31, 2003 and 2002. The Yen equity hedge has a notional amount of \$615.1 million and a weighted average exchange rate of 118.4 Yen for United States dollar. We previously had a Euro equity hedge that we settled on September 30, 2002 for an immaterial amount.

Net gains (losses) on net investment hedges reported in stockholders' equity relating to the effective portion of the net investment hedge were \$(44.7) million, \$(6.9) million and \$5.7 million in fiscal 2003, 2002 and 2001, respectively. The net gain on net investment hedges reported in other income, net relating to the ineffective portion of the net investment hedges were \$8.9 million and \$6.4 million in fiscal 2003 and 2002, respectively. Prior to the adoption of Statement 133, as amended, we recorded all gains (losses) related to the net investment hedges as a component of accumulated other comprehensive income (loss) on stockholders' equity.

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*Foreign Currency Fair Value Hedges*

We transact business in various foreign currencies and have established a program that primarily utilizes foreign currency forward exchange contracts to offset the risk associated with the effects of certain foreign currency exposures. Under this program, increases or decreases in our foreign currency exposures are offset by gains and losses on the forward contracts, so as to mitigate the possibility of foreign currency transaction gains and losses. These foreign currency exposures typically arise from intercompany sublicense fees and other intercompany transactions. Our forward contracts generally have terms of 180 days or less. We do not use forward contracts for trading purposes. All outstanding forward contracts (excluding net investment hedges) are marked to market at the end of the period with unrealized gains and losses included in other income, net. Our ultimate realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature. Net foreign exchange transaction losses included in other income, net in the accompanying consolidated statements of operations were \$1.0 million, \$27.4 million and \$10.3 million in fiscal 2003, 2002 and 2001, respectively. The fair value of the foreign currency exchange contracts was \$(0.6) million and \$(0.4) million as of May 31, 2003 and 2002.

*Interest Rate Swaps*

We have outstanding \$150.0 million in 6.72% senior notes due in February 2004 and \$150.0 million in 6.91% senior notes due in February 2007. In February 2002, we entered into two interest-rate swap agreements that have the economic effect of modifying the interest obligations associated with these senior notes so that the interest payable on the senior notes effectively becomes variable based on the three month LIBOR set on February 15, May 15, August 15 and November 15 of each year until maturity. The notional amount of the interest rate swaps and their termination date match the principal amounts and maturities of the outstanding senior notes. At May 31, 2003, the effective interest rates on the senior notes were reduced to 4.66% for the 2004 notes and 3.38% for the 2007 senior notes as a result of the two interest rate swaps. The fair value of the interest rate swaps was \$19.0 million at May 31, 2003 and is included in intangible and other assets.

**8. PROPERTY**

Property is stated at the lower of cost or realizable value. Capital leases are recorded at the present value of the future minimum lease payments. Depreciation is computed using the straight-line method based on estimated useful lives of the assets, which range from two to forty years. Capital leases and leasehold improvements are amortized over the lesser of estimated useful lives or lease terms, as appropriate. Property is periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Property consisted of the following:

(Dollars in millions)	May 31,	
	2003	2002
Computer equipment	\$ 1,049	\$ 1,019
Buildings and improvements	999	849
Furniture and fixtures	345	332
Land	153	126
Automobiles	10	11
Total property	2,556	2,337
Accumulated depreciation and amortization	(1,494)	(1,350)
Property, net	\$ 1,062	\$ 987

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**9. NOTES PAYABLE AND DEBT**

During fiscal 1997, we issued \$150.0 million in 6.72% senior notes due in February 2004 and \$150.0 million in 6.91% senior notes due in February 2007. The senior notes require interest only payments until maturity. The senior notes are unsecured general obligations that rank on parity with all of our other unsecured and unsubordinated indebtedness that may be outstanding. As discussed in Note 7, in February 2002, we entered into two interest-rate swap agreements that have the economic effect of modifying the interest obligations associated with these senior notes so that the interest payable on the senior notes effectively becomes variable. Current maturities of our senior note obligations and related swap were \$153.1 million and \$0 at May 31, 2003 and 2002, respectively.

At May 31, 2003, we also had notes payable of \$9.5 million due in fiscal 2005. At May 31, 2002, we had unsecured short-term borrowings from banks which were payable on demand in the amount of \$0.5 million.

Debt consisted of the following:

(Dollars in millions)	May 31,	
	2003	2002
Senior notes	\$318	\$298
Notes payable	10	—
<b>Total debt</b>	<b>328</b>	<b>298</b>
Current maturities of long-term debt	153	—
<b>Long-term debt</b>	<b>\$175</b>	<b>\$298</b>

**10. GUARANTEES**

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software 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 liabilities related to such obligations in our consolidated financial statements.

Our software license agreements also generally include a warranty that our software 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 service. To date, we have not incurred any material costs associated with these warranties.

**11. DEFERRED REVENUES**

The following table sets forth the components of deferred revenues:

(in millions)	May 31,	
	2003	2002
Software license updates and product support	\$1,168	\$ 951
Services	128	160
New software licenses	113	130
<b>Total deferred revenues</b>	<b>\$1,409</b>	<b>\$1,241</b>

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Deferred software license updates and product support revenues represent customer payments made in advance for annual support contracts. Software license updates and product support services are typically billed on a per annum basis in advance and revenue is recognized ratably over the support period. The deferred software license updates and product support revenues are typically highest at the end of our first fiscal quarter due to the collection of cash from the large volume of service contracts that are sold or renewed in May of each year. Deferred service revenues include prepayments for consulting, advanced product services and education services. Revenue for these services is recognized as the services are performed. Deferred new software license revenues typically result from undelivered products or specified enhancements, customer specific acceptance provisions or software license transactions that are not segmentable from consulting services.

**12. COMMITMENTS**

We lease certain facilities and furniture and equipment under operating leases. As of May 31, 2003, future minimum annual operating lease payments were as follows:

(Dollars in millions)	Year Ended May 31,
2004	\$ 125
2005	93
2006	67
2007	46
2008	39
Thereafter	137
<b>Total</b>	<b>\$ 507</b>

Rent expense was \$228.3 million, \$256.6 million and \$240.7 million for fiscal years 2003, 2002 and 2001, respectively, net of sublease income of approximately \$11.1 million, \$12.2 million and \$11.4 million, respectively. Certain lease agreements contain renewal options providing for an extension of the lease term. Generally, the renewal lease rates range between 85% and 100% of the fair market lease rates as determined at the end of the initial lease period.

We have an option to acquire an office building and the underlying land, which we currently occupy under an operating lease. The option price is \$46.2 million and we currently plan to acquire this property in the first quarter of fiscal 2004.

**13. STOCKHOLDERS' EQUITY**

*Stock Repurchases*

Our Board of Directors has approved a program to repurchase shares of our common stock to reduce the dilutive effect of our stock option and stock purchase plans. Pursuant to the stock repurchase program, a total of 1,556.5 million shares have been repurchased as of May 31, 2003 for approximately \$17.6 billion. We repurchased 270.4 million shares for \$2.7 billion, 210.1 million shares for \$2.8 billion and 141.6 million shares for \$4.3 billion in fiscal 2003, 2002 and 2001, respectively. At May 31, 2003, approximately \$2.8 billion was available to repurchase shares of our common stock pursuant to the stock repurchase program.

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*Shareholder Rights Plan*

On December 3, 1990, the Board of Directors adopted a Shareholder Rights Plan. The Shareholder Rights Plan was amended and restated on March 31, 1998 and subsequently amended on March 22, 1999. Pursuant to the Shareholder Rights Plan, we distributed Preferred Stock Purchase Rights as a dividend at the rate of one Right for each share of our common stock held by stockholders of record as of December 31, 1990. The Board of Directors also authorized the issuance of Rights for each share of common stock issued after the record date, until the occurrence of certain specified events. The Shareholder Rights Plan was adopted to provide protection to stockholders in the event of an unsolicited attempt to acquire us. As a result of stock splits, each share of common stock now has associated with it one-sixth of a Right.

The Rights are not exercisable until the earlier of: (1) ten days (or such later date as may be determined by the Board of Directors) following an announcement that a person or group has acquired beneficial ownership of 15% of our common stock or (2) ten days (or such later date as may be determined by the Board of Directors) following the announcement of a tender offer which would result in a person or group obtaining beneficial ownership of 15% or more of our outstanding common stock, subject to certain exceptions (the earlier of such dates being called the "Distribution Date.") The Rights are initially exercisable for one-six thousand seven hundred fiftieth of a share of our Series A Junior Participating Preferred Stock at a price of \$125 per one-six thousand seven hundred fiftieth of a share, subject to adjustment. However, if: (1) after the Distribution Date we are acquired in certain types of transactions, or (2) any person or group (with limited exceptions) acquires beneficial ownership of 15% of our common stock, then holders of Rights (other than the 15% holder) will be entitled to receive upon exercise of the Right, common stock (or in case we are completely acquired, common stock of the acquirer) having a market value of two times the exercise price of the Right.

We are entitled to redeem the Rights, for \$0.00148 per Right, at the discretion of the Board of Directors, until certain specified times. We may also require the exchange of Rights, at a rate of one and one-half shares of common stock, for each Right, under certain circumstances. We also have the ability to amend the Rights, subject to certain limitations.

*Accumulated Other Comprehensive Income (Loss)*

The following table summarizes the components of accumulated other comprehensive income, net of income taxes:

(in millions)	Year Ended May 31,		
	2003	2002	2001
Foreign currency translation adjustment	\$140	\$(133)	\$(135)
Unrealized gain (loss) on derivatives	(39)	11	4
Unrealized gain (loss) on investments	26	—	(23)
Accumulated other comprehensive income (loss)	\$127	\$(122)	\$(154)

*Subsidiary Stock Transactions*

We comply with the requirements of SEC Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*, which requires that the difference between the carrying amount of the parent's investment in a subsidiary and the underlying net book value of the subsidiary after the issuance of stock by the subsidiary be reflected as either a gain or loss in the statement of operations or reflected as an equity transaction. We have elected to record gains or losses resulting from the sale of a subsidiary's stock as equity transactions.



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During fiscal 2001, Liberate Technologies and another subsidiary entered into a number of other equity transactions that resulted in an increase in our share in their net assets. As a result of these transactions, we recorded an additional credit to stockholders' equity, net of deferred taxes, in the amount of \$70.0 million.

*Settlement of Forward Contract*

In February 1998, we entered into a forward contract to sell 36.0 million shares of our common stock at \$4.42 per share plus accretion, subject to adjustments over time. The forward contract had a stated maturity of February 13, 2003 and was accounted for as an equity instrument. The forward contract collateralized our master lease facility that provided for the construction or purchase of up to \$182.0 million of property and improvements to be leased by us. On October 31, 2002, we settled the forward contract with a cash payment of \$166.3 million, which was recorded as a reduction to additional paid in capital. In May 2003 we exercised an option to purchase the leased properties for approximately \$168.3 million.

**14. INCOME TAXES**

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

(Dollars in millions)	Year Ended May 31,		
	2003	2002	2001
Domestic	\$1,925	\$2,131	\$2,661
Foreign	1,500	1,277	1,310
Total	\$3,425	\$3,408	\$3,971

The provision for income taxes consists of the following:

<b>Current provision:</b>			
Federal	\$ 546	\$ 831	\$ 954
State	100	97	119
Foreign	382	416	496
Total current provision	1,028	1,344	1,569
<b>Deferred provision (benefit):</b>			
Federal	120	(132)	(139)
State	(15)	(33)	(11)
Foreign	(15)	5	(9)
Total deferred provision (benefit)	90	(160)	(159)
Total provision for income taxes	\$ 1,118	\$ 1,184	\$ 1,410
Effective income tax rate	32.6%	34.7%	35.5%

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

(Dollars in millions)	Year Ended May 31,		
	2003	2002	2001
Tax provision at statutory rate	\$1,199	\$1,193	\$1,390
Foreign earnings at other than United States rates	(214)	(133)	(77)
State tax expense, net of federal benefit	68	88	104
Other, net	65	36	(7)
<b>Provision for income taxes</b>	<b>\$1,118</b>	<b>\$1,184</b>	<b>\$1,410</b>

The components of the deferred tax assets and liabilities, as reflected on the consolidated balance sheets, consist of the following:

(Dollars in millions)	Year Ended May 31,	
	2003	2002
<b>Deferred tax liabilities:</b>		
Unrealized gain on stock	\$(178)	\$(194)
Other	(8)	(56)
<b>Total deferred tax liabilities</b>	<b>(186)</b>	<b>(250)</b>
<b>Deferred tax assets:</b>		
Accruals and allowances	269	235
Differences in timing of revenue recognition	98	96
Depreciation and amortization	63	71
Foreign tax credits	6	94
Employee compensation and benefits	79	70
Other	63	168
<b>Total deferred tax assets</b>	<b>578</b>	<b>734</b>
Valuation allowance	—	(3)
<b>Net deferred tax asset</b>	<b>\$ 392</b>	<b>\$ 481</b>
<b>Recorded as:</b>		
Current deferred tax assets	\$ 381	\$ 452
Non-current deferred tax assets	197	233
Non-current deferred tax liabilities	(186)	(204)
<b>Net deferred tax asset</b>	<b>\$ 392</b>	<b>\$ 481</b>

Under FASB Statement No. 109, *Accounting for Income Taxes*, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Statement 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. We evaluate the realizability of the deferred tax assets on a quarterly basis.

We provide for United States income taxes on the earnings of foreign subsidiaries unless they are considered permanently invested outside the United States. At May 31, 2003, the cumulative earnings upon which United

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States income taxes have not been provided for were approximately \$3.1 billion. If these earnings were repatriated in the United States, they would generate foreign tax credits that could reduce the Federal tax liability associated with the foreign dividend. Assuming a full utilization of the foreign tax credits, the potential deferred tax liability for these earnings would be \$690.7 million.

At May 31, 2003, we had net operating loss carryforwards, resulting in a \$10.9 million deferred tax asset, which originated from acquired domestic subsidiaries. We expect to utilize all of these loss carryforwards, which expire between 2004 and 2019. We also have loss carryforwards of \$71.5 million in certain foreign subsidiaries, resulting in deferred tax assets of approximately \$21.3 million, which expire at various dates: \$2.4 million in 2005, \$11.4 million in 2007, \$8.4 million in 2008, \$1.7 million in 2010, \$9.6 million in 2011, \$6.1 in 2013 and the remaining balance of \$31.9 million has no expiration.

The Internal Revenue Service has examined our federal tax returns for all years through 1995 without any material adjustment of additional taxes due. The IRS is currently examining our United States income tax returns for 1996 through 1999. We do not believe that the outcome of these matters will have a material adverse effect on our consolidated results of operations or consolidated financial position.

Our intercompany transfer prices are currently being reviewed by the IRS and by foreign tax jurisdictions and will likely be subject to additional audits in the future. We previously negotiated two Advance Pricing Agreements with the IRS that cover many of our intercompany transfer prices and preclude the IRS from making a transfer pricing adjustment within the scope of these agreements. The agreements, however, are only effective through May 31, 2001, do not cover all elements of our transfer pricing and do not bind tax authorities outside the United States. We are currently negotiating bilateral and unilateral Advance Pricing Agreements to cover the period from June 1, 2001 to May 31, 2006.

## **15. SEGMENT INFORMATION**

FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, 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 maker is our Chief Executive Officer. We are organized geographically and by line of business. While our Chief Executive Officer evaluates results in a number of different ways, the line of business management structure is the primary basis for which the allocation of resources and financial results are assessed. We have five major line of business operating segments: new software licenses, software license updates and product support, consulting, advanced product services and education. Effective November 30, 2002, we expanded our operating segments to include advanced product services. In order to provide comparable results, certain amounts from 2002 and 2001 have been reclassified in accordance with our current operating segment structure.

The new software license line of business is engaged in the licensing of database technology software and applications software. Database technology software includes database management software, application server software, development tools and collaboration software. Our applications software can be accessed with standard web browsers and can be used to automate business processes and to provide business intelligence for financials, projects, marketing, sales, order management, procurement, supply chain, manufacturing, service and human resources. The software license updates and product support line of business provides customers with rights to unspecified software product upgrades and maintenance releases, internet access to technical content, as well as internet and telephone access to technical support personnel during the support period. The consulting line of

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business assists customers in the rapid design, implementation, deployment, upgrade and migration of our database technology and applications software. Advanced product services are earned by providing customers remote database administration, performance monitoring and tuning, on-site technical support services and outsourcing services. Outsourcing services include multi-featured software management and maintenance services for our database technology and applications software. The education line of business provides instructor-led, media-based and internet-based training to customers on how to use our products.

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

The following table presents a summary of operating segments <sup>(1)</sup>:

(Dollars in millions)	Year Ended May 31,		
	2003	2002	2001
<b>New software licenses and other:</b>			
Revenues <sup>(2)</sup>	\$3,251	\$3,477	\$ 4,657
Sales and distribution expenses	1,600	1,678	2,080
Margin <sup>(3)</sup>	\$1,651	\$1,799	\$ 2,577
<b>Software license updates and product support:</b>			
Revenues	\$3,929	\$3,540	\$ 3,301
Cost of services	445	413	485
Margin <sup>(3)</sup>	\$3,484	\$3,127	\$ 2,816
<b>Consulting:</b>			
Revenues <sup>(2)</sup>	\$1,752	\$1,967	\$ 2,256
Cost of services	1,413	1,461	1,784
Margin <sup>(3)</sup>	\$ 339	\$ 506	\$ 472
<b>Advanced product services:</b>			
Revenues	\$ 257	\$ 321	\$ 284
Cost of services	175	188	168
Margin <sup>(3)</sup>	\$ 82	\$ 133	\$ 116
<b>Education:</b>			
Revenues <sup>(2)</sup>	\$ 286	\$ 368	\$ 463
Cost of services	198	216	286
Margin <sup>(3)</sup>	\$ 88	\$ 152	\$ 177
<b>Totals:</b>			
Revenues	\$9,475	\$9,673	\$10,961
Expenses	3,831	3,956	4,803
Margin <sup>(3)</sup>	\$5,644	\$5,717	\$ 6,158

- (1) For business and management evaluation purposes, the underlying structure of our operating segments change periodically. Segment data related to the prior periods have been reclassified, as required by Statement 131, to conform to the current management organizational structure.
- (2) Operating segment revenues differ from the external reporting classifications due to certain software license products that are classified as service revenues for management reporting purposes.
- (3) The margins reported reflect only the direct controllable expenses of each line of business and do not represent the actual margins for each operating segment because they do not contain an allocation of product

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development, information technology, marketing and partner programs and corporate and general and administrative expenses incurred in support of the lines of business.

**Reconciliation of operating segment margin to income before provision for income taxes**

(in millions)	Year Ended May 31,		
	2003	2002	2001
Total margin for reportable segments	\$ 5,644	\$ 5,717	\$ 6,158
Product development and information technology expenses	(1,440)	(1,405)	(1,492)
Marketing and partner program expenses	(356)	(377)	(441)
Corporate and general and administrative expenses	(325)	(274)	(363)
Net investment losses related to equity securities	(111)	(244)	(17)
Other income, net	13	(9)	126
Income before provision for income taxes	\$ 3,425	\$ 3,408	\$ 3,971

**Geographic information**

Disclosed in the table below is geographic information for any subsidiary comprising greater than three percent of total revenues.

(in millions)	Year Ended May 31,					
	2003		2002		2001	
	Revenues	Long Lived Assets	Revenues	Long Lived Assets	Revenues	Long Lived Assets
United States	\$ 4,297	\$ 1,074	\$ 4,676	\$ 1,075	\$ 5,630	\$ 1,303
United Kingdom	756	97	792	134	866	149
Japan	720	55	683	42	766	48
Germany	466	10	388	11	440	11
France	344	17	309	12	325	5
Canada	226	9	242	9	278	7
Other foreign countries	2,666	145	2,583	150	2,656	168
Total	\$ 9,475	\$ 1,407	\$ 9,673	\$ 1,433	\$10,961	\$ 1,691

**16. RELATED PARTIES**

We have entered into transactions with approximately 15 companies in which our Chief Executive Officer, directly or indirectly, has a controlling interest. These companies purchased software and services for \$1.0 million, \$2.1 million and \$10.0 million, during fiscal 2003, 2002 and 2001, respectively. In fiscal 2001, we sold some of our Interactive Television Division assets to one of these companies in exchange for \$2.2 million in cash and an equivalent value in preferred shares of the company. In addition, we purchased goods and services from approximately 5 of these companies for \$2.5 million, \$1.6 million and \$6.5 million in fiscal 2003, 2002 and 2001, respectively. The goods and services purchased from these companies related to computers, consulting, training services and aircraft rental. In fiscal year 2003 and 2002, we received \$0.1 million and \$0.5 million, respectively, in royalty payments from a company in which our Chief Executive Officer holds a controlling interest and which is permitted to sell its hosted business management applications solutions under the brand name Oracle Small Business Suite. We assisted this company's efforts to penetrate the small business

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market by incurring \$0 and \$0.5 million in marketing expense in fiscal 2003 and 2002, respectively, promoting the Oracle Small Business Suite. In fiscal year 2003, we received \$0.6 million for purchases of software and services from two companies affiliated with two members of our Board of Directors.

The Independent Committee of our Board of Directors has reviewed and approved all individual transactions greater than \$60,000.

**17. LEGAL PROCEEDINGS**

Stockholder class actions were filed in the United States District Court for the Northern District of California against us and our Chief Executive Officer on and after March 9, 2001. On June 20, 2001, the Court consolidated the class actions into a single action and appointed a lead plaintiff and class counsel. A consolidated amended complaint adding our Chief Financial Officer and a former Executive Vice President as defendants was filed on August 3, 2001. The consolidated amended complaint was brought on behalf of purchasers of our stock during the period from December 15, 2000 through March 1, 2001. Plaintiffs alleged that the defendants made false and misleading statements about our actual and expected financial performance and the performance of certain of our applications products, while certain individual defendants were selling Oracle stock, in violation of Federal securities laws. Plaintiffs further alleged that certain individual defendants sold Oracle stock while in possession of material non-public information. On March 12, 2002, the court granted our and the individual defendants' motion to dismiss the amended consolidated complaint. On April 10, 2002, plaintiffs filed a first amended consolidated complaint and on September 11, 2002, the court granted defendants' motion to dismiss that complaint. On October 11, 2002, the plaintiffs filed another amended complaint. In this second amended consolidated complaint, the plaintiffs added allegations that the defendants engaged in accounting violations and made misstatements about our financial performance beginning on December 14, 2000. On November 8, 2002, we filed a motion to dismiss the second amended consolidated complaint. On December 9, 2002, plaintiffs filed their opposition to the motion to dismiss the second amended complaint and also moved to amend this complaint to expand their accounting allegations. On March 24, 2003 the Court dismissed the second amended complaint with prejudice. On April 23, 2003, plaintiffs filed a notice of appeal of the dismissal. We believe that we have meritorious defenses against this action and we will continue to vigorously defend it. No class has been certified.

Stockholder derivative lawsuits were filed in the Court of Chancery in the State of Delaware in and for New Castle County on and after March 12, 2001. A revised amended consolidated complaint was filed in the Delaware action on October 9, 2001 ("the Delaware Derivative Action"). Similar stockholder derivative lawsuits were filed in the Superior Court of the State of California, County of San Mateo and County of Santa Clara. A consolidated amended complaint was filed in San Mateo on January 28, 2002 (the "San Mateo Derivative Action"). On March 15, 2002, a similar derivative suit was filed in the United States District Court for the Northern District of California (the "Federal Derivative Action"). The derivative suits were brought by some alleged stockholders, purportedly on our behalf, against some of our current and former directors. The derivative plaintiffs allege that these directors breached their fiduciary duties to us abused their control, mismanaged Oracle, unjustly enriched themselves and committed constructive fraud by making or causing to be made alleged misstatements about our revenue, growth and the performance of certain of our applications products while certain officers and directors sold Oracle stock based on material, non-public information, and by allowing us to be sued in the stockholder class actions. The derivative plaintiffs seek compensatory and other damages, disgorgement of profits, treble damages and other relief. The San Mateo Derivative Action is temporarily stayed. A status conference is scheduled for July 7, 2003. The Federal Derivative Action has been stayed by stipulation of the parties. Any party may terminate the stay with 30 days written notice. The Board of Directors established a Special Litigation Committee (the "SLC") to investigate the allegations in the Delaware Derivative Action, and the SLC was subsequently asked to investigate the allegations in the San Mateo Derivative and Federal

**ORACLE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**May 31, 2003**

Derivative Actions. Two outside directors serve on the SLC. On November 22, 2002, the SLC concluded its nine-month investigation into the claims made in all three derivative actions and the recent allegations in the second amended complaint and in the proposed revised amended complaint filed in the federal class action. The SLC determined, in the exercise of its business judgment, that these claims lack merit and that, therefore, prosecution of them is not in the best interests of Oracle or its stockholders. Accordingly, the SLC filed a motion in Delaware Court of Chancery to terminate the Delaware derivative action. On June 13, 2003, the Delaware Court of Chancery denied the SLC's motion to terminate. The SLC intends to seek leave to appeal this decision.

On July 29, 1998 and on November 22, 2002, we filed petitions with the United States Tax Court challenging notices of deficiency issued by the Commissioner of Internal Revenue that disallowed certain Foreign Sales Corporation commission expense deductions taken by us. The first notice of deficiency covered our 1988 through 1991 tax years and assessed additional taxes of approximately \$20 million plus interest. The second notice covered our 1992 through 1995 tax years and assessed additional taxes of approximately \$43 million plus interest. In February 2003, the IRS conceded its case against us for tax years 1992 through 1995 and on May 8, 2003, the Court ordered there were no further deficiencies for those years. We anticipate the IRS will also concede its case on the earlier petition covering tax years 1988 through 1991. If, however, the IRS does not concede the earlier case, we will vigorously defend our position in that matter.

In connection with the unsolicited tender offer for PeopleSoft, Inc. ("PeopleSoft") as described in Note 18, we have been named as a defendant in several legal proceedings and may be party to additional legal proceedings in the future. We have also initiated legal proceedings in connection with the tender offer. On June 12, 2003, J.D. Edwards and Company, ("J.D. Edwards") filed suit in the Superior court of the State of California, County of San Mateo against us, our Chief Executive Officer, and an Executive Vice President seeking damages, injunctive relief, and other relief (the "San Mateo Action"). On the same date J.D. Edwards also filed suit against us in the District Court for the city and County of Denver, Colorado seeking damages, declaratory relief and other relief (the "Colorado Action"). In both the San Mateo and Colorado Actions, J.D. Edwards alleges that the defendants wrongfully interfered with a pending merger agreement between J.D. Edwards and PeopleSoft and wrongfully interfered with prospective software license sales by J.D. Edwards and PeopleSoft to their respective customers. On June 13, 2003, PeopleSoft filed suit against us in the Superior court of the State of California, County of Alameda, seeking damages, injunctive relief and other relief (the "Alameda Action"). In that action, PeopleSoft alleges that the defendants wrongfully interfered with the pending merger agreement between J.D. Edwards and PeopleSoft, wrongfully interfered with prospective software license sales by PeopleSoft to its customers and engaged in trade libel and false advertising in connection with the tender offer. On June 17, 2003, we removed both the San Mateo Action and the Alameda Action to the U.S. District Court for the Northern District of California. On June 18, 2003, the State of Connecticut filed suit against us in the U.S. District Court for the District of Connecticut seeking declaratory relief, injunctive relief and other relief. In that action, the State of Connecticut alleges that our proposed acquisition of PeopleSoft would be anticompetitive and would violate state and federal antitrust laws. We believe that we have meritorious defenses against these actions and we will vigorously defend them. On June 18, 2003, we filed suit in the Court of Chancery in the State of Delaware in and for New Castle County against PeopleSoft, PeopleSoft's board of directors and J.D. Edwards seeking declaratory and injunctive relief. In that action, we allege that PeopleSoft's directors have breached their fiduciary duties to their shareholders, and that J.D. Edwards has aided and abetted PeopleSoft and its directors in so doing.

We are currently party to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any of these claims or any of the above mentioned legal matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**ORACLE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**May 31, 2003**

**18. SUBSEQUENT EVENT—TENDER OFFER FOR PEOPLESOFT, INC.**

On June 9, 2003, we commenced an unsolicited \$16.00 per share cash tender offer for all of the outstanding shares of PeopleSoft for approximately \$5.1 billion for approximately 317 million shares. On June 18, 2003, we increased the cash tender offer to \$19.50 per share, or approximately \$6.2 billion for approximately 317 million shares. We have entered into a commitment with Credit Suisse First Boston to provide a \$5.0 billion revolving credit facility with a term of 364 days. We plan to pay for the PeopleSoft shares and related transaction fees and expenses with internally available cash and borrowings under the revolving credit facility.



**SCHEDULE II**

**ORACLE CORPORATION  
VALUATION AND QUALIFYING ACCOUNTS**

<b>(in millions)</b>	<b>Beginning Balance</b>	<b>Additions Charged to Operations</b>	<b>Write- offs</b>	<b>Translation Adjustments</b>	<b>Ending Balance</b>
Trade Receivable Allowances					
Year Ended:					
May 31, 2001	\$ 272	\$ 256	\$(117)	\$ (8)	\$ 403
May 31, 2002	\$ 403	\$ 195	\$(187)	\$ 2	\$ 413
May 31, 2003	\$ 413	\$ 128	\$(182)	\$ 17	\$ 376

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### 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, on June 24, 2003.

ORACLE CORPORATION

By: /s/ LAWRENCE J. ELLISON

Lawrence J. Ellison, Chief Executive 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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
/s/ LAWRENCE J. ELLISON Lawrence J. Ellison	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	June 24, 2003
/s/ JEFFREY O. HENLEY Jeffrey O. Henley	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)	June 24, 2003
/s/ JENNIFER L. MINTON Jennifer L. Minton	Senior Vice President, Finance and Operations (Principal Accounting Officer)	June 24, 2003
/s/ JEFFREY BERG Jeffrey Berg	Director	June 24, 2003
/s/ H. RAYMOND BINGHAM H. Raymond Bingham	Director	June 24, 2003
/s/ MICHAEL J. BOSKIN Michael J. Boskin	Director	June 24, 2003
/s/ SAFRA A. CATZ Safra A. Catz	Director	June 24, 2003
/s/ HECTOR GARCIA-MOLINA Hector Garcia-Molina	Director	June 24, 2003
/s/ JOSEPH A. GRUNDFEST Joseph A. Grundfest	Director	June 24, 2003
/s/ DONALD L. LUCAS Donald L. Lucas	Director	June 24, 2003
/s/ JACK F. KEMP Jack F. Kemp	Director	June 24, 2003

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INDEX OF EXHIBITS**

<b>Exhibit No.</b>	<b>Exhibit Titles</b>
4.01	Indenture between Oracle Corporation and State Street Bank and Trust Company of California, N.A., dated February 24, 1997.
10.02	1993 Directors' Stock Option Plan, as Amended Through April 11, 2003.
21.01	Subsidiaries of the Registrant.
23.01	Consent of Ernst & Young LLP, Independent Auditors.
23.02	Statement Regarding Consent of Arthur Andersen LLP.
99.01	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act—Lawrence J. Ellison.
99.02	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act—Jeffrey O. Henley.
99.03	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act.

ORACLE CORPORATION  
TO  
STATE STREET BANK and TRUST COMPANY OF CALIFORNIA, N.A.  
Trustee

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Indenture

Dated as of February 24, 1997

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Debt Securities

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**ORACLE CORPORATION**

Certain Sections of this Indenture relating to  
Sections 310 through 318, inclusive,  
of the Trust Indenture Act of 1939:

Trust Indenture Act Section	Indenture Section
(S) 310 (a) (1)	609
(a) (2)	609
(a) (3)	Not Applicable
(a) (4)	Not Applicable
(b)	608
	610
(S) 311 (a)	613
(b)	613
(S) 312 (a)	701
	702 (a)
(b)	702 (b)
(c)	702 (c)
(S) 313 (a)	703 (a)
(b)	703 (a)
(c)	703 (a)
(d)	703 (b)
(S) 314 (a)	704
(a) (4)	101
	1004
(b)	Not Applicable
(c) (1)	102
(c) (2)	102
(c) (3)	Not Applicable
(d)	Not Applicable
(e)	102
(S) 315 (a)	601
(b)	602
(c)	601
(d)	601
(e)	514
(S) 316 (a)	101
(a) (1) (A)	502
	512
(a) (1) (B)	513
(a) (2)	Not Applicable
(b)	508
(c)	104 (c)
(S) 317 (a) (1)	503
(a) (2)	504
(b)	1003
(S) 318 (a)	107

Note: This reconciliation and tie shall not, for any purpose, be deemed to be part of the Indenture.

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Note: This table of contents shall not, for any purpose, be deemed to be part of the Indenture.

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INDENTURE, dated as of February 24, 1997, between ORACLE CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (herein called the “Company”), having its principal office at 500 Oracle Parkway, Redwood City, California 94065, and State Street Bank and Trust Company of California, N.A., a national banking association duly organized and existing under the laws of United States, as Trustee (herein called the “Trustee”).

#### **RECITALS OF THE COMPANY**

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the “Securities”), unlimited as to principal amount, to bear such rates of interest, to mature at such time or times, to be issued in one or more series and to have such other provision as shall be fixed as hereinafter provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

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## ARTICLE ONE

### DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

#### Section 101. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
- (2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;
- (3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States of America, and, except as otherwise herein expressly provided, the term “generally accepted accounting principles” with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted at the date of such computation; and
- (4) the words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

“Act”, when used with respect to any Holder, has the meaning specified in Section 104.

“Affiliate” of any specified Person means the Trustee any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Attributable Debt” has the meaning specified in Section 1009.

“Authenticating Agent” means the Trustee any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities of one or more series.

“Board of Directors” means either the board of directors of the Company or any committee of that board duly authorized to act for it in respect thereof.

“Board Resolution” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“Business Day”, when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close, except as may otherwise be provided in the form of Securities of any particular series pursuant to the provisions of this Indenture.

“Commission” means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

“Company” means the Person named as the “Company” in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Company” shall mean such successor Person.

“Company Request” or “Company Order” means a written request or order signed in the name of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

“Consolidated Net Assets” means, as of any particular time, the aggregate amount of assets (less applicable reserves) at the end of the most recently completed fiscal quarter after deducting therefrom: (a) all current liabilities except for (1) notes and loans payable, (2) current maturities of long-term debt and (3) current maturities of obligations under capital leases, all as set forth on the most recent quarter-end consolidated balance sheet of the Company and its consolidated Subsidiaries and computed in accordance with generally accepted accounting principles.

“Consolidated Net Tangible Assets” means, as of any particular time, the aggregate amount of assets (less applicable reserves) at the end of the most recently completed fiscal quarter after deducting therefrom: (a) all current liabilities, except for (1) notes and loans payable, (2) current maturities of long-term debt and (3) current maturities of obligations under capital leases; and (b) to the extent included in said aggregate amount of assets, all goodwill, trade names, trademarks, patents, organization expenses, unamortized debt discount and expenses (other than capitalized unamortized product development costs, such as, without limitation, capitalized hardware and software development costs), to the extent included in said aggregate amount of assets, all as set forth on the most recent quarter-end consolidated balance sheet of the Company and its Consolidated Subsidiaries and computed in accordance with generally accepted accounting principles.

“Corporate Trust Office” means the principal office of the Trustee at which at any particular time its corporate trust business shall be conducted, which office, at the date of execution of this Indenture, is located at 725 South Figueroa Street, Suite 3100, Los Angeles, California 90017, Attn: Corporate Trust Department.

“Corporation” means a corporation, association, company, joint-stock company or business trust.

“Covenant Defeasance” has the meaning specified in Section 1303.

“Debt” has the meaning specified in Section 1008.

“Defaulted Interest” has the meaning specified in Section 307.

“Defeasance” has the meaning specified in Section 1302.

“Depository” means, with respect to Securities of any series issuable in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as Depository for such Securities as contemplated by Section 301.

“Event of Default” has the meaning specified in Section 501.

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“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exempted Secured Debt” has the meaning specified in Section 1008.

“Global Security” means a Security that evidences all or part of the Securities of any series and is authenticated and delivered to, and registered in the name of, the Depository for such Securities or a nominee thereof.

“Holder” means a Person in whose name a Security is registered in the Security Register.

“Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term “Indenture” shall also include the terms of the particular series of Securities established as contemplated by Section 301; *provided, however*, that if at any time more than one person is acting as Trustee under this Indenture due to the appointment of one or more separate Trustees for any one or more separate series of Securities, “Indenture” shall mean, with respect to such series of Securities for which any such Person is Trustee, this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of particular series of Securities for which such person is Trustee established as contemplated by Section 301, exclusive, however, of any provisions or terms which relate solely to other series of Securities for which such Person is not Trustee, regardless of when such terms or provisions were adopted, and exclusive of any provisions or terms adopted by means of one or more indentures supplemental hereto executed and delivered after such person had become such Trustee, but to which such person, as such Trustee, was not a party.

“Interest”, when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

“Interest Payment Date”, when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

“Maturity”, when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

“Mortgage” and “mortgages” have the respective meanings specified in Section 1008.

“Nonrecourse Obligation” means indebtedness or other obligations substantially related to (i) the acquisition of assets not previously owned by the Company or any Restricted Subsidiary or (ii) the financing of a project involving the development or expansion of properties of the Company or any Restricted Subsidiary, as to which the obligee with respect to such indebtedness or obligation has no recourse to the Company or any Restricted Subsidiary or any assets of the Company or any Restricted Subsidiary other than the assets which were acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (and the proceeds thereof).

“Notice of Default” means a written notice of the kind specified in Sections 501(4) and 501(5).

“Officers’ Certificate” means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee.

“Opinion of Counsel” means a written opinion of counsel, who may be counsel for the Company (and who may be an employee of the Company), or other counsel acceptable to the Trustee.

“Original Issue Discount Security” means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

“Outstanding”, when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, *except* :

(1) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(3) Securities as to which Defeasance has been effected pursuant to Section 1302; and

(4) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

*provided, however*, that in determining whether the Holders of the requisite - - principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder or are present at a meeting of Holders for quorum purposes, (a) the principal amount of an Original Issue Discount Security that shall be deemed to be Outstanding shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon acceleration of the Maturity thereof pursuant to Section 502, (b) the principal amount of a Security denominated in one or more foreign currencies or currency units shall be the U.S. dollar equivalent, determined in the manner provided as contemplated by Section 301 on the date of original issuance of such Security, of the principal amount (or, in the case of an Original Issue Discount Security, the U.S. dollar equivalent on the date of original issuance of such Security of the amount determined as provided in (a) above) of such Security, and (c) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver or upon any such determination as to the presence of a quorum, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment", when used with respect to the Securities of any series, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

“Principal Property” means the land, land improvements, buildings and fixtures (to the extent they constitute real property interests) (including any leasehold interest therein) constituting the principal corporate office, any manufacturing plant or any manufacturing facility (whether owned at the date of this Indenture or hereafter acquired) which: (a) is owned by the Company or any Subsidiary; (b) is located within any of the present 50 states of the United States of America (or the District of Columbia); (c) has not been determined in good faith by the Board of Directors not to be of material importance to the business conducted by the Company and its Subsidiaries taken as a whole; and (d) has a book value on the date as of which the determination is being made of in excess of 0.75% of Consolidated Net Assets of the Company as most recently determined on or prior to such date (including for purposes of such calculation the land, land improvements, buildings and such fixtures comprising such office, plant or facility, as the case may be).

“Redemption Date”, when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

“Redemption Price”, when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

“Regular Record Date” for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

“Responsible Officer”, when used with respect to the Trustee, means the chairman or any vice-chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

“Restricted Subsidiary” means any Subsidiary which owns any Principal Property; provided, however, that the term “Restricted Subsidiary” shall not include (a) any Subsidiary which is principally engaged in leasing or in financing receivables, or which is principally engaged in financing the Company’s operations outside the United States of America; (b) any Subsidiary less than 80% of the voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries or by the Company and one or more other Subsidiaries if the common stock of such Subsidiary is traded on any national securities exchange or quoted on the Nasdaq National Market or in the over-the-counter market; or (c) Oracle Corporation Japan, a Japanese corporation. For purposes of this definition, “voting stock” has the meaning specified in the definition of “Subsidiary”, below.



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“Sale and Lease-Back” has the meaning specified in Section 1009.

“Sale and Lease-Back Transaction” means any arrangement with any Person providing for the leasing to the Company or any Restricted Subsidiary of any Principal Property which property has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person.

“Security” or “Securities” has the meaning stated in the first recital of this Indenture and more particularly means any Security or Securities authenticated and delivered under this Indenture.

“Security Register” and “Security Registrar” have the respective meanings specified in Section 305.

“Significant Subsidiary”, as of any date of determination, has the meaning set forth in Rule 1-02 of Article 1 of Regulation S-X (or any successor provision) of the Commission.

“Special Record Date” for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

“Stated Maturity”, when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable.

“Subsidiary” means any corporation of which at least 66 2/3% of the outstanding voting stock of such corporation is owned at the time, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, “voting stock” means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Trust Indenture Act” means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; *provided*, *however*, that in the event the Trust Indenture Act of 1939 is amended after such date, “Trust Indenture Act” means, to the extent required by any such amendment, the Trust Indenture Act of 1939, as so amended.

“Trustee” means the Person named as the “Trustee” in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Trustee” shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, “Trustee” as used with respect to

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the Securities of any series shall mean the Trustee with respect to Securities of that series.

“U.S. Government Obligations” means securities that are (a) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (b) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case under clause (a) or (b) are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal of or interest on the U.S. Government Obligation evidenced by such depository receipt.

“Vice President”, when used with respect to the Company, means any vice president, whether or not designated by a number or a word or words added before or after the title “vice president”.

#### Section 102. *Certificates and Opinions.*

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate, or opinion shall be given, in the form of an Officers’ Certificate, if to be given by an officer of the Company, or an Opinions of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than those provided for in Section 1004) shall include:

- (1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein related thereto;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (3) a statement that, in the opinion of each such individual, such individual has made such examination or investigation as is necessary to enable such individual to express an informed opinion as to whether or not such covenant or condition has been complied with; and

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(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

Section 103. *Form of Documents Delivered to Trustee.*

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. *Acts of Holders; Record Dates.*

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or

writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Securities shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(e) The Company may, in the circumstances permitted by the Trust Indenture Act, fix any day as the record date for the purpose of determining the Holders of Securities of any series entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Holders of Securities of such series. If not set by the Company prior to the first solicitation of a Holder of Securities of such series made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders required to be provided pursuant to Section 701) prior to such first solicitation or vote, as the case may be. With regard to any record date for action to be taken by the Holders of one or more series of Securities, only the Holders of Securities of such series on such date (or their duly designated proxies) shall be entitled to give or take, or vote on, the relevant action. With regard to any record date set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series on such record date (or their duly appointed agents), and only such Persons, shall be entitled to give or take the relevant action, whether or not such Holders remain Holders after such record date. With regard to any action that may be given or taken hereunder only by Holders of a requisite principal amount of Outstanding Securities of any series (or their duly appointed agents) and for which a record date is set pursuant to this paragraph, the Company may, at its option, set an expiration date after which no such action purported to be given or taken by any Holder shall be effective hereunder unless given or taken on or prior to such expiration date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date (or their duly appointed agents). On or prior to any expiration date set pursuant to this paragraph, the Company may, on one or more occasions at its option, extend such date to any later date. Nothing in this paragraph shall prevent any Holder (or any duly appointed agent thereof) from giving or taking, after any expiration date, any action identical to, or, at any time, contrary to or different from, any action given or taken, or purported to have been given or taken, hereunder by a Holder on or prior to such date, in which event the Company may set a record date in respect thereof pursuant to this paragraph.

Notwithstanding the foregoing or the Trust Indenture Act, the Company shall not set a record date for, and the provisions of this paragraph shall not apply with respect to, any action to be given or taken by Holders pursuant to Section 501, 502 or 512.

(f) Without limiting the foregoing, a Holder entitled hereunder to give or take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or any one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any different part of such principal amount.

Section 105. *Notices, Etc., to Trustee and Company.*

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders of other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Department, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company; provided, however, that such notice shall not be deemed to be given until received by the Company.

Section 106. *Notice to Holder; Waiver.*

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at such Holder's address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

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Section 107. *Conflict with Trust Indenture Act.*

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act that is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provisions shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 108. *Effect of Holdings and Table of Contents.*

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction thereof.

Section 109. *Successors and Assigns.*

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 110. *Separability Clause.*

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 111. *Benefits of Indenture.*

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any Authenticating Agent, Paying Agent, Security Registrar and the Holders, any benefit or any legal or equitable right, remedy or claims under this Indenture.

Section 112. *Governing Law.*

This Indenture and the Securities shall be governed by and construed in accordance with the laws of the State of California.

Section 113. *Legal Holidays.*

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or the Securities (other than a provision of the Securities of any series

which specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, provided that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

**ARTICLE TWO**  
**SECURITY FORMS**

Section 201. *Forms Generally.*

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Section 202. *Form of Face of Security.*

[INSERT ANY LEGEND REQUIRED BY THE INTERNAL REVENUE CODE AND THE REGULATIONS THEREUNDER.]

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No. \_\_\_\_\_ \$ \_\_\_\_\_  
CUSIP \_\_\_\_\_

ORACLE CORPORATION, a corporation duly organized and existing under the laws of Delaware (herein called the “Company”, which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ Dollars on \_\_\_\_\_ [ *if the Security is to bear interest prior to Maturity, insert—* ], and to pay interest thereon from \_\_\_\_\_ or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semiannually on \_\_\_\_\_ and \_\_\_\_\_ in each year, commencing \_\_\_\_\_, at the rate of \_\_\_\_\_ % per annum, until the principal hereof is paid or made available for payment [ *if applicable, insert—* ], and (to the extent that the payment of such interest shall be legally enforceable) at the rate of \_\_\_\_\_ % per annum on any overdue principal and premium and on any overdue installment of interest]. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the \_\_\_\_\_ or \_\_\_\_\_ (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.]

[ *If the Security is not to bear interest prior to Maturity insert—* The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal of this Security shall bear interest at the rate of \_\_\_\_\_ % per annum (to the extent that the payment of such interest shall be legally enforceable), which shall accrue from the date of such default in payment to the date payment of such principal has been made or duly provided for. Interest on any overdue principal shall be payable on demand. Any such interest on any overdue principal that is not so paid on demand shall bear interest at the rate of \_\_\_\_\_ % per annum (to the extent that the payment of such interest shall be legally enforceable), which shall accrue from the date of such demand for payment to the date payment of such interest has been made or duly provided for, and such interest shall also be payable on demand.]

Payment of principal of (and premium, if any) and [ *if applicable, insert—* any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in Los Angeles, California, in such lawful currency of [the United States of America] as at the time of payment is legal tender for payment of public and private debts [ *if applicable, insert —* ] ;



provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.]

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereof has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

ORACLE CORPORATION

By \_\_\_\_\_  
\_\_\_\_\_

Attest:

Section 203. *Form of Reverse of Security* .

This Security is one of a duly authorized issue of securities of the Company (herein called the “Securities”), issued and to be issued in one or more series under an Indenture, dated as of February , 1997 (herein called the “Indenture”), between the Company and State Street Bank and Trust Company of California, N.A., as Trustee (herein called the “Trustee”, which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof[, limited in aggregate amount to \$ ].

[ *If applicable, insert* —The Securities of this series are subject to—redemption upon not less than 30 days’ notice by mail, [ *if applicable, insert* —

(1) on in any year

commencing with the year \_\_\_\_\_ and ending with the year \_\_\_\_\_ through operation of the sinking fund for this series at a Redemption Price equal to 100% of the principal amount, and (2)] at any time [on or after \_\_\_\_\_, 19\_\_\_\_], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed (on or before \_\_\_\_\_, \_\_\_\_\_%, and if redeemed] during the 12-month period beginning \_\_\_\_\_ of the year indicated,

<u>Year</u>	<u>Redemption Price</u>
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and thereafter at a Redemption Price equal to \_\_\_\_\_ % of the principal amount, together in the case of any such redemption [ *if applicable, insert* —(whether through operation of the sinking fund or otherwise)] with accrued interest to the Redemption Date, but interest installments whose due date is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[ *If applicable, insert* —The Securities of this Series are subject—to redemption upon not less than 30 days’ notice by mail, (1) on in any year commencing with the year \_\_\_\_\_ and ending with the year \_\_\_\_\_ through operation of the sinking fund for this series at the Redemption Prices for redemption through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below, and (2) at any time [on or after \_\_\_\_\_], as a whole or in part, at the election of the Company, at the Redemption Prices for redemption otherwise than through operation of the sinking fund [expressed as percentages of the principal amount] set forth in the table below: If redeemed during the 12-month period beginning \_\_\_\_\_ of the years indicated,

<u>Year</u>	<u>Redemption Price for Redemption Through Operation of the Sinking Fund</u>	<u>Redemption Price for Redemption Otherwise Than Through Operation of the Sinking Fund</u>
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and thereafter at a Redemption Price equal to \_\_\_\_\_ % of the principal amount, together in the case

of any such redemption (whether through operation of the sinking fund or otherwise) with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[Notwithstanding the foregoing, the Company may not, prior to \_\_\_\_\_, redeem any Securities of this series as contemplated by [Clause (2) of] the preceding paragraph as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed having an interest cost to the Company (calculated in accordance with generally accepted financial practice) of less than \_\_\_\_\_ % per annum.]

[The sinking fund for this series provides for the redemption on \_\_\_\_\_ in each year beginning with the year \_\_\_\_\_ and ending with the year \_\_\_\_\_ of [not less than \$ \_\_\_\_\_ (“mandatory sinking fund”) and not more than] \$ \_\_\_\_\_ aggregate principal amount of Securities of this series. Securities of this series acquired or redeemed by the Company otherwise than through [mandatory] sinking fund payments may be credited against subsequent [mandatory] sinking fund payments otherwise required to be made [in the inverse order in which they become due].]

[ *If the Security is subject to redemption, insert* —In the event of—redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

[ *If the Security is not an Original Issue Discount Security, insert* —If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[ *If the Security is an Original Issue Discount Security, insert* —If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to—insert formula for determining the amount. Upon payment (i) of the amount of principal so declared due and payable—and (ii) of interest on any overdue principal and overdue interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company’s obligations in respect of the payment of the principal of and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains

provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$ \_\_\_\_\_ and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charges payable in connection therewith.

Prior to due presentation of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

This Security shall be governed by and construed in accordance with the laws of the State of California.

The terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

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**[FORM OF OPTION TO ELECT REPAYMENT.]**

**OPTION TO ELECT REPAYMENT**

The undersigned hereby irrevocably requests and instructs the Company to repay the within Security (or portion thereof specified below) pursuant to its terms at a price equal to the principal amount thereof, together with interest to the Repayment Date, to the undersigned, at

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(Please Print or Typewrite Name and Address of the Undersigned)

For this Security to be repaid, the Company must receive this Security, with this "Option to Elect Repayment" form duly completed, at an office or agency of the Company maintained for that purpose in \_\_\_\_\_, or at such other place of which the Company shall from time to time notify the Holder, no less than \_\_\_\_\_ days nor more than \_\_\_\_\_ days prior to [ \_\_\_\_\_, ... or \_\_\_\_\_ ] [the \_\_\_\_\_ or \_\_\_\_\_ (commencing on \_\_\_\_\_)].

If less than the entire principal amount of the within Security is to be repaid, specify the portion thereof (which shall be \$ \_\_\_\_\_, or an integral multiple of \$ \_\_\_\_\_) which the Holder elects to have repaid: \$ \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Note: The signature must correspond with the name as written upon the face of the Security in every particular without alteration or enlargement

Section 204. *Form of Legend for Global Securities.*

Any Global Security authenticated and delivered hereunder may bear any legend required to comply with the requirements of any Depositary.

Section 205. *Form of Trustee's Certificate of Authentication.*

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

STATE STREET BANK AND TRUST  
COMPANY OF CALIFORNIA, N.A., as Trustee

By

\_\_\_\_\_  
Authorized Officer

### **ARTICLE THREE**

#### **THE SECURITIES**

Section 301. *Amount Unlimited; Issuable in Series.*

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued from time to time in one or more series. There shall be established in or pursuant to a Board Resolution and, subject to Section 303, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series:

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from all other Securities);

(2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of the Securities of the series is payable;

(5) the rate or rates at which the Securities of the series shall bear interest, if any, or the method by which such rate or rates are determined, the date or dates from which such interest shall accrue, the Interest Payment Dates on which any such interest shall be payable on any Securities and the Regular Record Date for any interest payable on any Interest Payment Date, and the basis upon which interest shall be calculated if other than that of a 360- day year of twelve 30-day months;

(6) the place or places where the principal of and any premium and interest on Securities of the series shall be payable and where the Securities of any series may be surrendered for registration or transfer;

(7) the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company;

(8) the obligation, if any, of the Company to redeem or purchase Securities of the series pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation, and any provisions for the remarketing of such Securities;

(9) if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which Securities of the series shall be issuable;

(10) the currency, currencies or currency units in which payment of the principal of and any premium and interest on any Securities of the series shall be payable if other than the currency of the United States of America and the manner of determining the equivalent thereof in the currency of the United States of America for purposes of the definition of "Outstanding" in Section 101;

(11) if the amount of payments of principal of or any premium or interest on any Securities of the series may be determined with reference to an index, formula or other method, the manner in which such amounts shall be determined;

(12) if the principal of or any premium or interest on any Securities of the series is to be payable, at the election of the Company or a Holder thereof, in one or more currencies or currency units other than that or those in which the Securities are stated to be payable, the currency, currencies or currency units in which payment of the principal of and any premium and interest on Securities of such series as to which such election is made shall be payable, and the periods within which and the terms and conditions upon which such election is to be made;

(13) if other than the principal amount thereof, the portion of the principal amount

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of Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(14) the terms and conditions, if any, upon which any Securities of such series may or shall be converted into other securities or property;

(15) the non-applicability, or variation, of Sections 1008 and 1009 with respect to the Securities of such series;

(16) if applicable, that the Securities of such series shall be defeasible as provided in Article Thirteen;

(17) if and as applicable, that the Securities of such series shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the Depositary or Depositaries for such Global Security or Global Securities and any circumstances other than those set forth in Section 305 in which any such Global Security may be transferred to, and registered and exchanged for Securities registered in the name of, a Person other than the Depositary for such Global Security or a nominee thereof and in which such transfer may be registered;

(18) the Security Registrar, if other than the Trustee, and the entity who will be the Paying Agent;

(19) if applicable, any Events of Default with respect to Securities of such series, to the extent that such Events of Default are in addition to the Events of Default herein contained;

(20) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture, except as permitted by Section 901(5)).

All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to the Board Resolution referred to above and (subject to Section 303) set forth, or determined in the manner provided, in the Officers' Certificate referred to above or in any such indenture supplemental hereto. All Securities of any one series need not be issued at the same time and, unless otherwise provided, a series may be reopened for issuances of additional Securities of such series.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an



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Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

Section 302. *Denominations* .

The Securities of each series shall be issuable in registered form without coupons in such denominations as shall be specified as contemplated by Section 301. In the absence of any such provisions with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of \$1,000 and any integral multiple thereof.

Section 303. *Execution, Authentication, Delivery and Dating* .

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President, one of its Vice Presidents or its Treasurer, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and upon receipt by the Trustee of the Supplemental Indenture or Board Resolutions and an opinion of counsel as described below the Trustee in accordance with the Company Order (which may provide that Securities that are the subject thereof will be authenticated and delivered by the Trustee upon the telephonic order promptly followed by written order of Persons designated in said Company Order and that such Persons are authorized to determine such terms and conditions of said Securities as are specified in the Company Order) shall authenticate and deliver such Securities. If the form or terms of the Securities of the series have been established in or pursuant to one or more Board Resolutions or Supplemental Resolutions as permitted by Sections 201 and 301, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating:

(1) if the form such Securities has been established by or pursuant to a Board Resolution as permitted by Section 201 or a Supplemental Resolution, that such form has been established in conformity with the provisions of this Indenture;

(2) if the terms of such Securities have been established by or pursuant to a Board Resolution as permitted by Section 301 or a Supplemental Resolution, that such terms have been established in conformity with the provisions of this Indenture; and

(3) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors, rights and to general equity principals and to such other matters as counsel may specify.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the provisions of Section 301 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 301 or the Company Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the time of authentication of each Security of such series if such documents are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued and contemplate issuance of all Securities of such series.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

#### Section 304. *Temporary Securities.*

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determined, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company maintained pursuant to Section 1002 in a Place of Payment for that series for the purpose of exchanges of Securities of such series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor. Until so exchanged the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

Section 305. *Registration, Registration of Transfer and Exchange.*

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the “Security Register”) in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed “Security Registrar” for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of any series at the office or agency in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series of any authorized denominations and of a like aggregate principal amount and tenor, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly

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executed by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1007 not involving any transfer.

The Company shall not be required (a) to issue, register the transfer of or exchange Securities of any series during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities of that series selected for redemption under Section 1103 and ending at the close of business on the day of such mailing, or (b) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except in the case of any Security to be redeemed in part, the portion thereof not to be redeemed.

Notwithstanding any other provision in this Indenture, any Global Security shall be exchangeable pursuant to this Section 305 for Securities registered in the names of Persons other than the Depositary for such Global Security or its nominee only when (a) the Depositary notifies the Company and the Trustee in writing that it is unwilling or unable to continue as Depositary for such Global Security or if at any time the Depositary ceases to be a clearing agency registered under the Exchange Act and a successor Depositary is not appointed by the Company within 90 days, (b) the Company in its sole discretion determines not to have all of the Securities represented by a Global Security and executes and delivers to the Trustee a Company Order that such Global Security shall be so exchangeable, (c) there shall have occurred and be continuing an Event of Default or an event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default with respect to the Securities represented by such Global Security or (d) there shall exist such other circumstances, if any, as shall be specified for this purpose as contemplated by Section 301. Any Global Security that is exchangeable pursuant to clause (a), (b), (c) or (d) above, shall be surrendered by the Depositary, or such other depositary as shall be specified in the Company Order with respect thereto, to the Trustee, as the agent for such purpose, to be exchanged, in whole or in part, for definitive Securities without charge, and the Trustee shall authenticate and deliver, in exchange for each portion of such permanent Global Security, an equal aggregate principal amount of definitive Securities, executed by the Company, of the same series of authorized denominations and of like tenor as the portion of such Global Security to be exchanged, which shall be in the form of registered Securities as provided in the Company Order.

Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security other than pursuant to clauses (a), (b), (c) or (d) in the preceding paragraph, whether pursuant to this Section, Sections 304, 306, 906 or 1107 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security.

Section 306. *Mutilated, Destroyed, Lost and Stolen Securities* .

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If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (a) evidence to their satisfaction of the destruction, loss or theft of any Security and (b) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 307. *Payment of Interest: Interest Rights Preserved* .

Except as otherwise provided as contemplated by Section 301 with respect to any series of Securities, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

In the case of Securities represented by a Global Security registered in the name of or held by a Depositary or its nominee, unless otherwise specified by Section 301, payment of

principal, premium, if any and interest, if any, will be made to the Depositary or its nominee, as the case may be, as the registered owner or Holder of such Global Security. None of the Company, the Trustee, any Paying Agent, any Authenticating Agent nor the Security Registrar for such Securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interest in an Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities of such series at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice is given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

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At the option of the Company, interest on Securities of any series that bear interest may be paid by wire transfer to an account within the United States or by mailing a check to the address of the Person entitled thereto as such address shall appear in the Security Register.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 308. *Persons Deemed Owners.*

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and any premium and (except as otherwise specified as contemplated by Section 301(3) and subject to Section 307) any interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

In the case of a Global Security, so long as the Depositary for such Global Security, or its nominee, is the registered owner of such Global Security, such Depositary or such nominee, as the case may be, will be considered the sole owner or Holder of the Securities represented by such Global Security for all purposes under this Indenture. Except as provided in Section 305, owners of beneficial interests in a Global Security will not be entitled to have Securities that are represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of such Securities in definitive form and will not be considered the owners or Holders thereof under this Indenture.

Notwithstanding the foregoing, with respect to any Global Security, nothing herein shall (a) prevent the Company, the Trustee, or any agent of the Company or the Trustee, from giving effect to any written certification, proxy or other authorization furnished by a Depositary or (b) impair, as between a Depositary and holders of beneficial interests in any Global Security, the operation of customary practices governing the exercise of the rights of the Depositary as holder of such Global Security.

None of the Company, the Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests of a Security issued in global form or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Section 309. *Cancellation.*

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company

may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly canceled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Trustee shall be disposed of by the Trustee in accordance with its customary practices and the Trustee shall from time to time, or upon request by the Company, deliver to the Company certificates of destruction with respect thereto.

Section 310. *Computation of Interest.*

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

**ARTICLE FOUR**

**SATISFACTION AND DISCHARGE**

Section 401. *Satisfaction and Discharge of Indenture.*

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or



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(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose, lawful money of the United States or U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide lawful money not later than one day before the due dates of principal (and premium, if any) or interest, or any combination thereof, in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

In the event there are Securities of two or more series hereunder, the Trustee shall be required to execute an instrument acknowledging satisfaction and discharge of this Indenture only if requested to do so with respect to the Securities of all series to which it is Trustee and if the other conditions thereto are met. In the event there are two or more Trustees hereunder, then the effectiveness of any such instrument shall be conditioned upon receipt of such instruments from all Trustees hereunder.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Trustee to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

Section 402. *Application of Trust Money* .

Subject to the provisions of the last paragraph of Section 1003, all money deposited

with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto as set forth in the Securities Register, of the principal and any premium and interest for whose payment such money has been deposited with the Trustee.

## **ARTICLE FIVE**

### **REMEDIES**

#### **Section 501. *Events of Default.***

“Event of Default”, wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), unless such event is either inapplicable to a particular series or it is specifically deleted or modified in the supplemental indenture creating such series of Securities or in the form of Security for such series:

(1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of (or premium, if any, on) any Security of that series at its Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is specifically dealt with elsewhere in this Section or which has expressly been included in this Indenture solely for the benefit of a series of Securities other than that series or which has been included in this Indenture but not made applicable to the Securities of such series), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 15% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; or

(5) failure by the Company to make any payment at maturity, including any applicable grace period, in respect of indebtedness, which term as used herein means obligations (other than the Securities of such series or non-recourse obligations) of the Company for borrowed money or evidenced by an amount in excess of \$25,000,000 or the equivalent thereof in any other currency or composite currency and such failure shall have continued for thirty (30) days after written notice thereof shall have been given to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 15% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; or

(6) a default with respect to any Indebtness, which default results in the acceleration of Indebtness in an amount in excess of \$25,000,000 or the equivalent thereof in any other currency or composite currency without such Indebtness having been discharged or such acceleration having been cured, waived, rescinded or annulled for a period of thirty (30) days after written notice thereof shall have been given to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 15% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(7) the entry by a court having jurisdiction in the premises of (a) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (b) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its properties, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; or

(8) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by the Company to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Company, or the filing by the Company of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by the Company to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its properties, or the making by the Company of an assignment for the benefit of creditors, or the admission by the Company in writing its inability to pay its debts generally as they become due, or the taking of corporate

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action by the Company in furtherance of any such action; or

(9) any other Event of Default provided with respect to Securities of that series.

Provided that if any such Failure, default or acceleration referred to in clauses (5) or (6) above shall cease or be cured, waived, rescinded or annulled, then the Event of Default hereunder by reason thereof shall be deemed likewise to have been thereupon cured.

Upon receipt by the Trustee of any Notice of Default pursuant to this Section 501 with respect to Securities of any series, a record date shall automatically and without any other action by any Person be set for the purpose of determining the Holders of Outstanding Securities of such series entitled to join in such Notice of Default, which record date shall be the close of business on the day the Trustee receives such Notice of Default. Promptly after the establishment of a record date pursuant to the provisions of this Section 501, the Trustee shall notify the Company and the Holders of Outstanding Securities of such series of the establishment of such record date. The Holders of Outstanding Securities of such series on such record date (or their duly appointed agents), and only such Persons, shall be entitled to join in such Notice of Default, whether or not such Holders remain Holders after such record date; provided that, unless such Notice of Default shall have become effective by virtue of Holders of the requisite principal amount of Outstanding Securities of such series on such record date (or their duly appointed agents) having joined therein on or prior to the 90th day after such record date, such Notice of Default shall automatically and without any action by any Person be canceled and of no further effect. Nothing in this paragraph shall prevent a Holder (or a duly appointed agent thereof) from giving, before or after the expiration of such 90-day period, a Notice of Default contrary to or different from, or, after the expiration of such period, identical to, a Notice of Default that has been canceled pursuant to the proviso to the preceding sentence, in which event a new record date in respect thereof shall be set pursuant to this paragraph.

**Section 502. *Acceleration of Maturity; Rescission and Annulment.***

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount (or, if any of the Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified in the terms thereof) of all of the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made, but before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such acceleration and its consequences if:

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

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(A) all overdue interest on all Securities of that series,

(B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities, to the extent that payment of such interest is lawful;

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Upon receipt by the Trustee of any declaration of acceleration, or any rescission and annulment of any such declaration, pursuant to this Section 502 with respect to Securities of any series, a record date shall automatically and without any other action by any Person be set for the purpose of determining the Holders of Outstanding Securities of such series entitled to join in such declaration, or rescission or annulment, as the case may be, which record date shall be the close of business on the day the Trustee receives such declaration, or rescission and annulment, as the case may be. Promptly after the establishment of a record date pursuant to the provisions of this Section 502, the Trustee shall notify the Company and the Holders of Outstanding Securities of such series of the establishment of such record date. The Holders of Outstanding Securities of such series on such record date (or their duly appointed agents), and only such Persons, shall be entitled to join in such declaration, or rescission and annulment, as the case may be, whether or not such Holders remain Holders after such record date; provided that, unless such declaration, or rescission and annulment, as the case may be, shall have become effective by virtue of Holders of the requisite principal amount of Outstanding Securities of such series on such record date (or their duly appointed agents) having joined therein on or prior to the 90th day after such record date, such declaration, or rescission and annulment, as the case may be, shall automatically and without any action by any Person be canceled and of no further effect. Nothing in this paragraph shall prevent a Holder (or a duly appointed agent thereof) from giving, before or after the expiration of such 90-day

period, a declaration of acceleration, or a rescission and annulment of any such declaration, contrary to or different from, or, after the expiration of such period, identical to, a declaration, or rescission and annulment, as the case may be, that has been canceled pursuant to the proviso to the preceding sentence, in which event a new record date in respect thereof shall be set pursuant to this paragraph.

Section 503. *Collection of Indebtedness and Suits for Enforcement by Trustee.*

The Company covenants that if:

- (1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or
- (2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof, or
- (3) default is made in the payment of any sinking or purchase fund or analogous obligation when the same becomes due by the terms of the Securities of any series, and any such default continues for any period of grace provided with respect to the Securities of such series.

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holder of any such Security (or the Holders of any such series in the case of clause (3) above), the whole amount then due and payable on any such Security (or on the Securities of any such series in the case of clause (3) above) for principal and any premium and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and premium and on any overdue interest, at the rate or rates prescribed therefor by the terms of any such Security (or of Securities of any such series in the case of clause (3) above); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceedings to judgment or final decree, and may enforce the same against the Company or any other obligor upon the Securities of such series and collect the money adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

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Section 504. *Trustee May File Proofs of Claim.*

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 505. *Trustee May Enforce Claims Without Possession of Securities .*

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

Section 506. *Application of Money Collected .*

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Securities and the notation thereof of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 607;

SECOND: To the payment of the amounts then due and unpaid for principal of and

any premium and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium and interest, respectively; and

THIRD: The balance, if any, to the Company or any other Person or Persons entitled thereto.

In any case where Securities are outstanding which are denominated in more than one currency, or in a composite currency and at least one other currency, and the Trustee is directed to make ratable payments under this Section to Holders of Securities, the Trustee shall calculate the amount of such payments as follows: (i) as of the day the Trustee collects an amount under this Article, the Trustee shall, as to each Holder of a Security to whom an amount is due and payable under this Section which is denominated in a foreign currency or a composite currency, determine that amount of U.S. Dollars that would be obtained for the amount owing such Holder, using the rate of exchange at which in accordance with normal banking procedures the Trustee could purchase in The City of New York U.S. Dollars with such amount owing, (ii) calculate the sum of all U.S. Dollar amounts determined under (i) and add thereto any amounts due and payable in U.S. Dollars; and (iii) using the individual amounts determined in (i) or any individual amounts due and payable in U.S. Dollars, as the case may be, as a numerator and the sum calculated in (ii) as a denominator, calculate as to each Holder of a Security to whom an amount is owed under this Section the fraction of the amount collected under this Article payable to such Holder. Any expenses incurred by the Trustee in actually converting amounts owing Holders of Securities denominated in a currency or composite currency other than that in which any amount is collected under this Article shall be likewise (in accordance with this paragraph) borne ratably by all Holders of Securities to whom amounts are payable under this Section.

To the fullest extent allowed under applicable law, if for the purpose of obtaining judgment against the Company in any court it is necessary to convert the sum due in respect of the principal of, or any premium or interest on the Securities of any series (the "Required Currency") into a currency in which judgment will be rendered (the "Judgment Currency"), the rate of exchange used shall be the rate at which in accordance with normal banking procedures the Trustee could purchase in The City of New York the Required Currency with the Judgment Currency on the New York Business Day preceding that on which final judgment is given. The Company shall not be liable for any shortfall nor shall it benefit from any windfall in payments to Holders of Securities under this Section caused by a change in exchange rates between the time the amount of a judgment against it is calculated as above and the time the Trustee converts the Judgment Currency into the Required Currency to make payments under this Section to Holders of Securities, but payment of such judgment shall discharge all amounts owed by the Company on the claim or claims underlying such judgment.

#### Section 507. *Limitation on Suits .*

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;
- (2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;
- (3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- (4) the Trustee for 60 days after receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

#### Section 508. *Unconditional Right of Holders to Receive Principal, Premium and Interest .*

Notwithstanding any other provision of this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of any premium and (except as specified as contemplated by Section 301(3) and subject to Section 307) any



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interest on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 509. *Restoration of Rights and Remedies.*

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 510. *Rights and Remedies Cumulative.*

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 511. *Delay or Omission Not Waiver.*

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 512. *Control by Holders.*

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, provided that

- (1) such direction shall not be in conflict with any rule of law or with this Indenture,

(2) the Trustee shall not determine (it being understood that the Trustee shall have no obligation to make such determination) that the action so directed would be unjustly prejudicial to Holders of Securities of that series, or any other series, not taking part in such direction, and

(3) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Upon receipt by the Trustee of any such direction with respect to Securities of any series, a record date shall automatically and without any other action by any Person be set for determining the Holders of Outstanding Securities of such series entitled to join in such direction, which record date shall be the close of business on the day the Trustee receives such direction. Promptly after the establishment of a record date pursuant to the provisions of this Section 512, the Trustee shall notify the Holders of Outstanding Securities of such series of the establishment of such record date. The Holders of Outstanding Securities of such series on such record date (or their duly appointed agents), and only such Persons, shall be entitled to join in such direction, whether or not such Holders remain Holders after such record date; provided that, unless such direction shall have become effective by virtue of Holders of the requisite principal amount of Outstanding Securities of such series on such record date (or their duly appointed agents) having joined therein on or prior to the 90th day after such record date, such direction shall automatically and without any action by any Person be canceled and of no further effect. Nothing in this paragraph shall prevent a Holder (or a duly appointed agent thereof) from giving, before or after the expiration of such 90-day period, a direction contrary to or different from, or, after the expiration of such period, identical to, a direction that has been canceled pursuant to the proviso to the preceding sentence, in which event a new record date in respect thereof shall be set pursuant to this paragraph.

Section 513. *Waiver of Past Defaults.*

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no

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such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 514. *Undertaking for Costs.*

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; provided that neither this Section nor the Trust Indenture Act shall be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Company.

Section 515. *Waiver of Stay or Extension Laws.*

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

**ARTICLE SIX**  
**THE TRUSTEE**

Section 601. *Certain Duties and Responsibilities.*

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Notwithstanding the foregoing (but subject to Section 107), no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 602. *Notice of Defaults.*

If a default occurs hereunder with respect to Securities of any series of which the Trustee has notice, the Trustee shall give the Holders of Securities of such series notice of such default as and to the extent provided by

the Trust Indenture Act and in the manner provided in Section 106; provided, however, that in the case of any default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series. The Trustee shall not be deemed to have notice of any default or Event of Default unless the Corporate Trust Department of the Trustee has actual knowledge of such default or Event of Default.

Section 603. *Certain Rights of Trustee.*

Subject to the provisions of Section 601:

- (1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;
- (2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;
- (3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;
- (4) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;
- (5) the Trustee shall be under no obligation to exercise any of the rights of powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;
- (6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; and

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(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 604. *Not Responsible for Recitals or Issuance of Securities.*

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee or any Authenticating Agent assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee or any Authenticating Agent shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 605. *Money Held in Securities.*

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

Section 606. *Money Held in Trust.*

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for investment of or interest on any money received by it hereunder except as otherwise agreed with the Company.

Section 607. *Compensation and Reimbursement.*

The Company agrees

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except to the extent any such expense, disbursement or advance may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder or the performance of its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability or expense may be attributable to its negligence or bad faith.

As security for the performance of the obligations of the Company under this Section the Trustee shall have a lien prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for payment of principal of (and premium, if any) or interest, if any, on particular Securities.

“Trustee”, for purposes of this Section 607, includes any predecessor Trustee, provided that the negligence or bad faith of any Trustee shall not affect the rights under this Section 607 of any other Trustee.

Section 608. *Disqualification; Conflicting Interests.*

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture, and the Company shall take prompt action to have a successor Trustee appointed in the manner provided herein.

Section 609. *Corporate Trustee Required; Eligibility.*

There shall at all times be a Trustee hereunder with respect to the Securities of each series, which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such, has (or if such Trustee is a member of a bank holding company system, its bank holding company has) a combined capital and surplus of at least \$50,000,000 and is subject to supervision or examination by Federal or State authority. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then, for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 610. *Resignation and Removal; Appointment of Successor.*

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

(d) If at any time:

(A) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(B) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(C) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (ii) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within six months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the

retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to Securities of any series and each appointment of a successor Trustee with respect to Securities of any series to all Holders of Securities of such series in the manner provided in Section 106. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

*Section 611. Acceptance of Appointment by Successor.*

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (i) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (ii) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (iii) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing



herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 612. *Merger, Conversion, Consolidation or Succession to Business.*

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities. In the event any Securities shall not have been authenticated by such predecessor Trustee, any such successor Trustee may authenticate and deliver such Securities, in either its own name or that of its predecessor Trustee, with the full force and effect which this Indenture provides for the certificate of authentication of the Trustee.

Section 613. *Preferential Collection of Claims Against Company.*

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

Section 614. *Appointment of Authenticating Agent.*

The Trustee may appoint an Authenticating Agent or Agents with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having (or if such Authenticating Agent is a member of a bank holding company system, its bank holding company has) a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then, for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

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The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 607.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

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**STATE STREET BANK AND TRUST COMPANY  
OF CALIFORNIA, N.A., As Trustee**

By: \_\_\_\_\_,  
As Authenticating Agent

By: \_\_\_\_\_,  
Authorized Officer

**ARTICLE SEVEN**

**HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY**

**Section 701.**    *Company to Furnish Trustee Names and Addresses of Holders.*

The Company will furnish or cause to be furnished to the Trustee

(1) semi-annually, not later than 15 days after the Regular Record Date for each series of Securities, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Securities as of such Regular Record Date, or if there is no Regular Record Date for interest for such series of Securities, semi-annually, upon such dates as are set forth in the Board Resolution or indenture supplemental hereto authorizing such series, and

(2) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished; provided, however, that so long as the Trustee is the Security Registrar, no such list shall be required to be furnished.

**Section 702.**    *Preservation of Information; Communications to Holders.*

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders of Securities (i) contained in the most recent list furnished to the Trustee for each series as provided in Section 701 and (ii) received by the Trustee for each series in its capacity as Security Registrar if the Trustee is acting in such capacity. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

(b) The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to the names and addresses of Holders made pursuant to the Trust Indenture Act.

Section 703. *Reports by Trustee .*

(a) The Trustee shall transmit to Holders of securities, as their names and addresses appear in the Security Register, such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto.

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when any Securities are listed on any stock exchange.

Section 704. *Reports by Company .*

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, if any, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; provided that any such information, documents or reports required to be filed with Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

**ARTICLE EIGHT**

**CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE**

Section 801. *Company May Consolidate, Etc., Only on Certain Terms .*

The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(1) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person,

the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have occurred and be continuing; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

**Section 802. *Successor Substituted* .**

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

**ARTICLE NINE**  
**SUPPLEMENTAL INDENTURES**

**Section 901. *Supplemental Indentures Without Consent of Holders* .**

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

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(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Default; or

(4) to add or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Securities in uncertificated form; or

(5) to add, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities, provided that any such addition, change or elimination (i) shall neither (A) apply to any Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (B) modify the rights of the Holder of any such Security with respect to such provision or (ii) shall become effective only when there is no such Security Outstanding; or

(6) to secure the Securities pursuant to the requirements of Section 1008 or otherwise; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611(b); or

(9) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, provided that such action pursuant to this clause (9) shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

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Section 902. *Supplemental Indentures with Consent of Holders.*

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any payment with respect to any Security on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section, Section 513 or Section 1011, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby, provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to the "Trustee" and concomitant changes in this Section and Section 1011, or the deletion of the proviso, in accordance with the requirements of Sections 611(b) and 901(8).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the



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particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 903. *Execution of Supplemental Indentures .*

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 904. *Effect of Supplemental Indentures .*

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 905. *Conformity with Trust Indenture Act .*

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 906. *Reference in Securities to Supplemental Indentures .*

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

## **ARTICLE TEN COVENANTS**

Section 1001. *Payment of Principal, Premium and Interest.*

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The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of and any premium and interest on the Securities of that series in accordance with the terms of the Securities and this Indenture.

Section 1002. *Maintenance of Office or Agency* .

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 1003. *Money for Securities Payments to Be Held in Trust* .

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, prior to each due date of the principal of or any premium or interest on any Securities of that series, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree

with the Trustee, subject to the provisions of this Section, that such Paying Agent will (a) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (b) during the continuance of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment in respect of the Securities of that series, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities of that series.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security of any series and remaining unclaimed for a period ending the earlier of ten Business Days prior to the date such funds would escheat to the State of California or two years after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request (including interest income accrued on such funds, if any), or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease.

Section 1004. *Statement by Officers as to Default.*

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Section 1005. *Existence .*

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holders.

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Section 1006. *Maintenance of Properties* .

The Company will cause all material properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as (and to the extent) in the judgment of the Company may be necessary or appropriate in connection with its business; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary and not disadvantageous in any material respect to the Holders.

Section 1007. *Payment of Taxes and Other Claims* .

The Company will pay or discharge or cause to be paid or discharged, within 30 days after the Company shall have received notice that the same has become delinquent (1) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a material lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity, is being contested in good faith by appropriate proceedings; provided, further, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim unless the failure to pay or discharge such tax, assessment, charge or claim, would, individually or in the aggregate with all such failures, have a material adverse effect on the Company and its Subsidiaries taken as a whole.

Section 1008. *Limitations on Liens*.

(a) Unless the terms of a particular series of Securities otherwise provide, so long as any Securities of such series remain outstanding, the Company will not, nor will it permit any Restricted Subsidiary to, issue, incur, create, assume or guarantee any debt for borrowed money (hereinafter in this Article 10 referred to as "Debt"), secured by a mortgage, security interest, pledge, lien, charge or other encumbrance (mortgage, security interests, pledges, liens, charges and other encumbrances being hereinafter in this Article 10, referred to as "mortgage" or "mortgages") upon any Principal Property of the Company or any Restricted Subsidiary or upon any shares of stock or indebtedness of any Restricted Subsidiary (whether such Principal Property, shares of stock or indebtedness are not existing or owed or hereafter created or acquired) without in any such case effectively providing concurrently with the issuance, incurrence, creation, assumption or guaranty of any such Debt or the grant of a mortgage with respect to any such Debt that the Securities of such series Outstanding (together with, if the Company shall so determine, any other indebtedness of or guarantee by the Company or such Restricted Subsidiary ranking equally with the

Securities of such series Outstanding and then existing or thereafter created) shall be secured equally and ratably with (or, at the Company's option, prior to) such Debt; provided, however, that the foregoing restrictions shall not apply to Debt secured by:

(1) mortgages on property, shares of stock or indebtedness or other assets of any corporation existing at the time such corporation becomes a Restricted Subsidiary, provided that such mortgages or liens are not incurred in anticipation of such corporation becoming a Restricted Subsidiary;

(2) mortgages on property, capital stock or indebtedness existing at the time of acquisition thereof by the Company or a Restricted Subsidiary (which may include property previously leased by the Company and leasehold interests thereon; provided that the lease terminates prior to or upon the acquisition) or mortgages thereon to secure the payment of all or any part of the purchase price thereof, or mortgages on property, capital stock or indebtedness to secure any debt incurred prior to, at the time of, or within 270 days after, the latest of the acquisition thereof, or, in the case of property, the completion of construction, the completion of improvements or the commencement of substantial commercial operation of such property for the purpose of financing all or any part of the purchase price thereof, such construction or the making of such improvements;

(3) mortgages securing Debt owing to the Company or to a Restricted Subsidiary;

(4) mortgages existing on the date of initial issuance of the Securities of such series;

(5) mortgages on property or other assets of a corporation existing at the time such corporation is merged into or consolidated with the Company or a Restricted Subsidiary or at the time of a sale, lease or other disposition of the properties of a corporation as an entirety or substantially as an entirety to the Company or a Restricted Subsidiary, provided that such mortgage was not incurred in anticipation of such merger or consolidation or sale, lease or other disposition;

(6) mortgages in favor of the United States of America or any State, territory or possession thereof (or the District of Columbia), or any department, agency, instrumentality or political subdivision of the United States of America or any State, territory or possession thereof (or the District of Columbia), to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt incurred for the purpose of financing all or any part of the purchase price or the cost of construction or improvement of the property subject to such mortgages;

(7) mortgages created in connection with a project financed with, and created to secure, a Nonrecourse Obligation; or

(8) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any mortgage referred to in the foregoing clauses (1) to (7), inclusive, without increase of the principal of the Debt secured thereby; provided, however, that such extension, renewal or replacement shall be limited to all or a part of the property which secured the mortgage extended, renewed or replaced (plus improvements on such property).

(b) Notwithstanding the foregoing provisions of this Section 1008, the Company and any one or more Restricted Subsidiaries may issue, incur, create, assume or guarantee Debt secured by mortgages which would otherwise be subject to the foregoing restrictions ("Exempted Secured Debt") in an aggregate amount which, together with all other outstanding Debt of the Company and its Restricted Subsidiaries which (if originally issued, incurred, created, assumed or guaranteed at such time) would otherwise be subject to the foregoing restrictions (including Attributable Debt in respect of Sale and Lease-Backs as provided in Section 1009, but not including Debt permitted to be secured under any of clauses (1) through (8) above or Attributable Debt with respect to a Sale and Lease-Back if Debt at least equal in amount to the Attributable Debt in respect of such Sale and Lease-Back could have been issued, incurred, created, assumed or guaranteed by the Company or one or more Restricted Subsidiaries under any of clauses (1) through (8) above), does not at the time exceed the greater of \$300,000,000 or 10% of Consolidated Net Tangible Assets of the Company.

**Section 1009. *Limitations on Sale and Lease-Back Transactions* .**

(a) Unless the terms of a particular series of Securities otherwise provide, so long as any Securities of such series remain outstanding, the Company will not, nor will it permit any Restricted Subsidiary to, enter into any direct or indirect arrangement with any person that provides for the leasing to the Company or any Restricted Subsidiary of any Principal Property (except for leases for a term of not more than three years and except for leases between the Company and a Restricted Subsidiary or between Restricted Subsidiaries), which Principal Property has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such person (such arrangement herein in this Section 1009 referred to as a "Sale and Lease-Back"), unless:

(1) the Company or such Restricted Subsidiary would be entitled, pursuant to the provisions of Section 1008, to issue, incur, create, assume or guarantee Debt secured by a mortgage upon such property at least equal in amount to the Attributable Debt in respect of such Sale and Lease-Back without equally and ratably securing the Securities of such series Outstanding; provided, however, that from and after the date on which such Sale and Lease-Back becomes effective the Attributable Debt in respect of such Sale and Lease-Back shall be deemed for all purposes under Section 1008 and this Section 1009 to be Debt subject to the provisions of Section 1008 (including, without limitation, for purposes of calculating Exempted Secured Debt as provided in Section 1008(b)); or

(2) within 180 days of the effective date of such Sale and Lease-Back, the

Company shall apply an amount in cash equal to the greater of the net proceeds of the sale involved in such Sale and Lease-Back or the Attributable Debt in respect of such Sale and Lease-Back to either (or a combination of) (i) the retirement (other than any mandatory retirement, mandatory prepayment or sinking fund payment or by way of payment at maturity), of debt of the Company or any Restricted Subsidiary (other than Debt owed by the Company or any Restricted Subsidiary to the Company or any Restricted Subsidiary or Debt which is subordinate to Securities of such series Outstanding) which by its terms matures at or is extendible or renewable at the option of the obligor to a date more than twelve months after the date of the creation of such Debt, or (ii) to the purchase, construction or development (or any combination thereof) of other comparable property.

(b) For the purposes of this Section 1009, the term “Attributable Debt” with respect to a Sale and Lease-Back involving a Principal Property means, at the time of determination, the lesser of:

(1) the fair value of the property which is the subject of such Sale and Lease-Back (as determined in good faith by the Board of Directors); or

(2) the present value of the total net amount of rent required to be paid under such Sale and Lease-back during the remaining term thereof (including any renewal term or period for which such lease has been extended), discounted at the rate of interest set forth or implicit in the terms of such Sale and Lease-back or, if not practicable to determine such rate, the weighted average interest rate per annum borne by the Debt Securities of each series outstanding pursuant to this Indenture compounded semi-annually in either case as determined by the principle accounting officer of the Company. For purposes of this definition, rent shall not include amounts required to be paid by the lessee, whether or not designated as rent or additional rent, on account of or contingent upon maintenance and repairs, insurance, taxes, assessments, water rates and similar charges. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall be the lesser of the (i) net amount determined assuming termination upon the first date such lease may be terminated (in which case the net amount shall also include the amount of the penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated) or (ii) the net amount determined assuming no such termination.

(c) Notwithstanding the foregoing provisions of this Section 1009, the Company and any one or more Restricted Subsidiaries may enter into an arrangement that provides for the leasing to the Company or a Restricted Subsidiary of any Principal Property which would otherwise be subject to the foregoing restrictions without applying the net proceeds of such transactions in the manner set forth in clause (b) above, provided that after giving effect thereto, the aggregate amount of such Sale and Lease-Back Transactions, together with the aggregate amount of all debt secured by mortgages not permitted by clauses (1) through (8) under the limitation in the Indenture on

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mortgages, does not exceed the greater of \$300,000,000 or 10% of the Consolidated Net Tangible Assets of the Company.

Section 1010. *Waiver of Certain Covenants* .

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Sections 1008 and 1009 with respect to the Securities of any series if before the time for such compliance the Holders of not less than a majority in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any term, provision or condition shall remain in full force and effect.

**ARTICLE ELEVEN**  
**REDEMPTION OF SECURITIES**

Section 1101. *Applicability of Article* .

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for Securities of any series) in accordance with this Article.

Section 1102. *Election to Redeem; Notice to Trustee* .

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of less than all the Securities of any series of the same tenor, the Company shall, at least 60 days (45 days in the case of redemption of all Securities of any series or of any series of the same tenor) prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed and, if applicable, of the tenor of the Securities to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

Section 1103. *Selection by Trustee of Securities to Be Redeemed* .

If less than all the Securities of any series are to be redeemed (unless all of the Securities of such series and of a specified tenor are to be redeemed), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, as directed by the Company or if no direction is given, pro rata among the Stated Maturities of such series and by lot within each Stated Maturity



and which selection may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of that series or any integral multiple thereof) of the principal amount of Securities of such series of a denomination larger than the minimum authorized denomination for Securities of that series. If less than all of the Securities of such series (and of a specified tenor are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series (and specified tenor) not previously called for redemption in accordance with the preceding sentence. Unless otherwise provided in the terms of a particular series of Securities, the portions of the principal of Securities so selected for partial redemption shall be equal to the minimum authorized denomination of the Securities of such series, or an integral multiple thereof, and the principal amount which remains denomination for Securities of such series.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

Section 1104. *Notice of Redemption* .

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, unless a shorter period is specified in the Securities to be redeemed, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

Any notice that is mailed to the Holder of any Securities in the manner herein provided shall be conclusively presumed to have been duly given, whether or not such Holder receives the notice.

All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Redemption Price and the amount of accrued interest, if any, to be paid,
- (3) if less than all the Outstanding Securities of the Stated Maturity and of the same series are to be redeemed, the identification (and, in the case of partial redemption of any Securities, the principal amounts) of the particular Securities to be redeemed,

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(4) in case any Security is to be redeemed in part only, the notice which relates to such Security shall state that on and after the Redemption Date, upon surrender of such Security, the Holder of such Security will receive, without charge, a new Security or Securities of authorized denominations for the principal amount thereof remaining unredeemed,

(5) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(6) the place or places where such Securities are to be surrendered for payment of the Redemption Price, and

(7) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable.

Section 1105. *Deposit of Redemption Price .*

On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

Section 1106. *Securities Payable on Redemption Date .*

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that unless otherwise specified as contemplated by Section 301, installments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

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Section 1107. *Securities Redeemed in Part.*

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

**ARTICLE TWELVE**  
**SINKING FUNDS**

Section 1201. *Applicability of Article.*

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series except as otherwise specified as contemplated by Section 301 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a “mandatory sinking fund payment”, and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an “optional sinking fund payment.” The cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

Section 1202. *Satisfaction of Sinking Fund Payments with Securities.*

The Company (a) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (b) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series required to be made pursuant to the terms of such Securities as provided for by the terms of such Series; provided that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption

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Price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

Section 1203. *Redemption of Securities for Sinking Fund.*

Not less than 60 days prior to each sinking fund payment date for any series of Securities, the Company will delivery to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering the crediting Securities of that series pursuant to Section 1202 and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

**ARTICLE THIRTEEN**  
**DEFEASANCE AND COVENANT DEFEASANCE**

Section 1301. *Company's Option to Effect Defeasance or Covenant Defeasance.*

Section 1302 and/or Section 1303 shall apply to the Outstanding Securities of any series to the extent specified as contemplated by Section 301 for Securities of such series.

Section 1302. *Defeasance and Discharge.*

The Company shall be deemed to have been discharged from its obligations with respect to the Outstanding Securities of such series as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Securities of such series and to have satisfied all of its other obligations under the Securities of such series and this Indenture insofar as the Securities of such series are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of Securities of such series to receive, solely from the trust fund described in Section 1304 and as more fully set forth in such Section, payments in respect of the principal of and any premium and interest on such Securities of such series when payments are due, (b) the Company's obligations with respect to the Securities of such series under Sections 304, 305, 306, 1002 and 1003, (c) the rights, powers, trusts, duties and

immunities of the Trustee here under and (d) this Article Thirteen. Subject to compliance with this Article Thirteen, the Company may defease the Outstanding Securities of any series pursuant to this Section 1302 notwithstanding the prior Defeasance of the Outstanding Securities of such series pursuant to Section 1303.

*Section 1303. Covenant Defeasance.*

The Company shall be released from its obligations under Sections 1005 through 1010, inclusive, and the occurrence of any event specified in Sections 501(4), (with respect to any of Sections 1005 through 1010 inclusive, and 501(7) shall be deemed not to be or result in an Event of Default, in each case with respect to Outstanding Securities of any series as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such Section (to the extent so specified in the case of Section 501(4)), whether directly or indirectly by reason of any reference elsewhere herein to any such Section or provision herein or in any other document, but the remainder of this Indenture and the Securities of such series shall be unaffected thereby.

*Section 1304. Conditions to Defeasance or Covenant Defeasance.*

The following shall be the conditions to Defeasance pursuant to Section 1302 or Covenant Defeasance pursuant to Section 1303 to the Outstanding Securities of any series:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee that satisfies the requirements contemplated by Section 609 and agrees to comply with the provisions of this Article Thirteen applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of Outstanding Securities of such series, (A) money in an amount, or (B) U.S. Government Obligations that through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, in each case sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or any such other qualifying trustee) to pay and discharge each installment of principal (including mandatory sinking fund payments) of, and premium (not relating to optional redemption), if any, and interest on, the Outstanding Securities of such series on the dates such installments of principal of, and premium (not relating to optional redemption), if any, or interest are due.

(2) In the case of Defeasance under Section 1302, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the

date first set forth hereinabove, there has been a change in the applicable Federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Holders of the Outstanding Securities of such series will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to the Securities of such series and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(3) In the case of Covenant Defeasance under Section 1303, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of the Outstanding Securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of the deposit and Covenant Defeasance to be effected with respect to the Securities of such series and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(4) The Company shall have delivered to the Trustee an Officer's Certificate to the effect that the Securities of such series, if then listed on any securities exchange, will not be delisted as a result of such deposit.

(5) No Event of Default or event that (after notice or lapse of time or both) would become an Event of Default shall have occurred and be continuing at the time of such deposit or, with regard to any Event of Default or any such event specified in Sections 501(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Securities are in default within the meaning of such Act).

(7) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound.

(8) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided with respect to such Defeasance or Covenant Defeasance have been complied with.

(9) Such Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act of 1940, as amended, unless such trust shall be qualified under such Act or exempt from regulation thereunder.

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(11) Such deposit pursuant to such Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, this Indenture or any other agreement or instrument to which the Company is a party or by which it is bound.

Section 1305. *Deposited Money and U.S. Government Obligations to be Held in Trust; Other Miscellaneous Provisions.*

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee or other qualifying trustee (solely for purposes of this Section and Section 1306, the Trustee and such other trustee are referred to collectively as the "Trustee") pursuant to Section 1304 in respect of the Securities of any Defeasible Series shall be held in trust and applied by the Trustee, in accordance with the provisions of the Securities of such series and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities of such series, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 1304 or the principal and interest received in respect thereof other than any such tax, fee or other charge that by law is for the account of the Holders of the Outstanding Securities.

Anything in this Article Thirteen to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 1304 which with respect to Securities of any Defeasible Series that, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Defeasance or Covenant Defeasance with respect to the Securities of such series.

Section 1306. *Reinstatement.*

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article Thirteen with respect to the Securities of any series by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Securities of such series shall be revived and reinstated as though no deposit had occurred pursuant to this Article Thirteen with respect to Securities of such series until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 1305 with respect to Securities of such series in accordance with this Article Thirteen; provided, however, that if the Company makes any payment of principal of or any premium or interest on any Security of such series following the reinstatement

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of its obligations, the Company shall be subrogated to the rights of the Holders of Securities of such series to receive such payment from the money so held in trust.

## **ARTICLE FOURTEEN**

### **REPAYMENT AT OPTION OF SECURITY HOLDERS**

#### **Section 1401.   *Applicability of Article.***

Securities of any series which are repayable at the option of the Holders thereof before their Stated Maturity shall be repaid in accordance with their terms and (except as otherwise contemplated by Section 301 for Securities of such series) in accordance with this Article.

#### **Section 1402.   *Repayment of Securities.***

Each Security which is subject to repayment in whole or in part at the option of the Holder thereof on a Repayment Date shall be repaid at the applicable Repayment Price together with interest accrued to such Repayment Date as specified pursuant to Section 301.

#### **Section 1403.   *Exercise of Option; Notice.***

Each Holder desiring to exercise his option for repayment shall, as conditions to such repayment surrender the Security to be repaid together with all coupons, if any, appertaining thereto maturing after the Repayment Date and with written notice of the exercise of such option at any office or agency of the Company in a Place of Payment, not less than 15 nor more than 30 days prior to the Repayment Date. Such notice, which shall be irrevocable, shall identify the Security to be repaid and shall specify the principal amount of such Security to be repaid, which shall be not less than the minimum authorized denomination for such Security or an integral multiple thereof and, in the case of a partial repayment of the Security, the denomination or denominations of the Security or Securities with Equivalent Principal Terms to be issued to the Holder for the portion of the principal of the Security surrendered which is not to be repaid.

Any Security which is to be repaid only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities with Equivalent Principal Terms, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.



For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the repayment of Securities shall relate, in the case of any Security repaid or to be repaid only in part, to the portion of the principal of such Security which has been or is to be repaid.

Section 1404. *Securities Payable on the Repayment Date.*

Notice of exercise of the option of repayment having been given and the Securities so to be repaid having been surrendered as aforesaid, such Securities shall, on the Repayment Date, become due and payable at the Repayment Price therein specified and from and after such date (unless the Company shall default in the payment of Repayment Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for repayment in accordance with Section 1403, such Security shall be paid by the Company at the Repayment Price, together with accrued interest to the Repayment Date; provided, however, that, installments of interest on Securities whose Stated Maturity is on or prior to the Repayment Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, required as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Security duly surrendered for repayment shall not be paid, the principal and any premium shall, until paid, bear interest from the Repayment Date at the rate prescribed therefor in the Security.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

ORACLE CORPORATION

By /s/ Bruce Lange  
Vice President and Treasurer

Attest:

/s/ L. Patricia Moncada  
Assistant Secretary

STATE STREET BANK AND TRUST COMPANY OF  
CALIFORNIA, N.A.

By /s/ Jeannie Mar  
Authorized Officer

# ORACLE CORPORATION

## 1993 DIRECTORS' STOCK OPTION PLAN

(as amended and adjusted for stock splits through April 11, 2003)

### 1. Establishment and Purpose.

- (a) **Establishment** . There is hereby adopted the 1993 Directors' Stock Option Plan (the "Plan" of Oracle Corporation, a Delaware corporation (the "Company")). The Plan is intended to provide a means whereby eligible members of the Board of Directors of the Company may be given an opportunity to purchase shares of Common Stock of the Company pursuant to options which are not intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended.
- (b) **Purpose** . The purpose of the Plan is to enable the Company to attract and retain the best available individuals for service as members of the Board of Directors of the Company, to provide additional incentive to such individuals while serving as directors, and to encourage their continued service on the Board of Directors.

### 2. Definitions.

As used herein, the following definitions shall apply:

- (a) **"Board"** shall mean the Board of Directors of the Company.
- (b) **"Code"** shall mean the Internal Revenue Code of 1986, as amended.
- (c) **"Committee"** shall mean the Committee or Committees referred to in Section 4 of the Plan. If at any time no Committee shall be in office, then the functions of the Committee specified in the Plan shall be exercised by the Board.
- (d) **"Common Stock"** shall mean the Common Stock, \$.01 par value per share, of the Company.
- (e) **"Continuous Status as a Director"** shall mean the absence of any interruption or termination of service as a Director.
- (f) **"Director"** shall mean a member of the Board.
- (g) **"Employee"** shall mean any person, including officer and Directors, who is an employee of the Company, or any Subsidiary of the Company, for purposes of tax withholding under the Code. The payment of a director's fee by the Company shall not be sufficient to and in of itself to constitute "employment" by the Company.
- (h) **"Exchange Act"** shall mean the Securities Exchange Act of 1934, as amended.
- (i) **"Fair Market Value"** shall mean, as of any date, the value of Common Stock determined as follows:
  - (i) the last reported sale price of the Common Stock of the Company on the Nasdaq National Market or, if no such reported sale takes place on any such day, the average of the closing bid and asked prices, or
  - (ii) if such Common Stock shall then be listed on a national securities exchange, the last reported sale price or, if no such reported sale takes place on any such day, the average of the closing bid and asked prices on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or

- (iii) if such Common Stock shall not be quoted on such National Market nor listed or admitted to trading on a national securities exchange, then the average of the closing bid and asked prices, as reported by The Wall Street Journal for the over-the-counter market, or
- (iv) if none of the foregoing is applicable, then the Fair Market Value of a share of Common Stock shall be determined in good faith by the Committee in its discretion.
- (j) **“Option”** shall mean an option to purchase shares of Common Stock granted pursuant to the Plan.
- (k) **“Optioned Stock”** shall mean the Common Stock subject to an Option.
- (l) **“Optionee”** shall mean an Outside Director who receives an Option.
- (m) **“Outside Director”** shall mean a Director who is not an Employee.
- (n) **“Parent”** shall mean a “parent corporation” whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (o) **“Securities Act”** shall mean the Securities Act of 1933, as amended.
- (p) **“Share”** shall mean a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.
- (q) **“Significant Committees”** shall mean the Executive Committee and the Finance and Audit Committee of the Board.
- (r) **“Subsidiary”** shall mean a “subsidiary corporation”, whether now or hereafter existing, as defined in Section 424(f) of the Code.

### 3. **Shares Subject to the Plan.**

Subject to the provisions of Section 13 of the Plan, the maximum number of Shares which may be optioned and sold under the Plan is 20,250,000 shares of Common Stock. If an Option expires or becomes unexercisable for any reason and has not been exercised in full, the Shares subject to such Options shall become available for future grant under the Plan. If Shares which were acquired upon exercise of an Option are subsequently repurchased by the Company, such Shares shall not become available for future grant under the Plan.

### 4. **Administration of the Plan.**

- (a) **Administrator** . The Plan shall be administered by the Board or by the Committee appointed by the Board, which shall consist of two or more members of the Board. The Committee shall select one of its members as chairman, and shall hold meetings at such times and places as it may determine. A majority of the Committee shall constitute a quorum and acts of the Committee at which a quorum is present, or acts reduced to or approved in writing by all the members of this Committee, shall be the valid acts of the Committee.
- (b) **Powers of the Committee** . Subject to the provisions and restrictions of the Plan, the Committee shall have the authority, in its discretion, to: (i) determine the Fair Market Value of the Common Stock; (ii) determine the exercise price per Share; (iii) interpret the Plan; (iv) subject to Section 14, amend the Plan or any Option; (v) authorize any person to execute on behalf of the Company any agreements or other documents in connection with the grant of an Option under the Plan; (vi) approve forms of agreement for use under the Plan; and (vii) make all other determinations deemed necessary or advisable for the administration of the Plan.
- (c) **Effects of Committee’s Decision**. All decisions, determinations and interpretations of the Committee shall be final and binding on all holders of any Options granted under the Plan.

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## 5. **Option grants.**

- (a) **Automatic Grants** . All Grants of Options hereunder shall be automatic and nondiscretionary and shall be made strictly in accordance with the provisions of this Section 5. No person shall have any discretion to select which Outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.
- (b) **Initial Grants** . Each individual who becomes an Outside Director after August 8, 2001, as of the date on which such person becomes an Outside Director shall be granted automatically an Option to purchase 80,000 shares.
- (c) **Subsequent Grants.**
  - (i) On May 24, 2003, each Outside Director shall be granted automatically an option to purchase 40,000 shares, provided that on such date the Outside Director has served on the Board for at least six months.
  - (ii) On May 24, 2003, each Outside Director that is the Chairman of both Significant Committees shall be granted automatically an Option to purchase 100,000 shares, provided that on such date the Outside Director has served as the Chairman of both Significant Committees for at least one year. This grant of 100,000 shares shall be in lieu of and not in addition to the options granted under Section 5(c)(i) hereof.
  - (iii) On May 24, 2003, the Chairman of the Compensation Committee shall be granted automatically an Option to purchase 80,000 shares, provided that on such date the Outside Director has served on the Compensation Committee for at least one year. This grant of 80,000 shares shall be in lieu of and not in addition to the options granted under Section 5(c)(i) hereof.
  - (iv) On May 24, 2003, the Vice Chairman of the Finance and Audit Committee shall be granted automatically an Option to purchase 60,000 shares, provided that on such date the Outside Director has served in such capacity for at least six months. This grant of 60,000 shares shall be in lieu of and not in addition to the options granted under Section 5(c)(i) hereof.
- (d) **Limitations** .
  - (i) Notwithstanding the provisions of Sections 5(b) and 5(c) hereof, in the event that a sufficient number of Shares is not available under the Plan, the remaining Shares shall be prorated based upon the number of Shares each Director was entitled to receive under this Plan. Any further grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan. Subject to the terms of Section 14 hereof, the Board shall have the authority at any time to make additional Shares available for grant under the Plan, subject to obtaining stockholder approval of such increase to the extent required under Section 14(a) hereof.
  - (ii) Notwithstanding the provisions of Section 5(b) and 5(c) hereof, any grant of an Option made before the Company has obtained stockholder approval of the Plan and any grant of an Option made after amendment of the Plan where such amendment of the Plan requires stockholder approval under Section 14(a) hereof shall be conditioned upon obtaining such stockholder approval.

## 6. **Terms and Conditions of Options.**

- (a) **Stock Option Agreement.** Each Option granted pursuant to this Plan shall be evidenced by a written stock option agreement (“Stock Option Agreement”) executed by the Company and the Outside Director containing such terms and conditions that are consistent with this Plan and as otherwise determined by the Committee.

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- (b) **Exercise Price** . The exercise price per share shall be the greater of (i) 100% of the Fair Market Value per Share on the date of grant of the Option or (ii) 100% of the Fair Market Value per Share on May 31, 2003, subject to adjustment to the extent provided in Section 13 hereof.
  - (c) **Vesting** . The Shares shall vest and become exercisable at the rate of twenty-five percent (25%) of the Optioned Stock on each anniversary of the date of grant.
  - (d) **Term** . The term of each Option shall be ten (10) years from the date of grant, unless a shorter period is required to comply with any applicable law, in which case such shorter period will apply.
7. **Eligibility** . Options may be granted only to Outside Directors. The Plan shall not confer upon any Outside Director any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate his or her directorship at any time.
8. **Term of Plan; Effective Date**. The Plan shall become effective on May 24, 1993. Options may be granted under this Plan at any time on or before May 24, 2003.
9. **Payment Upon Exercise**. Payment of the exercise price upon exercise of any Option shall be made (i) by cash or check; (ii) provided that a public market for the Company's stock exists, through a "same day sale" commitment from the Optionee and a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby Optionee irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the exercise price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; (iii) provided that a public market for the Company's stock exists, through a "margin" commitment from the Optionee and an NASD Dealer whereby the Optionee irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; (iv) where permitted by applicable law, by tender of a full recourse promissory note secured by collateral other than the Shares having such terms as may be approved by the Committee and bearing interest at a rate sufficient to avoid imputation of income under Sections 483 and 1274 of the Code, provided that the portion of the exercise price equal to the par value of the Shares must be paid in cash or other legal consideration; or (v) in any combination of the foregoing.
10. **Withholding Taxes** . Whenever, under the Plan, Shares are to be issued in satisfaction of the exercise of Options granted hereunder, the Company shall have the right to require the recipient to remit to the Company an amount of cash sufficient to satisfy any applicable federal, state or local income and employment tax withholding requirements prior to the delivery of any certificate or certificates for such Shares.
11. **Exercise of Option**.
- (a) **Procedure for Exercise** . An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option agreement by the person entitled to exercise the Option and full payment for the Shares has been received by the Company in accordance with Section 9 hereof. An Option may not be exercised for a fraction of a Share.
  - (b) **Rights as a Stockholder**. Notwithstanding the exercise of the Option, until the issuance (as evidenced by the appropriate entry on the books of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock. A stock certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right if the record date is prior to the date the stock certificate is issued.
  - (c) **Termination of Status as Director**. If an Outside Director ceases to serve as a Director, he or she may, but only within three (3) months (or such other period of time not exceeding six (6) months as is determined by the Board) after the date he or she ceases to be a Director of the Company, exercise his or her Option to the

extent that he or she was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its term set forth in Section 6 has expired. To the extent that such Outside Director was not entitled to exercise and Option at the date of termination, or if Optionee does not exercise such Option (which he or she was entitled to exercise) within the time specified, the Option shall terminate.

- (d) **Disability of Director.** Notwithstanding the provisions of Section 11(c) above, in the event an Outside Director is unable to continue his service as a Director with the Company as a result of his total and permanent disability (as defined in Section 22(e)(3) of the Code), he may, within six months from the date of such termination, exercise his Option to the extent he was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after the expiration of the term set forth in Section 6. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

- (e) **Death of Optionee.** In the event of the death of an Outside Director:

- (i) If the Outside Director dies during the term of the Option, is a Director at the time of his death and has been in Continuous Status as a Director since the date of grant of the Option, the Option may be exercised at any time within six (6) months following the date of death by the Outside Director's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the Outside Director was entitled to exercise the Option at the date of termination. Notwithstanding the foregoing, in no event may the Option be exercised after the expiration of the term set forth in Section 6.
- (ii) If the Outside Director dies within three (3) months after the termination of Continuous Status as a Director, the Option may be exercised at any time within six (6) months following the date of death by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the Outside Director was entitled to exercise the Option at the date of termination. Notwithstanding the foregoing, in no event may the Option be exercised more than ten (10) years after its date of grant.

12. **Nontransferability of Options.** Options granted under this Plan, and any interest therein, shall not be transferable or assignable by the Optionee, and may not be made subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Optionee only by the Optionee; provided, however; that Options held by an Optionee may be transferred to such family members, trusts and charitable institutions as the Committee, in its sole discretion, shall approve, unless otherwise restricted from such transfer under the terms of the Grant. The designation of a beneficiary by an Optionee does not constitute a transfer.

13. **Adjustment Upon Changes in Capitalization.**

- (a) **Adjustment of Shares.** In the event that the number of outstanding shares of Common Stock of the Company is changed by a stock dividend, stock split, reverse stock split, combination, reclassification or similar change in the capital structure of the Company without consideration, the number of Shares available under this Plan, the number of Shares deliverable in connection with any Option and the exercise price per share of such Options shall be proportionately adjusted, subject to any required action by the Board or stockholders of the Company and compliance with applicable securities laws; provided however, that no certificate or scrip representing fractional shares shall be issued and any resulting fractions of a share shall be ignored.
- (b) **Assumption .** In the event of a dissolution or liquidation of the Company, a merger in which the Company is not the surviving corporation (other than a merger with a wholly owned subsidiary or where there is no substantial change in the stockholders of the Company and the obligations of the Company under this Plan are assumed by the successor corporation), the sale of substantially all of the assets of the Company, or any other transaction described under Section 424(a) of the Code wherein the stockholders of the Company give up all of their equity interest in the Company (except for the acquisition of all or substantially all of the

outstanding shares of the Company), all outstanding Options, notwithstanding any contrary terms of the Plan, shall accelerate and become exercisable in full prior to and shall expire on the consummation of such dissolution, liquidation, merger or sale of assets.

- (c) **Acceleration Upon Unfriendly Takeover** . Notwithstanding anything in Section 13(b) hereof to the contrary, if fifty percent (50%) or more of the outstanding voting securities of the Company become beneficially owned (as defined in Rule 13d-3 promulgated by the Securities and Exchange Commission) by a person (as defined in Section 2(2) of the Securities Act and in Section 13(d)(3) of the Exchange Act) in a transaction or series of transactions expressly disapproved by the Board, then all outstanding Options under this Plan shall become immediately exercisable with no further act or action required by the Committee.

**14. Amendment and Termination of the Plan.**

- (a) **Amendment.** The Board or the Committee may amend the Plan from time to time in such respects as the Board or the Committee, as the case may be, may deem advisable; provided that, to the extent necessary to comply with Rule 16b-3 under the Exchange Act (or any other applicable law or regulation), the Company shall obtain approval of the Company's stockholders to amend the Plan to the extent and in the manner required by such law or regulation.
- (b) **Termination or Suspension.** The Committee, without further approval of the stockholders, may at any time terminate or suspend the Plan. Except as otherwise provided herein, any such termination or suspension of the Plan shall not affect Options already granted hereunder and such Options shall remain in full force and effect as if the Plan had not been terminated or suspended.
- (c) **Outstanding Options.** Except as otherwise provided herein, rights and obligations under any outstanding Option shall not be altered or impaired by amendment, suspension or termination of the Plan, except with the consent of the person to whom the Option was granted. The Committee shall have the authority to modify, extend or renew outstanding Options and to authorize the grant of new Options in substitution therefor.

- 15. Conditions Upon Issuance of Shares.** Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the relevant provisions of the law.

Inability of the Company to obtain authority from any regulatory body having jurisdictional authority deemed by the Company's counsel to be necessary for the lawful issuance and sale of any Shares hereunder shall relieve the Company of any liability for failure to issue or sell such Shares.

- 16. Reservation of Shares.** The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.
- 17. Stockholder Approval.** This Plan shall be approved by the stockholders of the Company, in any manner permitted by applicable corporate law, within twelve months after the date this Plan is adopted by the Board. In the event that stockholder approval is not obtained within the time period provided herein, all awards previously granted hereunder shall terminate.

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18. **Additional Restrictions of Rule 16b-3.** The terms and conditions of options granted hereunder to persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan and the options granted hereunder shall be deemed to contain such additional conditions and restrictions as may be required for this Plan to qualify as a “formula plan” under Rule 16b-3, as then applicable to the Company, and to qualify for the maximum exemptions from Section 16 of the Exchange Act with respect to Plan transactions.



## SUBSIDIARIES OF THE REGISTRANT AS OF MAY 31, 2003

Subsidiary	Country of Incorporation
Oracle Argentina, S.A.	Argentina
Oracle Corporation Australia Pty. Limited	Australia
Oracle Australia Property Pty. Limited	Australia
Oracle GmbH	Austria
Oracle (Barbados) Foreign Sales Corporation	Barbados
Oracle Belgium B.V.B.A./sprl.	Belgium
Oracle do Brasil Sistemas Limitada	Brazil
Oracle Corporation Canada Inc.	Canada
Steltor Corporation	Canada
Steltor Inc.	Canada
Oracle Caribbean, Inc.	Puerto Rico
Oracle Holding Cayman	Cayman Islands
Oracle International Holding Company	Cayman Islands
Sistemas Oracle de Chile, S.A.	Chile
Centro de Capacitacion Oracles Ltda.	Chile
Beijing Oracle Software Systems Company Limited	China
Oracle Research and Development Center, Beijing, Ltd.	China
Oracle Research and Development Center, Shenzhen, Ltd.	China
Oracle Colombia Limitada	Colombia
Oracle de Centroamerica S.A.	Costa Rica
Oracle Croatia d.o.o.	Croatia
Oracle Czech s.r.o.	Czech Republic
Oracle Danmark ApS	Denmark
Oracle Ecuador, S.A.	Ecuador
Oracle Egypt Ltd.	Egypt
Oracle Finland OY	Finland
Oracle France, S.A.S.	France
Oracle Deutschland GmbH	Germany
Oracle Hellas, S.A./AE	Greece
Oracle Systems Hong Kong Limited	Hong Kong
Oracle Systems China (Hong Kong) Limited (inactive)	Hong Kong
Oracle Hungary Kft.	Hungary
Oracle Software India Ltd.	India
Oracle Solution Services (India) Private Ltd.	India
PT Oracle Indonesia	Indonesia
Oracle East Central Europe Limited	Ireland
Oracle EMEA Limited	Ireland
Oracle Technology Company	Ireland
Oracle Software Systems Israel Limited	Israel
Oracle Italia S.R.L.	Italy
Oracle Corporation Japan	Japan
Miracle Linux Corporation	Japan
Oracle Korea, Ltd.	Korea
Oracle Corporation Malaysia Sdn. Bhd.	Malaysia
Oracle MSC SDN BhD (inactive)	Malaysia
Oracle de Mexico, S.A. de C.V.	Mexico

Subsidiary	Country of Incorporation
Oracle Nederland B.V.	The Netherlands
Oracle Distribution B.V.	The Netherlands
Oracle Licensing B.V.	The Netherlands
Tinoway Nederland B.V. (inactive)	The Netherlands
Oracle Scheduler BV (inactive)	The Netherlands
Oracle East Central Europe Services BV	The Netherlands
Oracle Holding Antilles N.V.	Netherlands Antilles
Oracle New Zealand, Ltd.	New Zealand
Oracle Norge AS	Norway
Star Acquisition ULC	Nova Scotia
Oracle del Peru, S.A.	Peru
Oracle Philippines, Inc.	Philippines
Oracle Polska, Sp.z.o.o.	Poland
Oracle Portugal—Sistemas de Informacao Lda.	Portugal
Saudi Oracle Limited	Saudi Arabia
Oracle Corporation Singapore Pte. Ltd.	Singapore
Oracle Corporation (Singapore) Holdings Private Ltd.	Singapore
Oracle Slovensko spol. s.r.o.	Slovakia
Oracle Software d.o.o., Ljubljana	Slovenia
Oracle Corporation (South Africa)(Pty) Limited	South Africa
Oracle Iberica, S.R.L.	Spain
Oracle Svenska AB	Sweden
Druitt Svenska AB	Sweden
Oracle Software (Switzerland) LLC	Switzerland
Oracle AG	Switzerland
Oracle Corporation (Thailand) Co. Ltd.	Thailand
Oracle Bilgisayar Sistemleri Limited Sirketi	Turkey
Oracle Systems Limited	United Arab Emirates
Oracle APSS Trustee Limited	UK
Oracle Corporation UK Limited	UK
Oracle Corporation Nominees Limited	UK
Oracle Resources Ltd.	UK
Oracle EMEA Management Ltd.	UK
Oracle Corporation UK Trustee Company Limited	UK
Steltor Ltd.	UK
Oracle Uruguay, S.A.	Uruguay
Oracle de Venezuela, C.A.	Venezuela
Oracle Vietnam Pty. Ltd.	Vietnam
3Cube, Inc.	Delaware
Business OnLine, Inc.	Delaware
Carleton Corporation	Minnesota
Delphi Asset Management Corporation	Nevada
Druitt Corporation	Delaware
Graphical Information, Inc.	Florida
Healthcare Acquisition I Corporation	Delaware
OIC Acquisition I Corporation	Delaware
OIC Acquisition II Corporation	Delaware
One Meaning, Inc.	Delaware
Oracle IV Centrum Holding Company	Delaware
Oracle Acquisition I Corporation	Delaware
Oracle Cable, Inc.	Delaware

		Country of Incorporation
Subsidiary		
Oracle China, Inc.		California
Oracle Credit Corporation		California
Oracle Holdings, Inc.		Delaware
Oracle International Corporation		California
Oracle International Investment Corporation		California
Oracle Japan Holding, Inc.		Delaware
Oracle Taiwan, Inc.		California
Oracle Tutor Corporation		California
OracleMobile, Inc.		Delaware
RSIB, Inc.		Delaware
Strategic Processing Corporation		Illinois
Versatility, Inc.		Delaware

**CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

We consent to the incorporation by reference in the Registration Statements (Form S-8 No.'s 33-16749, 33-33564, 33-44702, 33-51754, 33-53349, 33-53351, 33-53355, 333-18997, 333-19001, 333-41935, 333-63315, 333-74973, 333-74977, 333-75607, 333-75679, 333-83299, 333-83305, 333-96035, 333-34022, 333-43836, and 333-73150) of our report dated June 12, 2003, except for the second and fourth paragraphs of Note 17 and Note 18, as to which the date is June 18, 2003, with respect to the consolidated financial statements and schedule of Oracle Corporation included in the Annual Report on Form 10-K for the year ended May 31, 2003.

/s/ ERNST & YOUNG LLP

Walnut Creek, California  
June 20, 2003

**NOTICE REGARDING CONSENT OF ARTHUR ANDERSEN LLP**

Section 11(a) of the Securities Act of 1933, as amended (the “Securities Act”), provides that if any part of a registration statement at the time such part becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement in such registration statement, report or valuation which purports to have been prepared or certified by the accountant.

This Form 10-K is incorporated by reference into Oracle Corporation’s filings on Form S-8 Nos. 33-16749, 33-33564, 33-44702, 33-51754, 33-53349, 33-53351, 33-53355, 333-18997, 333-19001, 333-41935, 333-63315, 333-74973, 333-74977, 333-75607, 333-75679, 333-83299, 333-83305, 333-96035, 333-34022, 333-43836 and 333-73150 (collectively, the “Registration Statements”) and, for purposes of determining any liability under the Securities Act, is deemed to be a new registration statement for each Registration Statement into which it is incorporated by reference.

On April 9, 2002, Oracle dismissed Arthur Andersen LLP as its independent auditor and appointed Ernst & Young LLP to replace Arthur Andersen. Oracle’s understanding is that the staff of the Securities and Exchange Commission has taken the position that it will not accept consents from Arthur Andersen if the engagement partner and the manager for the Oracle audit are no longer with Arthur Andersen. Both the engagement partner and the manager for the Oracle audit are no longer with Arthur Andersen. As a result, Oracle has been unable to obtain Arthur Andersen’s written consent to the incorporation by reference into the Registration Statements of its audit report with respect to Oracle’s financial statements for the year then ended May 31, 2001. Under these circumstances, Rule 437a under the Securities Act permits Oracle to file this Form 10-K without a written consent from Arthur Andersen. As a result, however, Arthur Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Arthur Andersen under Section 11(a) of the Securities Act for any purchases of securities under the Registration Statements made on or after the date of this Form 10-K. To the extent provided in Section 11(b)(3)(C) of the Securities Act, however, other persons who are liable under Section 11(a) of the Securities Act, including the Company’s officers and directors, may still rely on Arthur Andersen’s original audit reports as being made by an expert for purposes of establishing a due diligence defense under Section 11(b) of the Securities Act.

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Lawrence J. Ellison, certify that:

1. I have reviewed this annual report on Form 10-K of Oracle Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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 annual report is being prepared;
  - b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual 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 annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - 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 controls over financial reporting.

Date: June 24, 2003

By: /s/ L AWRENCE J. E LLISON  
Lawrence J. Ellison  
Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Jeffrey O. Henley, certify that:

1. I have reviewed this annual report on Form 10-K of Oracle Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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 annual report is being prepared;
  - b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual 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 annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - 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 controls over financial reporting.

Date: June 24, 2003

By: /s/ JEFFREY O. HENLEY

Jeffrey O. Henley  
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT**

June 24, 2003

Securities and Exchange Commission  
450 Fifth Street, N.W  
Washington, D.C. 20549

Ladies and Gentlemen:

The certification set forth below is being submitted to the Securities and Exchange Commission solely for the purpose of complying with Section 1350 of Chapter 63 of Title 18 of the United States Code. This certification is not to be deemed filed pursuant to the Securities Exchange Act of 1934 and does not constitute a part of the Annual Report on Form 10-K (the "Report") accompanying this letter.

Lawrence J. Ellison, the Chief Executive Officer of Oracle Corporation, and Jeffrey O. Henley, the Chief Financial Officer of Oracle Corporation, each certifies that:

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.

/s/ L AWRENCE J. E LLISON

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Name: Lawrence J. Ellison  
Chief Executive Officer

/s/ J EFFREY O. H ENLEY

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Name: Jeffrey O. Henley  
Chief Financial Officer