Stock Options/Restricted Stock Units (RSUs) FAQ – June 2016

Note: Employees in France should consult the French-language Q&As in the CHOICE application for specific information about stock options and restricted stock units pertinent to France.

Oracle Employee Stock Services has prepared the following frequently asked questions in order to help employees understand some basic concepts about stock options and RSUs.

1) Why did I get a notification about expressing a preference for my equity award this year?

Similar to the past 2 years, Oracle is able to grant restricted stock units (RSUs) to employees in addition to stock options as part of Oracle's Annual Grant process. Oracle is giving you the opportunity to indicate in what form you would like to receive your equity award. You can state a preference of 100% stock options, 100% RSUs, or a combination of both.

2) What is a stock option?

A stock option is a contractual agreement between Oracle Corporation and you that provides you the right (but not the obligation) to purchase a certain number of shares of Oracle common stock at a specific price called the "exercise price." The exercise price is the fair market value of Oracle stock on the date the awards are approved, which is scheduled for June 30this year. You earn the right to purchase your option shares over 4 years, in 25% annual increments, as long as you are continuously employed by Oracle or one of its subsidiaries and meet other requirements. This is referred to as "vesting." You determine when to exercise your stock option (up to the expiration date), and your gain is based on the appreciation of the then current Oracle stock price above your exercise price at the time you exercise your stock option.

3) What is an RSU?

A Restricted Stock Unit (RSU) is a contractual agreement between Oracle Corporation and you that promises you an award of a certain number of shares of Oracle common stock. You earn the right to receive those shares over 4 years after the RSU is granted to you, in 25% annual increments, as long as you are continuously employed by Oracle or one of its subsidiaries and meet other requirements. This is also called "vesting." On the anniversary of the date you are first granted the RSU, 25% of the total shares are automatically deposited into your Fidelity brokerage account (less shares withheld for tax payments, if applicable). In those locations with securities restrictions, the shares will be sold immediately upon distribution and the proceeds (net of taxes if applicable) will be deposited into your Fidelity account.

4) What are the similarities?

Both stock options and RSUs are stock-based awards requiring approval of Oracle's Compensation Committee of the Board of Directors. They both derive their value from the price of Oracle's common stock, and both require continuous employment in order to earn the right to the shares based on a 25% annual vesting schedule.

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5) What are the differences?

Stock options have a fixed exercise price which you must pay to Oracle when you exercise the stock option to purchase shares of Oracle's common stock. The value of the stock option is dependent upon the amount that Oracle's stock price exceeds your stock option exercise price. If Oracle's stock price falls below your option exercise price, there is no value to you at that time. In addition, once your stock option is vested, you determine the timing of your option exercise during the life of the stock option, which in most cases is up to 10 years from the option grant date as long as you remain continuously employed with Oracle or one of its subsidiaries and meet other requirements.

In contrast, RSUs are considered "full value" awards. This means that, unlike stock options, there is no cost to you at the time the RSU shares vest and are released to you. However, please be aware as described in the tax information, taxes may be owed by you and/or withheld by the Oracle subsidiary that employs you at the vesting date. The value of the RSU is based on Oracle's stock price when the RSU shares vest. RSU shares will almost certainly have some value to you unless Oracle's stock price goes to $0. You have no control over the timing of the release of the RSU shares to you – they are automatically given to you on the annual vesting date (unless you are a U.S. employee and have been notified that you are eligible to participate in the RSU share deferral program and you make such an election).

6) What are my "choices" regarding stock options vs. RSUs?

Oracle is asking you to indicate in what form you would like your equity award:

(1) 100% stock options,
(2) 100% RSUs, or
(3) 50% stock options and 50% RSUs.

Please note that if you select RSUs, your equity award will be for ¼ of the number of shares you will receive if you select stock options.

7) How does the calculation regarding the number of RSU shares vs. stock option shares work?

For this illustration, let's assume an equity award for 1,000 shares. Here is how the amounts will be calculated:

(1) 100% stock options = 1,000 stock options

(2) 100% RSUs = 250 RSUs calculated as follows:

1,000 x ¼ = 250 RSUs

(3) 50% stock options / 50% RSUs = 500 stock options and 125 RSUs calculated as follows:

(a) 1,000 x 50% = 500 stock options

(b) 1,000 x 50% = 500
500 x ¼ = 125 RSUs

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8) Why are RSU grants smaller than stock option grants?

As explained previously, RSUs are commonly referred to as "full value" awards, meaning they will almost certainly have some value to you when you receive the RSU shares upon vesting unless Oracle's stock price goes to $0. And unlike stock options, there is no cost to you at the time the RSU shares vest and are given to you. However, please be aware as described in the tax information included in the CHOICE application, taxes may be owed by you and/or withheld by your employing entity upon the vesting of the RSU. Stock options, on the other hand, have an exercise price which you must pay and therefore only have value to you if Oracle's stock price is higher than the exercise price of the stock option if/when you exercise the stock option. Because of the nature of RSUs and the higher probability that RSUs will have value to you when they vest, you are granted fewer RSUs than stock options.

Currently, Oracle has determined that you should receive one-fourth (¼) the number of RSU shares than stock option shares if you choose RSUs instead of stock options.

9) How do I know which choice is the best one for me?

Only you can make this decision. A wide variety of factors may have an impact on your selection including, but not limited to, your personal financial strategy and needs, your tolerance or appetite for risk, and your tax situation as well as Oracle's future stock price performance which cannot be predicted.

For illustration purposes only, the following is a hypothetical example regarding the potential value of your equity award depending on what form of equity award you choose, and depending on Oracle's future stock price performance (assuming you remain employed at Oracle and do not exercise your stock options or sell your RSU shares when they vest).

Please note: This example does not take into account your personal tax situation and what taxes you might owe for your equity award or taxes that may be withheld by your employing entity. Therefore the potential value of your equity awards will be different from what is shown below depending on how you are taxed on your equity award.

For Illustration Purposes Only -- Example of an Equity Award for 1,000 shares granted when Oracle's stock price is $40/share (**not** including applicable taxes)

Scenario A) If Oracle's stock price at the end of 4 years is **$32.58** (5% annual decrease; 18.55% cumulative decrease)

i. For 100% stock options, your stock option for 1,000 shares would be worth **$0** (1,000 stock options x ($32.58 - $40.00)).
ii. For 100% RSUs, your RSU award would be worth **$8,145** (250 RSUs x $32.58).
iii. For 50/50, your award would be worth **$4,072.50** (500 stock options x ($32.58 - $40.00) + 125 RSUs x $32.58).

Scenario B) If Oracle's stock price at the end of 4 years is **$48.62** (5% annual increase; 21.55% cumulative increase):

i. For 100% stock options, your stock option for 1,000 shares would be worth **$8,620** (1,000 options x ($48.62-$40.00)).
ii. For 100% RSUs, your RSU award would be worth **$12,155** (250 RSUs x $48.62).
iii. For 50/50, your award would be worth **$10,387.50** (500 stock options x ($48.62-$40.00) + (125 RSUs x $48.62)).

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Scenario C) If Oracle's stock price at the end of 4 years is **$58.56** (10% annual increase; 46.41% cumulative increase):

i. For 100% stock options, your stock option for 1,000 shares would be worth **$18,560** (1,000 options x (58.56-$40.00)).
ii. For 100% RSUs, your RSU award would be worth **$14,640** (250 RSUs x $58.56).
iii. For 50/50, your award would be worth **$16,600** (500 stock options x ($58.56-$40.00) + (125 RSUs x $58.56)).

Please remember that Oracle cannot predict, and gives you no assurance or guarantee regarding, the future performance of Oracle's stock price or the ultimate value of your equity award. Oracle's stock price could go up or down during and after the 4 year vesting period of your equity award.

10) How do I express a preference regarding stock options vs. RSUs?

After you watch the educational video and review this FAQ and the tax information, you will be prompted to make a selection and indicate your preference in the CHOICE application. IMPORTANT NOTE: Indicating your preference in the CHOICE application is NOT the same as accepting your grant. If you choose RSUs, you are still required to accept your grant within 7 months of the grant date, or it will be cancelled.

11) Am I required to watch the educational video and review the tax information before making my selection?

Yes. Oracle wants to make sure you have reviewed all of the information we have provided to you before making this important decision.

12) What is the deadline for me to make my decision?

The deadline to state your preference is 11:59 pm PDT on June 17, 2016.

13) What happens if I don't express a preference or miss the deadline to respond?

If you missed the deadline and have not stated any preference prior to 11:59 pm PDT on June 17, 2016, your equity award will automatically be selected for you based on your global career level (GCL). If your GCL is IC1 through IC6 or M1 through M4, your award will be 100% RSUs. If your GCL is at or above M5, your award will be 50% stock options and 50% RSUs. Your GCL is displayed on the introduction screen of the CHOICE application. It is based on your employee record as of June 1, 2016.

14) What happens after I express my preference of what to receive? Will I receive a written confirmation after I've made my decision?

After you have stated your preference and clicked the "save" button in the CHOICE application, you will receive an email confirming your preference. You can return to the CHOICE application as often as you would like prior to the deadline and change your selection. Each time you change your selection, you will receive a new confirmation email. Please note that after 11:59 pm PDT on June 17, 2016, the application will be locked and you will no longer be able to change your selection. Your last selection will then be processed.

15) When will I receive my RSUs or stock options?

After the deadline, your stated preference, which is not a binding commitment on Oracle, still requires approval of Oracle's Compensation Committee of the Board of Directors. After this approval has been obtained, you will be notified by email of the final details of your equity award. It is currently expected that you will be notified in July 2016.

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16) What happens if my preference results in fractional or partial shares?

All fractional shares are rounded down to whole shares.

For example, if you are recommended for an equity award of 1,250 shares and you request to receive 100% RSUs, you will receive 312 RSUs (1,250 x ¼ = 312.5 which is rounded down to 312 RSUs).

17) Why will my RSU be cancelled if I don't accept five months before the first RSU share release date (i.e. within seven months after my RSU is granted to me)?

Once the equity awards process is completed (estimated to be around the first of August), you will receive an alert from either Fidelity (for documents requiring electronic acceptance) or Oracle Employee Stock Services (for countries where paper documents must be signed) advising that your grant documents are available and ready for your review and acceptance. The emails will have complete instructions on how to accept your equity award(s). Oracle requires that recipients agree to the terms and conditions of all equity awards and accept them prior to exercise (in the case of stock options) and prior to release (in the case of RSUs). **In order for you to receive any release of RSU shares, you must accept the RSU terms and conditions either on the Fidelity system or in paper format no later than five (5) month prior to RSU share release date. IMPORTANT NOTE: Indicating your preference in the CHOICE application is NOT the same as accepting your award.**
If you do NOT accept your RSU award WITHIN SEVEN MONTHS, it will be cancelled. PLEASE BE AWARE THAT THIS DEADLINE WILL BE STRICTLY ADHERED TO!

18) What are my tax obligations for stock options and RSUs?

Your tax obligations for either stock options or RSUs will differ depending on your personal situation. You will need to refer to the tax information included in the CHOICE application for general information regarding taxation in different countries. Oracle strongly suggests you talk to a professional tax advisor for personal tax information.

19) If after reading the tax information I have additional tax related questions, whom should I contact?

You should contact a professional tax advisor for additional information regarding your personal tax situation.

20) If I receive future equity awards, will the preference I state now apply to the future awards as well?

No, your preference only applies to the current equity award recommendation. If you receive future equity awards and are offered the ability to indicate a preference, you will be able to express a different preference or mix for those awards.

21) Where can I access additional information regarding Oracle's equity incentive plan?

You can access the equity incentive plan prospectus at
http://my.oracle.com/site/hr/RegionalSites/U.S./usbenefits/equity/index.html

22) Whom may I contact if I have further questions about stock options and RSUs?

You may call the Oracle Employee Stock Services hotline at 1-775-657-4899 or email stock_us@oracle.com with any questions.

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