Microsoft Reports Record First-Quarter Revenue of $18.53 Billion

*Robust enterprise sales and improving consumer demand drive broad-based growth.*

**REDMOND, Wash. — October 24, 2013 —** Microsoft Corp. today announced revenue of $18.53 billion for the quarter ended September 30, 2013. Gross margin, operating income, net income, and diluted earnings per share for the quarter were $13.42 billion, $6.33 billion, $5.24 billion, and $0.62 per share.

These financial results reflect the deferral of $113 million of revenue primarily related to Windows 8.1 Pre-sales. All growth comparisons in the press release relate to the corresponding period in the last fiscal year, unless otherwise noted.

The following table reconciles these financial results reported in accordance with generally accepted accounting principles (GAAP) to non-GAAP financial results. We have provided this non-GAAP financial information to aid investors in better understanding the company’s performance.

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|  | **Three Months Ended**  **September 30,** | | | **Percentage Change** | | |
| (In millions, except per share amounts and percentages) | Revenue | Operating income | Diluted EPS | Revenue | Operating income | Diluted EPS |
| 2012 As reported (GAAP) | $16,008 | $5,308 | $0.53 |  |  |  |
| Revenue deferred for Windows Upgrade Offer, Windows 8 Pre-sales, and Office Offer | $1,356 | $1,356 | $0.13 |  |  |  |
| 2012 As adjusted (non-GAAP) | $17,364 | $6,664 | $0.65 |  |  |  |
| 2013 As reported (GAAP) | $18,529 | $6,334 | $0.62 | 16% | 19% | 17% |
| Revenue deferred primarily related to Windows 8.1 Pre-sales | $113 | $113 | $0.01 |  |  |  |
| 2013 As adjusted (non-GAAP) | $18,642 | $6,447 | $0.63 | 7% | (3)% | (3)% |

“Our devices and services transformation is progressing and we are launching a wide range of compelling products and experiences this fall for both business and consumers,” said Steve Ballmer, chief executive officer at Microsoft. “Our new commercial services will help us continue to outgrow the enterprise market, and we are seeing lots of consumer excitement for Xbox One, Surface 2 and Surface Pro 2, and the full spectrum of Windows 8.1 and Windows Phone devices.”

“We saw strong focus across our teams, generating record first-quarter revenue even as we navigate a fundamental business transition. Our enterprise renewals were very healthy and our devices and consumer business continued to improve,” said Amy Hood, chief financial officer at Microsoft. “We are making strategic investments in areas like technological innovation, supply chain management, and global cloud operations to build for the future and create long-term shareholder value.”

Devices and Consumer revenue grew 4% to $7.46 billion.

* Windows OEM revenue declined 7%; Windows Pro revenue grew for the second consecutive quarter.
* Surface revenue grew to $400 million with sequential growth in revenue and units sold over the prior quarter.
* Search advertising revenue grew 47% driven by an increase in revenue per search and volume.

Commercial revenue grew 10% to $11.20 billion.

* SQL Server revenue grew double-digits, with SQL Server Premium revenue growing more than 30%.
* Lync, SharePoint, and Exchange, our productivity server offerings, collectively grew double-digits.
* Commercial cloud revenue grew 103%.

“We continue to execute well across our businesses and we are seeing robust demand for our enterprise products and cloud services. Strong customer adoption of Office 365, Azure, and Dynamics CRM Online is accelerating our business transition to the cloud,” said Kevin Turner, chief operating officer at Microsoft. “Our investments in SQL database platform, Hyper-V, System Center, and Lync are driving market share gains as these comprehensive solutions enable customers to increase their insight and efficiency.”

**Business Outlook**

Microsoft will provide forward-looking guidance in connection with this quarterly earnings announcement on its earnings conference call and webcast detailed below.

**Webcast Details**

Amy Hood, executive vice president and chief financial officer, Frank Brod, chief accounting officer, and Chris Suh, general manager of Investor Relations, will host a conference call and webcast at 2:30 p.m. PDT (5:30 p.m. EDT) today to discuss details of the company’s performance for the quarter and certain forward-looking information. The session may be accessed at <http://www.microsoft.com/investor>. The webcast will be available for replay through the close of business on October 24, 2014.

**Adjusted Financial Results and Non-GAAP Measures**

For the first quarter of fiscal year 2014, GAAP revenue, operating income, and diluted earnings per share included the deferral of $113 million of revenue primarily related to Windows 8.1 Pre-sales. During the first quarter of fiscal year 2013, GAAP revenue, operating income, and diluted earnings per share included the deferral of $1.4 billion of revenue related to the Windows Upgrade Offer, Windows 8 Pre-sales, and Office Offer. These items are defined below. In addition to these financial results reported in accordance with GAAP, we have provided certain non-GAAP financial information to aid investors in better understanding the company’s performance. Presenting these measures without the impact of these items gives additional insight into operational performance and helps clarify trends affecting the company’s business. For comparability of reporting, management considers this information in conjunction with GAAP amounts in evaluating business performance. These non-GAAP financial measures should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

**Non-GAAP Definitions**

Revenue deferred on Pre-sales of Windows 8.1 to original equipment manufacturers and retailers before general availability (“Windows 8.1 Pre-sales”).

Revenue deferred on sales of Windows 7 with an option to upgrade to Windows 8 Pro at a discounted price (the “Windows Upgrade Offer”) and Pre-sales of Windows 8 to OEMs and retailers before general availability.

Revenue deferred on sales of the previous version of the Microsoft Office system, with a guarantee to be upgraded to the new Office at minimal or no cost (the “Office Upgrade Offer”) and Pre-sales of the new Office to OEMs and retailers before general availability (collectively, the “Office Offer”).

**About Microsoft**

Founded in 1975, Microsoft (Nasdaq “MSFT”) is the worldwide leader in software, services and solutions that help people and businesses realize their full potential.

**Forward-Looking Statements**

Statements in this release that are “forward-looking statements” are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors such as:

* intense competition in all of Microsoft’s markets;
* increasing focus on services presents execution and competitive risks;
* significant investments in new products and services that may not be profitable;
* acquisitions, joint ventures, and strategic alliances, including our acquisition of Nokia’s Devices and Services business, may have an adverse effect on our business;
* Microsoft’s continued ability to protect its intellectual property rights;
* claims that Microsoft has infringed the intellectual property rights of others;
* the possibility of unauthorized disclosure of significant portions of Microsoft’s source code;
* cyber-attacks and security vulnerabilities in Microsoft products that could reduce revenue or lead to liability;
* improper disclosure of personal data that could result in liability and harm to Microsoft’s reputation;
* outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure;
* government litigation and regulation that may limit how Microsoft designs and markets its products;
* Microsoft’s ability to attract and retain talented employees;
* delays in product development and related product release schedules;
* adverse economic or market conditions my harm our business;
* adverse results in legal disputes;
* unanticipated tax liabilities;
* our hardware and software products may experience quality or supply problems;
* impairment of goodwill or amortizable intangible assets causing a charge to earnings;
* exposure to increased economic and regulatory uncertainties from operating a global business; and
* catastrophic events or geo-political conditions may disrupt our business.

For further information regarding risks and uncertainties associated with Microsoft’s business, please refer to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” sections of Microsoft’s SEC filings, including, but not limited to, its annual report on Form 10-K and quarterly reports on Form 10-Q, copies of which may be obtained by contacting Microsoft’s Investor Relations department at (800) 285-7772 or at Microsoft’s Investor Relations website at <http://www.microsoft.com/investor>.

All information in this release is as of October 24, 2013. The company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the company’s expectations.

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*Note to editors:* For more information, news and perspectives from Microsoft, please visit the Microsoft News Center at <http://www.microsoft.com/news>/. Web links, telephone numbers, and titles were correct at time of publication, but may since have changed. Shareholder and financial information, as well as today’s 2:30 p.m. PDT conference call with investors and analysts, is available at <http://www.microsoft.com/investor>.

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| **MICROSOFT CORPORATION** |  |  |  |
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| INCOME STATEMENTS | | | |
| (In millions, except per share amounts)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2013** |  | **2012** |
| Revenue | **$ 18,529** |  | $ 16,008 |
| Cost of revenue | **5,114** |  | 4,168 |
| Gross margin | **13,415** |  | 11,840 |
| Operating expenses: |  |  |  |
| Research and development | **2,767** |  | 2,460 |
| Sales and marketing | **3,304** |  | 2,945 |
| General and administrative | **1,010** |  | 1,127 |
| Total operating expenses | **7,081** |  | 6,532 |
| Operating income | **6,334** |  | 5,308 |
| Other income | **74** |  | 226 |
| Income before income taxes | **6,408** |  | 5,534 |
| Provision for income taxes | **1,164** |  | 1,068 |
| Net income | **$ 5,244** |  | $ 4,466 |
|  |  |  |  |
| Earnings per share: |  |  |  |
| Basic | **$ 0.63** |  | $ 0.53 |
| Diluted | **$ 0.62** |  | $ 0.53 |
| Weighted average shares outstanding: |  |  |  |
| Basic | **8,339** |  | 8,396 |
| Diluted | **8,434** |  | 8,494 |
| Cash dividends declared per common  share | **$ 0.28** |  | $ 0.23 |

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| **MICROSOFT CORPORATION** |  |  |  |
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| COMPREHENSIVE INCOME STATEMENTS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2013** |  | **2012** |
| Net income | **$ 5,244** |  | $ 4,466 |
| Other comprehensive income: |  |  |  |
| Net unrealized losses on derivatives (net of   tax effects of **$(3)** and $(24)) | **(26)** |  | (45) |
| Net unrealized gains on investments (net of   tax effects of **$492** and $148) | **952** |  | 274 |
| Translation adjustments and other (net of tax effects   of **$33** and $91) | **62** |  | 169 |
| Other comprehensive income | **988** |  | 398 |
| Comprehensive income | **$ 6,232** |  | $ 4,864 |

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| **MICROSOFT CORPORATION** |  |  |  |
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| BALANCE SHEETS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **September 30, 2013** |  | **June 30, 2013** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
| Cash and cash equivalents | **$ 4,023** |  | $ 3,804 |
| Short-term investments (including securities  loaned of **$484** and $579) | **76,649** |  | 73,218 |
| Total cash, cash equivalents, and short-term   investments | **80,672** |  | 77,022 |
| Accounts receivable, net of allowance for doubtful  accounts of **$294** and $336 | **11,007** |  | 17,486 |
| Inventories | **2,613** |  | 1,938 |
| Deferred income taxes | **1,258** |  | 1,632 |
| Other | **3,900** |  | 3,388 |
| Total current assets | **99,450** |  | 101,466 |
| Property and equipment, net of accumulated  depreciation of **$13,038** and $12,513 | **10,774** |  | 9,991 |
| Equity and other investments | **11,995** |  | 10,844 |
| Goodwill | **14,667** |  | 14,655 |
| Intangible assets, net | **2,982** |  | 3,083 |
| Other long-term assets | **2,480** |  | 2,392 |
| Total assets | **$ 142,348** |  | $ 142,431 |
|  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
| Accounts payable | **$ 4,841** |  | $ 4,828 |
| Short-term debt | **1,300** |  | 0 |
| Current portion of long-term debt | **2,000** |  | 2,999 |
| Accrued compensation | **2,856** |  | 4,117 |
| Income taxes | **834** |  | 592 |
| Short-term unearned revenue | **18,585** |  | 20,639 |
| Securities lending payable | **582** |  | 645 |
| Other | **3,625** |  | 3,597 |
| Total current liabilities | **34,623** |  | 37,417 |
| Long-term debt | **12,632** |  | 12,601 |
| Long-term unearned revenue | **1,629** |  | 1,760 |
| Deferred income taxes | **2,236** |  | 1,709 |
| Other long-term liabilities | **9,587** |  | 10,000 |
| Total liabilities | **60,707** |  | 63,487 |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
| Common stock and paid-in capital - shares  authorized 24,000; outstanding **8,346** and 8,328 | **67,230** |  | 67,306 |
| Retained earnings | **11,680** |  | 9,895 |
| Accumulated other comprehensive income | **2,731** |  | 1,743 |
| Total stockholders' equity | **81,641** |  | 78,944 |
| Total liabilities and stockholders' equity | **$ 142,348** |  | $ 142,431 |

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| **MICROSOFT CORPORATION** |  |  |  |
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| CASH FLOW STATEMENTS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2013** |  | **2012** |
| **Operations** |  |  |  |
| Net income | **$ 5,244** |  | $ 4,466 |
| Adjustments to reconcile net income   to net cash from operations: |  |  |  |
| Depreciation, amortization, and  other | **954** |  | 710 |
| Stock-based compensation  expense | **635** |  | 603 |
| Net recognized losses on  investments and derivatives | **93** |  | 11 |
| Excess tax benefits from  stock-based compensation | **(205)** |  | (177) |
| Deferred income taxes | **404** |  | 38 |
| Deferral of unearned revenue | **7,436** |  | 8,209 |
| Recognition of unearned revenue | **(9,677)** |  | (8,770) |
| Changes in operating assets and  liabilities: |  |  |  |
| Accounts receivable | **6,617** |  | 6,156 |
| Inventories | **(667)** |  | (473) |
| Other current assets | **(556)** |  | (385) |
| Other long-term assets | **(81)** |  | (233) |
| Accounts payable | **(276)** |  | (567) |
| Other current liabilities | **(1,255)** |  | (1,287) |
| Other long-term liabilities | **(461)** |  | 183 |
| Net cash from operations | **8,205** |  | 8,484 |
| **Financing** |  |  |  |
| Short-term borrowings,  maturities less than 90 days, net | **712** |  | 0 |
| Proceeds from issuance of debt | **588** |  | 0 |
| Repayments of debt | **(1,000)** |  | 0 |
| Common stock issued | **203** |  | 417 |
| Common stock repurchased | **(2,188)** |  | (1,632) |
| Common stock cash dividends paid | **(1,916)** |  | (1,676) |
| Excess tax benefits from  stock-based compensation | **205** |  | 177 |
| Net cash used in financing | **(3,396)** |  | (2,714) |
| **Investing** |  |  |  |
| Additions to property and equipment | **(1,231)** |  | (603) |
| Acquisition of companies, net of  cash acquired, and purchases of  intangible and other assets | **(15)** |  | (1,145) |
| Purchases of investments | **(14,768)** |  | (20,138) |
| Maturities of investments | **347** |  | 1,259 |
| Sales of investments | **11,117** |  | 13,307 |
| Securities lending payable | **(64)** |  | (399) |
| Net cash used in investing | **(4,614)** |  | (7,719) |
| Effect of exchange rates on cash  and cash equivalents | **24** |  | 47 |
| Net change in cash and cash  equivalents | **219** |  | (1,902) |
| Cash and cash equivalents,  beginning of period | **3,804** |  | 6,938 |
| Cash and cash equivalents, end of  period | **$ 4,023** |  | $ 5,036 |

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| **MICROSOFT CORPORATION** |  |  |  |
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| SEGMENT REVENUE AND GROSS MARGIN | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2013** |  | **2012** |
| **Revenue** |  |  |  |
| Devices and Consumer Licensing | **$ 4,343** |  | $ 4,678 |
| Devices and Consumer Hardware | **1,485** |  | 1,084 |
| Devices and Consumer Other | **1,635** |  | 1,400 |
| Commercial Licensing | **9,594** |  | 8,945 |
| Commercial Other | **1,603** |  | 1,248 |
| Corporate and Other | **(131)** |  | (1,347) |
| Total revenue | **$ 18,529** |  | $ 16,008 |
|  |  |  |  |
| **Gross Margin** |  |  |  |
| Devices and Consumer Licensing | **$ 3,925** |  | $ 4,103 |
| Devices and Consumer Hardware | **206** |  | 448 |
| Devices and Consumer Other | **352** |  | 362 |
| Commercial Licensing | **8,801** |  | 8,183 |
| Commercial Other | **275** |  | 105 |
| Corporate and Other | **(144)** |  | (1,361) |
| Total gross margin | **$ 13,415** |  | $ 11,840 |