Microsoft Cloud Momentum Helps Drive Third-Quarter Results

*Revenue growth across segments and cost discipline drive earnings per share of $0.68.*

**REDMOND, Wash. — April 24, 2014 —** Microsoft Corp. today announced revenue of $20.40 billion for the quarter ended March 31, 2014. Gross margin, operating income, net income, and diluted earnings per share for the quarter were $14.46 billion, $6.97 billion, $5.66 billion, and $0.68 per share, respectively.

The following table reconciles our financial results reported in accordance with generally accepted accounting principles (“GAAP”) to non-GAAP financial results for the prior year. We have provided this non-GAAP financial information to aid investors in better understanding the company’s performance. Management commentary regarding performance and growth refers to non-GAAP financial results.

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|  | **Three Months Ended March 31,** |
| ($ in millions, except per share amounts) | 2013 As Reported (GAAP) | Net revenue recognition for Windows Upgrade Offer, Office Deferral, and Video Game Deferral | European Commission Fine | 2013 As Adjusted (Non-GAAP) | 2014 As Reported (GAAP) | %Y/Y (GAAP) | %Y/Y (Non-GAAP) |
| Revenue | $20,489 | ($1,658) |  |  $18,831 | $20,403 | (0)% | 8% |
| Gross Margin | $15,702 | ($1,658) |  | $14,044 | $14,462 | (8)% | 3% |
| Operating Income | $7,612 | ($1,658) | $733 | $6,687 | $6,974 | (8)% | 4% |
| Diluted EPS | $0.72 | ($0.16) | $0.09 | $0.65 | $0.68 | (6)% | 5% |

“This quarter’s results demonstrate the strength of our business, as well as the opportunities we see in a mobile-first, cloud-first world. We are making good progress in our consumer services like Bing and Office 365 Home, and our commercial customers continue to embrace our cloud solutions. Both position us well for long-term growth,” said Satya Nadella, chief executive officer at Microsoft. “We are focused on executing rapidly and delivering bold, innovative products that people love to use.”

“We delivered solid, broad-based financial results driven by strong execution and continued cost discipline,” said Amy Hood, executive vice president and chief financial officer at Microsoft. “We are focusing our resources to drive growth and long-term shareholder value.”

Devices and Consumer revenue grew 12% to $8.30 billion.

* Windows OEM revenue grew 4%, driven by strong 19% growth in Windows OEM Pro revenue.
* Office 365 Home now has 4.4 million subscribers, adding nearly 1 million subscribers in just three months.
* Microsoft sold in 2.0 million Xbox console units, including 1.2 million Xbox One consoles.
* Surface revenue grew over 50% to approximately $500 million.
* Bing U.S. search share grew to 18.6% and search advertising revenue grew 38%.

Commercial revenue grew 7% to $12.23 billion.

* Office 365 revenue grew over 100%, and commercial seats nearly doubled, demonstrating strong enterprise momentum for Microsoft’s cloud productivity solutions.
* Azure revenue grew over 150%, and the company has announced more than 40 new features that make the Azure platform more attractive to cloud application developers.
* Windows volume licensing revenue grew 11%, as business customers continue to make Windows their platform of choice.
* Lync, SharePoint, and Exchange, our productivity server offerings, collectively grew double-digits.

“Our products and services continue to deliver differentiated business value to our customers, and we continue to win share in areas like cloud services, data platform, and infrastructure management,” said Kevin Turner, chief operating officer at Microsoft. “Our SQL Server business grew double-digits again this quarter, and with the announcements of SQL 2014 and Power BI for Office 365, we offer a unique, comprehensive, end-to-end data and analytics solution.”

**Nokia**

Microsoft expects to close the acquisition of the Nokia Devices and Services business on April 25, 2014.

**Business Outlook**

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

**Webcast Details**

Satya Nadella, chief executive officer, Amy Hood, executive vice president and chief financial officer, Frank Brod, chief accounting officer, John Seethoff, deputy general counsel, 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 April 24, 2015.

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

During the third quarter of fiscal year 2013, GAAP revenue, gross margin, operating income, and diluted earnings per share included the net revenue recognition for the Windows Upgrade Offer, the Office Deferral, the Video Game Deferral, and the European Commission Fine. 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 sales of Windows 7 with an option to upgrade to Windows 8 Pro at a discounted price (“Windows Upgrade Offer”).

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 and pre-sales of the new Office to OEMs and retailers before general availability (collectively, the “Office Deferral”).

Revenue deferred on sales of video games with the right to receive specified software upgrades/enhancements (“Video Game Deferral”).

Fine of €561 million ($733 million) assessed by the European Commission in 2013 for violation of an order to provide a browser choice screen with Internet Explorer on PCs sold in Europe (“European Commission Fine”).

**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 the Nokia 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;
* 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 may 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 more information about 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 April 24, 2014. 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** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| INCOME STATEMENTS |
| (In millions, except per share amounts)(Unaudited) |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** |  | **Nine Months Ended March 31,** |
|  |  |
|  | **2014** |  | **2013** |  | **2014** |  | **2013** |
| Revenue |  **$ 20,403**  |  |  $20,489  |  |  **$ 63,451**  |  |  $57,953  |
| Cost of revenue | **5,941**  |  | 4,787  |  | **19,339**  |  | 14,647  |
|  Gross margin | **14,462**  |  | 15,702  |  | **44,112**  |  | 43,306  |
| Operating expenses: |  |  |  |  |  |  |  |
|  Research and development | **2,743**  |  | 2,640  |  | **8,258**  |  | 7,628  |
|  Sales and marketing | **3,542**  |  | 3,794  |  | **11,129**  |  | 11,048  |
|  General and administrative | **1,203**  |  | 1,656  |  | **3,448**  |  | 3,939  |
|  Total operating expenses | **7,488**  |  | 8,090  |  | **22,835**  |  | 22,615  |
| Operating income | **6,974**  |  | 7,612  |  | **21,277**  |  | 20,691  |
| Other income (expense) | **(17)** |  | (9) |  | **(34)** |  | 216  |
| Income before income taxes | **6,957**  |  | 7,603  |  | **21,243**  |  | 20,907  |
| Provision for income taxes | **1,297**  |  | 1,548  |  | **3,781**  |  | 4,009  |
| Net income |  **$ 5,660**  |  |  $ 6,055  |  |  **$ 17,462**  |  |  $16,898  |
|  |  |  |  |  |  |  |  |
| Earnings per share: |  |  |  |  |  |  |  |
|  Basic |  **$ 0.68**  |  |  $ 0.72  |  |  **$ 2.10**  |  |  $ 2.02  |
|  Diluted |  **$ 0.68**  |  |  $ 0.72  |  |  **$ 2.08**  |  |  $ 1.99  |
| Weighted average shares outstanding: |  |  |  |  |  |  |
|  Basic | **8,284**  |  | 8,364  |  | **8,317**  |  | 8,385  |
|  Diluted | **8,367**  |  | 8,429  |  | **8,411**  |  | 8,472  |
| Cash dividends declared per common share |  **$ 0.28**  |  |  $ 0.23  |   |  **$ 0.84**  |  |  $ 0.69  |

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| **MICROSOFT CORPORATION** |  |  |  |  |  |  |  |
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| COMPREHENSIVE INCOME STATEMENTS |
| (In millions)(Unaudited) |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** |  | **Nine Months Ended March 31,** |
|  |  |
|  | **2014** |  | **2013** |  | **2014** |  | **2013** |
| Net income |  **$ 5,660**  |  |  $ 6,055  |  |  **$ 17,462**  |  |  $16,898  |
| Other comprehensive income (loss): |  |  |  |  |  |  |
|  Net unrealized gains (losses) on  derivatives (net of tax effects  of **$1**, $19, **$(1)**  and $(10)) | **(31)** |  | 35  |  | **(14)** |  | (19) |
|  Net unrealized gains on  investments (net of tax  effects of **$37**, $150,  **$774** and $401) | **68**  |  | 278  |  | **1,502**  |  | 744  |
|  Translation adjustments and  other (net of tax effects  of **$9**, $(61), **$53**  and $31) | **18**  |  | (114) |  | **101**  |  | 58  |
|  Other comprehensive income | **55**  |  | 199  |  | **1,589**  |  | 783  |
| Comprehensive income |  **$ 5,715**  |  |  $ 6,254  |  |  **$ 19,051**  |  |  $17,681  |

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| **MICROSOFT CORPORATION** |  |  |  |
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| BALANCE SHEETS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **March 31,2014** |  | **June 30, 2013** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
|  Cash and cash equivalents |  **$ 11,572**  |  |  $ 3,804  |
|  Short-term investments (including securities loaned of **$707** and $579) | **76,853**  |  | 73,218  |
|  Total cash, cash equivalents, and short-term  investments | **88,425**  |  | 77,022  |
|  Accounts receivable, net of allowance for doubtful accounts of **$255** and $336 | **13,497**  |  | 17,486  |
|  Inventories | **1,920**  |  | 1,938  |
|  Deferred income taxes | **1,424**  |  | 1,632  |
|  Other | **3,740**  |  | 3,388  |
|  Total current assets | **109,006**  |  | 101,466  |
| Property and equipment, net of accumulated depreciation of **$14,441** and $12,513 | **11,771**  |  | 9,991  |
| Equity and other investments | **14,792**  |  | 10,844  |
| Goodwill | **14,751**  |  | 14,655  |
| Intangible assets, net | **2,901**  |  | 3,083  |
| Other long-term assets | **2,898**  |  | 2,392  |
|  Total assets |  **$ 156,119**  |  |  $ 142,431  |
|  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
|  Accounts payable |  **$ 4,583**  |  |  $ 4,828  |
|  Current portion of long-term debt | **2,000**  |  | 2,999  |
|  Accrued compensation | **3,887**  |  | 4,117  |
|  Income taxes | **694**  |  | 592  |
|  Short-term unearned revenue | **17,670**  |  | 20,639  |
|  Securities lending payable | **794**  |  | 645  |
|  Other | **4,275**  |  | 3,597  |
|  Total current liabilities | **33,903**  |  | 37,417  |
| Long-term debt | **20,679**  |  | 12,601  |
| Long-term unearned revenue | **1,842**  |  | 1,760  |
| Deferred income taxes | **2,318**  |  | 1,709  |
| Other long-term liabilities | **9,953**  |  | 10,000  |
|  Total liabilities | **68,695**  |  | 63,487  |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
|  Common stock and paid-in capital - shares authorized 24,000; outstanding **8,260** and 8,328 | **67,803**  |  | 67,306  |
|  Retained earnings | **16,289**  |  | 9,895  |
|  Accumulated other comprehensive income | **3,332**  |  | 1,743  |
|  Total stockholders' equity | **87,424**  |  | 78,944  |
|  Total liabilities and stockholders' equity |  **$ 156,119**  |  |  $ 142,431  |

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| **MICROSOFT CORPORATION** |  |  |  |  |  |  |  |
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| CASH FLOW STATEMENTS |
| (In millions)(Unaudited) |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended March 31,** |  | **Nine Months Ended March 31,** |
|  |  |
|  | **2014** |  | **2013** |  | **2014** |  | **2013** |
| **Operations** |  |  |  |  |  |  |  |
| Net income |  **$ 5,660**  |  |  $ 6,055  |  |  **$ 17,462**  |  |  $16,898  |
| Adjustments to reconcile net  income to net cash from  operations: |  |  |  |  |  |  |  |
|  Depreciation, amortization, and other | **1,255**  |  | 1,053  |  | **3,470**  |  | 2,772  |
|  Stock-based compensation expense | **602**  |  | 599  |  | **1,828**  |  | 1,805  |
|  Net recognized losses (gains) on investments and derivatives | **(40)** |  | (52) |  | **100**  |  | (19) |
|  Excess tax benefits from stock-based compensation | **(22)** |  | (6) |  | **(247)** |  | (192) |
|  Deferred income taxes | **(190)** |  | 226  |  | **38**  |  | 404  |
|  Deferral of unearned revenue | **10,175**  |  | 9,686  |  | **27,456**  |  | 28,632  |
|  Recognition of unearned revenue | **(10,139)** |  | (11,599) |  | **(30,394)** |  | (30,852) |
|  Changes in operating assets and liabilities: |  |  |  |  |  |  |  |
|  Accounts receivable | **2,501**  |  | 2,191  |  | **4,243**  |  | 3,859  |
|  Inventories | **(324)** |  | (483) |  | **38**  |  | (989) |
|  Other current assets | **340**  |  | 139  |  | **(311)** |  | (96) |
|  Other long-term assets | **(73)** |  | (13) |  | **(469)** |  | (326) |
|  Accounts payable | **(716)** |  | (67) |  | **(390)** |  | 51  |
|  Other current liabilities | **870**  |  | 1,238  |  | **3**  |  | 119  |
|  Other long-term liabilities | **200**  |  | 699  |  | **(110)** |  | 864  |
|  Net cash from operations | **10,099**  |  | 9,666  |  | **22,717**  |  | 22,930  |
| **Financing** |  |  |  |  |  |  |  |
| Proceeds from issuance of debt | **0**  |  | 0  |  | **8,850**  |  | 2,232  |
| Repayments of debt | **(300)** |  | 0  |  | **(1,888)** |  | 0  |
| Common stock issued | **141**  |  | 203  |  | **461**  |  | 765  |
| Common stock repurchased | **(1,845)** |  | (1,028) |  | **(6,146)** |  | (4,318) |
| Common stock cash dividends paid | **(2,322)** |  | (1,925) |  | **(6,570)** |  | (5,534) |
| Excess tax benefits from stock-based compensation | **22**  |  | 6  |  | **247**  |  | 192  |
| Other | **0**  |  | 0  |  | **(39)** |  | (16) |
|  Net cash used in financing | **(4,304)** |  | (2,744) |  | **(5,085)** |  | (6,679) |
| **Investing** |  |  |  |  |  |  |  |
| Additions to property and equipment | **(1,192)** |  | (930) |  | **(4,155)** |  | (2,463) |
| Acquisition of companies, net of cash acquired, and purchases of intangible and other assets | **(157)** |  | (108) |  | **(311)** |  | (1,564) |
| Purchases of investments | **(21,323)** |  | (18,160) |  | **(49,217)** |  | (48,372) |
| Maturities of investments | **2,336**  |  | 1,265  |  | **4,134**  |  | 4,513  |
| Sales of investments | **16,006**  |  | 9,730  |  | **39,477**  |  | 30,163  |
| Securities lending payable | **46**  |  | 543  |  | **149**  |  | (249) |
|  Net cash used in investing | **(4,284)** |  | (7,660) |  | **(9,923)** |  | (17,972) |
| Effect of exchange rates on cash and cash equivalents | **2**  |  | (39) |  | **59**  |  | 23  |
| Net change in cash and cash equivalents | **1,513**  |  | (777) |  | **7,768**  |  | (1,698) |
| Cash and cash equivalents, beginning of period | **10,059**  |  | 6,017  |  | **3,804**  |  | 6,938  |
| Cash and cash equivalents, end of period |  **$ 11,572**  |  |  $ 5,240  |  |  **$ 11,572**  |  |  $ 5,240  |

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| **MICROSOFT CORPORATION** |   |   |   |   |   |   |   |
|  |   |   |   |   |   |   |   |
| SEGMENT REVENUE AND GROSS MARGIN |
| (In millions)(Unaudited) |
|   |   |   |   |   |   |   |   |
|  | **Three Months Ended March 31,** |  | **Nine Months Ended March 31,** |
|  |  |
|  | **2014** |  | **2013** |  | **2014** |  | **2013** |
| **Revenue** |  |  |   |   |  |  |   |
| Devices and Consumer Licensing |  **$ 4,382**  |  |  $ 4,352  |   |  **$ 14,109**  |  |  $14,733  |
| Devices and Consumer Hardware | **1,973**  |  | 1,402  |   | **8,187**  |  | 5,294  |
| Devices and Consumer Other | **1,950**  |  | 1,656  |   | **5,378**  |  | 5,055  |
| Commercial Licensing | **10,323**  |  | 9,979  |   | **30,805**  |  | 29,059  |
| Commercial Other | **1,902**  |  | 1,449  |   | **5,285**  |  | 4,086  |
| Corporate and Other | **(127)** |  | 1,651  |   | **(313)** |  | (274) |
|  Total revenue |  **$ 20,403**  |  |  $20,489  |   |  **$ 63,451**  |  |  $57,953  |
|   |  |  |   |   |  |  |   |
| **Gross Margin** |  |  |   |   |  |  |   |
| Devices and Consumer Licensing |  **$ 3,906**  |  |  $ 3,929  |   |  **$ 12,809**  |  |  $13,163  |
| Devices and Consumer Hardware | **258**  |  | 393  |   | **875**  |  | 1,603  |
| Devices and Consumer Other | **541**  |  | 430  |   | **1,324**  |  | 1,678  |
| Commercial Licensing | **9,430**  |  | 9,085  |   | **28,308**  |  | 26,594  |
| Commercial Other | **475**  |  | 264  |   | **1,165**  |  | 585  |
| Corporate and Other | **(148)** |  | 1,601  |   | **(369)** |  | (317) |
|  Total gross margin |  **$ 14,462**  |  |  $15,702  |   |  **$ 44,112**  |  |  $43,306  |