Strong Execution Drives Microsoft First Quarter Results

*Windows 10 running on 110 million devices; Commercial cloud annualized revenue run rate exceeds $8.2 billion*

**REDMOND, Wash. — October 22, 2015 —** Microsoft Corp. today announced the following results for the quarter ended September 30, 2015:

* Revenue was $20.4 billion GAAP, and $21.7 billion non-GAAP
* Operating income was $5.8 billion GAAP, and $7.1 billion non-GAAP
* Net income was $4.6 billion GAAP, and $5.4 billion non-GAAP
* Earnings per share was $0.57 GAAP, and $0.67 non-GAAP

Non-GAAP financial results exclude the deferral and recognition of revenue primarily related to Windows 10.

During the quarter, Microsoft announced a 16% increase in its quarterly dividend to $0.36 and returned $6.9 billion to shareholders in the form of share repurchases and dividends.

"We are making strong progress across each of our three ambitions by delivering innovation people love," said Satya Nadella, chief executive officer at Microsoft. “Customer excitement for new devices, Windows 10, Office 365 and Azure is increasing as we bring together the best Microsoft experiences to empower people to achieve more."

The following table reconciles these financial results reported in accordance with generally accepted accounting principles (“GAAP”) to non-GAAP financial results. Microsoft has provided this non-GAAP financial information to aid investors in better understanding the company’s performance. All growth comparisons relate to the corresponding period in the last fiscal year.

|  |  |
| --- | --- |
|  | **Three Months Ended September 30,** |
|  ($ in millions, except per share amounts) | **Revenue** | **Operating Income** | **Net Income** | **Earnings per Share** |
| **2014 As Reported (GAAP)** | **$23,201** | **$5,844** | **$4,540** | **$0.54** |
|  Integration and Restructuring Charges | - | 1,140 | 909 | 0.11 |
| **2014 As Adjusted (non-GAAP)** | **$23,201** | **$6,984** | **$5,449** | **$0.65** |
| **2015 As Reported (GAAP)** | **$20,379** | **$5,793** | **$4,620** | **$0.57** |
|  Net Impact from Windows 10 Revenue Deferrals | 1,281 | 1,281 | 760 | 0.10 |
| **2015 As Adjusted (non-GAAP)** | **$21,660** | **$7,074** | **$5,380** | **$0.67** |
| Percentage Change Y/Y (GAAP) | (12)% | (1)% | 2% | 6% |
| Percentage Change Y/Y (non-GAAP) | (7)% | 1% | (1)% | 3% |
| Percentage Change Y/Y (non-GAAP) Constant Currency | (2)% | 11% | 11% | 15% |
|  |  |  |  |  |

“We’re pleased with our operating results this quarter. With financial discipline and strong execution, we grew operating income by 11 percent in non-GAAP constant currency,” said Amy Hood, executive vice president and chief financial officer of Microsoft.

Revenue in Productivity and Business Processes declined 3% (up 4% in constant currency) to $6.3 billion, with the following business highlights:

* Office commercial products and cloud services revenue grew 5% in constant currency with Office 365 revenue growth of nearly 70% in constant currency and continued user growth across our productivity offerings
* Office 365 consumer subscribers increased to 18.2 million, with approximately 3 million subscribers added in the quarter
* Dynamics revenue grew 12% in constant currency, with the Dynamics CRM Online enterprise installed base growing more than 3x year-over-year

Revenue in Intelligent Cloud grew 8% (up 14% in constant currency) to $5.9 billion, with the following business highlights:

* Server products and cloud services revenue grew 13% in constant currency, with revenue from premium products and services growing double-digits
* Azure revenue and compute usage more than doubled year-over-year
* Enterprise Mobility customers more than doubled year-over-year to over 20,000, and the installed base grew nearly 6x year-over-year

Revenue in More Personal Computing declined 17% (down 13% in constant currency) to $9.4 billion, with the following business highlights:

* Windows OEM revenue declined 6%, performing better than the overall PC market, as the Windows 10 launch spurred PC ecosystem innovation and helped drive hardware mix toward premium devices
* Phone revenue declined 54% in constant currency reflecting our updated strategy
* Search advertising revenue excluding traffic acquisition costs grew 29% in constant currency with Bing US market share benefiting from Windows 10 usage
* Xbox Live monthly active users grew 28% to 39 million

“We’re seeing great traction with businesses who want to bring Microsoft’s cloud, mobile device management technology and data analytics together to improve security and productivity resulting in almost 70 percent year-over-year growth in our commercial cloud run rate,” said Kevin Turner, chief operating officer at Microsoft.

**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 October 22, 2016.

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

During the first quarter of fiscal year 2016, GAAP revenue, operating income, net income, and earnings per share include the net impact from Windows 10 revenue deferrals. For the first quarter of fiscal year 2015, the financial results included the charges related to the integration and restructuring expenses related to both Microsoft’s restructuring plan announced in July 2014 and the ongoing integration of Nokia Devices and Services (“NDS”). These items are defined below. In addition to these financial results reported in accordance with GAAP, Microsoft has 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**

Microsoft recorded $1.28 billion net deferrals of revenue related to Windows 10 during the three months ended September 30, 2015.

Integration and restructuring expenses were $1.14 billion during the three months ended September 30, 2014, due mainly to restructuring charges of $1.05 billion, including employee severance expenses and the write-down of certain assets in connection with the restructuring plan.

**Constant Currency**

Microsoft presents constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars using the average exchange rates from the comparative period rather than the actual exchange rates in effect during the respective periods. The non-GAAP financial measures presented below should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP. All growth comparisons relate to the corresponding period in the last fiscal year.

 **Financial Performance Constant Currency Reconciliation**

|  |  |
| --- | --- |
|  | **Three Months Ended September 30,** |
| ($ in millions, except per share amounts) | **2014 As Reported (GAAP)** | **2014 As Adjusted (non-GAAP)** | **2015 As Reported (GAAP)** | **2015 As Adjusted (non-GAAP)** | **Constant Currency Impact** | **%Y/Y (GAAP)** | **% Y/Y (non-GAAP)** | **% Y/Y Constant Currency (non-GAAP)** |
| **Revenue** | **$23,201** | **$23,201** | **$20,379** | **$21,660** | **$(1,158)** | **(12)%** | **(7)%** | **(2)%** |
| **Operating Income** | **$5,844** | **$6,984** | **$5,793** | **$7,074** | **$(691)** | **(1)%** | **1%** | **11%** |
| **Net Income**  | **$4,540** | **$5,449** | **$4,620** | **$5,380** | **$(648)** | **2%** | **(1)%** | **11%** |
| **Earnings per Share** | **$0.54** | **$0.65** | **$0.57** | **$0.67** | **$(0.08)** | **6%** | **3%** | **15%** |

**Segment Revenue Constant Currency Reconciliation**

|  |  |
| --- | --- |
|  | **Three Months Ended September 30,** |
| ($ in millions) |  | **2014 As Reported (GAAP)** | **2015 As Reported (GAAP)** | **Constant Currency Impact** | **%Y/Y (GAAP)** | **% Y/Y Constant Currency (GAAP)** |
| Productivity and Business Processes |  | $6,490 | $6,306 | $(437) | (3)% | 4% |
| Intelligent Cloud |  | $5,475 | $5,892 | $(351) | 8% | 14% |
| More Personal Computing |  | $11,236 | $9,381 | $(371) | (17)% | (13)% |

**About Microsoft**

Microsoft (Nasdaq “MSFT” @microsoft) is the leading platform and productivity company for the mobile-first, cloud-first world and its mission is to empower every person and every organization on the planet to achieve more.

**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 may have an adverse effect on our business;
* impairment of goodwill or amortizable intangible assets causing a significant charge to earnings;
* Microsoft’s continued ability to protect and earn revenues from 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 and services that could reduce revenue or lead to liability;
* disclosure of personal data that could cause 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;
* potential liability under trade protection and anti-corruption laws resulting from our international operations;
* Microsoft’s ability to attract and retain talented employees;
* adverse results in legal disputes;
* unanticipated tax liabilities;
* Microsoft’s hardware and software products may experience quality or supply problems;
* exposure to increased economic and operational uncertainties from operating a global business;
* catastrophic events or geo-political conditions may disrupt our business; and
* adverse economic or market conditions may harm 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 October 22, 2015. 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 September 30,** |
|  |
|  | **2015** |  | **2014** |
| Revenue |  **$ 20,379**  |  |  $ 23,201  |
| Cost of revenue | **7,207**  |  | 8,273  |
|  Gross margin | **13,172**  |  | 14,928  |
| Research and development | **2,962**  |  | 3,065  |
| Sales and marketing | **3,333**  |  | 3,728  |
| General and administrative | **1,084**  |  | 1,151  |
| Impairment, integration, and restructuring | **0**  |  | 1,140  |
| Operating income | **5,793**  |  | 5,844  |
| Other income (expense), net | **(280)** |  | 52  |
| Income before income taxes | **5,513**  |  | 5,896  |
| Provision for income taxes | **893**  |  | 1,356  |
| Net income |  **$ 4,620**  |  |  $ 4,540  |
|  |  |  |  |
| Earnings per share: |  |  |  |
|  Basic |  **$ 0.58**  |  |  $ 0.55  |
|  Diluted |  **$ 0.57**  |  |  $ 0.54  |
| Weighted average shares outstanding: |  |  |  |
|  Basic | **7,996**  |  | 8,249  |
|  Diluted | **8,066**  |  | 8,351  |
| Cash dividends declared per common share |  **$ 0.36**  |  |  $ 0.31  |

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| **MICROSOFT CORPORATION** |  |  |  |
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| COMPREHENSIVE INCOME STATEMENTS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **Three Months Ended September 30,** |
|  |
|  | **2015** |  | **2014** |
| Net income |  **$ 4,620**  |  |  $ 4,540  |
| Other comprehensive income (loss): |  |  |  |
|  Net unrealized gains on derivatives (net of  tax effects of **$23** and $4) | **57**  |  | 319  |
|  Net unrealized losses on investments (net of  tax effects of **$(308)** and $(102)) | **(571)** |  | (189) |
|  Translation adjustments and other (net of tax effects  of **$(12)** and $(47)) | **(270)** |  | (81) |
|  Other comprehensive income (loss) | **(784)** |  | 49  |
| Comprehensive income |  **$ 3,836**  |  |  $ 4,589  |

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| **MICROSOFT CORPORATION** |  |  |  |
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| BALANCE SHEETS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **September 30,2015** |  | **June 30, 2015** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
|  Cash and cash equivalents |  **$ 5,431**  |  |  $ 5,595  |
|  Short-term investments (including securities loaned of **$129** and $75) | **93,924**  |  | 90,931  |
|  Total cash, cash equivalents, and short-term  investments | **99,355**  |  | 96,526  |
|  Accounts receivable, net of allowance for doubtful accounts of **$250** and $335 | **11,444**  |  | 17,908  |
|  Inventories | **3,816**  |  | 2,902  |
|  Deferred income taxes | **1,447**  |  | 1,915  |
|  Other | **5,594**  |  | 5,461  |
|  Total current assets | **121,656**  |  | 124,712  |
| Property and equipment, net of accumulated depreciation of **$18,009** and $17,606 | **15,046**  |  | 14,731  |
| Equity and other investments | **11,438**  |  | 12,053  |
| Goodwill | **17,142**  |  | 16,939  |
| Intangible assets, net | **4,745**  |  | 4,835  |
| Other long-term assets | **2,869**  |  | 2,953  |
|  Total assets |  **$ 172,896**  |  |  $ 176,223  |
|  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
|  Accounts payable |  **$ 6,630**  |  |  $ 6,591  |
|  Short-term debt | **9,998**  |  | 4,985  |
|  Current portion of long-term debt | **750**  |  | 2,499  |
|  Accrued compensation | **3,450**  |  | 5,096  |
|  Income taxes | **607**  |  | 606  |
|  Short-term unearned revenue | **21,603**  |  | 23,223  |
|  Securities lending payable | **154**  |  | 92  |
|  Other | **6,207**  |  | 6,766  |
|  Total current liabilities | **49,399**  |  | 49,858  |
| Long-term debt | **27,819**  |  | 27,808  |
| Long-term unearned revenue | **2,784**  |  | 2,095  |
| Deferred income taxes | **2,169**  |  | 2,835  |
| Other long-term liabilities | **13,280**  |  | 13,544  |
|  Total liabilities | **95,451**  |  | 96,140  |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
|  Common stock and paid-in capital - shares authorized 24,000; outstanding **7,986** and 8,027 | **68,093**  |  | 68,465  |
|  Retained earnings | **7,614**  |  | 9,096  |
|  Accumulated other comprehensive income | **1,738**  |  | 2,522  |
|  Total stockholders' equity | **77,445**  |  | 80,083  |
|  Total liabilities and stockholders' equity |  **$ 172,896**  |  |  $ 176,223  |

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| **MICROSOFT CORPORATION** |  |  |  |
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| CASH FLOWS STATEMENTS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **Three Months Ended September 30,** |
|  |
|  | **2015** |  | **2014** |
| **Operations** |  |  |  |
| Net income |  **$ 4,620**  |  |  $ 4,540  |
| Adjustments to reconcile net income  to net cash from operations: |  |  |  |
|  Depreciation, amortization, and other | **1,461**  |  | 1,428  |
|  Stock-based compensation expense | **674**  |  | 646  |
|  Net recognized losses on investments and derivatives | **101**  |  | 55  |
|  Excess tax benefits from stock-based compensation | **(282)** |  | (502) |
|  Deferred income taxes | **73**  |  | 301  |
|  Deferral of unearned revenue | **10,423**  |  | 8,022  |
|  Recognition of unearned revenue | **(11,355)** |  | (10,643) |
|  Changes in operating assets and liabilities: |  |  |  |
|  Accounts receivable | **6,376**  |  | 6,627  |
|  Inventories | **(937)** |  | (483) |
|  Other current assets | **(280)** |  | (280) |
|  Other long-term assets | **(5)** |  | 279  |
|  Accounts payable | **(135)** |  | (659) |
|  Other current liabilities | **(2,024)** |  | (1,166) |
|  Other long-term liabilities | **(116)** |  | 189  |
|  Net cash from operations | **8,594**  |  | 8,354  |
| **Financing** |  |  |  |
| Proceeds from issuance of short-term debt, maturities of 90 days or less, net | **4,890**  |  | 2,999  |
| Proceeds from issuance of debt | **121**  |  | 0  |
| Repayments of debt | **(1,750)** |  | (1,500) |
| Common stock issued | **219**  |  | 216  |
| Common stock repurchased | **(4,757)** |  | (2,888) |
| Common stock cash dividends paid | **(2,475)** |  | (2,307) |
| Excess tax benefits from stock-based compensation | **282**  |  | 502  |
| Other | **(178)** |  | 0  |
|  Net cash used in financing | **(3,648)** |  | (2,978) |
| **Investing** |  |  |  |
| Additions to property and equipment | **(1,356)** |  | (1,282) |
| Acquisition of companies, net of cash acquired, and purchases of intangible and other assets | **(390)** |  | (141) |
| Purchases of investments | **(37,570)** |  | (24,085) |
| Maturities of investments | **5,686**  |  | 1,693  |
| Sales of investments | **28,502**  |  | 16,445  |
| Securities lending payable | **62**  |  | (367) |
|  Net cash used in investing | **(5,066)** |  | (7,737) |
| Effect of exchange rates on cash and cash equivalents | **(44)** |  | (6) |
| Net change in cash and cash equivalents | **(164)** |  | (2,367) |
| Cash and cash equivalents, beginning of period | **5,595**  |  | 8,669  |
| Cash and cash equivalents, end of period |  **$ 5,431**  |  |  $ 6,302  |

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| **MICROSOFT CORPORATION** |   |   |   |
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| SEGMENT REVENUE AND OPERATING INCOME |
| (In millions)(Unaudited) |
|   |   |   |   |
|  | **Three Months Ended September 30,** |
|  |
|  | **2015** |  | **2014** |
| **Revenue** |  |  |   |
| Productivity and Business Processes |  **$ 6,306**  |  |  $ 6,490  |
| Intelligent Cloud | **5,892**  |  | 5,475  |
| More Personal Computing | **9,381**  |  | 11,236  |
| Corporate and Other | **(1,200)** |  | 0  |
|  Total revenue |  **$ 20,379**  |  |  $ 23,201  |
|   |  |  |   |
| **Operating Income** |  |  |   |
| Productivity and Business Processes |  **$ 3,105**  |  |  $ 3,338  |
| Intelligent Cloud | **2,400**  |  | 2,106  |
| More Personal Computing | **1,562**  |  | 1,619  |
| Corporate and Other | **(1,274)** |  | (1,219) |
|  Total operating income |  **$ 5,793**  |  |  $ 5,844  |