Microsoft Reports Record Third-Quarter Revenue

*Strong business demand drives double-digit operating income growth.*

**REDMOND, Wash. — Apr. 19, 2012 —** Microsoft Corp. today announced quarterly revenue of $17.41 billion for the quarter ended Mar. 31, 2012, a 6% increase from the prior year period. Operating income was $6.37 billion, up 12% from the prior year period.

Net income and diluted earnings per share for the quarter were $5.11 billion and $0.60 per share, compared with $5.23 billion and $0.61 per share, respectively, in the prior year period. Prior year net income and diluted earnings per share included a $461 million or $0.05 per share tax benefit primarily related to a tax settlement with the U.S. Internal Revenue Service.

“We’re driving toward exciting launches across the entire company, while delivering strong financial results,” said Steve Ballmer, chief executive officer at Microsoft. “With the upcoming release of new Windows 8 PCs and tablets, the next version of Office, and a wide array of products and services for the enterprise and consumers, we will be delivering exceptional value to all our customers in the year ahead.”

The Server & Tools business posted $4.57 billion in third-quarter revenue, a 14% increase from the prior year period, driven by double-digit revenue growth in SQL Server and more than 20% growth in System Center revenue.

The Microsoft Business Division reported $5.81 billion in third-quarter revenue, a 9% increase from the prior year period, reflecting the continued strength of Office 2010 with businesses and consumers. Dynamics posted an 11% revenue increase from the prior year period, with Dynamics CRM revenue growing more than 30%.

The Windows and Windows Live Division posted revenue of $4.62 billion, a 4% increase from the prior year period. Strong Windows 7 adoption continued with enterprise desktops on Windows 7 now up to 40% worldwide.

“We saw strong demand for our business desktop and infrastructure offerings,” said Peter Klein, chief financial officer at Microsoft. “Solid revenue growth and continued cost discipline drove double-digit operating income growth.”

The Online Services Division reported revenue of $707 million, a 6% increase from the prior year period, and operating loss improvement of approximately $300 million.

The Entertainment & Devices Division posted revenue of $1.62 billion, a decrease of 16% from the prior period due to a soft gaming console market. Xbox remained the top-selling console in the U.S. for the 15th consecutive month, and the company announced new television content partners and experiences for its 40 million Xbox LIVE members.

“We continue to execute well across our businesses, and we are seeing robust demand for our enterprise products and services,” said Kevin Turner, chief operating officer at Microsoft. “Our investments and offerings in the database platform and public, private, and hybrid cloud are helping our customers transform their operations to meet today’s evolving business demands.”

**Business Outlook**

Microsoft is revising operating expense guidance downward and now offers a range of $28.3 billion to $28.7 billion for the full year ending June 30, 2012. Microsoft also offers preliminary fiscal year 2013 operating expense guidance of $30.3 billion to $30.9 billion, representing 6% to 8% growth from the mid-point of fiscal year 2012 guidance.

**Webcast Details**

Peter Klein, chief financial officer, Frank Brod, chief accounting officer, and Bill Koefoed, 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 Apr. 19, 2013.

**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:

* execution and competitive risks in transitioning to cloud-based computing;
* challenges to Microsoft’s business model;
* intense competition in all of Microsoft’s markets;
* 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;
* actual or perceived 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 and disruptions of services provided to customers directly or through third parties if Microsoft fails to maintain an adequate operations infrastructure;
* government litigation and regulation affecting 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;
* significant business investments that may not gain customer acceptance and produce offsetting increases in revenue;
* unfavorable changes in general economic conditions, disruption of our partner networks or sales channels, or the availability of credit that affect demand for Microsoft’s products and services or the value of our investment portfolio;
* adverse results in legal disputes;
* unanticipated tax liabilities;
* quality or supply problems in Microsoft’s consumer hardware or other vertically integrated hardware and software products;
* impairment of goodwill or amortizable intangible assets causing a charge to earnings;
* exposure to increased economic and regulatory uncertainties from operating a global business;
* geopolitical conditions, natural disaster, cyberattack or other catastrophic events disrupting Microsoft’s business; and
* acquisitions, joint ventures and strategic alliances that adversely affect the 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 Apr. 19, 2012. 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. PST 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 March 31,** | | |  | **Nine Months Ended  March 31,** | | |
|  |  |
|  | **2012** |  | **2011** |  | **2012** |  | **2011** |
| Revenue | **$ 17,407** |  | $16,428 |  | **$ 55,664** |  | $ 52,576 |
| Operating expenses: |  |  |  |  |  |  |  |
| Cost of revenue | **3,952** |  | 3,897 |  | **13,367** |  | 11,869 |
| Research and development | **2,517** |  | 2,269 |  | **7,217** |  | 6,650 |
| Sales and marketing | **3,414** |  | 3,393 |  | **10,076** |  | 10,024 |
| General and administrative | **1,150** |  | 1,160 |  | **3,433** |  | 3,043 |
| Total operating expenses | **11,033** |  | 10,719 |  | **34,093** |  | 31,586 |
| Operating income | **6,374** |  | 5,709 |  | **21,571** |  | 20,990 |
| Other income (expense) | **(11)** |  | 316 |  | **337** |  | 762 |
| Income before income taxes | **6,363** |  | 6,025 |  | **21,908** |  | 21,752 |
| Provision for income taxes | **1,255** |  | 793 |  | **4,438** |  | 4,476 |
| Net income | **$ 5,108** |  | $ 5,232 |  | **$ 17,470** |  | $ 17,276 |
|  |  |  |  |  |  |  |  |
| Earnings per share: |  |  |  |  |  |  |  |
| Basic | **$ 0.61** |  | $ 0.62 |  | **$ 2.08** |  | $ 2.03 |
| Diluted | **$ 0.60** |  | $ 0.61 |  | **$ 2.05** |  | $ 2.01 |
| Weighted average shares outstanding: | |  |  |  |  |  |  |
| Basic | **8,401** |  | 8,420 |  | **8,398** |  | 8,511 |
| Diluted | **8,498** |  | 8,510 |  | **8,502** |  | 8,609 |
| Cash dividends declared per common  share | **$ 0.20** |  | $ 0.16 |  | **$ 0.60** |  | $ 0.48 |

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| **MICROSOFT CORPORATION** |  |  |  |
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| BALANCE SHEETS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **March 31, 2012** |  | **June 30, 2011(1)** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
| Cash and cash equivalents | **$ 6,388** |  | $ 9,610 |
| Short-term investments (including securities loaned   of **$1,181** and $1,181) | **53,141** |  | 43,162 |
| Total cash, cash equivalents, and short-term   investments | **59,529** |  | 52,772 |
| Accounts receivable, net of allowance for doubtful   accounts of **$322** and $333 | **10,961** |  | 14,987 |
| Inventories | **1,412** |  | 1,372 |
| Deferred income taxes | **2,350** |  | 2,467 |
| Other | **2,608** |  | 3,320 |
| Total current assets | **76,860** |  | 74,918 |
| Property and equipment, net of accumulated   depreciation of **$10,952** and $9,829 | **8,225** |  | 8,162 |
| Equity and other investments | **9,068** |  | 10,865 |
| Goodwill | **19,698** |  | 12,581 |
| Intangible assets, net | **2,756** |  | 744 |
| Other long-term assets | **1,403** |  | 1,434 |
| Total assets | **$ 118,010** |  | $108,704 |
|  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
| Accounts payable | **$ 3,790** |  | $ 4,197 |
| Accrued compensation | **3,272** |  | 3,575 |
| Income taxes | **958** |  | 580 |
| Short-term unearned revenue | **13,929** |  | 15,722 |
| Securities lending payable | **1,210** |  | 1,208 |
| Other | **3,011** |  | 3,492 |
| Total current liabilities | **26,170** |  | 28,774 |
| Long-term debt | **11,938** |  | 11,921 |
| Long-term unearned revenue | **1,262** |  | 1,398 |
| Deferred income taxes | **1,456** |  | 1,456 |
| Other long-term liabilities | **8,525** |  | 8,072 |
| Total liabilities | **49,351** |  | 51,621 |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
| Common stock and paid-in capital - shares authorized  24,000; outstanding **8,400** and 8,376 | **65,273** |  | 63,415 |
| Retained earnings (deficit), including accumulated other   comprehensive income of **$1,332** and $1,863 | **3,386** |  | (6,332) |
| Total stockholders' equity | **68,659** |  | 57,083 |
| Total liabilities and stockholders' equity | **$ 118,010** |  | $108,704 |
|  |  |  |  |
| (1) Derived from audited financial statements. |  |  |  |

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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,** | | | | | |
|  | |  | |
|  | | **2012** | |  | | **2011** | |  | | **2012** | |  | | **2011** | |
| **Operations** | |  | |  | |  | |  | |  | |  | |  | |
| Net income | | **$ 5,108** | |  | | $ 5,232 | |  | | **$ 17,470** | |  | | $ 17,276 | |
| Adjustments to reconcile net income   to net cash from operations: | |  | |  | |  | |  | |  | |  | |  | |
| Depreciation, amortization, and   other | | **766** | |  | | 720 | |  | | **2,170** | |  | | 2,077 | |
| Stock-based compensation   expense | | **591** | |  | | 541 | |  | | **1,724** | |  | | 1,622 | |
| Net recognized losses (gains) on   investments and derivatives | | **68** | |  | | (122) | |  | | **(74)** | |  | | (377) | |
| Excess tax benefits from   stock-based compensation | | **(10)** | |  | | (5) | |  | | **(84)** | |  | | (14) | |
| Deferred income taxes | | **(134)** | |  | | (59) | |  | | **282** | |  | | (324) | |
| Deferral of unearned revenue | | **8,142** | |  | | 6,616 | |  | | **21,825** | |  | | 19,331 | |
| Recognition of unearned revenue | | **(8,283)** | |  | | (7,026) | |  | | **(23,993)** | |  | | (21,189) | |
| Changes in operating assets and   liabilities: | |  | |  | |  | |  | |  | |  | |  | |
| Accounts receivable | | **2,770** | |  | | 3,031 | |  | | **3,851** | |  | | 3,435 | |
| Inventories | | **(50)** | |  | | (170) | |  | | **(79)** | |  | | (258) | |
| Other current assets | | **73** | |  | | (618) | |  | | **938** | |  | | (487) | |
| Other long-term assets | | **9** | |  | | (8) | |  | | **(36)** | |  | | 172 | |
| Accounts payable | | **(114)** | |  | | (51) | |  | | **(380)** | |  | | (235) | |
| Other current liabilities | | **492** | |  | | 237 | |  | | **(107)** | |  | | (1,174) | |
| Other long-term liabilities | | **166** | |  | | 354 | |  | | **442** | |  | | 1,197 | |
| Net cash from operations | | **9,594** | |  | | 8,672 | |  | | **23,949** | |  | | 21,052 | |
| **Financing** | |  | |  | |  | |  | |  | |  | |  | |
| Short-term debt repayments,   maturities of 90 days or less, net | | **0** | |  | | 0 | |  | | **0** | |  | | (186) | |
| Proceeds from issuance of debt,   maturities longer than 90 days | | **0** | |  | | 2,239 | |  | | **0** | |  | | 6,960 | |
| Repayments of debt, maturities   longer than 90 days | | **0** | |  | | 0 | |  | | **0** | |  | | (814) | |
| Common stock issued | | **1,091** | |  | | 1,405 | |  | | **1,635** | |  | | 2,242 | |
| Common stock repurchased | | **(1,023)** | |  | | (848) | |  | | **(3,999)** | |  | | (10,299) | |
| Common stock cash dividends paid | | **(1,683)** | |  | | (1,349) | |  | | **(4,707)** | |  | | (3,830) | |
| Excess tax benefits from   stock-based compensation | | **10** | |  | | 5 | |  | | **84** | |  | | 14 | |
| Other | | **0** | |  | | (15) | |  | | **0** | |  | | (40) | |
| Net cash from (used in)   financing | | **(1,605)** | |  | | 1,437 | |  | | **(6,987)** | |  | | (5,953) | |
| **Investing** | |  | |  | |  | |  | |  | |  | |  | |
| Additions to property and equipment | | **(749)** | |  | | (658) | |  | | **(1,683)** | |  | | (1,713) | |
| Acquisition of companies, net of  cash acquired, and purchases of   intangible and other assets | | **(84)** | |  | | 0 | |  | | **(9,586)** | |  | | (69) | |
| Purchases of investments | | **(23,951)** | |  | | (14,394) | |  | | **(45,297)** | |  | | (27,707) | |
| Maturities of investments | | **4,236** | |  | | 2,286 | |  | | **13,122** | |  | | 4,992 | |
| Sales of investments | | **7,946** | |  | | 5,738 | |  | | **23,317** | |  | | 9,768 | |
| Securities lending payable | | **361** | |  | | (111) | |  | | **3** | |  | | 1,063 | |
| Net cash used in investing | | **(12,241)** | |  | | (7,139) | |  | | **(20,124)** | |  | | (13,666) | |
| Effect of exchange rates on cash   and cash equivalents | | **30** | |  | | 28 | |  | | **(60)** | |  | | 83 | |
| Net change in cash and cash   equivalents | | **(4,222)** | |  | | 2,998 | |  | | **(3,222)** | |  | | 1,516 | |
| Cash and cash equivalents,   beginning of period | | **10,610** | |  | | 4,023 | |  | | **9,610** | |  | | 5,505 | |
| Cash and cash equivalents, end of   period | | **$ 6,388** | |  | | $ 7,021 | |  | | **$ 6,388** | |  | | $ 7,021 | |
| **MICROSOFT CORPORATION** |  | |  | |  | |  | |  | |  | |  | |
|  |  | |  | |  | |  | |  | |  | |  | |
| SEGMENT REVENUE AND OPERATING INCOME (LOSS) | | | | | | | | | | | | | | |
| (In millions) (Unaudited) | | | | | | | | | | | | | | |
|  |  | |  | |  | |  | |  | |  | |  | |
|  | **Three Months Ended  March 31,** | | | | | |  | | **Nine Months Ended  March 31,** | | | | | |
|  |  | |
|  | **2012** | |  | | **2011** | |  | | **2012** | |  | | **2011** | |
| **Revenue** |  | |  | |  | |  | |  | |  | |  | |
| Windows & Windows Live Division | **$ 4,624** | |  | | $ 4,447 | |  | | **$ 14,228** | |  | | $ 14,290 | |
| Server and Tools | **4,572** | |  | | 4,007 | |  | | **13,594** | |  | | 12,156 | |
| Online Services Division | **707** | |  | | 667 | |  | | **2,132** | |  | | 1,927 | |
| Microsoft Business Division | **5,814** | |  | | 5,329 | |  | | **17,700** | |  | | 16,641 | |
| Entertainment and Devices Division | **1,616** | |  | | 1,935 | |  | | **7,814** | |  | | 7,428 | |
| Unallocated and other | **74** | |  | | 43 | |  | | **196** | |  | | 134 | |
| Consolidated | **$ 17,407** | |  | | $16,428 | |  | | **$ 55,664** | |  | | $ 52,576 | |
|  |  | |  | |  | |  | |  | |  | |  | |
| **Operating income (loss)** |  | |  | |  | |  | |  | |  | |  | |
| Windows & Windows Live Division | **$ 2,952** | |  | | $ 2,792 | |  | | **$ 9,063** | |  | | $ 9,303 | |
| Server and Tools | **1,738** | |  | | 1,352 | |  | | **5,336** | |  | | 4,604 | |
| Online Services Division | **(479)** | |  | | (776) | |  | | **(1,449)** | |  | | (1,912) | |
| Microsoft Business Division | **3,770** | |  | | 3,313 | |  | | **11,619** | |  | | 10,896 | |
| Entertainment and Devices Division | **(229)** | |  | | 210 | |  | | **627** | |  | | 1,244 | |
| Corporate-level activity | **(1,378)** | |  | | (1,182) | |  | | **(3,625)** | |  | | (3,145) | |
| Consolidated | **$ 6,374** | |  | | $ 5,709 | |  | | **$ 21,571** | |  | | $ 20,990 | |