Microsoft Reports First-Quarter Results

*Upcoming launches of key products and services position Microsoft for long-term profit growth.*

**REDMOND, Wash. — Oct. 18, 2012 —** Microsoft Corp. today announced quarterly revenue of $16.01 billion for the quarter ended Sept. 30, 2012. Operating income, net income, and diluted earnings per share for the quarter were $5.31 billion, $4.47 billion, and $0.53 per share.

These financial results reflect the deferral of $1.36 billion of revenue and $0.13 of diluted earnings per share, due to the Windows Upgrade Offer, pre-sales of Windows 8 to OEMs prior to general availability, and the Office Offer.

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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 |
| 2011 As Reported (GAAP) | $17,372 | $7,203 | $0.68 |  |  |  |
| 2012 As Reported (GAAP) | $16,008 | $5,308 | $0.53 | (8)% | (26)% | (22)% |
| 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 | 0% | (7)% | (4)% |

*Totals may not foot due to rounding*

“The launch of Windows 8 is the beginning of a new era at Microsoft,” said Steve Ballmer, chief executive officer at Microsoft. “Investments we’ve made over a number of years are now coming together to create a future of exceptional devices and services, with tremendous opportunity for our customers, developers, and partners.”

The Server & Tools business reported $4.55 billion in first-quarter revenue, an 8% increase from the prior year period, driven by double-digit revenue growth in SQL Server and more than 20% growth in System Center revenue. In September, Microsoft continued to enrich its server offerings with the launch of Windows Server 2012.

The Microsoft Business Division posted $5.50 billion in first-quarter revenue, a 2% decrease from the prior year period. Adjusting for the impact of the Office Offer, Microsoft Business Division non-GAAP revenue increased 1% for the first quarter. Microsoft’s productivity server offerings – including Lync, SharePoint, and Exchange – continued double-digit revenue growth.

"While enterprise revenue continued to grow and we managed our expenses, the slowdown in PC demand ahead of the Windows 8 launch resulted in a decline in operating income,” said Peter Klein, chief financial officer at Microsoft. “Multi-year licensing revenue grew double-digits across Windows, Server & Tools, and Microsoft Business Division products as businesses commit to our technology roadmap.”

The Windows & Windows Live Division posted revenue of $3.24 billion, a 33% decrease from the prior year period. Adjusting for the impact of the Windows Upgrade Offer and pre-sales of Windows 8 to OEMs prior to general availability, Windows division non-GAAP revenue declined 9% for the first quarter. Windows 8 will become generally available October 26, 2012.

“We’re incredibly excited to be approaching general availability of Windows 8 and Windows RT,” said Kevin Turner, Microsoft chief operating officer.  “We’ve already certified more than 1,000 systems for Windows 8 from our hardware partners, ranging from the smallest tablets and convertibles to touch-enabled ultrabooks and all-in-ones to the most powerful desktop computers.”

The Online Services Division reported revenue of $697 million, a 9% increase from the prior year period. Online advertising revenue grew 15% driven primarily by an increase in revenue per search.

The Entertainment and Devices Division posted revenue of $1.95 billion, a decrease of 1% from the prior year period. Xbox continues to be the top-selling console in the U.S., where it now has 49% market share. Windows Phone 8 will launch this fall with an expanded array of products, prices, carriers, and markets. Skype continued its rapid growth and now has over 280 million users.

**Business Outlook**

Microsoft reaffirms fiscal year 2013 operating expense guidance of $30.3 billion to $30.9 billion.

**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 Oct. 18, 2013.

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

In addition to financial results reported in accordance with generally accepted accounting principles (GAAP), we have provided certain non-GAAP financial information to aid investors in better understanding the company’s performance. For first quarter fiscal year 2013 revenue, operating income, and earnings per share growth, we included the impact of revenue deferred during the first quarter of fiscal year 2013 relating to the Windows Upgrade Offer, pre-sales of Windows 8 to OEMs prior to general availability, and the Office Offer. 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 Reconciliations**

|  |  |  |
| --- | --- | --- |
| (In millions, except percentages) | **Three Months Ended****September 30,** | **Percentage Change** |
| 2011 As Reported WWLD revenue (GAAP) | $4,874 |  |
| 2012 As Reported WWLD revenue (GAAP) | $3,244 | (33)% |
| Revenue deferred for Windows Upgrade Offer and Windows 8 Pre sales | $1,167 |  |
| 2012 As Adjusted WWLD revenue (Non-GAAP) | $4,411 | (9)% |

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| --- | --- | --- |
| (In millions, except percentages) | **Three Months Ended****September 30,** | **Percentage Change** |
| 2011 As Reported MBD revenue (GAAP) | $5,635 |  |
| 2012 As Reported MBD revenue (GAAP) | $5,502 | (2)% |
| Revenue deferred for Office Offer | $189 |  |
| 2012 As Adjusted MBD revenue (Non-GAAP) | $5,691 | 1% |

**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;
* execution and competitive risks in transitioning to cloud-based computing;
* significant business investments that may not gain customer acceptance and produce offsetting increases in revenue;
* 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 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;
* 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, cyber-attack 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 Oct. 18, 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. 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,** |
|  |
|  | **2012** |  | **2011** |
| Revenue |  **$ 16,008**  |  |  $ 17,372  |
| Cost of revenue | **4,168**  |  | 3,777  |
|  Gross profit | **11,840**  |  | 13,595  |
| Operating expenses: |  |  |  |
|  Research and development | **2,460**  |  | 2,329  |
|  Sales and marketing | **2,945**  |  | 2,900  |
|  General and administrative | **1,127**  |  | 1,163  |
|  Total operating expenses | **6,532**  |  | 6,392  |
| Operating income | **5,308**  |  | 7,203  |
| Other income | **226**  |  | 103  |
| Income before income taxes | **5,534**  |  | 7,306  |
| Provision for income taxes | **1,068**  |  | 1,568  |
| Net income |  **$ 4,466**  |  |  $ 5,738  |
|  |  |  |  |
| Earnings per share: |  |  |  |
|  Basic |  **$ 0.53**  |  |  $ 0.68  |
|  Diluted |  **$ 0.53**  |  |  $ 0.68  |
| Weighted average shares outstanding: |  |  |  |
|  Basic | **8,396**  |  | 8,392  |
|  Diluted | **8,494**  |  | 8,490  |
| Cash dividends declared per common share |  **$ 0.23**  |  |  $ 0.20  |

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| **MICROSOFT CORPORATION** |  |  |  |
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| COMPREHENSIVE INCOME STATEMENTS |
| (In millions) (Unaudited) |
|  | **Three Months Ended September 30,** |
|  |
|  | **2012** |  | **2011** |
| Net income |  **$ 4,466**  |  |  $ 5,738  |
| Other comprehensive income (loss): |  |  |  |
|  Net unrealized gains (losses) on derivatives (net of  tax effects of **$(24)**, and $86) | **(45)** |  | 160  |
|  Net unrealized gains (losses) on investments (net of  tax effects of **$148**, and $(619)) | **274**  |  | (1,149) |
|  Translation adjustments and other (net of tax effects  of **$91**, and $(66)) | **169**  |  | (123) |
|  Other comprehensive income (loss) | **398**  |  | (1,112) |
| Comprehensive income |  **$ 4,864**  |  |  $ 4,626  |

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| **MICROSOFT CORPORATION** |  |  |  |
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| BALANCE SHEETS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **September 30,2012** |  | **June 30, 2012** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
|  Cash and cash equivalents |  **$ 5,036**  |  |  $ 6,938  |
|  Short-term investments (including securities loaned of **$400** and $785) | **61,608**  |  | 56,102  |
|  Total cash, cash equivalents, and short-term  investments | **66,644**  |  | 63,040  |
|  Accounts receivable, net of allowance for doubtful accounts of **$265** and $389 | **9,871**  |  | 15,780  |
|  Inventories | **1,624**  |  | 1,137  |
|  Deferred income taxes | **2,052**  |  | 2,035  |
|  Other | **3,860**  |  | 3,092  |
|  Total current assets | **84,051**  |  | 85,084  |
| Property and equipment, net of accumulated depreciation of **$11,401** and $10,962 | **8,329**  |  | 8,269  |
| Equity and other investments | **10,038**  |  | 9,776  |
| Goodwill | **14,466**  |  | 13,452  |
| Intangible assets, net | **3,423**  |  | 3,170  |
| Other long-term assets | **1,569**  |  | 1,520  |
|  Total assets |  **$ 121,876**  |  |  $ 121,271  |
|  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
|  Accounts payable |  **$ 3,631**  |  |  $ 4,175  |
|  Current portion of long-term debt | **2,236**  |  | 1,231  |
|  Accrued compensation | **2,666**  |  | 3,875  |
|  Income taxes | **847**  |  | 789  |
|  Short-term unearned revenue | **18,295**  |  | 18,653  |
|  Securities lending payable | **415**  |  | 814  |
|  Other | **3,312**  |  | 3,151  |
|  Total current liabilities | **31,402**  |  | 32,688  |
| Long-term debt | **9,714**  |  | 10,713  |
| Long-term unearned revenue | **1,292**  |  | 1,406  |
| Deferred income taxes | **2,209**  |  | 1,893  |
| Other long-term liabilities | **8,423**  |  | 8,208  |
|  Total liabilities | **53,040**  |  | 54,908  |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
|  Common stock and paid-in capital - shares authorized 24,000; outstanding **8,422** and 8,381 | **66,084**  |  | 65,797  |
|  Retained earnings (deficit) | **932**  |  | (856) |
|  Accumulated other comprehensive income | **1,820**  |  | 1,422  |
|  Total stockholders' equity | **68,836**  |  | 66,363  |
|  Total liabilities and stockholders' equity |  **$ 121,876**  |  |  $ 121,271  |
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| **MICROSOFT CORPORATION** |  |  |  |
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| CASH FLOW STATEMENTS |
| (In millions) (Unaudited) |
|  |  |  |  |
|  | **Three Months Ended September 30,** |
|  |
|  | **2012** |  | **2011** |
| **Operations** |  |  |  |
| Net income |  **$ 4,466**  |  |  $ 5,738  |
| Adjustments to reconcile net income  to net cash from operations: |  |  |  |
|  Depreciation, amortization, and  other | **710**  |  | 726  |
|  Stock-based compensation  expense | **603**  |  | 558  |
|  Net recognized losses (gains) on investments and derivatives | **11**  |  | (30) |
|  Excess tax benefits from  stock-based compensation | **(177)** |  | (70) |
|  Deferred income taxes | **38**  |  | 402  |
|  Deferral of unearned revenue | **8,209**  |  | 6,139  |
|  Recognition of unearned revenue | **(8,770)** |  | (7,653) |
|  Changes in operating assets and  liabilities: |  |  |  |
|  Accounts receivable | **6,156**  |  | 4,733  |
|  Inventories | **(473)** |  | (920) |
|  Other current assets | **(385)** |  | 260  |
|  Other long-term assets | **(233)** |  | (75) |
|  Accounts payable | **(567)** |  | (442) |
|  Other current liabilities | **(1,287)** |  | (993) |
|  Other long-term liabilities | **183**  |  | 120  |
|  Net cash from operations | **8,484**  |  | 8,493  |
| **Financing** |  |  |  |
| Common stock issued | **417**  |  | 336  |
| Common stock repurchased  | **(1,632)** |  | (1,934) |
| Common stock cash dividends paid | **(1,676)** |  | (1,341) |
| Excess tax benefits from  stock-based compensation | **177**  |  | 70  |
|  Net cash used in financing | **(2,714)** |  | (2,869) |
| **Investing** |  |  |  |
| Additions to property and equipment | **(603)** |  | (436) |
| Acquisition of companies, net of cash acquired, and purchases of  intangible and other assets | **(1,145)** |  | (875) |
| Purchases of investments | **(20,138)** |  | (11,299) |
| Maturities of investments | **1,259**  |  | 2,825  |
| Sales of investments | **13,307**  |  | 7,536  |
| Securities lending payable | **(399)** |  | (66) |
|  Net cash used in investing | **(7,719)** |  | (2,315) |
| Effect of exchange rates on cash  and cash equivalents | **47**  |  | (38) |
| Net change in cash and cash  equivalents | **(1,902)** |  | 3,271  |
| Cash and cash equivalents,  beginning of period | **6,938**  |  | 9,610  |
| Cash and cash equivalents, end of  period |  **$ 5,036**  |  |  $ 12,881  |
| **MICROSOFT CORPORATION** |   |   |   |
|  |   |   |   |
| SEGMENT REVENUE AND OPERATING INCOME (LOSS) |
| (In millions) (Unaudited) |
|  |  |  |  |
|  | **Three Months Ended September 30,** |
|  |
|  | **2012** |  | **2011** |
| **Revenue** |  |  |   |
| Windows & Windows Live Division |  **$ 3,244**  |  |  $ 4,874  |
| Server and Tools | **4,552**  |  | 4,216  |
| Online Services Division | **697**  |  | 641  |
| Microsoft Business Division | **5,502**  |  | 5,635  |
| Entertainment and Devices Division | **1,946**  |  | 1,961  |
| Unallocated and other | **67**  |  | 45  |
|  Consolidated |  **$ 16,008**  |  |  $ 17,372  |
|   |  |  |   |
| **Operating income (loss)** |  |  |   |
| Windows & Windows Live Division |  **$ 1,646**  |  |  $ 3,270  |
| Server and Tools | **1,748**  |  | 1,565  |
| Online Services Division | **(364)** |  | (514) |
| Microsoft Business Division | **3,646**  |  | 3,717  |
| Entertainment and Devices Division | **19**  |  | 340  |
| Corporate-level activity | **(1,387)** |  | (1,175) |
|  Consolidated |  **$ 5,308**  |  |  $ 7,203  |