Microsoft Reports Record Revenue of $21.5 Billion in Second Quarter

*Strong business demand and key product launches drive record revenue.*

**REDMOND, Wash. — Jan. 24, 2013 —** Microsoft Corp. today announced quarterly revenue of $21.46 billion for the quarter ended December 31, 2012. Operating income, net income, and diluted earnings per share for the quarter were $7.77 billion, $6.38 billion, and $0.76 per share.

These financial results reflect the net deferral of revenue for the Windows Upgrade Offer, Office Upgrade Offer and Pre-sales, and the Entertainment and Devices Division Video Game Deferral, partially offset by the recognition of previously deferred revenue for Windows 8 Pre-sales. 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.

|  |  |  |
| --- | --- | --- |
|  | **Three Months Ended December 31,** | **Percentage Change** |
| (In millions, except per share amounts and percentages) | Revenue | Operating income | Diluted EPS | Revenue | Operating income | Diluted EPS |
| 2011 As reported (GAAP) | $20,885 | $7,994 | $0.78 |  |  |  |
| 2012 As reported (GAAP) | $21,456 | $7,771 | $0.76 | 3% | (3)% | (3)% |
| Net revenue deferred for Windows Upgrade Offer, Office Upgrade Offer and Pre-sales, and Video Game Deferral | $1,329 | $1,329 | $0.13 |  |  |  |
| Revenue recognized for Windows 8 Pre-sales | ($783) | ($783) | ($0.08) |  |  |  |
| 2012 As adjusted (non-GAAP) | $22,002 | $8,317 | $0.81 | 5% | 4% | 4% |

“Our big, bold ambition to reimagine Windows as well as launch Surface and Windows Phone 8 has sparked growing enthusiasm with our customers and unprecedented opportunity and creativity with our partners and developers,” said Steve Ballmer, chief executive officer at Microsoft. “With new Windows devices, including Surface Pro, and the new Office on the horizon, we’ll continue to drive excitement for the Windows ecosystem and deliver our software through devices and services people love and businesses need.”

The Windows Division posted revenue of $5.88 billion, a 24% increase from the prior year period. Adjusting for the net deferral of revenue for the Windows Upgrade Offer and the recognition of the previously deferred revenue from Windows 8 Pre-sales, Windows Division non-GAAP revenue increased 11% for the second quarter. Microsoft has sold over 60 million Windows 8 licenses to date.

"We saw strong growth in our enterprise business driven by multi-year commitments to the Microsoft platform, which positions us well for long-term growth,” said Peter Klein, chief financial officer at Microsoft. “Multi-year licensing revenue grew double-digits across Windows, Server & Tools, and the Microsoft Business Division.”

The Server & Tools business reported $5.19 billion of revenue, a 9% increase from the prior year period, driven by double-digit percentage revenue growth in SQL Server and System Center.

“We see strong momentum in our enterprise business. With the launch of SQL Server 2012 and Windows Server 2012, we continue to see healthy growth in our data platform and infrastructure businesses and win share from our competitors,” said Kevin Turner, chief operating officer at Microsoft. “With the coming launch of the new Office, we will provide a cloud-enabled suite of products that will deliver unparalleled productivity and flexibility.”

The Microsoft Business Division posted $5.69 billion of revenue, a 10% decrease from the prior year period. Adjusting for the impact of the Office Upgrade Offer and Pre-sales, Microsoft Business Division non-GAAP revenue increased 3% for the second quarter. Revenue from Microsoft’s productivity server offerings – collectively including Lync, SharePoint, and Exchange – continued double-digit percentage growth.

The Online Services Division reported revenue of $869 million, an 11% increase from the prior year period. Online advertising revenue grew 15% driven by an increase in revenue per search.

The Entertainment and Devices Division posted revenue of $3.77 billion, a decrease of 11% from the prior year period. Adjusting for the Video Game Deferral, the division’s non-GAAP revenue decreased 2% for the second quarter. Xbox continues to be the top-selling console in the United States. During the quarter, Microsoft launched Windows Phone 8 with a broad array of carriers and devices.

**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 Chris Suh, general manager of Investor Relations, will host a conference call and webcast at 2:30 p.m. PST (5:30 p.m. EST) 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 Jan. 24, 2014.

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

For second quarter fiscal year 2013 GAAP revenue, operating income, and earnings per share growth included the net deferral of revenue for the Windows Upgrade Offer, the Office Upgrade Offer and Pre-sales, and the Entertainment and Devices Division Video Game Deferral, and the recognition of previously deferred revenue for Windows 8 Pre-sales. These items are defined in our Form 10-Q for the quarterly period ended December 31, 2012. In addition to these 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. 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**

**Windows Division**

|  |  |  |
| --- | --- | --- |
| (In millions, except percentages) | **Three Months Ended****December 31,** | **Percentage Change** |
| 2011 As reported revenue (GAAP) | $4,741 |  |
| 2012 As reported revenue (GAAP) | $5,881 | 24% |
| Net revenue deferred for Windows Upgrade Offer | $161 |  |
| Revenue recognized for Windows 8 Pre-sales | ($783) |  |
| 2012 As adjusted revenue (non-GAAP) | $5,259 | 11% |

**Microsoft Business Division**

|  |  |  |
| --- | --- | --- |
| (In millions, except percentages) | **Three Months Ended****December 31,** | **Percentage Change** |
| 2011 As reported revenue (GAAP) | $6,310 |  |
| 2012 As reported revenue (GAAP) | $5,691 | (10)% |
| Revenue deferred for Office Upgrade Offer and Pre-sales | $788 |  |
| 2012 As adjusted revenue (non-GAAP) | $6,479 | 3% |
| **Entertainment and Devices Division**(In millions, except percentages) | **Three Months Ended****December 31,** | **Percentage Change** |
| 2011 As reported revenue (GAAP) | $4,238 |  |
| 2012 As reported revenue (GAAP) | $3,772 | (11)% |
| Revenue deferred for Video Game Deferral | $380 |  |
| 2012 As adjusted revenue (non-GAAP) | $4,152 | (2)% |

**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 from our increasing focus on devices and services;
* 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 Jan. 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. PST 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 December 31,** |  | **Six Months Ended December 31,** |
|  |  |
|  | **2012** |  | **2011** |  | **2012** |  | **2011** |
| Revenue |  **$ 21,456**  |  |  $20,885  |  |  **$ 37,464**  |  |  $38,257  |
| Cost of revenue | **5,692**  |  | 5,638  |  | **9,860**  |  | 9,415  |
|  Gross profit | **15,764**  |  | 15,247  |  | **27,604**  |  | 28,842  |
| Operating expenses: |  |  |  |  |  |  |  |
|  Research and development | **2,528**  |  | 2,371  |  | **4,988**  |  | 4,700  |
|  Sales and marketing | **4,309**  |  | 3,762  |  | **7,254**  |  | 6,662  |
|  General and administrative | **1,156**  |  | 1,120  |  | **2,283**  |  | 2,283  |
|  Total operating expenses | **7,993**  |  | 7,253  |  | **14,525**  |  | 13,645  |
| Operating income | **7,771**  |  | 7,994  |  | **13,079**  |  | 15,197  |
| Other income (expense) | **(1)** |  | 245  |  | **225**  |  | 348  |
| Income before income taxes | **7,770**  |  | 8,239  |  | **13,304**  |  | 15,545  |
| Provision for income taxes | **1,393**  |  | 1,615  |  | **2,461**  |  | 3,183  |
| Net income |  **$ 6,377**  |  |  $ 6,624  |  |  **$ 10,843**  |  |  $12,362  |
|  |  |  |  |  |  |  |  |
| Earnings per share: |  |  |  |  |  |  |  |
|  Basic |  **$ 0.76**  |  |  $ 0.79  |  |  **$ 1.29**  |  |  $ 1.47  |
|  Diluted |  **$ 0.76**  |  |  $ 0.78  |  |  **$ 1.28**  |  |  $ 1.46  |
| Weighted average shares outstanding: |  |  |  |  |  |  |
|  Basic | **8,393**  |  | 8,402  |  | **8,395**  |  | 8,397  |
|  Diluted | **8,444**  |  | 8,465  |  | **8,480**  |  | 8,489  |
| Cash dividends declared per  common share |  **$ 0.23**  |  |  $ 0.20  |   |  **$ 0.46**  |  |  $ 0.40  |

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| **MICROSOFT CORPORATION** |  |  |  |  |  |  |  |
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| COMPREHENSIVE INCOME STATEMENTS |
| (In millions) (Unaudited) |
|  | **Three Months Ended December 31,** |  | **Six Months Ended December 31,** |
|  |  |
|  | **2012** |  | **2011** |  | **2012** |  | **2011** |
| Net income |  **$ 6,377**  |  |  $ 6,624  |  |  **$ 10,843**  |  |  $12,362  |
| Other comprehensive income (loss): |  |  |  |  |  |  |
|  Net unrealized gains (losses) on  derivatives (net of tax effects  of **$(5)**, $41, **$(29)**, and  $127) | **(9)** |  | 76  |  | **(54)** |  | 236  |
|  Net unrealized gains (losses) on  investments (net of tax  effects of **$103**, $67, **$251**,  and $(552)) | **192**  |  | 124  |  | **466**  |  | (1,025) |
|  Translation adjustments and  other (net of tax effects  of **$2**, $(67), **$92**, and  $(134)) | **3**  |  | (125) |  | **172**  |  | (248) |
|  Other comprehensive  income (loss) | **186**  |  | 75  |  | **584**  |  | (1,037) |
| Comprehensive income |  **$ 6,563**  |  |  $ 6,699  |  |  **$ 11,427**  |  |  $11,325  |

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| **MICROSOFT CORPORATION** |  |  |  |
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| BALANCE SHEETS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **December 31,2012** |  | **June 30, 2012** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
|  Cash and cash equivalents |  **$ 6,017**  |  |  $ 6,938  |
|  Short-term investments (including securities loaned of **$7** and $785) | **62,295**  |  | 56,102  |
|  Total cash, cash equivalents, and short-term investments | **68,312**  |  | 63,040  |
|  Accounts receivable, net of allowance for doubtful accounts of **$292** and $389 | **14,317**  |  | 15,780  |
|  Inventories | **1,661**  |  | 1,137  |
|  Deferred income taxes | **1,983**  |  | 2,035  |
|  Other | **3,301**  |  | 3,092  |
|  Total current assets | **89,574**  |  | 85,084  |
| Property and equipment, net of accumulated depreciation of **$11,773** and $10,962 | **8,698**  |  | 8,269  |
| Equity and other investments | **10,707**  |  | 9,776  |
| Goodwill | **14,727**  |  | 13,452  |
| Intangible assets, net | **3,341**  |  | 3,170  |
| Other long-term assets | **1,636**  |  | 1,520  |
|  Total assets |  **$ 128,683**  |  |  $ 121,271  |
|  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
|  Accounts payable |  **$ 4,356**  |  |  $ 4,175  |
|  Current portion of long-term debt | **2,241**  |  | 1,231  |
|  Accrued compensation | **2,942**  |  | 3,875  |
|  Income taxes | **630**  |  | 789  |
|  Short-term unearned revenue | **18,354**  |  | 18,653  |
|  Securities lending payable | **21**  |  | 814  |
|  Other | **3,366**  |  | 3,151  |
|  Total current liabilities | **31,910**  |  | 32,688  |
| Long-term debt | **11,947**  |  | 10,713  |
| Long-term unearned revenue | **1,459**  |  | 1,406  |
| Deferred income taxes | **2,394**  |  | 1,893  |
| Other long-term liabilities | **8,397**  |  | 8,208  |
|  Total liabilities | **56,107**  |  | 54,908  |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
|  Common stock and paid-in capital - shares authorized 24,000; outstanding **8,374** and 8,381 | **66,334**  |  | 65,797  |
|  Retained earnings (deficit) | **4,236**  |  | (856) |
|  Accumulated other comprehensive income | **2,006**  |  | 1,422  |
|  Total stockholders' equity | **72,576**  |  | 66,363  |
|  Total liabilities and stockholders’ equity |  **$ 128,683**  |  |  $ 121,271  |

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| **MICROSOFT CORPORATION** |  |  |  |  |  |  |  |
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| CASH FLOW STATEMENTS |
| (In millions) (Unaudited) |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended December 31,** |  | **Six Months Ended December 31,** |
|  |  |
|  | **2012** |  | **2011** |  | **2012** |  | **2011** |
| **Operations** |  |  |  |  |  |  |  |
| Net income |  **$ 6,377**  |  |  $ 6,624  |  |  **$ 10,843**  |  |  $12,362  |
| Adjustments to reconcile net  income to net cash from  operations: |  |  |  |  |  |  |  |
|  Depreciation, amortization, and other | **1,009**  |  | 678  |  | **1,719**  |  | 1,404  |
|  Stock-based compensation  expense | **603**  |  | 575  |  | **1,206**  |  | 1,133  |
|  Net recognized losses (gains)  on investments and derivatives | **22**  |  | (112) |  | **33**  |  | (142) |
|  Excess tax benefits from  stock-based compensation | **(9)** |  | (4) |  | **(186)** |  | (74) |
|  Deferred income taxes | **140**  |  | 14  |  | **178**  |  | 416  |
|  Deferral of unearned revenue | **10,737**  |  | 7,544  |  | **18,946**  |  | 13,683  |
|  Recognition of unearned revenue | **(10,483)** |  | (8,057) |  | **(19,253)** |  | (15,710) |
|  Changes in operating assets and  liabilities: |  |  |  |  |  |  |  |
|  Accounts receivable | **(4,488)** |  | (3,652) |  | **1,668**  |  | 1,081  |
|  Inventories | **(33)** |  | 891  |  | **(506)** |  | (29) |
|  Other current assets | **150**  |  | 605  |  | **(235)** |  | 865  |
|  Other long-term assets | **(80)** |  | 30  |  | **(313)** |  | (45) |
|  Accounts payable | **685**  |  | 176  |  | **118**  |  | (266) |
|  Other current liabilities | **168**  |  | 394  |  | **(1,119)** |  | (599) |
|  Other long-term liabilities | **(18)** |  | 156  |  | **165**  |  | 276  |
|  Net cash from operations | **4,780**  |  | 5,862  |  | **13,264**  |  | 14,355  |
| **Financing** |  |  |  |  |  |  |  |
| Proceeds from issuance of debt | **2,232**  |  | 0  |  | **2,232**  |  | 0  |
| Common stock issued | **145**  |  | 208  |  | **562**  |  | 544  |
| Common stock repurchased  | **(1,658)** |  | (1,042) |  | **(3,290)** |  | (2,976) |
| Common stock cash dividends paid | **(1,933)** |  | (1,683) |  | **(3,609)** |  | (3,024) |
| Excess tax benefits from  stock-based compensation | **9**  |  | 4  |  | **186**  |  | 74  |
| Other | **(16)** |  | 0  |  | **(16)** |  | 0  |
|  Net cash used in financing | **(1,221)** |  | (2,513) |  | **(3,935)** |  | (5,382) |
| **Investing** |  |  |  |  |  |  |  |
| Additions to property and equipment | **(930)** |  | (498) |  | **(1,533)** |  | (934) |
| Acquisition of companies, net of cash acquired, and purchases of  intangible and other assets | **(311)** |  | (8,627) |  | **(1,456)** |  | (9,502) |
| Purchases of investments | **(10,074)** |  | (10,047) |  | **(30,212)** |  | (21,346) |
| Maturities of investments | **1,989**  |  | 6,061  |  | **3,248**  |  | 8,886  |
| Sales of investments | **7,126**  |  | 7,835  |  | **20,433**  |  | 15,371  |
| Securities lending payable | **(393)** |  | (292) |  | **(792)** |  | (358) |
|  Net cash used in investing | **(2,593)** |  | (5,568) |  | **(10,312)** |  | (7,883) |
| Effect of exchange rates on cash  and cash equivalents | **15**  |  | (52) |  | **62**  |  | (90) |
| Net change in cash and cash  equivalents | **981**  |  | (2,271) |  | **(921)** |  | 1,000  |
| Cash and cash equivalents,  beginning of period | **5,036**  |  | 12,881  |  | **6,938**  |  | 9,610  |
| Cash and cash equivalents, end of  period |  **$ 6,017**  |  |  $10,610  |  |  **$ 6,017**  |  |  $10,610  |

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| **MICROSOFT CORPORATION** |   |   |   |   |   |   |   |
|  |   |   |   |   |   |   |   |
| SEGMENT REVENUE AND OPERATING INCOME (LOSS) |
| (In millions) (Unaudited) |
|  |  |  |  |  |  |  |  |
|  | **Three Months Ended December 31,** |  | **Six Months Ended December 31,** |
|  |  |
|  | **2012** |  | **2011** |  | **2012** |  | **2011** |
| **Revenue** |  |  |   |   |  |  |   |
| Windows Division |  **$ 5,881**  |  |  $ 4,741  |   |  **$ 9,125**  |  |  $ 9,615  |
| Server and Tools | **5,186**  |  | 4,737  |   | **9,739**  |  | 8,953  |
| Online Services Division | **869**  |  | 784  |   | **1,566**  |  | 1,425  |
| Microsoft Business Division | **5,691**  |  | 6,310  |   | **11,192**  |  | 11,945  |
| Entertainment and Devices Division | **3,772**  |  | 4,238  |   | **5,719**  |  | 6,200  |
| Unallocated and other | **57**  |  | 75  |   | **123**  |  | 119  |
| Consolidated |  **$ 21,456**  |  |  $20,885  |   |  **$ 37,464**  |  |  $38,257  |
|   |  |  |   |   |  |  |   |
| **Operating income (loss)** |  |  |   |   |  |  |   |
| Windows Division |  **$ 3,296**  |  |  $ 2,880  |   |  **$ 4,950**  |  |  $ 6,161  |
| Server and Tools | **2,121**  |  | 1,950  |   | **3,858**  |  | 3,503  |
| Online Services Division | **(283)** |  | (459) |   | **(647)** |  | (973) |
| Microsoft Business Division | **3,565**  |  | 4,188  |   | **7,214**  |  | 7,906  |
| Entertainment and Devices Division | **596**  |  | 517  |   | **619**  |  | 860  |
| Corporate-level activity | **(1,524)** |  | (1,082) |   | **(2,915)** |  | (2,260) |
| Consolidated |  **$ 7,771**  |  |  $ 7,994  |   |  **$ 13,079**  |  |  $15,197  |