Microsoft Cloud Strength and Hardware Progress Drive Record First-Quarter Revenue

*Strong performance across commercial and consumer segments delivers revenue of $23.20 billion.*

**REDMOND, Wash. — October 23, 2014 —** Microsoft Corp. today announced revenue of $23.20 billion for the quarter ended September 30, 2014. Gross margin, operating income and diluted earnings per share (“EPS”) for the quarter were $14.93 billion, $5.84 billion and $0.54 per share, respectively.

These financial results include $1.14 billion of integration and restructuring expenses, or an $0.11 per share negative impact, related to both Microsoft’s restructuring plan announced in July 2014 and the ongoing integration of the Nokia Devices and Services (“NDS”) business.

The following table notes the impact of the integration and restructuring expenses on the company’s financial performance (“Noted Items”). This financial information is provided 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 and percentages) | **Revenue** | **Gross Margin** | **Operating Income** | **Diluted EPS** |
| **2013 As Reported (GAAP)** | **$18,529**  | **$13,384** | **$6,334**  | **$0.62**  |
| **2014 As Reported (GAAP)** | **$23,201**  | **$14,928**  | **$5,844**  | **$0.54**  |
| **% Y/Y (GAAP)** | **25%** | **12%** | **(8)%** | **(13)%** |
| **2014 Impact of Noted Items** | **-** | **-** | **$(1,140)**  | **$(0.11)**  |

“We are innovating faster, engaging more deeply across the industry, and putting our customers at the center of everything we do, all of which positions Microsoft for future growth,” said Satya Nadella, chief executive officer of Microsoft. “Our teams are delivering on our core focus of reinventing productivity and creating platforms that empower every individual and organization.”

“We delivered a strong start to the year, with continued cloud momentum and meaningful progress across our device businesses,” said Amy Hood, executive vice president and chief financial officer of Microsoft. “We will continue to invest in high-growth opportunities and drive efficiencies across the organization to deliver long-term shareholder value.”

Devices and Consumer revenue grew 47% to $10.96 billion, with the following business highlights:

* Office 365 Home and Personal subscribers totaled more than 7 million, representing more than 25% sequential growth over the previous quarter.
* Surface Pro 3 momentum drove Surface revenue of $908 million.
* New Windows consumer licensing programs drove positive unit growth while OEM non-Pro revenue declined 1%.
* Total Xbox console sales were 2.4 million, growing 102%, and Xbox One launched in 28 new markets.
* Phone hardware revenue exceeded $2.6 billion with ongoing focus on execution discipline.

Commercial revenue grew 10% to $12.28 billion, with the following business highlights:

* Server products and services revenue increased 13%, with double-digit growth for SQL Server, System Center and Windows Server.
* Office Commercial products and services revenue grew 5% as customers transition to Office 365.
* Commercial cloud revenue grew 128% driven by Office 365, Azure and Dynamics CRM.
* Lync, SharePoint and Exchange, our productivity server offerings, collectively grew double-digits.
* Windows volume licensing revenue increased 10%.

“Customers are embracing our latest technologies from Surface Pro 3 and Office 365 to Azure and SQL Server,” said Kevin Turner, chief operating officer of Microsoft. “Through great execution by our sales teams and our partners, we have been able to deliver our truly differentiated value to the marketplace.”

**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 23, 2015.

**Noted Items Definition**

Integration and restructuring expenses include employee severance expenses and costs associated with the consolidation of facilities and manufacturing operations, including asset write-downs and contract termination costs, resulting from Microsoft’s restructuring plan. Integration and restructuring expenses also include systems consolidation and other business integration expenses, as well as transaction fees and direct acquisition costs, associated with the acquisition of NDS.

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.

**About Microsoft**

Founded in 1975, Microsoft (Nasdaq “MSFT”) is the worldwide leader in software, services, devices 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 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 earn expected 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 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 anti-corruption and trade protection laws resulting from our international operations;
* Microsoft’s ability to attract and retain talented employees;
* adverse results in legal disputes;
* unanticipated tax liabilities;
* our 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 23, 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.

**For more information, press only:**

Rapid Response Team, Waggener Edstrom Worldwide, (503) 443-7070, rrt@waggeneredstrom.com

**For more information, financial analysts and investors only:**

Chris Suh, general manager, Investor Relations, (425) 706-4400

*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,** |
|  |
|  | **2014** |  | **2013** |
| Revenue |  **$ 23,201**  |  |  $ 18,529  |
| Cost of revenue | **8,273**  |  | 5,145  |
|  Gross margin | **14,928**  |  | 13,384  |
| Research and development | **3,065**  |  | 2,767  |
| Sales and marketing | **3,728**  |  | 3,304  |
| General and administrative | **1,151**  |  | 979  |
| Integration and restructuring | **1,140**  |  | 0  |
| Operating income | **5,844**  |  | 6,334  |
| Other income, net | **52**  |  | 74  |
| Income before income taxes | **5,896**  |  | 6,408  |
| Provision for income taxes | **1,356**  |  | 1,164  |
| Net income |  **$ 4,540**  |  |  $ 5,244  |
|  |  |  |  |
| Earnings per share: |  |  |  |
|  Basic |  **$ 0.55**  |  |  $ 0.63  |
|  Diluted |  **$ 0.54**  |  |  $ 0.62  |
| Weighted average shares outstanding: |  |  |  |
|  Basic | **8,249**  |  | 8,339  |
|  Diluted | **8,351**  |  | 8,434  |
| Cash dividends declared per common share |  **$ 0.31**  |  |  $ 0.28  |

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| **MICROSOFT CORPORATION** |  |  |  |
|  |  |  |  |
| COMPREHENSIVE INCOME STATEMENTS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **Three Months Ended September 30,** |
|  |
|  | **2014** |  | **2013** |
| Net income |  **$ 4,540**  |  |  $ 5,244  |
| Other comprehensive income (loss): |  |  |  |
|  Net unrealized gains (losses) on derivatives (net of  tax effects of **$4** and $(3)) | **319**  |  | (26) |
|  Net unrealized gains (losses) on investments (net of  tax effects of **$(102)** and $492) | **(189)** |  | 952  |
|  Translation adjustments and other (net of tax effects  of **$(47)** and $33) | **(81)** |  | 62  |
|  Other comprehensive income | **49**  |  | 988  |
| Comprehensive income |  **$ 4,589**  |  |  $ 6,232  |

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| **MICROSOFT CORPORATION** |  |  |  |
|  |  |  |  |
| BALANCE SHEETS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **September 30,2014** |  | **June 30, 2014** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
|  Cash and cash equivalents |  **$ 6,302**  |  |  $ 8,669  |
|  Short-term investments (including securities loaned of **$180** and $541) | **82,891**  |  | 77,040  |
|  Total cash, cash equivalents, and short-term  investments | **89,193**  |  | 85,709  |
|  Accounts receivable, net of allowance for doubtful accounts of **$269** and $301 | **12,887**  |  | 19,544  |
|  Inventories | **3,141**  |  | 2,660  |
|  Deferred income taxes | **1,784**  |  | 1,941  |
|  Other | **5,434**  |  | 4,392  |
|  Total current assets | **112,439**  |  | 114,246  |
| Property and equipment, net of accumulated depreciation of **$15,373** and $14,793 | **13,229**  |  | 13,011  |
| Equity and other investments | **13,943**  |  | 14,597  |
| Goodwill | **20,081**  |  | 20,127  |
| Intangible assets, net | **6,693**  |  | 6,981  |
| Other long-term assets | **3,271**  |  | 3,422  |
|  Total assets |  **$ 169,656**  |  |  $ 172,384  |
|  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
|  Accounts payable |  **$ 6,769**  |  |  $ 7,432  |
|  Short-term debt | **3,500**  |  | 2,000  |
|  Current portion of long-term debt | **1,748**  |  | 0  |
|  Accrued compensation | **3,740**  |  | 4,797  |
|  Income taxes | **903**  |  | 782  |
|  Short-term unearned revenue | **20,713**  |  | 23,150  |
|  Securities lending payable | **191**  |  | 558  |
|  Other | **7,130**  |  | 6,906  |
|  Total current liabilities | **44,694**  |  | 45,625  |
| Long-term debt | **18,472**  |  | 20,645  |
| Long-term unearned revenue | **1,825**  |  | 2,008  |
| Deferred income taxes | **2,714**  |  | 2,728  |
| Other long-term liabilities | **11,781**  |  | 11,594  |
|  Total liabilities | **79,486**  |  | 82,600  |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
|  Common stock and paid-in capital - shares authorized 24,000; outstanding **8,255** and 8,239 | **68,362**  |  | 68,366  |
|  Retained earnings | **18,051**  |  | 17,710  |
|  Accumulated other comprehensive income | **3,757**  |  | 3,708  |
|  Total stockholders' equity | **90,170**  |  | 89,784  |
|  Total liabilities and stockholders' equity |  **$ 169,656**  |  |  $ 172,384  |
| **MICROSOFT CORPORATION** |  |  |  |
|  |  |  |  |
| CASH FLOWS STATEMENTS |
| (In millions)(Unaudited) |
|  |  |  |  |
|  | **Three Months Ended September 30,** |
|  |
|  | **2014** |  | **2013** |
| **Operations** |  |  |  |
| Net income |  **$ 4,540**  |  |  $ 5,244  |
| Adjustments to reconcile net income  to net cash from operations: |  |  |  |
|  Depreciation, amortization, and other | **1,428**  |  | 954  |
|  Stock-based compensation expense | **646**  |  | 635  |
|  Net recognized losses on investments and derivatives | **55**  |  | 93  |
|  Excess tax benefits from stock-based compensation | **(502)** |  | (205) |
|  Deferred income taxes | **301**  |  | 404  |
|  Deferral of unearned revenue | **8,022**  |  | 7,436  |
|  Recognition of unearned revenue | **(10,643)** |  | (9,677) |
|  Changes in operating assets and liabilities: |  |  |  |
|  Accounts receivable | **6,627**  |  | 6,617  |
|  Inventories | **(483)** |  | (667) |
|  Other current assets | **(280)** |  | (556) |
|  Other long-term assets | **279**  |  | (81) |
|  Accounts payable | **(659)** |  | (276) |
|  Other current liabilities | **(1,166)** |  | (1,255) |
|  Other long-term liabilities | **189**  |  | (461) |
|  Net cash from operations | **8,354**  |  | 8,205  |
| **Financing** |  |  |  |
| Proceeds from issuance of short-term debt, maturities of 90 days or less, net | **2,999**  |  | 712  |
| Proceeds from issuance of debt | **0**  |  | 588  |
| Repayments of debt | **(1,500)** |  | (1,000) |
| Common stock issued | **216**  |  | 203  |
| Common stock repurchased | **(2,888)** |  | (2,188) |
| Common stock cash dividends paid | **(2,307)** |  | (1,916) |
| Excess tax benefits from stock-based compensation | **502**  |  | 205  |
|  Net cash used in financing | **(2,978)** |  | (3,396) |
| **Investing** |  |  |  |
| Additions to property and equipment | **(1,282)** |  | (1,231) |
| Acquisition of companies, net of cash acquired, and purchases of intangible and other assets | **(141)** |  | (15) |
| Purchases of investments | **(24,085)** |  | (14,768) |
| Maturities of investments | **1,693**  |  | 347  |
| Sales of investments | **16,445**  |  | 11,117  |
| Securities lending payable | **(367)** |  | (64) |
|  Net cash used in investing | **(7,737)** |  | (4,614) |
| Effect of exchange rates on cash and cash equivalents | **(6)** |  | 24  |
| Net change in cash and cash equivalents | **(2,367)** |  | 219  |
| Cash and cash equivalents, beginning of period | **8,669**  |  | 3,804  |
| Cash and cash equivalents, end of period |  **$ 6,302**  |  |  $ 4,023  |

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| **MICROSOFT CORPORATION** |   |   |   |
|  |   |   |   |
| SEGMENT REVENUE AND GROSS MARGIN |
| (In millions)(Unaudited) |
|   |   |   |   |
|  | **Three Months Ended September 30,** |
|  |
|  | **2014** |  | **2013** |
| **Revenue** |  |  |   |
| Devices and Consumer Licensing |  **$ 4,093**  |  |  $ 4,484  |
| Computing and Gaming Hardware | **2,453**  |  | 1,409  |
| Phone Hardware | **2,609**  |  | 0  |
| Devices and Consumer Other | **1,809**  |  | 1,554  |
| Commercial Licensing | **9,873**  |  | 9,611  |
| Commercial Other | **2,407**  |  | 1,602  |
| Corporate and Other | **(43)** |  | (131) |
|  Total revenue |  **$ 23,201**  |  |  $ 18,529  |
|   |  |  |   |
| **Gross Margin** |  |  |   |
| Devices and Consumer Licensing |  **$ 3,818**  |  |  $ 3,920  |
| Computing and Gaming Hardware | **479**  |  | 205  |
| Phone Hardware | **478**  |  | 0  |
| Devices and Consumer Other | **312**  |  | 324  |
| Commercial Licensing | **9,100**  |  | 8,805  |
| Commercial Other | **805**  |  | 274  |
| Corporate and Other | **(64)** |  | (144) |
|  Total gross margin |  **$ 14,928**  |  |  $ 13,384  |