## ITEM 2. PROPERTIES

Our corporate headquarters are located in Redmond, Washington. We have approximately 15 million square feet of space located in King County, Washington that is used for engineering, sales, marketing, and operations, among other general and administrative purposes. These facilities include approximately 12 million square feet of owned space situated on approximately 530 acres of land we own at our corporate headquarters, and approximately 3 million square feet of space we lease.

We own and lease other facilities domestically and internationally, primarily for offices, datacenters, and research and development. The largest owned international properties include space in the following locations: China, India, Ireland, and the Netherlands. The largest leased international properties include space in the following locations: Australia, Canada, China, France, Germany, India, Ireland, Israel, Japan, the Netherlands, and the United Kingdom. Refer to Research and Development (Part I, Item 1 of this Form 10-K) for further discussion of our research and development facilities.

The table below shows a summary of the square footage of our properties owned and leased domestically and internationally as of June 30, 2024:

**(Square feet in millions)**

| **Location** | **Owned** | **Leased** | **Total** |
|---|---|---|---|
| U.S. | **30** | **20** | **50** |
| International | **10** | **25** | **35** |
| Total | **40** | **45** | **85** |

## ITEM 3. LEGAL PROCEEDINGS

Refer to Note 15 – Contingencies of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K) for information regarding legal proceedings in which we are involved.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

# ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

### MARKET AND STOCKHOLDERS

Our common stock is traded on the NASDAQ Stock Market under the symbol MSFT. On July 25, 2024, there were 81,346 registered holders of record of our common stock.

### SHARE REPURCHASES AND DIVIDENDS

Following are our monthly share repurchases for the fourth quarter of fiscal year 2024:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| | | | | (In millions) |
| April 1, 2024 – April 30, 2024 | **2,444,905** | **$ 413.75** | **2,444,905** | **$ 12,138** |
| May 1, 2024 – May 31, 2024 | **2,233,450** | **416.85** | **2,233,450** | **11,207** |
| June 1, 2024 – June 30, 2024 | **1,963,873** | **436.58** | **1,963,873** | **10,349** |
| | **6,642,228** | | **6,642,228** | |

All share repurchases were made using cash resources. Our share repurchases may occur through open market purchases or pursuant to a Rule 10b5-1 trading plan. The above table excludes shares repurchased to settle employee tax withholding related to the vesting of stock awards.

Our Board of Directors declared the following dividends during the fourth quarter of fiscal year 2024:

| Declaration Date | Record Date | Payment Date | Dividend Per Share | Amount |
|---|---|---|---|---|
| | | | | (In millions) |
| **June 12, 2024** | **August 15, 2024** | **September 12, 2024** | **$ 0.75** | **$ 5,575** |

We returned $8.4 billion to shareholders in the form of share repurchases and dividends in the fourth quarter of fiscal year 2024. Refer to Note 16 – Stockholders' Equity of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K) for further discussion regarding share repurchases and dividends.

## SUMMARY RESULTS OF OPERATIONS

| (In millions, except percentages and per share amounts) | 2024 | 2023 | Percentage Change |
|---|---|---|---|
| Revenue | **$ 245,122** | $ 211,915 | 16% |
| Gross margin | **171,008** | 146,052 | 17% |
| Operating income | **109,433** | 88,523 | 24% |
| Net income | **88,136** | 72,361 | 22% |
| Diluted earnings per share | **11.80** | 9.68 | 22% |
| Adjusted gross margin (non-GAAP) | **171,008** | 146,204 | 17% |
| Adjusted operating income (non-GAAP) | **109,433** | 89,694 | 22% |
| Adjusted net income (non-GAAP) | **88,136** | 73,307 | 20% |
| Adjusted diluted earnings per share (non-GAAP) | **11.80** | 9.81 | 20% |

Adjusted gross margin, operating income, net income, and diluted earnings per share (“EPS”) are non-GAAP financial measures. Prior year non-GAAP financial measures exclude the impact of a $1.2 billion charge in the second quarter of fiscal year 2023 (“Q2 charge”), which included employee severance expenses, impairment charges resulting from changes to our hardware portfolio, and costs related to lease consolidation activities. Refer to the Non-GAAP Financial Measures section below for a reconciliation of our financial results reported in accordance with GAAP to non-GAAP financial results.

***Fiscal Year 2024 Compared with Fiscal Year 2023***

Revenue increased $33.2 billion or 16% driven by growth across each of our segments. Intelligent Cloud revenue increased driven by Azure. Productivity and Business Processes revenue increased driven by Office 365 Commercial. More Personal Computing revenue increased driven by Gaming.

Cost of revenue increased $8.3 billion or 13% driven by growth in Microsoft Cloud and Gaming, offset in part by a decline in Devices.

Gross margin increased $25.0 billion or 17% driven by growth across each of our segments.

- Gross margin percentage increased slightly. Excluding the impact of the change in accounting estimate for the useful lives of our server and network equipment, gross margin percentage increased 2 points driven by improvement in More Personal Computing.
- Microsoft Cloud gross margin percentage decreased slightly to 71%. Excluding the impact of the change in accounting estimate, Microsoft Cloud gross margin percentage increased slightly driven by improvements in Azure and Office 365 Commercial, inclusive of scaling our AI infrastructure, offset in part by sales mix shift to Azure.

Operating expenses increased $4.0 billion or 7% driven by Gaming, with 7 points of growth from the Activision Blizzard acquisition, and investments in cloud engineering, offset in part by the prior year Q2 charge.

Operating income increased $20.9 billion or 24% driven by growth across each of our segments.

Prior year gross margin, operating income, net income, and diluted EPS were negatively impacted by the Q2 charge, which resulted in decreases of $152 million, $1.2 billion, $946 million, and $0.13, respectively.

## SEGMENT RESULTS OF OPERATIONS

| (In millions, except percentages) | 2024 | 2023 | Percentage Change |
|---|---|---|---|
| **Revenue** | | | |
| Productivity and Business Processes | **$ 77,728** | $ 69,274 | 12% |
| Intelligent Cloud | **105,362** | 87,907 | 20% |
| More Personal Computing | **62,032** | 54,734 | 13% |
| Total | **$ 245,122** | $ 211,915 | 16% |
| **Operating Income** | | | |
| Productivity and Business Processes | **$ 40,540** | $ 34,189 | 19% |
| Intelligent Cloud | **49,584** | 37,884 | 31% |
| More Personal Computing | **19,309** | 16,450 | 17% |
| Total | **$ 109,433** | $ 88,523 | 24% |

### Reportable Segments

***Fiscal Year 2024 Compared with Fiscal Year 2023***

*Productivity and Business Processes*

Revenue increased $8.5 billion or 12%.

- Office Commercial products and cloud services revenue increased $5.8 billion or 14%. Office 365 Commercial revenue grew 16% with seat growth of 7%, driven by small and medium business and frontline worker offerings, as well as growth in revenue per user. Office Commercial products revenue declined 16% driven by continued customer shift to cloud offerings.
- Office Consumer products and cloud services revenue increased $237 million or 4%. Microsoft 365 Consumer subscribers grew 10% to 82.5 million.
- LinkedIn revenue increased $1.4 billion or 9% driven by growth across all lines of business – Talent Solutions, Premium Subscriptions, Marketing Solutions, and Sales Solutions.
- Dynamics products and cloud services revenue increased $1.0 billion or 19% driven by Dynamics 365. Dynamics 365 revenue grew 24% driven by growth across all workloads.

Operating income increased $6.4 billion or 19%.

- Gross margin increased $6.5 billion or 12% driven by growth in Office 365 Commercial. Gross margin percentage decreased slightly. Excluding the impact of the change in accounting estimate, gross margin percentage increased slightly driven by improvement in Office 365 Commercial.
- Operating expenses increased $159 million or 1%.

*Intelligent Cloud*

Revenue increased $17.5 billion or 20%.

- Server products and cloud services revenue increased $17.8 billion or 22% driven by Azure and other cloud services. Azure and other cloud services revenue grew 30% driven by growth in our consumption-based services. Server products revenue increased 3% driven by continued demand for our hybrid solutions, including Windows Server and SQL Server running in multi-cloud environments.
- Enterprise and partner services revenue decreased $306 million or 4% driven by declines in Enterprise Support Services and Industry Solutions.

Operating income increased $11.7 billion or 31%.

- Gross margin increased $11.6 billion or 19% driven by growth in Azure. Gross margin percentage decreased slightly. Excluding the impact of the change in accounting estimate, gross margin percentage increased slightly primarily driven by improvement in Azure, inclusive of scaling our AI infrastructure, offset in part by sales mix shift to Azure.
- Operating expenses decreased slightly primarily driven by the prior year Q2 charge, offset in part by investments in Azure.

*More Personal Computing*

Revenue increased $7.3 billion or 13%.

- Windows revenue increased $1.7 billion or 8% driven by growth in Windows Commercial and Windows OEM. Windows Commercial products and cloud services revenue increased 11% driven by demand for Microsoft 365. Windows OEM revenue increased 7%.
- Gaming revenue increased $6.0 billion or 39% driven by growth in Xbox content and services. Xbox content and services revenue increased 50% driven by 44 points of net impact from the Activision Blizzard acquisition. Xbox hardware revenue decreased 13% driven by lower volume of consoles sold.
- Search and news advertising revenue increased $418 million or 3%. Search and news advertising revenue excluding traffic acquisition costs increased 12% driven by higher search volume.
- Devices revenue decreased $815 million or 15%.

Operating income increased $2.9 billion or 17%.

- Gross margin increased $6.8 billion or 23% driven by growth in Gaming, with 10 points of net impact from the Activision Blizzard acquisition, as well as growth in Windows. Gross margin percentage increased driven by sales mix shift to higher margin businesses and improvement in Devices.
- Operating expenses increased $3.9 billion or 31% driven by Gaming, with 34 points of growth from the Activision Blizzard acquisition.

## OPERATING EXPENSES

### Research and Development

| (In millions, except percentages) | 2024 | 2023 | Percentage Change |
|---|---|---|---|
| Research and development | **$ 29,510** | $ 27,195 | 9% |
| As a percent of revenue | **12%** | 13% | (1)ppt |

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs and the amortization of purchased software code and services content.

***Fiscal Year 2024 Compared with Fiscal Year 2023***

Research and development expenses increased $2.3 billion or 9% driven by Gaming, with 7 points of growth from the Activision Blizzard acquisition, and investments in cloud engineering.

### Sales and Marketing

| (In millions, except percentages) | 2024 | 2023 | Percentage Change |
|---|---|---|---|
| Sales and marketing | **$ 24,456** | $ 22,759 | 7% |
| As a percent of revenue | **10%** | 11% | (1)ppt |

Sales and marketing expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with sales and marketing personnel, and the costs of advertising, promotions, trade shows, seminars, and other programs.

***Fiscal Year 2024 Compared with Fiscal Year 2023***

Sales and marketing expenses increased $1.7 billion or 7% driven by Gaming, with 6 points of growth from the Activision Blizzard acquisition.

### General and Administrative

| (In millions, except percentages) | | 2024 | | 2023 | Percentage Change |
|---|---|---|---|---|---|
| General and administrative | **$** | **7,609** | $ | 7,575 | 0% |
| As a percent of revenue | | **3%** | | 4% | (1)ppt |

General and administrative expenses include payroll, employee benefits, stock-based compensation expense, employee severance expense incurred as part of a corporate program, and other headcount-related expenses associated with finance, legal, facilities, certain human resources and other administrative personnel, certain taxes, and legal and other administrative fees.

***Fiscal Year 2024 Compared with Fiscal Year 2023***

General and administrative expenses increased slightly as growth from the Activision Blizzard acquisition was offset in part by the prior year Q2 charge.

## OTHER INCOME (EXPENSE), NET

The components of other income (expense), net were as follows:

**(In millions)**

| Year Ended June 30, | | 2024 | | 2023 |
|---|---|---|---|---|
| Interest and dividends income | **$** | **3,157** | $ | 2,994 |
| Interest expense | | **(2,935)** | | (1,968) |
| Net recognized gains (losses) on investments | | **(118)** | | 260 |
| Net losses on derivatives | | **(187)** | | (456) |
| Net gains (losses) on foreign currency remeasurements | | **(244)** | | 181 |
| Other, net | | **(1,319)** | | (223) |
| Total | **$** | **(1,646)** | $ | 788 |

We use derivative instruments to manage risks related to foreign currencies, interest rates, equity prices, and credit; to enhance investment returns; and to facilitate portfolio diversification. Gains and losses from changes in fair values of derivatives that are not designated as hedging instruments are primarily recognized in other income (expense), net.

***Fiscal Year 2024 Compared with Fiscal Year 2023***

Interest and dividends income increased due to higher yields. Interest expense increased due to the issuance of commercial paper. Net recognized losses on investments increased primarily due to higher equity impairments and lower gains on equity investments. Net losses on derivatives decreased primarily due to lower losses on equity derivatives. Other, net primarily reflects net recognized losses on equity method investments.

The following table reconciles our financial results reported in accordance with GAAP to non-GAAP financial results:

| (In millions, except percentages and per share amounts) | 2024 | 2023 | Percentage Change |
|---|---|---|---|
| Gross margin | **$ 171,008** | $ 146,052 | 17% |
| Severance, hardware-related impairment, and lease consolidation costs | **0** | 152 | * |
| Adjusted gross margin (non-GAAP) | **$ 171,008** | $ 146,204 | 17% |
| Operating income | **$ 109,433** | $ 88,523 | 24% |
| Severance, hardware-related impairment, and lease consolidation costs | **0** | 1,171 | * |
| Adjusted operating income (non-GAAP) | **$ 109,433** | $ 89,694 | 22% |
| Net income | **$ 88,136** | $ 72,361 | 22% |
| Severance, hardware-related impairment, and lease consolidation costs | **0** | 946 | * |
| Adjusted net income (non-GAAP) | **$ 88,136** | $ 73,307 | 20% |
| Diluted earnings per share | **$ 11.80** | $ 9.68 | 22% |
| Severance, hardware-related impairment, and lease consolidation costs | **0** | 0.13 | * |
| Adjusted diluted earnings per share (non-GAAP) | **$ 11.80** | $ 9.81 | 20% |

* *Not meaningful.*

## LIQUIDITY AND CAPITAL RESOURCES

We expect existing cash, cash equivalents, short-term investments, cash flows from operations, and access to capital markets to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities, such as dividends, share repurchases, debt maturities, material capital expenditures, and the transition tax related to the Tax Cuts and Jobs Act ("TCJA"), for at least the next 12 months and thereafter for the foreseeable future.

### Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and short-term investments totaled $75.5 billion and $111.3 billion as of June 30, 2024 and 2023, respectively. Equity and other investments were $14.6 billion and $9.9 billion as of June 30, 2024 and 2023, respectively. Our short-term investments are primarily intended to facilitate liquidity and capital preservation. They consist predominantly of highly liquid investment-grade fixed-income securities, diversified among industries and individual issuers. The investments are predominantly U.S. dollar-denominated securities, but also include foreign currency-denominated securities to diversify risk. Our fixed-income investments are exposed to interest rate risk and credit risk. The credit risk and average maturity of our fixed-income portfolio are managed to achieve economic returns that correlate to certain fixed-income indices. The settlement risk related to these investments is insignificant given that the short-term investments held are primarily highly liquid investment-grade fixed-income securities.

### Valuation

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine the fair value of our financial instruments. This pricing methodology applies to our Level 1 investments, such as U.S. government securities, common and preferred stock, and mutual funds. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. This pricing methodology applies to our Level 2 investments, such as commercial paper, certificates of deposit, U.S. agency securities, foreign government bonds, mortgage- and asset-backed securities, corporate notes and bonds, and municipal securities. Level 3 investments are valued using internally-developed models with unobservable inputs. Assets and liabilities measured at fair value on a recurring basis using unobservable inputs are an immaterial portion of our portfolio.

## Material Cash Requirements and Other Obligations

### *Contractual Obligations*

The following table summarizes the payments due by fiscal year for our outstanding contractual obligations as of June 30, 2024:

| (In millions) | 2025 | Thereafter | Total |
|---|---|---|---|
| Long-term debt: [(a)] | | | |
| Principal payments | $ 2,250 | $ 48,971 | $ 51,221 |
| Interest payments | 1,618 | 27,041 | 28,659 |
| Construction commitments [(b)] | 29,892 | 5,499 | 35,391 |
| Operating and finance leases, including imputed interest [(c)] | 12,250 | 160,475 | 172,725 |
| Purchase commitments [(d)] | 68,280 | 3,742 | 72,022 |
| Total | $ 114,290 | $ 245,728 | $ 360,018 |

(a) *Refer to Note 11 – Debt of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K).*
(b) *Refer to Note 7 – Property and Equipment of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K).*
(c) *Refer to Note 14 – Leases of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K).*
(d) *Purchase commitments primarily relate to datacenters and include open purchase orders and take-or-pay contracts that are not presented as construction commitments above.*

### *Income Taxes*

As a result of the TCJA, we are required to pay a one-time transition tax on deferred foreign income not previously subject to U.S. income tax. Under the TCJA, the transition tax is payable in interest-free installments over eight years, with 8% due in each of the first five years, 15% in year six, 20% in year seven, and 25% in year eight. As of June 30, 2024, we had a remaining transition tax liability of $7.6 billion, of which $3.8 billion is short-term and payable in the first quarter of fiscal year 2025.

### *Share Repurchases*

During fiscal years 2024 and 2023, we repurchased 32 million shares and 69 million shares of our common stock for $12.0 billion and $18.4 billion, respectively, through our share repurchase program. All repurchases were made using cash resources. As of June 30, 2024, $10.3 billion remained of our $60 billion share repurchase program. Refer to Note 16 – Stockholders' Equity of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K) for further discussion.

### *Dividends*

During fiscal years 2024 and 2023, our Board of Directors declared dividends totaling $22.3 billion and $20.2 billion, respectively. We intend to continue returning capital to shareholders in the form of dividends, subject to declaration by our Board of Directors. Refer to Note 16 – Stockholders' Equity of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K) for further discussion.

### *Other Planned Uses of Capital*

We will continue to invest in sales, marketing, product support infrastructure, and existing and advanced areas of technology, as well as acquisitions that align with our business strategy. Additions to property and equipment will continue, including new facilities, datacenters, and computer systems for research and development, sales and marketing, support, and administrative staff. We expect capital expenditures to increase in coming years to support growth in our cloud offerings and our investments in AI infrastructure and training. We have operating and finance leases for datacenters, corporate offices, research and development facilities, Microsoft Experience Centers, and certain equipment. We have not engaged in any related party transactions or arrangements with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of capital resources.