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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended June 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From

to

Commission File Number 001-37845

MICROSOFT CORPORATION

WASHINGTON
 (STATE OF INCORPORATION)

91-1144442
 (I.R.S. ID)

ONE MICROSOFT WAY, REDMOND, WASHINGTON 98052-6399

(425) 882-8080

www.microsoft.com/investor

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
COMMON STOCK, \$0.0000625 par value per share	MSFT	NASDAQ
2.125% Notes due 2021	MSFT	New York Stock Exchange
3.125% Notes due 2028	MSFT	New York Stock Exchange
2.625% Notes due 2033	MSFT	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of December 31, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$769.6 billion based on the closing sale price as reported on the NASDAQ National Market System. As of July 29, 2019, there were 7,635,409,400 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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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 29, 2019, there were 94,069 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 2019:

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, 2019 – April 30, 2019	8,547,612	\$ 122.85	8,547,612	\$ 14,551
May 1, 2019 – May 31, 2019	14,029,339	126.32	14,029,339	12,778
June 1, 2019 – June 30, 2019	10,469,682	131.59	10,469,682	11,401
	33,046,633		33,046,633	

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 2019:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
(In millions)				
June 12, 2019	August 15, 2019	September 12, 2019	\$ 0.46	\$ 3,516

We returned \$7.7 billion to shareholders in the form of share repurchases and dividends in the fourth quarter of fiscal year 2019. Refer to Note 17 – 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.

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Uncertain Tax Positions

We settled a portion of the Internal Revenue Service ("IRS") audit for tax years 2004 to 2006 in fiscal year 2011. In February 2012, the IRS withdrew its 2011 Revenue Agents Report related to unresolved issues for tax years 2004 to 2006 and reopened the audit phase of the examination. We also settled a portion of the IRS audit for tax years 2007 to 2009 in fiscal year 2016, and a portion of the IRS audit for tax years 2010 to 2013 in fiscal year 2018. We remain under audit for tax years 2004 to 2013. We expect the IRS to begin an examination of tax years 2014 to 2017 within the next 12 months.

As of June 30, 2019, the primary unresolved issues for the IRS audits relate to transfer pricing, which could have a material impact on our consolidated financial statements when the matters are resolved. We believe our allowances for income tax contingencies are adequate. We have not received a proposed assessment for the unresolved issues and do not expect a final resolution of these issues in the next 12 months. Based on the information currently available, we do not anticipate a significant increase or decrease to our tax contingencies for these issues within the next 12 months.

We are subject to income tax in many jurisdictions outside the U.S. Our operations in certain jurisdictions remain subject to examination for tax years 1996 to 2018, some of which are currently under audit by local tax authorities. The resolution of each of these audits is not expected to be material to our consolidated financial statements.

NON-GAAP FINANCIAL MEASURES

Non-GAAP operating income, net income, and diluted EPS are non-GAAP financial measures which exclude the net tax impact of transfer of intangible properties, the net tax impact of the TCJA, and restructuring expenses. We believe these non-GAAP measures aid investors by providing additional insight into our operational performance and help clarify trends affecting our business. For comparability of reporting, management considers non-GAAP measures in conjunction with GAAP financial results in evaluating business performance. These non-GAAP financial measures presented should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

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)	2019	2018	2017	Percentage Change 2019 Versus 2018	Percentage Change 2018 Versus 2017
Operating income	\$ 42,959	\$ 35,058	\$ 29,025	23%	21%
Net tax impact of transfer of intangible properties	0	0	0	*	*
Net tax impact of the TCJA	0	0	0	*	*
Restructuring expenses	0	0	306	*	*
Non-GAAP operating income	\$ 42,959	\$ 35,058	\$ 29,331	23%	20%
Net income	\$ 39,240	\$ 16,571	\$ 25,489	137%	(35)%
Net tax impact of transfer of intangible properties	(2,567)	0	0	*	*
Net tax impact of the TCJA	157	13,696	0	*	*
Restructuring expenses	0	0	243	*	*
Non-GAAP net income	\$ 36,830	\$ 30,267	\$ 25,732	22%	18%
Diluted earnings per share	\$ 5.06	\$ 2.13	\$ 3.25	138%	(34)%
Net tax impact of transfer of intangible properties	(0.33)	0	0	*	*
Net tax impact of the TCJA	0.02	1.75	0	*	*
Restructuring expenses	0	0	0.04	*	*
Non-GAAP diluted earnings per share	\$ 4.75	\$ 3.88	\$ 3.29	22%	18%

* Not meaningful.

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Off-Balance Sheet Arrangements

We provide indemnifications of varying scope and size to certain customers against claims of intellectual property infringement made by third parties arising from the use of our products and certain other matters. Additionally, we have agreed to cover damages resulting from breaches of certain security and privacy commitments in our cloud business. In evaluating estimated losses on these obligations, we consider factors such as the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of loss. These obligations did not have a material impact on our consolidated financial statements during the periods presented.

Contractual Obligations

The following table summarizes the payments due by fiscal year for our outstanding contractual obligations as of June 30, 2019:

(In millions)	2020	2021-2022	2023-2024	Thereafter	Total
Long-term debt: (a)					
Principal payments	\$ 5,518	\$ 11,744	\$ 8,000	\$ 47,519	\$ 72,781
Interest payments	2,299	4,309	3,818	29,383	39,809
Construction commitments (b)	3,443	515	0	0	3,958
Operating leases, including imputed interest (c)	1,790	3,144	2,413	3,645	10,992
Finance leases, including imputed interest (c)	797	2,008	2,165	9,872	14,842
Transition tax (d)	1,180	2,900	4,168	8,155	16,403
Purchase commitments (e)	17,478	1,185	159	339	19,161
Other long-term liabilities (f)	0	72	29	324	425
Total	\$ 32,505	\$ 25,877	\$ 20,752	\$ 99,237	\$ 178,371

- (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 15 – Leases of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K).
- (d) Refer to Note 12 – Income Taxes of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K).
- (e) Amounts represent purchase commitments, including open purchase orders and take-or-pay contracts that are not presented as construction commitments above.
- (f) We have excluded long-term tax contingencies, other tax liabilities, and deferred income taxes of \$14.2 billion from the amounts presented as the timing of these obligations is uncertain. We have also excluded unearned revenue and non-cash items.

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 continue making 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. We have operating and finance leases for datacenters, corporate offices, research and development facilities, retail stores, 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.

Liquidity

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 interest free 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. We have paid transition tax of approximately \$2.0 billion, which included \$1.5 billion for fiscal year 2019. The first installment of the transition tax was paid in fiscal year 2019, and the remaining transition tax of \$16.4 billion is payable over the next seven years with a final payment in fiscal year 2026. During the first quarter of fiscal year 2020, we expect to pay \$1.2 billion related to the second installment of the transition tax, and \$3.5 billion related to the transfer of intangible properties in the fourth quarter of fiscal year 2019.

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STOCKHOLDERS' EQUITY STATEMENTS

(In millions)

Year Ended June 30,	2019	2018	2017
Common stock and paid-in capital			
Balance, beginning of period	\$ 71,223	\$ 69,315	\$ 68,178
Common stock issued	6,829	1,002	772
Common stock repurchased	(4,195)	(3,033)	(2,987)
Stock-based compensation expense	4,652	3,940	3,266
Other, net	11	(1)	86
Balance, end of period	78,520	71,223	69,315
Retained earnings			
Balance, beginning of period	13,682	17,769	13,118
Net income	39,240	16,571	25,489
Common stock cash dividends	(14,103)	(12,917)	(12,040)
Common stock repurchased	(15,346)	(7,699)	(8,798)
Cumulative effect of accounting changes	677	(42)	0
Balance, end of period	24,150	13,682	17,769
Accumulated other comprehensive income (loss)			
Balance, beginning of period	(2,187)	627	1,794
Other comprehensive income (loss)	1,914	(2,856)	(1,167)
Cumulative effect of accounting changes	(67)	42	0
Balance, end of period	(340)	(2,187)	627
Total stockholders' equity	\$ 102,330	\$ 82,718	\$ 87,711
Cash dividends declared per common share	\$ 1.84	\$ 1.68	\$ 1.56

Refer to accompanying notes.